



DPC 98/0157

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14 December 1998

Mr John Cosgrove  
Presiding Commissioner  
Impact of Competition Policy Reforms Inquiry  
PO Box 80  
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Dear John

**INQUIRY INTO THE IMPACT OF COMPETITION POLICY REFORMS  
ON RURAL AND REGIONAL AUSTRALIA**

Please find attached a copy of the South Australian Government's submission to the Inquiry into the Impact of Competition Policy Reforms on Rural and Regional Australia.

This submission has been endorsed by Cabinet and was prepared by interdepartmental working group. The interdepartmental working group consisted of: Premier & Cabinet (chair); Treasury & Finance, Industry & Trade, Transport, Urban Planning & the Arts, Administrative & Information Services, Environment, Heritage & Aboriginal Affairs, and Primary Industries & Resources.

The submission raises three key issues which the Government believes should be addressed in the Commission's report:

- need for greater flexibility in implementing competition policy reforms;
- need for better communication of the nature and benefits of reforms;
- inherent conflicts in the National Competition Council's role.

Please contact me (on Ph 8226 0902, Fax 8226 1111) if you have any enquiries on this submission.

Yours sincerely

**Rosemary Ince**  
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**Cabinet Office**



**SA GOVERNMENT SUBMISSION  
TO THE  
PRODUCTIVITY COMMISSION INQUIRY  
INTO THE  
IMPACT OF COMPETITION  
POLICY REFORMS ON RURAL  
AND REGIONAL AUSTRALIA  
NOVEMBER 1998**

**SA Government Submission to the Productivity Commission Inquiry into the  
Impact of Competition Policy Reforms on Rural and Regional Australia**

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***SA Government Submission to the Productivity Commission Inquiry into the  
Impact of Competition Policy Reforms on Rural and Regional Australia***

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The Productivity Commission ("the Commission") has invited the South Australian Government ("the Government") to make a written submission to the Commission's Inquiry into the Impact of Competition Policy Reforms on Rural and Regional Australia. The Commission is to examine and report on:

- 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;
- the economic and social impacts on regional and rural Australia (including small businesses and local governments) of the changes to market structure, competitiveness and regulation flowing from the reforms and the effect of these changes on the wider Australian economy;
- possible differences between regional and metropolitan Australia in the nature and operation of major markets and in the economic and social impacts of the reforms promoted by national competition policy; and
- any measures which should be taken to facilitate the flow of benefits arising from competition policy reforms to residents and businesses in regional and rural Australia.

Part 4 of this submission raises the following key issues which the Government believes should be addressed in the Commission's report:

- need for greater flexibility in implementing competition policy reforms;
- need for better communication of the nature and benefits of reforms;
- inherent conflicts in the National Competition Council's role.

The first point of contact for discussion of any issues contained in this submission should be:

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## **1. EXECUTIVE SUMMARY**

The South Australian Government supports National Competition Policy (NCP). However the Government has major concerns about how National Competition Policy is affecting rural and regional South Australia. The Government believes that there needs to be:

- greater flexibility in the implementation of competition policy;
- more effort put into communicating the nature and benefits of reforms; and
- clearer definition of the role of the NCC in implementing NCP.

### **Need for Greater Flexibility In Implementing Competition Policy Reforms**

As competition policy has been implemented, it has become apparent that there needs to be more flexibility allowed in the reform process. In particular:

- The present timeframe for implementation by 2001 is considered by the Government to be too short.
- There is a need to prioritise the reforms and concentrate initially on those that are likely to provide the greatest benefit. Some reforms may need to be phased in if they are to succeed and therefore may require a longer implementation timeframe.
- There should also be some reconsideration of the need to implement reforms in areas where the benefits are likely to be relatively small.

The agreements were not intended to enforce a uniform approach to microeconomic reform across Australia. Jurisdictions need to be able to implement the agreements in a way that emphasises local strategic priorities and economic policies, and not be rail-roped by an inflexible assessment process.

### **Need for Better Communication of the Nature and Benefits of Reforms**

There has been little effort to communicate the need for and benefits of NCP to the community. To increase the awareness and understanding of the benefits of NCP:

- There needs to be an updating of the Industry Commission economic modelling on which Governments relied when agreeing to implement NCP. This work should examine differences between the impact of competition policy on the rural/regional areas of different states. The work of the Commission should be updated regularly to determine where the costs and benefits of NCP are flowing and whether the expected benefits have occurred.
- If the results remain positive, this positive result should be communicated in a way the public can understand. The Government believes that the NCC should from the outset have established a program of publicising the effects of NCP.
- The Commonwealth Government should show by its actions that it remains committed to NCP. The Commonwealth has been slow to report on its progress to the NCC, it has not explained to the NCC how major decisions have taken

account of its NCP obligations, and it has implemented reforms at a slower rate than has been required of State Governments.

**Inherent Conflicts in the National Competition Council's Role**

There has been a conflict between the NCC's roles in assessing jurisdictions' implementation of NCP and in championing certain competition policy reforms. To address this situation will require clarification of the related reforms and the assessment process, and closer observance of the agreements.

- Related reforms in electricity, gas, water and road transport were included at the last moment in the agreements as obligations upon which competition payments depended. Progress has been slow in clarifying what these obligations entail. The Government believes this should occur before the second tranche assessment.
- In the assessment and penalty processes there needs to be greater clarity in the benchmarks to be used to determine satisfactory progress or effective observance.
- There has been an inconsistent application of the NCP agreements by the NCC. The NCC has argued that the inflexibility of its assessment process is a result of the agreements but in other cases the agreements have only been followed loosely.

There is a need to develop a broader reform agenda which parallels the present microeconomic reform agenda based on NCP reforms within specific industry sectors. The development of this reform agenda would ensure that there is a strategic policy framework which identifies key outcomes across industry sectors which may not be achieved - or worse - may alter direction through a focus on NCP reforms within the individual sectors.

## **2. RECOMMENDATIONS**

- a) The assessment process should take account of the need to prioritise reforms and concentrate on the reforms that are likely to produce the greatest benefit.**
- b) Consideration should be given to whether it is worth implementing reforms where the benefits are marginal.**
- c) Assessment by the National Competition Council of jurisdictional progress in implementing competition policy reforms should account for different reform emphases due to local priorities.**
- d) The third party access regime needs to be simplified and made more certain to encourage investment in large infrastructure projects in regional Australia.**
- e) The Productivity Commission should review and update the work of the former Industry Commission on the expected impacts of national competition policy and check that the expected benefits have occurred.**
- f) The National Competition Council should develop and implement a communication strategy.**
- g) As a signatory to the agreements, the Commonwealth should discharge its competition policy obligations in a way that indicates its continued commitment to national competition policy.**
- h) The Council of Australian Governments should settle criteria for assessing and recognising progress prior to the second tranche assessment.**
- i) The Council of Australian Governments should clarify the criteria for assessment of the related reforms for the purposes of competition payments, and settle the timetable for their implementation, following agreement among jurisdictions on policy issues.**

### **3. INTRODUCTION**

The National Competition Policy reform package was endorsed by Heads of Government at a Council of Australian Governments (CoAG) Meeting in April 1995.

The Government's substantial progress in implementing the reform package is documented in its 1997 and 1998 reports to the National Competition Council (NCC).

South Australia recognises the benefits to be gained from implementing National Competition Policy (NCP). NCP is seen as one of the mechanisms for reducing costs to business and industry and increasing the competitiveness of the South Australian economy. This increased competitiveness is one of the key strategies for driving investment and employment growth.

South Australia's demographic and geographic circumstances must, however, be considered in determining the impacts of NCP on the State. South Australia's regional centres are smaller than in the Eastern States and there are no regional centres in SA with population of 100,000 or more, whereas examples in other States include Newcastle, Geelong, and Townsville. Outside the Adelaide and Outer Adelaide area, Whyalla is the largest rural centre with a population of 24,000, followed by Mt Gambier (23,000), Murray Bridge (17,000), Port Pirie and Port Augusta (both 14,000) and Port Lincoln (around 13,000). Within the Outer Adelaide area Mt Barker is the largest council with a population of 21,000.

There will be a distinct difference between the types of services on offer in larger regional centres compared to smaller centres. Similarly, there will be a limited range of services in rural towns with very small populations of around 1,000 to 3,000. This small scale of South Australia's rural and regional population centres poses particular difficulties for service delivery.

Nevertheless regional South Australia is seen as a vital contributor to the State's economic fortunes. Over 50% of the State's export income is sourced from regional South Australia. Regional South Australia also provides a wealth of investment opportunities, especially in growth areas such as wine and food. The Government recognises the importance of developing regional South Australia from an economic development perspective and is therefore concerned that any negative impacts on regions arising from NCP and other microeconomic reforms are minimised.

#### **3.1 Distinction between NCP and the broader microeconomic reform agenda**

It is important, when assessing the impact of NCP on regions, to recognise that NCP is only one of the reforms that have affected rural and regional Australia in the last decade. Other reforms that have occurred in the last decade include:

- pre-NCP deregulation;
- the regionalisation of service delivery;
- amalgamation of local governments;
- corporatisation of Government Trading Enterprises and privatisation of public utilities;
- downsizing and contracting out of government employment; and



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- globalisation and more liberal trade policies that have been pursued by governments to capitalise on changing trade patterns.

It is difficult to measure the impact of each of these reforms individually. The combined effect of these reforms is perceived to have been largely negative for rural and regional Australia and has resulted in:

- increased unemployment;
- less government services being available due to closure of branches of post offices and departments such as Centrelink;
- less private services eg bank branches being closed; and
- a drift in population from rural Australia.

#### **4. KEY ISSUES ABOUT THE IMPLEMENTATION OF COMPETITION POLICY THAT NEED TO BE ADDRESSED**

As previously stated the Government supports NCP and believes that it will result in long term gains for the Australian economy. However the Government has major concerns with how NCP is affecting rural and regional South Australia. To address these concerns the Government believes that there needs to be:

- greater flexibility in implementing reforms;
- more effort put into communicating the nature and benefits of reforms; and
- clearer definition of the role of the NCC in implementing NCP.

##### **4.1 NEED FOR GREATER FLEXIBILITY IN IMPLEMENTATION OF NATIONAL COMPETITION POLICY REFORMS**

The flexibility discussed in this section may take several forms:

- flexibility in the implementation timelines;
- prioritising reforms and taking account of materiality;
- recognising differences between and within jurisdictions;
- designing an access regime under the *Trade Practices Act* that is applicable to new infrastructure investments in rural and regional Australia.

###### **4.1.1 Time required to implement reforms has been underestimated**

It appears that as a generalisation, and for utilities in particular, the level of detail required for full implementation of the general NCP and specific CoAG industry reforms was not adequately defined in the initial stages. As a result, there has been significant delay arising from the extensive consultative processes required to finalise specific targets and to develop appropriate policy positions and transition strategies, many of which still are not adequately resolved. For example the start of the national electricity market has been delayed three times in the last twelve months. Again, as a generalisation, it appears that in seeking to clarify these targets, States are recognising that the requirements are more prescriptive than originally envisaged.

A key issue for utilities is the need to develop appropriate transition strategies to move from existing (cross-subsidy) pricing regimes to pricing consistent with both the NCP/CoAG agenda and timeframes, but also to manage local impacts and equity differentials across user groups. It is understood that there is a widespread view that the present transition timeframes for full implementation by 2001 are too short and that there is general pressure for exemptions (derogations) outside of the agreed timeframes.

###### **4.1.2 Need to prioritise reforms**

There is a need to prioritise the reforms and concentrate initially on those that are likely to provide the greatest benefits. Some reforms may need to be phased in if they are to succeed and therefore require a longer implementation timeframe.

There should also be some reconsideration of the need to implement reforms in areas where the benefits are likely to be relatively small. The reforms may not benefit regional areas because the local market is too small, and may actually lead to dramatic reductions in services with all the consequent impacts on local

communities. The definition of 'market' has particular difficulties for smaller rural councils providing community services.

A flexible, common sense approach to the application of NCP should be adopted that recognises the special circumstances of regions where the benefits of reform may not outweigh the costs. These 'costs' must include transactional costs, especially in relation to complex reforms with marginal benefits.

#### ***4.1.3 Differences between and within jurisdictions***

The agreements were not intended to enforce a uniform approach to microeconomic reform across Australia and thereby to undermine the sovereignty of States and Territories. Jurisdictions need to be able to implement the agreements in a way which emphasises local strategic priorities and economic policies, and not be railroaded by an inflexible assessment process.

As presently drafted, there are requirements under national road transport reforms to adopt upper limits on vehicle mass and dimensions, even though local roads and bridges may be capable of taking vehicles with higher or larger loads, thus increasing transport efficiency. For example, Victoria has objected to South Australia's permission for the transport of citrus fruits to the Port in larger containers, even though this transport is critical to the international competitiveness of produce which is vital to the viability of the Riverland regions of the State. This example illustrates the risk of national uniformity imposing inappropriate standards, based on the operating conditions in more populous States and regions, to the disadvantage of rural and regional Australia. States should be allowed to tailor regulatory requirements to suit the local conditions in their various regions, rather than slavishly adhering to national uniformity.

The issue of the distribution of costs and benefits is highlighted when considering legislative reform of the agricultural sector. The costs are concentrated and sectoral while the benefits are dispersed and aggregate. Furthermore, for NCP and other reforms, the effect on the agricultural part of rural and regional Australia will vary by industry, by region, and by individual farm business.

Regions in which there is a high concentration of a regulated industry (eg barley on the Yorke Peninsula of South Australia) can potentially be substantially impacted in a negative manner by NCP reform, while regions with less concentration of regulated industries (eg pastoral areas with beef production) will be affected less. Individual farm businesses that are less innovative and more reliant on industries protected by anticompetitive legislation will often benefit more from regulation and will be more adversely affected by reform.

For agriculture, it is important to view both the impact from the perspective of inputs (eg fertiliser, transportation, feed, etc) and from the perspective of outputs (eg grain, milk, fruit, etc). The cost of inputs may be affected by reform, with a reduction in cost benefiting agriculture. This has been case in recent years through trade reform as import barriers have been removed from farm chemicals and machinery. Some inputs may also be more expensive.

Application of competitive neutrality principles to services (such as consultancy and research) currently provided by agriculture and resource departments is expected to result in improved pricing, wider variety and higher quality of service.

Most anticompetitive legislation affecting the agricultural sector impacts on outputs. However, it must be remembered that grain marketed under such legislation is also an input to the livestock industries.

**4.1.4 Third party access to new infrastructure in regional Australia**

Large new infrastructure projects in regional Australia, such as the Adelaide to Darwin railway, are characterised by a large initial capital investment and a long period of much smaller annual revenues with which to service the capital investment. Potential investors in these infrastructure projects are likely to be discouraged by the fact that they are subject to a complex and uncertain access regime under Part IIIA of the Trade Practices Act, which can only be avoided through equally complex and lengthy processes in the acceptance of an undertaking by the Australian Competition & Consumer Commission or the development of State regimes certified by the NCC. Experience to date with these regimes shows that they take over 12 months to resolve, and involve extensive public consultation and litigation. These processes are incompatible with the speed of investment decision required by those considering expressing an interest in new infrastructure processes.

The Government pointed out to the Commonwealth Government during the negotiations over NCP that the design of the access regime was likely to discourage new infrastructure investment. This is especially true of significant projects in rural and regional Australia, where the risks of earning reasonable returns are higher, and the additional risks created by the uncertain outcome of complex regulatory processes are likely to tip the balance against investment in the project. See Appendix A for comments by the Chief Minister of the Northern Territory. There is a need to amend Part IIIA of the *Trade Practices Act* to provide an exemption mechanism for large-scale and long-term infrastructure investments which play a critical role in regional development, similar to the exemption provided for State-owned coal-carrying railways.

Section summary. Recommendations to enhance flexibility are

**Need to prioritise reforms and concentrate on the reforms that are likely to produce the greatest benefit.**

**Consideration be given to whether it is worth implementing reforms where the benefits are marginal.**

**Assessment by the NCC of jurisdictional progress in implementing NCP reforms should account for different reform emphases due to local priorities.**

**The third party access regime needs to be simplified and made more certain to encourage investment in large infrastructure projects in regional Australia.**

## **4.2 NEED FOR COMMUNICATION OF THE NATURE AND BENEFITS OF REFORMS**

There has been little effort to date to communicate the reasons why NCP is needed and how it will ultimately benefit the community as a whole. Accordingly it is not surprising that NCP is poorly understood by the community.

The communication effort discussed in this section may take several forms:

- updating the economic modelling on which Governments relied when agreeing to implement NCP;
- if the results remain positive, communicating this positive result in a way the public can understand; and
- the Commonwealth Government showing by its actions that it remains committed to NCP.

### ***4.2.1 Productivity Commission to review and update study on benefits of NCP***

The Government believes that the Productivity Commission should review and update the original work done in 1995 by the former Industry Commission on the economic and revenue impacts of the proposed reforms. In reviewing the original work, the Commission should check that the original assumptions remain valid. This work found that:

- national GDP would increase by 5.5% per annum and real consumption by 3.0% per annum, compatible with a 3% increase in real wages and 30,000 extra jobs;
- the benefits of these gains would be widespread across industry sectors;
- there would be large revenue gains accruing to all levels of government from the reforms (\$8.9 billion per annum, about two thirds of which accrues to the Commonwealth, though Commonwealth reforms directly contribute less than one fifth of the total amount).

In updating this work the Productivity Commission should consider:

- The differences between rural / regional areas in different States, which may be significant. For instance, as noted above, South Australia's major regional centres are smaller than many other States and the correspondingly smaller scale of the minor centres can cause particular difficulties for those areas. Such differences would be masked if the Commission reported solely or mainly on a comparison of all of rural / regional Australia versus all of metropolitan Australia, which is one possible interpretation of the terms of reference.
- The differences between States in the impact of competition policy.

The work of the former Industry Commission should be updated regularly to determine where the costs and benefits of NCP are flowing and whether the expected benefits have occurred.

### ***4.2.2 Communication of NCP to a general audience***

Economists understand that the benefits of microeconomic reform tend to be diffuse and accrue some time after a reform is implemented. It is early days, as Appendix B illustrates in the case of the environmental impacts of water reforms. Hence the importance of realistic econometric modelling to allow estimation of net community benefit in the future.

The general public often fails to understand the theory and tools that economists are using, and simply see the negative impact of losses of jobs and services. While city

dwellers are conscious of the greater range of services brought by competition in the telecommunications industry, this range of services is not necessarily available to people living in rural and regional areas. Thus one of the most commonly used examples to espouse the benefits of competition may be unpersuasive for a rural / regional audience.

From the outset the NCC should have established a program of publicising the effects of NCP. South Australia raised this issue at the meeting of CoAG Senior Officials in May 1998. Such a program is only now (November 1998) under development by the NCC. This program should target the organisations and people that will be affected by reforms and could include:

- background information on NCP;
- clarification of the terminology and processes to be followed by Governments;
- examples that are meaningful for the target audience; and
- information and advice on how people can take part in determining what reforms will occur and how they can influence the outcomes eg the timetable for implementing changes.

#### ***4.2.3 Commonwealth needs to promote benefits of NCP by modelling behaviour which complies with NCP***

Unlike the State and Territory Governments, the Commonwealth faces no direct financial penalty for not implementing its agreed reforms. If the reforms are beneficial for the national economy, no sanctions should be needed to ensure compliance. Yet the Commonwealth has in several ways through its behaviour communicated less than total support for NCP, thus:

- The Commonwealth has not reported its progress in a timely fashion. South Australia's first annual report was, as required, provided to the NCC in March 1997 so it could be assessed by the NCC by 30 June 1997 and the assessment forwarded to the Commonwealth Treasurer. In contrast the Commonwealth did not provide its first annual report until 23 February 1998;
- The Commonwealth has not explained to the NCC how major decisions on the structure of Telstra and the Federal Airports Corporation have facilitated competitive outcomes;
- The Commonwealth has decided not to implement the recommendations of the NCC's recent review of postal services; and
- The Commonwealth is implementing reforms for similar industries at a slower rate than is required of State Governments by NCP. For example the Commonwealth Minister for Primary Industries announced that the Australian Wheat Board's export monopoly will be maintained until 2003, whereas South Australia has until December 2000 to implement a recommendation to remove the export monopoly of the Australian Barely Board or risk the Commonwealth Treasurer deducting some of the State's competition payments. Farmers who grow both wheat and barely are confused by competing arguments which require them to be part of a statutory marketing monopoly for one commodity, but not for the other commodity. There is no doubt that the difference in the approaches to the two grains has made reform of state agricultural marketing arrangements more difficult politically.

Section summary. Recommendations to enhance communication are

**Productivity Commission to review and update work of Industry Commission on the expected impacts of NCP to ensure that the expected benefits have occurred.**

**NCC to develop and implement a communication strategy.**

**As a signatory to the agreements, the Commonwealth to discharge its NCP obligations in a way that indicates its continued commitment to NCP.**

### **4.3 ROLE OF THE NCC - INHERENT CONFLICTS**

The NCC has several roles conferred on it by the agreements and related legislation. Most emphasis to date has been placed on the assessment role, and in discharging that function the NCC has also sought to provide advice to jurisdictions on NCP issues, and increasingly to become an active participant in the policy development process.

The Government believes that there has been a conflict between the NCC's roles in assessing jurisdictions' implementation of NCP and the NCC's desire to influence jurisdictions' policy decisions. To address this situation will require clarification of:

- the related reforms;
- the assessment process;
- observance of agreements.

#### **4.3.1 Clarification of the related reforms**

The NCC's second tranche assessment is due by July 1999 and will include an ongoing review of progress in implementing the related reforms in electricity, gas, water and road transport. Though these reforms were being discussed by CoAG before April 1995, they were included at the last moment in the agreements as obligations upon which competition payments depended. Therefore prior to the second tranche assessment there needs to be clarification of what those obligations entail. This issue was raised by South Australia at the CoAG Senior Officials meeting in May 1998, and Senior Officials agreed that clarification was required, but progress in achieving this has been slower than the importance of the issue warrants.

In relation to road transport, the NCC has indicated that it interprets the reference in the Conditions of Payment to 'effective observance of the agreed package of road transport reforms' to include initiatives which are still being investigated and developed by jurisdictions. This is inconsistent with the Heavy Vehicle and Light Vehicle Agreements signed by Heads of Government which only require implementation of reforms which have been developed in legislative format and approved by a majority of jurisdictions, following a formal two month voting period.

In relation to water, the Community Service Obligation policy for rural water is designed to make subsidies transparent, thereby enabling a clear assessment of the commercial performance of SA Water. The Government considers that the provision of an explicit Community Service Obligation to enable a common state-wide price for water is fully consistent with the requirements for transparency of subsidies under the CoAG Strategic Water Framework.

The NCC, however, has taken the view that state-wide pricing is not a Community Service Obligation as it is not sufficiently clearly defined, well targeted and justified in its departure from the general principle of full cost recovery from rural consumers. There is an urgent need to clarify the NCC's interpretation of the requirements, which appear to extend the State's obligations under the strategic water reform framework.

The Community Service Obligation for rural water provides an example of the inherent conflict in the role of the NCC in assessing States' progress while also imposing its own view of how reforms should be implemented.

Jurisdictions will be reluctant to identify areas in need of reform if such initiatives automatically become obligations under NCP. The NCC's charter is to assess reasonable progress in implementing agreed reforms, not to force the pace or expand the scope of possible reforms under joint investigation by the various affected governments. A risk of forcing the pace of policy development in this way is that issues, including those affecting rural and regional areas, are not identified and addressed appropriately. Similarly, forcing the pace of implementation beyond what is reasonable does not allow time for selling the benefits to those affected, or for making the transition to a new regime in a managed way so as to minimise transactional costs.

It is becoming increasingly clear, as NCP implementation proceeds, that some aspects of the reform package have particular complexity and apply to a wider variety of government activities than was appreciated at the time the agreements were signed. These complexities include the definition of what is meant by "carrying on a business".

There has been a trend towards implementing some element of cost recovery across a broad range of government services, for which community service provision remains the predominant priority. Cost recovery has been necessitated because of the squeeze on State finances in recent years and the need to reduce debt levels. Nevertheless, the intention for the majority of these services is not to make a profit, but to make a contribution towards costs, in order to enable a greater level of service delivery than would otherwise be possible given funding constraints. It seems that attempts at cost recovery can turn a core governmental function into a business function, to which the Conduct Code and considerations of competitive neutrality need to be applied.

#### ***4.3.2 Assessment process***

In the first tranche assessment process, the NCC required that jurisdictions meet almost all their commitments, rather than half or most, in order to receive a satisfactory assessment. This revealed the need for greater clarity in the benchmarks to be used to determine satisfactory progress or effective observance. The same point will apply to calculation of any penalties.

In carrying out its assessment, it is important that the NCC focuses on whether appropriate processes have been adopted by jurisdictions in NCP implementation and whether due consideration has been given to the public interest in the reform decisions taken by Governments. The NCC brings its own ideological position to consideration of policy outcomes and should not seek to dictate those outcomes to



Governments, particularly in legislation review where final decisions on reform outcomes must rest with elected Governments.

#### **4.3.3 Observance of agreements**

There has been an inconsistent application of the NCP agreements. On one hand the NCC acknowledges that its assessment process is inflexible but argues that this is demanded of it by the agreements. On the other hand the agreements are followed loosely if at all, for example:

- The NCC's splitting of the first tranche assessment into two components (1997-98 and 1998-99) rather than the single assessment envisaged by the CoAG Agreements of April 1995;
- Development of a proposal to regulate professions under the Trade Practices Act without the NCC seeking jurisdictions' approval for this work to be included in its work program, as required by the agreements.

Section summary. Recommendations concerning the NCC's role are

**CoAG to settle criteria for assessing and recognising progress prior to the second tranche assessment.**

**CoAG to clarify criteria for assessment of related reforms for the purposes of competition payments, and settle timetable for their implementation, following agreement among jurisdictions on policy issues.**

#### **4.4 BEYOND THE SCOPE OF NCP - NEED FOR A MORE STRATEGIC APPROACH TO INDUSTRY REFORM**

The Government believes there is a need to develop a broader reform agenda which parallels the present microeconomic agenda based on NCP reforms within specific industry sectors. The development of this broader reform agenda would ensure that there is a strategic policy framework which identifies key outcomes across industry sectors which may not be achieved - or worse - may alter direction through a focus on NCP reforms within the individual reform agendas.

Port reform is an example. There has been considerable focus on waterfront and port authority reform over the last decade. The focus has been on the various waterfront elements ie stevedores, shipping and now on port authorities. For the Ports Corp as a significant business in terms of competitive neutrality principles, there is a present focus on return on assets, cost-reflective pricing and tax equivalent regimes.

However, a key objective is also trade facilitation, which can be significantly advanced through a collaborative approach with port and transport service providers rather than a narrower business / trade relationship. This can be manifested through collaborative market development initiatives and complementary marketing strategies including commercially driven pricing arrangements. These activities are not necessarily encouraged by a focus on NCP principles alone which are aimed at the individual business elements ie microeconomic or agency specific reforms.

## **5. APPENDICES**

### **5.1 APPENDIX A - Speech by Shane Stone, Chief Minister, on 8 October 1998 in the Northern Territory Parliament, referring to the Competition Principles Agreement**

“The principles do not take full cognisance of the developing regions of the economy, where an important component of the nation's economic future lies. It is these regions that need new infrastructure in order for their full potential to be realised in order to sustain and enhance the nation's wealth in the new century.

For the Adelaide to Darwin railway, the successful consortium will have to commit to a substantial capital outlay, perhaps more than three quarters of a billion dollars of project debt and equity. With this outlay the consortium will have a capital asset with the ability to generate revenue over a long period of time to service the debt, and provide for a reasonable return on equity. It is equally reasonable to allow for some protection of this investment, otherwise the initial outlay will not be made.

Some take the view that the project must allow for third party access on terms similar to those in more mature economic regions. This is a disincentive to investment in major infrastructure projects in a developing space like our own.

With a railway in place there will be competition in transport with road and sea, and in partnership with road, competition for transport markets servicing such important areas as the Carpentaria mineral province. This transport service will be important not so much to bring product out, but in the provision of competitively priced supplies necessary to make the mining province in turn even more competitive in the global economy. Such competition can only be for the benefit of the Australian economy.

The irony is that if the view prevails that access must be granted on the same terms as those that exist in the developed areas of our national economy, it would work against enhancing competition in transport to northern Australia. It would work against international competition in transport as far as Australia is concerned, for the Adelaide to Darwin railway and the Port of Darwin will provide such competition.”

## **5.2 APPENDIX B - Impact of the water reform framework**

### ***What are the environmental impacts in country Australia of the reforms?***

The environmental elements of the reforms are only currently being implemented in country South Australia. This is largely through the implementation of the planning processes prescribed in the *Water Resources Act 1997*. The Act provides the legal framework to implement all water resource management elements of the water reform agenda in South Australia. Given this timing it is possible only to report on the expected environmental impacts of the reforms.

In relation to water allocations, the Act requires the development of water allocation plans for areas of prescribed resources, which are those that are under pressure from development. These plans are focussed on water quantity. Water allocation plans require an assessment of environmental water needs and then allocation of water for consumptive use so that the environmental water needs are adequately addressed. Consumptive allocations made through these plans are a property right to take water separate from land title. Environmental water provisions are protected through limits on consumptive water allocations and other provisions of the plan.

Similar planning provisions apply in areas being managed by catchment water management boards. These areas are established where the water resource management problems are broader catchment management issues. These plans must also address the issue of environmental water provisions, as well as issues such as water quality, riparian management, farm dam construction and wastewater re-use.

All plans must include provisions for environmental monitoring and all have the legal force of parliamentary regulation. The development and implementation of these plans for 20 areas of the State over the next two years will bring positive environmental benefits in rural South Australia. This should include:

- protection and where necessary restoration of environmental water requirements;
- improved riparian management, such as stock management, revegetation, erosion stabilisation and weed control;
- better water quality; and
- improved floodplain planning.

Demand management also has the potential for positive environmental impacts. This is already occurring through a levy on water use for urban users to pay for catchment management activities in the River Murray catchment. In some prescribed resources there is already a levy on use and/or allocation.

### ***Has the capacity to trade water entitlements helped to ease the financial problems of farmer/graziers?***

A tradeable water entitlements systems has been in place along the River Murray since 1983 and in other areas of the State progressively. The separation of water entitlements from land tenures has facilitated development without the allocation of more water.

It is believed that the system of tradeable water entitlements in South Australia has helped to ease the financial problems of farmer / graziers by enabling them to better realise the capital value of their assets. Water allocations in excess of requirements can be traded to the mutual benefit of individuals and the environment. Similarly, profitable lease arrangements may also be undertaken. By establishing a market for water entitlements, the resource is permitted to trend to its highest and best use with direct financial benefits for the owners and users of that resource. The system provides a useful and effective short and long term management tool for participants in the highly variable agricultural sector.

A good example of direct benefits to the community is the restructuring and refurbishment of government irrigation areas. Restructuring would not have been possible without the tradeable entitlements system. The entitlements system provided those irrigators assessed as being inefficient or unviable during the restructuring process with the capacity to exit the market by allowing them to sell their land and water assets separately. Without the ability to trade water entitlements some irrigators would have been effectively trapped in inefficient and ultimately unprofitable production processes by virtue of a lack of control over their own capital asset.

Similar benefits are expected with the introduction of interstate trade although at this time it is too early to cite examples as only one trade has taken place.