



Tasmania

PREMIER
MINISTER FOR STATE DEVELOPMENT

FEB 1999

Mr J Cosgrove
Presiding Commissioner
Impact of Competition Reforms Inquiry
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Mr Cosgrove

I am writing to provide you with the Tasmanian Government's submission to the Productivity Commission's Inquiry into the *Impact of Competition Policy Reforms on Rural and Regional Australia*.

With respect to National Competition Policy (NCP), Tasmania's progress in implementing the NCP agreements to date has largely focused on ensuring that appropriate policy processes are in place to implement the reforms within the agreed timelines. It is not proposed to go into any specific detail in the submission in relation to this progress.

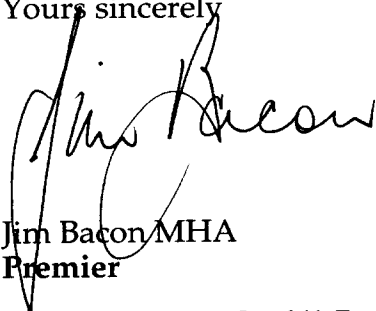
Given that the focus has been on establishing policy processes and that long lead times are generally required to achieve outcomes from NCP reforms, it is considered somewhat premature to attempt to provide any comment in relation to the impacts of NCP on rural and regional Australia as they might apply to Tasmania.

However, my Government believes that the application of NCP in Tasmania needs to take into account a number of unique characteristics associated with the Tasmanian economy. These characteristics are essentially demographic and economic and the Tasmanian Government will be taking all these issues into account when applying the public benefit test to any proposed reforms.

It is understood that the Tasmanian Government will have a further opportunity to comment on the Draft Report following its release in March 1999.

Thank you for the opportunity to provide a submission on this important matter.

Yours sincerely



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Premier

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Productivity Commission Inquiry
*Impact of Competition Policy Reforms on Rural
and Regional Australia*

Tasmanian Government Submission

January 1999



Tasmania

Introduction

The purpose of this submission is to raise a range of issues for the Productivity Commission's consideration in relation to its *Inquiry into the Impact of Competition Policy Reforms on Rural and Regional Australia*.

The key points raised in this submission are:

- Tasmania is a regional economy compared with the economies of major metropolitan areas on the mainland;
- Tasmania's demographic and economic circumstances are distinct and, in recognising these characteristics, reforms may ultimately need to take a different form in this State compared with other jurisdictions;
- the National Competition Policy (NCP) agreements are generally not prescriptive about reform outcomes, but rather require the consistent application of agreed principles and transparent processes;
- given the nature of the NCP agreements, the policy decisions of individual governments should not be pre-empted and the Commission's final report should not be used as input for the National Competition Council's (NCC) recommendations to the Commonwealth Government for the second tranche assessment in 1999; and
- it is premature, at this stage, to provide specific comment in relation to the impacts of NCP reforms on rural and regional Australia as they apply to Tasmania, as to date Tasmania's progress has largely focused on ensuring that appropriate policy processes are in place.

Tasmania as a Region

The Tasmanian Government considers that the whole of Tasmania is a regional area and that this status is in contrast with the metropolitan economies of the mainland capital cities. Tasmania has demographic, social and economic characteristics that are more typical of a regional area, such as its small and widely dispersed population, the size and scope of the labour market and a lack of a major metropolitan area for business activities and organisations. In addition, Tasmania also faces certain difficulties that are related to the structure of the State's smaller regional economy. In taking account of these characteristics and circumstances, competition reforms may ultimately need to take a different form in Tasmania compared with other jurisdictions.

Tasmania is Australia's most decentralised State with nearly 60 per cent of the population living outside the capital city statistical division. At 30 June 1996, the resident population living in Tasmania was estimated at 474 592. On a regional basis, the Greater Hobart Southern Region was counted for 48.5 per cent of the population, the Northern Region 28.3 per cent and the Mersey Lyell Region 23.2 per cent. The proportion of Tasmania's population living in rural areas was 26.7 per cent, compared

with a national average of approximately 15 per cent.

Prior to the early 1980s, Tasmania's economic performance was on par with that of the national economy. However, since the early 1980s Tasmania's economic performance has generally lagged behind Australia as a whole, with the gap in performance increasing since 1991-92. In comparison with other Australian jurisdictions, Tasmania is also characterised by a history of lower levels of earnings and educational attainment, higher than average death rates, lower than average life expectancy, a high dependence ratio and high unemployment.

Tasmania has the highest unemployment rate in Australia. Since 1982-83, the unemployment rate in Tasmania has averaged 10.2 per cent, which is 1.6 percentage points above the national average. Since 1991-92, Tasmania's unemployment rate has averaged 11.1 per cent (compared with 9.5 per cent nationwide), and as at September 1998 the State's unemployment rate has averaged 10.8 per cent (in trend terms) and more than 2.5 percentage points above that for Australia.

The lack of employment opportunities, especially in more recent years, is reflected in the State's relatively low labour force participation rate. Historically, the Tasmanian labour force participation rate has been lower than the national average. Over the past 15 years, Tasmania's participation rate has averaged 60 per cent compared with 62.6 per cent for Australia. In more recent years, the gap relative to Australia has widened. Since 1991-92 Tasmania's average participation rate (60.1 per cent) has been 3.1 percentage points below the national level and is currently around 4.5 percentage points lower. It is worth noting, however, that other factors influence the participation rate, including sociological and demographic trends.

Tasmania is a small regional economy heavily dependent on primary industries. It is prominent in the production of agriculture, marine, mineral and forest products and their processing. Compared with the national average, sectors that are larger than average in Tasmania include agriculture, forestry and fishing, retail trade and health and community service sectors. Relatively small sectors include mining, wholesale trade, finance and insurance and property and business services.

Tasmania's heavy dependence on primary industries has meant that the State is more vulnerable to fluctuations in commodity prices. Furthermore, Tasmania's geographic isolation means it is more remote than other jurisdictions from major markets and export routes.

Tasmania also has a relatively narrow industrial base. In several key sectors Tasmania has a small number of businesses and produces a narrow range of products compared to other jurisdictions. For example, Tasmania's manufacturing sector is heavily oriented towards the initial processing of raw materials in plants such as smelters. It also does not specialise in areas that have expanded in several other States, such as finance and insurance, property and business services, communications, cultural and

recreational services and even mining.

The decentralised nature of the State's population and production base means that Tasmania has more in common with regions, such as non-metropolitan Victoria or New South Wales, rather than metropolitan capitals such as Sydney or Melbourne. In contrast, mainland Australia's population is concentrated in the capital cities (particularly, Sydney, Melbourne, Brisbane, Adelaide and Perth) which have complex and highly distributed market systems. Mainland States are more able to withstand market disturbances because of their size, integrity and complexity.

The structure of the State's economy, with its relatively low industrial base and heavy dependence on sectors that have not shown major growth, such as agriculture and natural resources, is one of the key reasons for Tasmania's poor economic performance.

Also during the past few decades, the structure of the Australian economy changed largely due to factors over which governments have had little or no control, such as the emergence of "globalisation" and rapid technological change. There is no doubt that in recent years this has resulted in a decline in some traditional industries, a deterioration in living standards in rural and regional areas and a withdrawal of financial services. For example, the Tasmanian Government is most concerned by the decisions of major financial institutions to close branches in many of the State's rural areas, as this has had a negative impact on employment and reduced access to these types of services for local residents.

In addition, there has been a significant decline in the State's public sector since the late 1980s. The Tasmanian economy has, in the past, relied heavily on the public sector as a major employer and service provider. However, since the late 1980s, there has been an overall reduction of nearly 9000 jobs, due to fewer jobs in the State and Commonwealth sectors, with a relative small rise in local government employment over this period. The reduction in the level of public sector employment has reduced the State's final demand, which has contributed to the State's relatively poor economic performance. Moreover, because Tasmania is a small regional economy with distinct characteristics such as a highly dispersed population, Tasmania requires a great deal of government presence in service provision because private markets are thin or non-existent. To illustrate, private markets underprovide rural health services and this has strong implications for the State Government's overall expenditure.

Tasmania's circumstances are distinct and, in taking account of this, NCP reforms may ultimately need to take a different form in this State compared with other jurisdictions.

National Competition Policy

The Tasmanian Government is committed to the principles contained in the NCP agreements signed by all Australian Governments in April 1995.

Tasmania's progress in implementing the NCP agreements to date has largely focused on ensuring that appropriate policy processes are in place to implement the reforms within the agreed timelines. It is not proposed to go into any specific detail in this submission in relation to this progress. Further details are provided in the Tasmanian Government's third Progress Report to the NCC (Attachment A).

Given that the focus has been on establishing policy processes and that long lead times are generally required to achieve outcomes from NCP reforms, it is considered somewhat premature, at this stage, to attempt to provide any comment in relation to the impacts of NCP on rural and regional Australia as they might apply to Tasmania.

In the vast majority of reform areas, the implementation of the NCP reforms is being undertaken in a staged manner over time. For example, with the NCP legislation review requirements, comprehensive reviews must be undertaken in accordance with a detailed timetable and the recommendations considered by the Government prior to the implementation phase. In some cases, staged implementation periods have been recommended for a number of reasons, including the recognition of emerging technologies and the introduction of a transition period to a more competitive environment or less regulatory system, to ensure that the negative consequences of the reforms are minimised or removed. Even in cases where reforms have been implemented, it is not possible at this early stage to determine their full impact.

The Tasmanian Government recognises that the general thrust of the NCP agreements is to promote competition within the economy where it is considered to be in the public benefit. The agreements are generally not "prescriptive" about reform outcomes which each party must achieve and make it clear in many instances that the precise manner in which the agreed principles are to be implemented by Governments is a matter for them to determine, having regard to their own priorities and their own assessment of what is "appropriate" in their jurisdiction.

However, Governments that seek to retain restrictions on competition are required to demonstrate the value of the restrictions to the community. In this context, the NCP agreements require the consistent use of the public benefit tests to ensure that all government and community objectives are taken into account before the introduction of competition to a sector of the economy.

Subclause (3) of the Competition Principles Agreement sets out a number of issues which should be taken into account when undertaking a public benefit assessment. These considerations include, but are not limited to:

- economic and regional development (including employment and investment

growth); and

- the interest of consumers generally or a class of consumers and social welfare and equity considerations (including community service obligations).

Of some concern is the tendency for NCP to be “blamed” for a range of social and economic circumstances that have emerged in recent times, such as reduced services to rural and regional areas, low commodity prices, the sale of government assets and unemployment. Such conclusions tend to be based on misconceptions about NCP which, at the same time, ensure that the important benefits it will provide are often overlooked.

As mentioned in the first section of this submission, while these circumstances have had a negative impact on rural and regional areas nation-wide, they have been largely due to factors over which governments have little or no control, including the rate of technological change, fluctuations in world commodity prices and globalisation.

As stated above, the NCP agreements do not, in general, compel governments to introduce specific reforms. For example, they do not require privatisation of government businesses or contracting out and do not expect that deregulation will be the outcome of an independent review. In fact, NCP provides governments with flexibility to deal with circumstances where competition might be inconsistent with particular objectives that are valued by the community. For example, under NCP, there is no restriction on governments subsidising social services to rural and regional areas.

What NCP does require is the consistent application of agreed principles and transparent processes, including in many cases a consultation program, to ensure the best outcomes for the community as a whole. If it is claimed that the application of NCP has resulted in adverse effects on rural and regional Australia, the issue is not about NCP *per se*. It more accurately relates to the judgements that particular governments have made in their assessment of public benefit. The Tasmanian Government is committed to rigorously applying the NCP public benefit test before proceeding with any reform to ensure that rural and regional communities are not disadvantaged further.

The Tasmanian Government believes that it would be inappropriate for the Productivity Commission to attempt to pre-empt the outcome of any reforms, especially in relation to the NCP legislation review requirements, by undertaking a forward looking assessment of the impacts of NCP on rural and regional Australia. In particular it should not be assumed that reform outcomes will be consistent in all jurisdictions. As briefly described in the first section of this submission, Tasmania’s circumstances are distinct and, in taking account of this, reforms may ultimately need to take a different form in this State compared with other jurisdictions.

The electricity industry provides a useful example in this respect. In some mainland States, competitive electricity markets have been established with several generation

businesses competing for contracts and for dispatch. In Tasmania there is a single generation business, the State owned Hydro-Electric Corporation (HEC), which is around the size of an average generation business in Victoria.

The HEC operates an integrated generation system with dispatch carefully managed across its diverse set of power stations to maximize the use of water in storage and to minimize spillage. As Tasmania has no baseload thermal generation it is reliant on rainfall and thus exposed to drought risk. Given these features, it is unclear whether the competitive market arrangements for generation in mainland States are appropriate in Tasmania.

A further example is the petroleum industry. The price of petrol in Tasmania, particularly in rural areas, has historically been significantly higher than the price of petrol in major metropolitan centres elsewhere in Australia. This has been a concern of the Tasmanian Government for some time and was the subject of investigation by a Select Committee of the Legislative Council. The Committee's Report, entitled "Tasmanian Legislative Council Select Committee Report into Petrol Pricing in 1995" attributes this difference primarily to a lack of competition in the wholesale and retail markets in Tasmania.

Amongst other things, the Report concludes that this lack of competition is not due to a lack of potential profitability in the Tasmanian market, but rather an absent desire or necessity to compete in Tasmania by wholesalers, private distributors and retailers. It suggests that wholesalers are content with existing market share and that discounting by wholesalers or retailers is not forthcoming to any large extent. This lack of discounting is related to the "absence of independent wholesalers and lack of organised independent retail outlets," in Tasmania (Select Committee Report, page 59).

Given the nature of this environment, the Tasmanian Government has major concerns in relation to the Commonwealth Government's policy of the recent deregulation of the maximum wholesale price and is not convinced that it will result in reduced petrol prices, in particular for rural areas. It is accepted that abolishing maximum wholesale prices may result in reduced pump prices in the larger metropolitan centres, such as Melbourne and Sydney, where there are independent wholesalers and competition is relatively high. However, the Tasmanian Government does not consider that this deregulatory policy is appropriate for Tasmania, given the lack of competition, and is concerned that it may expose Tasmanian consumers to the risk of higher prices. For these reasons, the Tasmanian Government will monitor closely petrol prices in Tasmania under this deregulated environment.

The Tasmanian Government has had concerns in the past that NCP outcomes have been pre-empted or dictated by external bodies. The NCC has tended to bring its own ideological position to the consideration of policy outcomes and dictate those outcomes to governments, outside the agreements signed at the Council of Australian Governments meeting. In particular, it is considered that it is not the role of the NCC

to specify outcomes in these areas.

Instead the NCC's primary focus should be to ensure that appropriate processes have been adopted in the implementation of the NCP requirements and that due consideration has been given to the public interest in the reform decisions taken by individual governments.

For this reason, the Tasmanian Government is concerned that the Productivity Commission's Report may be used as input for the NCC's recommendations to the Commonwealth government for the second tranche assessment in 1999. The Government therefore reiterates the importance of ensuring that the emphasis on process and not outcomes in the NCP agreements is taken into consideration when the Productivity Commission completes its Report and that the policy decisions of individual governments are not pre-empted.

Tasmanian Government Initiatives to Assist Rural and Regional Areas

As recognised previously in this submission, in recent years, factors such as globalisation and technological change, over which governments have little or no control, have had a negative impact in rural and regional areas throughout Australia. In light of these circumstances, the Tasmanian Government has undertaken to develop a number of initiatives to assist rural and regional areas. Some of these are outlined below.

Service Tasmania represents a major reform in government service delivery which aims to simplify government processes, ensuring that doing business with government is not only faster and more convenient, but also more accessible. It has involved the opening of a number of *Service Tasmania* "shops" throughout the State, 17 of these in rural areas. Presently, over 200 government services are provided through *Service Tasmania* shops. In addition, at Triabunna on Tasmania's east-coast, Westpac Banking Corporation services are being provided at the shop for a 12 month trial period. Centrelink services are also available at some outlets.

Service Tasmania is an example of how technology can be harnessed to deliver services not previously accessible to rural and regional communities.

The Tasmanian Government has also developed a comprehensive industry development policy for the State. Key elements will include:

- a comprehensive audit of Tasmania's key industry sectors to provide an up to date analysis of their current opportunities and potential for growth, the barriers to achieving growth and forms of assistance required for expansion; and
- community involvement in developing plans for action through genuine partnerships with local government. Partnership Agreements between the State and local governments will be completed over the coming months and will incorporate plans of action to be implemented by both tiers of government.

While these initiatives will provide benefits to the State generally, it is intended that they provide assistance to rural and regional areas in addressing the difficult circumstances they have been experiencing in recent years.

Conclusion

Tasmania's distinct demographic and economic characteristics are recognised by the Tasmanian Government. Furthermore, it is recognised that these characteristics distinguish Tasmania as a regional economy compared with the larger, more complex economies of mainland metropolitan centres.

The Tasmanian Government is committed to applying NCP reform principles in Tasmania. However, it is considered premature, at this stage, to provide specific comment in relation to the impacts of NCP reforms as they apply to Tasmania, as to date Tasmania's progress has largely focused on ensuring that appropriate policy processes are in place.

It should be recognised that NCP is not about competition for competition's sake and that the NCP agreements are flexible in that they enable governments to deal with circumstances where competition might be inconsistent with particular objectives that are valued by the community. The Tasmanian Government will be taking the State's distinct characteristics and requirements into account when applying the public benefit test to any proposed reforms.