

Section 1 Introduction

(a) Submission

This submission discusses the impacts (actual and potential) of the National Competition Policy (NCP) on agriculture, fisheries and forestry industries and country Australia² in accordance with the Productivity Commission's (PC's) terms of reference to assess the impact (both transitional and ongoing) of the competition policy and related reforms introduced by governments under the three inter-governmental agreements signed in April 1995—the *Competition Principles Agreement* (CPA), the *Conduct Code Agreement* and the *Agreement to Implement the National Competition Policy and Related Reforms*. There is a particular emphasis on the need for measures to facilitate the flow of benefits and to reduce transitional costs and avoid unintended negative impacts on portfolio industries and country areas.

The agriculture, fisheries and forestry industries are affected by issues quite apart from the NCP. This submission notes the difficulty of separating these impacts from those of the NCP reforms. Further, much of the reform process lies ahead. This contributes to the difficulty in assessing the impact of the NCP as opposed to the impacts of other changes. Although it is too early to ascertain precisely what the impacts will be, some general analysis can be made. Particular issues are the dichotomy between the timing of the costs of reforms (which are much more immediate) and the benefits (which can take some time to occur and are more diffuse), the differential impact of changes across the community, and how well governments are preparing communities for the changes, and contributing to transitional arrangements.

A major influence affecting rural industries and communities, quite apart from the NCP, is the globalisation of the Australian economy. Increasing competition, both in Australia and overseas, places significant adjustment pressures on rural industries, with consequential impacts on employment and income in rural communities. Rapid technological change also affects the supply and delivery mechanisms of government and business services to rural industries and communities, and in turn changes their needs for services.

Any reforms to rural industry or to services to country Australia which result from the NCP will have an influence on the production, processing and distribution of rural products and also affect the range and intensity of changes on country Australia. Such changes require different approaches by country interests, as well as supportive government arrangements.

Australia is a small country depending on exports and access to international capital and technology. Its self-interest is best served within an international trading framework that supports free trade and imposes international disciplines. AFFA is working hard to press for further trade liberalisation and for the removal of impediments and distortions in international trade. It is recognised that corrupt world markets can impede even the most competitive of Australia's exports. However, as a member of the World Trade Organisation (WTO), we will need to comply with the rules that we expect others to adhere to. The link between competition policy and trade is now on the WTO's agenda, which could have longer term consequences.

These and other issues will be discussed in this submission.

² The term "country Australia" is used in this submission to cover rural and regional Australia.

(b) Role of AFFA and the NCP

The Department of Agriculture, Fisheries and Forestry is generally known as Agriculture, Fisheries and Forestry — Australia (AFFA) and will be referred to as AFFA in the remainder of this submission. AFFA was created out of the former Department of Primary Industries and Energy (DPIE) and has responsibility for agriculture, fisheries, forestry and processed food. The Department has a vision of rising national prosperity and quality of life through internationally competitive and sustainable agricultural, fisheries, forest and food processing industries. Major goals are to enable portfolio industries to take control of their futures; to provide the best possible policy framework and program base; to encourage exports to flourish; and to help realise investments that balance economic development and environmental outcomes in such a way that jobs in country Australia grow and communities prosper. A large part of the Department's work is to improve productivity and international competitiveness of portfolio industries. The Department also accords high priority to facilitating adjustment in a manner that is sensitive to the concerns of primary producers and rural communities.

Current Commonwealth rural policies and programs relating to the agriculture, fisheries and forestry portfolio focus on enhancing the capacity of agricultural businesses and communities to meet emerging challenges and opportunities; encouraging social and economic development in rural areas; providing a social support system for farming families that is comparable to other community members; and supporting measures to enhance the sustainability of the natural resource base.

The main programs that aim to assist portfolio industries to deal with change are listed in Attachment A. In summary, AFFA wants to support beneficial structural change while militating against hardship and social dislocation.

The portfolio is also active in meeting the requirements of the NCP. The overall objective of the NCP is to ensure that Australia's scarce resources are directed toward achieving the greatest value. This is essential if Australia is going to maintain or create durable advantages in increasingly competitive markets here and overseas. The NCP covers many issues — this submission focuses on those within the responsibility of, and significant to, this portfolio, such as legislative reviews and reforms in the water sector. However, NCP reforms in other portfolios and jurisdictions will have an impact on agriculture, fisheries and forestry industries and these will be discussed, where relevant.

Legislative reviews have been the main area of NCP activity in portfolio industries. AFFA has been undertaking legislative reviews in line with the legislative review schedule (see Attachment B). The guiding principle is that legislation should not restrict competition unless it can be demonstrated that the benefits of the restriction to the community as a whole outweigh the costs and the objectives of the legislation can be achieved only by restricting competition. (The analysis of the benefits and the costs involves the public benefit test, which is discussed below in Section 5). Legislative reviews (and the consequent reforms, if any) are to be completed by the end of the year 2000. Portfolio industries and rural communities are also affected by NCP reforms undertaken by State and Territory governments. Most debate has centred around the impact of implementing legislative review recommendations.

This portfolio also applies competitive neutrality where it has a "significant" business activity or where "in-house units" bid for Competitive Tendering and Contracting contracts. When costing for competitive bids, portfolio agencies include a tax equivalence regime and a proxy for a rate of return in order to comply with competitive neutrality.

The Agriculture and Resources Ministerial Council of Australia and New Zealand (ARMCANZ) and the Standing Committee on Agriculture and Resource Management (SCARM) are inter-governmental bodies covering portfolio interests. They share information and provide the

opportunity for co-operation. The Contact Group on Legislative Reviews was established under SCARM to enable Commonwealth, State and Territory officials exchange information and share experiences of undertaking legislative reviews.

Portfolio industries and rural communities are also affected by NCP reforms in other portfolios, such as reforms to Australia Post and to petroleum marketing arrangements from the reviews of underlying legislation and in the application of reforms to electricity, gas and rail and road transport.

Section 2 Portfolio industries in the Australian economy

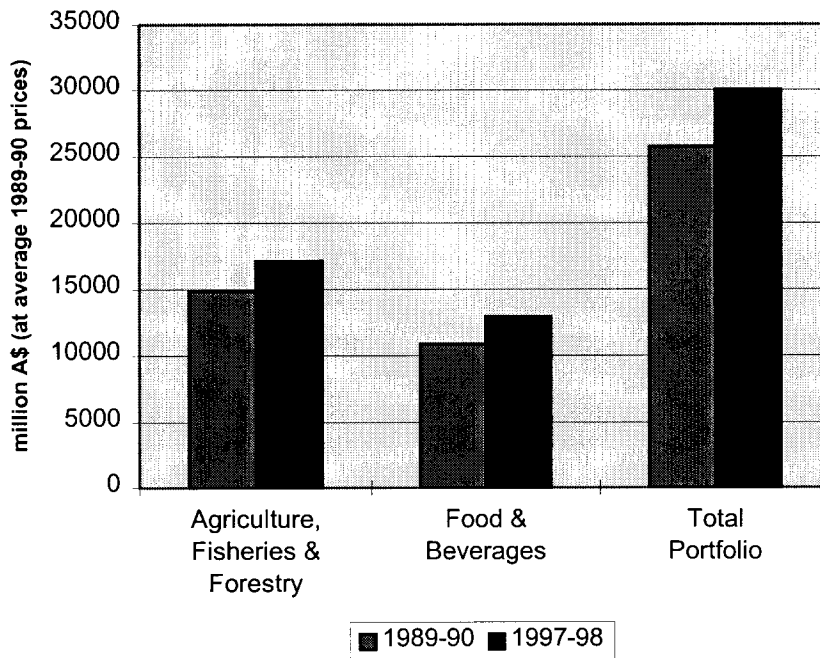
Agriculture still occupies an important place in the Australian economy, even though the number of agricultural establishments has been steadily declining in recent years. In particular, agriculture has a major influence on downstream economic activity. For example, food processing is the biggest manufacturing industry, and is a significant contributor to Australia's merchandise exports.

Australian agriculture also occupies an important place in global rural trade, particularly in Asian countries, where many new markets have been forged for wheat, beef, fruit, sugar and dairy produce.

There have been significant changes over the final decades of the 20th century. These include:

- relative decline of commodity prices, due in part to subsidised agricultural output from major competitors in international markets;
- vertical integration of agricultural activity with manufacturing industries;
- a changing profile of farms, with more larger farming units and farm amalgamations and an increasing number of small farm operations often not reliant on farming income;
- the emergence of new horticultural crops;
- the development of genetically modified organisms (GMOs);
- recognition of land care, sustainable agricultural practices and environmental issues;
- decline in relative importance of agricultural raw materials as export earners; and
- reduced protection as a result of the Uruguay round of General Agreement on Tariff and Trade (GATT) negotiations.

The value of production in portfolio industries has risen between 1989–90 and 1997–98 by 16.7 per cent. However, it has fallen as a share of Gross Domestic Product (GDP) from 6.9 to 6.4 per cent. Production in the agriculture, fisheries and forestry sector has increased from \$14.9 billion to \$17.1 billion over the period, while processed food and beverage production has increased in value from \$10.9 billion to \$12.9 billion dollars. Processed food and beverage production is increasing in value twice as quickly as the manufacturing sector average, and comprises about one fifth of total Australian manufacturing output.

Figure 1 Share of GDP, by sector

Portfolio industries' exports are growing in value. Between 1989–90 and 1997–98, rural exports increased from \$14.2 billion to \$21.4 billion (an increase of 5 per cent). However, over the same period the share of portfolio industries' exports to total exports fell from 23.4 per cent to 18.6 per cent. In 1985, trade in processed or value added products accounted for half of global agricultural trade and was expected to rise to 75 per cent. Thus, the trend has been to trade in value added products, reflecting the requirement to provide customers with very specific products.

Employment in portfolio industries

Employment in the agriculture, fisheries and forestry industries has increased slightly over the period 1990–91 to 1997–98. On average, in 1990–91 and 1997–98, there were approximately 434 900 people and 436 300 people employed in these industries, respectively, an increase of 0.3 per cent over the period. On an annual basis, agricultural employment has not changed dramatically over time in any State.

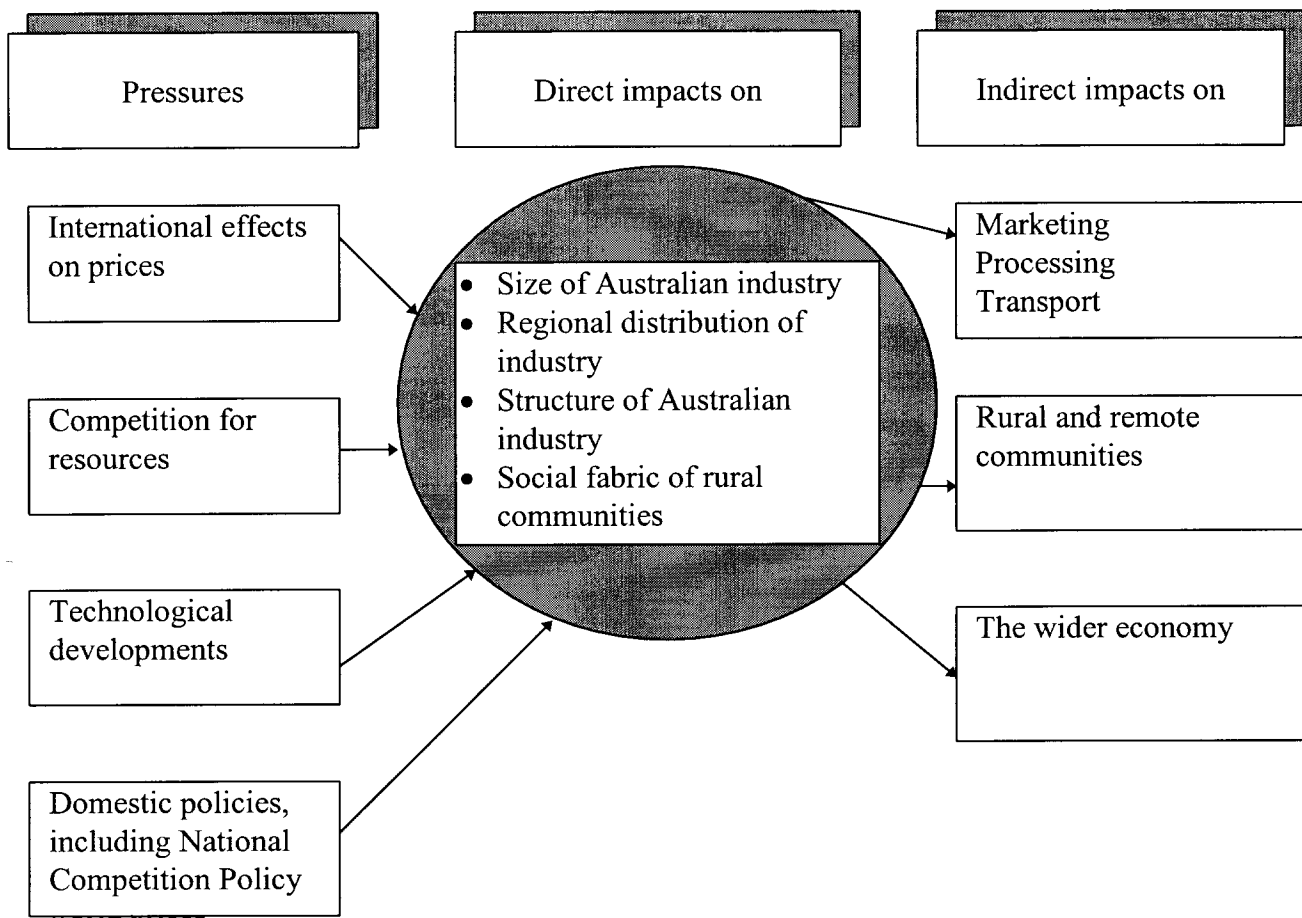
Much employment is indirectly supported by agriculture. Suppliers to portfolio industries are affected by the fortunes in these industries. For instance, the dairy industry has 13 750 registered farms, but total employment in the dairy industry is 50 000 people. The processed food and beverage sector employs 158 000 people directly in around 4 000 establishments.

Although agriculture as a percentage of employment in Australia has been declining, it is now the fastest growing employment sector in Australia, particularly in non-traditional areas of agriculture and in service industries and agribusiness. At the higher skills levels, demand is currently exceeding supply (Chudleigh, 1998).

Factors affecting portfolio industries

Factors affecting Australia's agricultural, fisheries and forestry sectors are summarised in Figure 4.

Figure 4 *Forces affecting change in Australian agriculture*



Source: ABARE 1996

Globalisation

Deregulation of financial markets and trade reform has increased the mobility of capital, human resources and technology around the world and this has resulted in increased global trade.

The globalisation of the economy has increased competitive pressures, and highlights the impact of domestic competition policy. Effective competition policy assists with lowering cost structures, and thereby increasing the competitiveness of Australian producers.

As globalisation and trade liberalisation spread, new markets are opened up, providing opportunities for competitive Australian industries.

The operation of state trading enterprises is also coming under increased pressure in the WTO and any disciplines introduced in this area could have implications for how a number of Australia's statutory marketing boards operate, particularly bodies with monopoly trading powers.

Globalisation can increase inter-dependence among countries and regions. For example, the recent financial crisis in many Asian countries is having effects in their trading partners, including Australia. There are also important unresolved issues about the local and temporal impacts, often unintended, of large capital flows associated with globalisation.

The international trading framework involving the WTO, in which Australia is a very active participant, is fostering increased trade liberalisation. The discipline brought by this framework should continue to increase opportunities for Australian producers.

These changes in international trading patterns together bring more discipline to domestic economic policy. They also focus attention on the need to soften the blow where adjustments are required in the economy and to pursue transitional arrangements as necessary.

Inevitably there will be confusion about which impacts are from globalisation, and which are from domestic decisions such as competition policy. This reinforces the need for continuing effort in informing Australians about these issues, and the possible benefits and impacts from the reforms.

Non-NCP policies

Policy processes and other changes, independent of the NCP reforms, are also having an effect on portfolio industries and rural and regional areas (see Attachment C for details). These changes will often lower costs for primary producers and for services delivered in rural areas and improve the quality of service.

For instance, a review of the telecommunications sector has highlighted the cross subsidy arrangements. Cross subsidies have been criticised for distorting economic signals and for increasing costs to those consumers who contribute to the subsidy element (usually metropolitan users). These criticisms have led to a general trend towards transparency of assistance measures and the dismantling of government monopolies, replacing them with contestable processes and open markets. (These issues were also raised as part of the review of the Australia Post legislation.) There are likely to be further changes in the sector due to the advent of new technologies, eg. in telecommunications there is scope for wireless or satellite systems, which may be better suited to the low density service conditions found in rural areas.

There are other changes, however, where the impacts on many parts of country Australia are negative, at least in the short term. The rationalisation of government services, changing education needs, the rationalisation of banking, the concentration of some newer business activities in and about metropolitan areas, amalgamation of local government units, and changing patterns of production and near metropolitan lifestyle have all contributed to such changes.

In addition, privatisation has been considered with respect to some government monopolies. Privatisation is not a requirement of the NCP and the CPA specifically states that it is “neutral with respect to the nature and form of ownership of business enterprises.” (Clause 1(5)) However, general government reforms to improve efficiency of government business enterprises has meant that privatisation and corporatisation has been occurring, which has had the consequence in some cases of restructuring involving branch closures. There is thus the perception that services are being cut in country areas, with resulting impacts on employment opportunities.

Demography

Australia continues to be one of the most urbanised countries, with movement over time from country to metropolitan areas. There has been little change since the early 1970s in the country–metropolitan balance. In recent times, however, in country areas several larger regional centres have continued to grow while other smaller towns and localities have experienced population decline. In general, there has been movement from small towns to larger provincial centres, capital cities and, mainly in the case of retirees, the coast. On this basis, it can be conjectured that the growing provincial centres are likely to be the basis of re-birth of non-capital city Australia.

Sustainable resource use

Environmental issues have become much more important to the Australian community over the last three decades. AFFA believes that sustainable natural resource management is the key to securing the long term future of rural industries, including fisheries. In 1997, the Natural Heritage Trust

(NHT) was established to provide funding of some \$1.25 billion for a number of Commonwealth programs for sustainable agriculture and natural resource management and for the environment. The National Landcare Program involves farmers working together with the community and governments to address environmental problems too large for individuals to handle. The National Rivercare Program is a major investment in activities that will improve the health of Australia's river systems outside the Murray-Darling Basin. The Fisheries Action Program aims to rebuild Australia's fisheries to more productive and sustainable levels. The Farm Forestry Program aims to encourage the incorporation of commercial tree farming and management into farming systems for the purpose of wood and non-wood production, increasing agricultural productivity and sustainable natural resource management. Other initiatives include the Murray Darling 2001 initiative; the National Land and Water Resources Audit, the National Weeds Strategy and the National Feral Animal Control Program.

More effort should be applied to communicating with rural communities on the benefits of the NCP and to explaining the differences between the NCP and other independent policies/developments.

Section 3 Differences between country and metropolitan Australia

(a) Key features of country Australia

This section sets out the factors that distinguish country Australia from metropolitan areas, providing a basis for explaining the differing effects of government policies and programs in different places.

Economic diversity

Many regions are not economically diverse and are based on the production of a specific commodity. That dependence is a contributing factor to problems being faced in some areas.

Over the past two decades, total farm operating costs have increased sevenfold while cash operating surplus has increased only threefold. Increases in costs, together with declining real commodity prices, have given impetus to amalgamation of small farms into larger, more economically viable units.

Specialisation of economic activity is based on a region's comparative advantage in producing a traded good or service, given initial resource endowments, with this advantage becoming self-reinforcing as economic agents choose locations based on previous decisions of other economic agents. Thus, the economic health of such regions and communities is closely linked to the economic health of the main industry that has developed there. Many rural towns have suffered as farming businesses have adjusted to economic and other pressures. "The towns need the outlying areas for business; the farmers need the businesses in town for support services. As the number of farm operators dwindled, so did the number of service providers and consequently the number of job opportunities." (Trigg 1998, p. 155) The lack of a diversified economic base contributes to lack of resilience in coping with change, and to a domino effect where a contraction of services or industry occurs.

For economic diversity to occur, many rural and regional areas would need additional infrastructure and the maintenance and improvement of its human skills base if they are to improve their resilience in the face of change.

Economic diversity would help regions deal with external shocks and take advantage of growth opportunities. A resilient regional economy could be expected to have higher employment because the lower risk of regional recessions may lead to greater levels of local investment. Greater diversity of employment opportunities also achieves a better match of skills to work so a diverse

regional workforce may be more productive. Given imperfect labour mobility between regions, this may increase employment and participation rates. Generally, economically diverse regions do have lower unemployment and higher participation rates.

Often service withdrawals are irreversible, and the decline in town size associated with withdrawal may mean that a country town no longer has critical mass. For rural and regional communities service withdrawals and pressure to adjust rapidly can be difficult for the community due to a lack of alternative providers or economic activities. This highlights the need to examine how transition in the wake of significant events, such as business closures and service reductions, can be better managed.

Economic diversification has public good qualities: some of the benefits from diversifying the economic base of a region will extend beyond those people actually doing the diversification. Diversified regions will have greater resilience to cope in the face of change.

Case Study—Eyre Peninsula

The Eyre Peninsula has an economic base built around wheat production. The township of Cummins is a key rural centre that plays an integral role in servicing the commercial, community and recreational needs of the Lower Eyre Peninsula.

In 1997, the farm family had expanded to 2 226 hectares (from 1 295 ha in 1960) and feeds and clothes twelve permanent family members. In 1960, 77.3 hectares supported one person and the whole farm provided approximately 187 employment weeks. In 1997, 185 hectares supports one person and the whole farm provides approximately 189 employment weeks. Each hectare produced a nominal return of \$9.80, on average, in 1960. In 1996, each hectare returned \$42.50 (nominal terms). Wages paid to non-family labour as a proportion of income were 7 per cent in 1960 but only 3.3 per cent in 1997. The farmed area has increased in size by 72 per cent and increased its return per hectare to provide the same number of employment weeks, while wages paid have dropped by half.

Thus, extrapolating across the region, changes in farming operations have been a major contributor to the population decline that has occurred in farming areas. This has led to less provision of public and private services and infrastructure, with reduced employment opportunities in rural towns. Population decline has also been due to the movement of many people to nearby mining centres, partly as a result of the drought, high interest rates and low commodity prices in the mid-1980s.

The Eyre Regional Development Board has identified the growth potential of employment opportunities in the key industry areas of agriculture (through improved farm management, better R&D, diversification, value-adding and marketing); tourism; fishing (capacity for aquaculture to develop); and mining.

In 1995, the Commonwealth and State Governments, in conjunction with the regional community introduced a package of measures to address over three years a range of long term adjustment and land management issues in the region. The initiative provides support for research, information provision, planning and improved management practices.

Distance

Some country areas are geographically remote. Low population densities can increase problems of access to services. The financial and time costs associated with overcoming physical isolation place limits on access to social interaction, cultural and employment opportunities, information, and public and private sector services and facilities. However, it should also be recognised that transport and telecommunication services have been improving over time. Markets and services,

therefore, do not need to be as close to rural people as they once were, but there is still the question of the increased costs for rural residents to gain access to and use the services.

Rural labour markets

Rural labour markets are characteristically more highly specialised and are smaller than urban labour markets. In addition, there is significantly more self-employment (as a proportion of total employment) in rural labour markets compared to urban labour markets. Rural labour markets reflect local economic conditions and also affect the resulting social and economic structure by influencing migration patterns and population densities. There is significantly more self-employment (as a proportion of total employment) in rural labour markets compared to urban labour markets.

“The history of rural labour markets in Australia is a history of continuous adjustment to external pressures, for example, labour saving technological change.” (Borland 1998, p. 142) Borland identifies a number of additional adjustment pressures on rural labour markets, vis à vis urban labour markets. First, trade liberalisation has reduced employment in the textile, clothing and footwear industries. A significant share of employment in these industries has been situated in rural regions. Second, changes in the government sector in some states is likely to have affected employment in some regions, eg. amalgamations of local governments. Third, deregulation of agricultural markets has caused pressures in rural labour markets.

These pressures have also applied to urban labour markets. However, “the impact is likely to have been greater, and adjustment to the pressures harder to accomplish, in rural rather than urban areas.” (Borland 1998, p. 143) The small size and limited diversity of rural labour markets makes it likely that closure of a factory or other enterprise is a more prolonged and costly process in a rural area. Borland’s analysis of the data shows that agricultural employment is a small share of total non-metropolitan employment. Wholesale and retail trade and the government sectors account for a large proportion of total non-metropolitan employment in each state, hence, changes in government services will affect employment more severely in regional areas.

Labour markets in rural and regional areas have several distinguishing characteristics. There is often a high level of specialisation, with an individual rural labour market likely to be largely dependent on a single economic activity. This means that total employment in a rural labour market is likely to vary according to seasonality or supply and demand conditions with respect to the main economic activity. Together with the small size of labour markets, this lack of depth in employment opportunities means that adjustment to shocks is more difficult.

Indigenous Population

About one third of the indigenous population lives in rural areas and on small islands. Agriculture, fisheries and forestry are major employers of aboriginal and Torres Strait Islands people. Any adverse impact of NCP or other changes for these industries would be likely to have an exaggerated effect for many of these people because of the relatively greater barriers to employment that affect them (ATSIC–DPIE 1997).

Section 4 Impacts of NCP on the economy and portfolio industries

(a) General

In the longer term, the impact of the NCP reforms is likely to be positive overall for people in country Australia, as industries become more internationally competitive.

In general, the implementation of the NCP should result in two types of positive impacts on portfolio industries:

- there will be direct impacts on the behaviour of businesses, organisations and governmental agencies through the effect of increased competition in these markets; and
- there will be effects on the pricing and other behaviour of public and private sector businesses that are outside these industries that supply them with goods and services.

The reforms will encourage increased competition, which should serve to encourage reduced input costs, generally lower prices, improved services and more efficient resource allocation.

It is important to consider in some detail the potential broader effects of the NCP and to keep in mind more generally the characteristics of micro-economic reform processes. Without taking both these aspects into account there is a risk that any local or regional costs of adjustment that may arise from NCP-related reforms could be over-emphasised at the expense of any economy-wide gains.

At this stage of the NCP process there are three main reasons why it is not easy to be precise as to the extent of these broader economy-wide benefits, especially for portfolio industries. First, many of the NCP reform tasks lie ahead; second, the exact nature of any reforms to be implemented have either not been decided or implemented; and third, any such reforms can become intermingled with the effects of other changes. On the same grounds it is equally as difficult to be precise as to the costs of any adjustment.

The economic benefits to the nation of competition reform are considered to be substantial. The overall benefit from the Hilmer and related reforms is a one off but persisting “gain in real GDP of 5.5 per cent, or \$23 billion a year (in 1993–94 dollars).” (IC 1995, p. 53) The IC emphasises that this is not a growth projection, rather it means that in the long term, when all effects have worked through, the level of real GDP would be \$23 billion a year higher than otherwise. Of this amount, reforms by the Commonwealth were projected to contribute \$4 billion while reforms at other levels of government were projected to contribute \$19 billion. The potential long term benefits on a sectoral basis are set out below.

Table 1 ***Sectoral benefits from NCP reforms (percentage growth in output)***

	State/Territory reforms	Commonwealth reforms
Agriculture	4.23	0.21
Mining	14.32	4.24
Manufacturing	4.40	0.95
Services	2.70	0.71

Source: Industry Commission (1995), pp. 51–52.

Overall, the NCP reforms are estimated to result in 4.4 per cent higher growth in output for portfolio industries in the long term, not including food processing.

More concrete examples of the benefits from the NCP for Portfolio industries can be found when examining the NCP reform process in the energy and water and other sectors. These examples have ramifications across parts of country Australia.

Gas and electricity reform

Across the electricity and gas sectors, the long term benefits of the reforms were estimated by the Industry Commission (1995) to be around \$5.8 billion real growth in GDP per annum, with a sizeable share of this coming from competition in the natural gas sector. Inter-state connection

benefits in the energy sector are expected to be in the order of \$1.8 billion, with more than three quarters of these arising from gas developments.

Establishment of the national pipeline access regime can be expected to provide greater certainty for investment in pipelines, and open up opportunities to both link and expand the pipeline grid. New gas pipelines have been and are being constructed in anticipation of the establishment of the national access regime.

Historically, the first generation of pipeline infrastructure linked remote production facilities and major metropolitan areas. The pattern has changed with many recent natural gas pipeline infrastructure developments, and pipelines currently under construction or planned, supplying gas to rural and regional areas. Major recent pipeline developments such as the Carpentaria (Qld), Goldfields (WA), and Central West (NSW) pipelines are providing regional and rural communities with access to natural gas. The PNG to Gladstone (Qld) pipeline will be Australia's first international link, and Australia's first import of natural gas. The recently completed NSW/Vic Interconnect and the proposed Eastern Gas Pipeline will facilitate interstate and inter-basin competition in the sale of natural gas in south-east Australia.

In addition to major new pipelines planned or under construction, several existing pipelines are being extended further into rural and regional areas.

These gas pipeline projects will enable communities and industries in those regions to access cheaper energy resulting in new job creating industries along the pipelines (eg. electricity generation, wool scouring, abattoirs, and minerals and food processing) that may not otherwise have been feasible. It also means that a number of existing industries will be able to secure a competitive future by switching from using expensive diesel fuel or LPG to cheaper natural gas.

It has been found that, in Western Australia, gas prices fell 50 per cent for certain industrial users after deregulation in the Pilbara in 1995, while gas access tariffs in NSW will fall to about 60 per cent below their 1995 levels by the year 2000 under the recent AGL undertaking approved by the NSW regulator.

Apart from the overall economic benefits of gas industry reform, improved environmental outcomes are also expected.

The electricity industry reforms over the past few years, including the introduction of more competitive market structures, are achieving one of their intended primary outcomes—lower electricity prices for industry. A recent survey the Australian Chamber of Manufactures found that, for companies with access to the competitive market, 88 per cent believe they are better off with the contestable market. Average savings achieved on power costs were 31 per cent in NSW and 23 per cent in Victoria (which had lower pre-regulation prices) and improved service was reported by over 50 per cent of respondents. There are examples of companies achieving electricity cost savings of up to 60 per cent through a range of innovative retail purchasing strategies.

However, transmission and distribution pricing based on location may disadvantage those parts of country Australia which are at some distance from generation facilities. (This is discussed further below in part (c) of this section.)

Water reform

In February 1994, COAG agreed to a strategic water reform framework to achieve an efficient and sustainable water industry. Major elements of the reforms include pricing based on the principle of full cost recovery, determination of water allocations and entitlements and trading of those entitlements, institutional reform, and water for the environment. It is the implementation of this package of elements by State and Territories that is critical to the long term viability and sustainability of the portfolio's rural industries that are dependent on water.

In April 1995, the water industry reforms were drawn more closely into the micro-economic reform process when COAG linked State implementation of the water reforms to the NCP and associated second and third tranche competition payments. The requirements of both the COAG water reform framework and the NCP will ensure the dual goals of a more ecologically sustainable and an economically efficient water industry are achieved in a complementary manner.

An ARMCANZ 1997 annual report to COAG and a review of a number of jurisdictions indicated that while good progress is being made on implementation of the reforms, there were a number of areas that needed further attention prior to the 2001 implementation completion date. ARMCANZ is undertaking a number of projects to facilitate implementation of the water reforms, including water trading, industry performance monitoring, full cost recovery and subsidies.

Implementation of the COAG water reform framework can be expected to result in long term economic, social and environmental benefits for those individuals and rural communities based around irrigated agriculture industries, although there may be some shorter term adjustment costs. Significant benefits are available from trade in water. For instance, the Murray Darling Basin, which accounts for 75 per cent of area irrigated, accounts for only half the national value of irrigated agricultural production. This implies that it uses a higher proportion of lower value use water than the national average and indicates that there is scope for the water to be moved to higher value production, which would result in great economic gains.

A final draft of a recent study titled *Water and the Australian Economy* has found that water reforms will enable rural industries in Australia to enjoy higher income and use more water sustainably than would be possible without water reforms. This would be achieved by using water more efficiently and on higher value uses, thereby improving the economic viability of irrigation industries and reducing the impact of water use by those industries on the environment. Implementation of the water reforms will also address the intergenerational inequities that currently exist as a result of the inefficient use of water.

Full implementation of the COAG water reform framework is expected to have a greater impact on rural industries than in the urban sector. In irrigated agriculture industries, water is a major factor of production and is therefore linked directly to income. Higher water prices will reduce per unit profits. Reducing the amount of input water to offset increased costs may reduce yields unless significant investment or change is undertaken to improve water use efficiency. However, the higher cost of water provides incentives to use water more efficiently. There is evidence that, although water prices have increased significantly in recent years, there has been a move to more efficient irrigation technologies, such as trickle, spray and overhead systems, without a major decline in profitability or the contraction of irrigation-based industries (eg. the wine industry). As a result of agricultural entities and industries using water more efficiently (and of inefficient producers moving to other sectors), water is liberated for more profitable alternative uses.

Implementation of the COAG water reform framework by States and Territories is linked to the second and third tranche competition payments. Whether these payments will flow to residents and businesses in regional and rural Australia to mitigate transitional costs or negative impacts is a decision for the individual States and Territories.

The Natural Heritage Trust (NHT) provides financial assistance to rural communities undertaking projects to help conserve Australia's natural resource base and support the future of our rural industries. Eligible projects under the NHT include Property Management Planning and other activities aimed at improving water use efficiency. These projects will help offset the impact of higher water prices.

In addition to assistance to mitigate against the impact of higher water prices mentioned previously, other measures in which governments could participate include:

- assistance to improve efficiency of water delivery infrastructure, and
- facilitating trade in water entitlements.

Other NCP reforms

The petroleum industry has responded to pressures for change in recent years, with many of these pressures being part of a broad set of evolving commercial and economic pressures, and some as a consequence of the NCP. As a result of the NCP review of the legislation underpinning the industry's institutional arrangements, there are opportunities for significant reductions in the fuel costs of some rural producers and for people in larger regional centres. However, many operators of smaller service stations face closure as low volume sites are not considered viable in a competitive market. There are claims that the implications of this for small business and employment rural towns are substantial. The removal of the cap on wholesale prices will also remove the internal cross subsidy by petroleum companies to rural areas. Large fuel users can purchase fuel at the refinery and have it delivered to their site, bypassing the regional distribution systems, although this will increase the social costs of higher road use.

The transport network has also been subject to the NCP. AFFA has an interest in the reform of rail services because of the importance of rail transport to key portfolio industries, such as the grains and cotton industries, which rely on rail services for the transport of bulk freight. There are concerns with respect to the lengthy process involved in securing access to rail infrastructure. There has been some benefit from structural separation of the various components of rail service provision.

In recent years, Australia has gone some of the way towards setting in place a rational set of user charges and related institutional arrangements to ensure that both road and rail transport operators pay charges that reflect the underlying price structures of each transport mode.

It has been shown that rail freight rates for grain in Western Australia have fallen by over 20 per cent in real terms since deregulation in 1992–93, while freight rates between Melbourne and Perth fell by 40 per cent (and transit times and service quality improved) following the introduction of competition on that route in 1995.

Potential gains from the NCP

These examples, while highlighting the potential gains from the NCP, also illustrate both the far reaching dimensions of the processes that fall under the NCP banner and the importance to portfolio industries that largely operate in rural and regional Australia. Given that the NCP process covers a large reform agenda, there are many legislative reviews yet to be completed, and there is scope to continue provisions that restrict competition where such arrangements can be shown to be in the “public interest”, it is not possible to explicitly identify all the expected gains from the NCP.

However, what is clear is that it offers the scope for measures that are designed to increase competition to be introduced that can potentially increase incomes in the economy, and this needs to be taken into account in any examination of the consequences of particular NCP reforms, especially those that may impose costs of adjustment. An overall increase in incomes can lead to increased demand for goods and services, including those from country Australia.

In addition, the NCP should go some way to ensuring that the whole supply chain for portfolio industry production is as efficient as possible. Competition in the global marketplace is trending towards supply chain versus supply chain competition. Given the importance to rural industries of the full production and distribution chain, reforming links in the chain that have not previously been exposed to competition, eg. electricity supply and roads, will mean that Australian rural produce will become more competitive, both domestically against imports and on international markets.

Potential costs of the NCP

Measures that are designed to increase competition aim to increase incomes in the economy by allowing resources to flow to their most efficient uses. It follows on from this principle that in situations where increased competition removes previous impediments to the movement of resources, there are likely to be both winners and losers. Furthermore, previous experience with other examples of microeconomic reform has shown that it is often the case that the costs of adjustment involved in increasing competition are highly visible (being concentrated on one region or industry) and relatively immediate, whereas the benefits tend to be diffuse and occur throughout the economy and over the longer term. It is therefore not surprising that there can be considerable debate as to the merits of the NCP and some initial public concerns about policy changes that may eventually benefit the national economy, and the particular region or industry in the longer term.

There are costs of the NCP, due in part to its timetabling and operation. For example, the scheduling of legislative reviews in each jurisdiction was largely done without reference to the timetables of other jurisdictions. Thus, it may be possible that there is uneven application of the NCP. For example, output markets in a particular industry could be undergoing reform whilst the inputs markets are yet to be deregulated (where this is deemed to be in the public interest). Also, for a particular industry, output markets may be reformed in one jurisdiction, and remain yet to be reviewed in another. The adjustment cost burden may be higher in the particular industry in the first example and uneven between locations in the second. There is a feeling amongst rural industries and communities that they are at the forefront of reforms, whilst other sectors are yet to be reviewed. For instance, transport is a major input for rural industries and the transport reforms are not yet complete. Another major input is services provided by the professions—much of the supporting legislation for these are yet to be reviewed.

Parallel or successive reforms could impose higher structural adjustment costs on particular industries, potentially reducing the industry's capacity to respond to change. Examples could include the cumulative effect on irrigated industries of reforms in the areas of water and in statutory marketing arrangements.

There is also the issue of the international market being corrupted or anti-competitive through the provision of subsidies and other protective instruments to agricultural commodities in some countries. In general, there are major advantages to Australian industry from the NCP reforms as it should become more efficient and, therefore, more internationally competitive in both exports and import replacement. However, it may not be to Australia's benefit to prohibit collaborative activities by primary exporters that could assist them in building sufficient market power to capture a premium market or premium price and effective supply arrangements to meet diversified customer requirements.

Legislative reviews are having a major impact in industries in country Australia. Many growers strongly support their statutory marketing boards and their powers as a way of giving them some protection in the market place (especially international) and fear the dismantling of these boards or the dilution of their powers which might arise from the legislative reviews. On top of closures of country services, growers could feel that removing the means for being able to exploit any potential bargaining power in the international marketplace and of protecting income is just another added constraint on their livelihood.

AFFA supports moves to increase efficiency in the economy, however, it believes that transitional arrangements would facilitate the speedy adoption of reforms without undue cost. To this end, the use of structural adjustment assistance on an industry by industry basis is supported. The competition payments to the States and Territories should be used to fund such assistance. There is

evidence that the first and second tranche competition payments have not generally been used by the States to deal with the adjustment implications of the NCP reforms.

The implementation of the NCP has and will continue to cause pressures for adjustment in the economy and the community. Although the overall costs and benefits of reform may have been estimated, the temporal and spatial distribution of the costs and benefits of many reforms have often not been fully investigated. In addition, the cumulative impacts of the various reforms and independent developments have not been analysed. Where they can be undertaken, such studies could help to evaluate the relative costs and benefits of the reform process in particular places or time periods and to manage the structural adjustment process.

Given the overall benefits to Australia in general and rural industries and communities in particular, more effort should be given to communicating with rural industries and communities about the net benefits of the NCP and the differences between the NCP and other independent reform processes and developments.

AFFA supports the continuation of the NCP as it allows portfolio industries to become relatively more efficient and competitive in overseas markets in the long term. However, the short term impacts on industries need careful management so that the longer term benefits are not put at risk.

AFFA sees merit in further study of the spatial, temporal and cumulative effects of the NCP reforms to better target any necessary adjustment initiatives.

AFFA believes that transitional arrangements would facilitate the speedy adoption of reforms without undue cost. Structural adjustment assistance would be useful in this regard. The competition payments to the States and Territories provide an incentive to undertake reforms and should be used to provide structural adjustment assistance.

(b) Structure, competitiveness and regulation

The NCP will undoubtedly be a major force in any structural changes which occurs in portfolio industries. It is difficult to say with any certainty how the structural changes resulting from the NCP will impact on country Australia as many reforms are yet to occur. However, with any NCP reforms which increase competition, there should be greater efficiency and more effective (less costly) regulation. A priori, it is expected that marginal producers will leave where they can no longer operate economically and efficient producers will grow and expand. The result will be a smaller number of larger producers. Also, the resources freed up can go to other uses, therefore, sunrise industries can expand. However, this process will have transitional effects. If there are a large number of marginal producers in one locality, then the adjustment costs can be high.

The impacts of the NCP can be through direct effects in industries such as dairying where historically there has been a relatively high level of government intervention of various kinds. Reviews of the support arrangements have been or are being undertaken in each State. The outcomes of these interact with other forces at play, such as rationalisation of processing and marketing, and international competitiveness. It is still too soon to predict with confidence what the structure of the industry will be in ten years' time, except to say that it will be different from now, and that many individuals involved will need to take decisions about their futures.

This illustrates the need to monitor the changes and work with the industry through transition periods so that particular groups do not suffer unduly as the broader community benefits from the overall positive effects.

There are also the indirect effects from lower costs to some producers and processes as a result of the NCP effects on transport, power and telecommunication costs. As in many other cases, there are many forces at work as well as NCP.

The differential effects of these changes need to be further studied before useful conclusions can be reached about their impacts in particular areas and for different classes of country people.

Implementation of the water reform package will impact on rural areas. While there are many benefits to water users there will also be some short term negative impacts to individuals in relation to some current unsustainable activities. In addition, the movement of water to high value end uses may lead to the expansion of industries such as vine and olive production, and other industries where irrigation has not been widespread in the past.

However, agricultural businesses will have greater certainty in water allocations and security of water supply, future maintenance of headworks and delivery infrastructure will be fully accounted for and they will be able to buy or sell entitlements in a water trading market. Devolution of responsibility to irrigators will allow them to directly influence levels of service and ensure that water delivery more closely matches production needs. This in turn can lead to greater opportunity for irrigators to introduce on-farm water use efficiency measures which will further reduce water input costs. Specific water allocations for the environment will result in healthier rivers, improved water quality and a more sustainable future for users.

Continual monitoring and review in relation to the impacts on portfolio industries will be desirable as the NCP and other policies are implemented, so that the likely gains can be realised without undue dislocation and hardship for the few.

(c) Economic and social impacts

The NCP reforms will have both beneficial and adverse impacts on rural and regional areas. However, there are several reasons why the impacts may impose higher costs in country Australia.. These costs are the flip side to the longer term benefits discussed above. It is necessary to understand the social drivers of change in country Australia to determine how best to communicate, encourage and facilitate change, and to identify which policy instruments work best in given situations.

AFFA wishes to comment on the potentially adverse short term and long term socio-economic consequences of the NCP for rural and regional areas.

Unemployment and working conditions

The NCP could cause a wide range of impacts on employment in rural areas. Its contribution, however, may be difficult to detect due to the array of other shifts occurring both cyclically and structurally in the rural economy and socially. For example, there has been strong pressure for adjustment to satisfy export requirements, industrial relations changes have been enacted, technological changes have occurred and demographic shifts have taken place. The observed changes in employment in rural Australia since 1994 are explained by a mixture of factors such as these, as well as more particular local circumstances.

Obviously, areas where reforms are concentrated or which do not have a diverse economic base will suffer higher employment losses in the short term if the reforms have a negative impact, eg. if the result is the contraction of a major industry in the area. There is likely to be a cumulative effect on employment and, hence, social welfare and equity from successive and parallel application of the NCP and other changes. This will be apparent in some areas which are economically dependent on several industries undergoing change.

With the increased competitiveness arising from the NCP, employment prospects should improve in the longer term helping to counter other forces in operation tending to reduce employment in country Australia, such as technological change and service rationalisation.

Social welfare and equity

Apart from employment, social welfare and equity will be affected by NCP reforms. For instance, the price of some services that are sensitive to distance may increase. Electricity is a case in point. Where efficient pricing involves including distance, this will increase the price of the service. Transmission network and distribution pricing arrangements for the National Electricity Market (NEM) have not been resolved fully. Governments agreed that deprival value methodology be applied to asset valuation to ensure a consistent and commercial approach to the valuation of transmission assets, which affects pricing. The network charges for the use of extra high voltage and lower voltage sub transmission networks are, in principle, to be cost reflective. Several governments, however, wish to maintain uniform tariffs for social and equity reasons, particularly for remote users.

With respect to water, the requirement for prices to reflect the full economic cost of supply and the elimination of subsidies means that rural water users will pay higher prices for water. However, the impact expected to result from price rises will be offset to some extent through the implementation of other elements of the framework aimed at improving water use efficiency, such as changes to institutional arrangements. Trade in water entitlements, particularly in the southern Murray Darling Basin, will also provide opportunities for rural producers either to leave the land or restructure their businesses to increase profitability and generate income through the sale of water entitlements.

Due to rationalisations of services (which could be a result of the NCP or due to other changes, such as commercial decisions and population movements) their availability may be only at some distance. This means that rural communities may incur greater costs in using services than their metropolitan counterparts, for example, by the need to travel to a regional centre.

Social dislocation

The NCP could result in social dislocation through the restructuring in some portfolio industries, for example where legislated market support arrangements are removed, which could result in people leaving some industries and regions. This would exacerbate current population shifts.

The NCP has the potential to affect the inter-relationship of small rural communities, large rural centres and metropolitan centres, eg. through reducing cross subsidies. The result is that the community as a whole is less interdependent and less cohesive. Communities have become defined in the implementation of the NCP by how individuals can participate in the market rather than where people live.

By reducing cross-subsidies, the NCP could create pressure for economic and social adjustment. In rural communities, short term adjustment pressures may result in local retailers and service providers experiencing a drop in business to the stage of no longer being viable. This in turn can have a “domino” effect in the town with reduced cash flows and lower levels of activity for other businesses and services. It is now well recognised that communities have a “critical mass” or size and if they shrink below this level, the negative flow-on effects of reduced economic activity become self-reinforcing and beyond the capacity of the community to resist. Reduced economic activity and services can become self-reinforcing through loss of scale, loss of function and perceptions of decline.

The critical mass of a community is difficult to estimate in advance and is dependent on a wide range of factors and their complex interrelationships. Such factors may include relative remoteness, human capital levels, the willingness and experience of a community to co-operate to achieve a result, diversity of the economy and natural environment and the types of services accessible to that community.

The social cohesion of rural communities is dependent on many factors. The availability of postal, medical, governmental, banking, communication and other services is functionally important. In small rural communities these services are more important than in large centres because the capacity of small communities to organise replacement services is generally more limited. This is especially the case in the many small rural communities with high dependency ratios (ie. proportion of children, unemployed and aged to income earners in community) and low median incomes.

In these communities, service provision by governments and commercial service providers acts as a replacement for the loss of human capital represented by migration to larger centres. Those who leave are predominantly young or middle aged and would perform support functions in family and social networks. Government service provision compensates for the effects of migration to an extent. There is evidence from the decade 1986–96 that the historical pattern of people leaving rural communities in their twenties and then returning in their mid thirties is changing — people are tending to leave in their early twenties and not returning. However, to connect this pattern with economic reform and the concomitant reduction in services in rural areas, would require more evidence than is currently available. However, there is some anecdotal evidence that privatisation and corporatisation of some government businesses, such as electricity, has resulted in office closures in some country areas, for example, as service arrangements are rationalised.

Even where these issues are unrelated to the NCP, the NCP reforms would tend to exacerbate the structural trends.

AFFA believes that the reduction in the cohesiveness of rural communities should be factored into the costs of the NCP reforms. To this end, the full spatial, temporal and cumulative effects of the NCP process should be fully accounted for, and consultation with rural communities should occur as part of the assessment of costs and benefits.

Due to the special characteristics of country Australia, due regard should be had to the heavier social costs that are likely to be imposed on these areas as a result of the NCP reforms. In particular, direct consultation with rural communities should occur and adverse social welfare and equity effects should be dealt with directly by governments.

Potential implications for rural communities of industry reform—example of dairy

For example, there are consequences flowing from the possible/potential NCP reforms to the dairy industry arrangements. The short term dislocation of the dairy industry would have a negative effect on rural and regional economies. Businesses and ancillary industries in rural and regional centres would be adversely affected by lower returns in the short term. Dairy production is a high turnover business, with significant inputs required in the production process. Alternative industries, such as beef, which would be expected to replace dairy in a deregulated environment are less input intensive industries, and thus would be expected to have less multiplier effects on the local regional economy.

Deregulation may also impact negatively on Australia's dairy export markets. It is possible that, as fresh milk producers leave the industry, supplies of manufacturing milk (destined for the export market as dairy products) will be diverted into fresh milk markets. This is expected as the price for fresh milk increases, after the initial fall in price due to deregulation, to compensate for shortfalls in supply while the price for milk used in exports remains in line with world parity price (that is, in export markets, Australia is a price taker and has little influence on world prices).

However, in the longer term, the benefits from deregulation are likely to be more significant as those remaining in the industry benefit through higher farm turnover and increased demand for dairy products (generated through lower prices). The consequent improved production efficiencies

(at both the producer and processor levels) are also expected to improve the competitiveness of the industry in both domestic and international markets.

One of the main reasons for removing state market milk arrangements is to provide lower prices to consumers. Intuitively, the dismantling of these arrangements would remove the current consumer transfer by lowering the retail price of milk. However, with post farm gate deregulation, most States have experienced increases in retail prices leading to suggestions that retailers or processors, not consumers, are the real beneficiaries of reforms.

There appear to be three interrelated reasons for the apparent failure of the reform process to deliver lower retail milk prices:

- the demand for fresh milk is relatively inelastic, and therefore retailers or processors are able to increase margins through higher prices without unduly affecting consumer demand;
- farm gate prices have not been deregulated and therefore there has been no compensating downward pressure on farm gate prices to accommodate an increase in retail or processor margins; and
- regulation beyond the farm gate appears to have held retailer and processor margins at levels below what are considered “normal” levels of commercial return (ie given the size of the capital investment involved and the returns gained from other similar products not subject to regulation).

It is anticipated that once farm gate prices are deregulated, there will be greater scope for lower retail prices. However, the extent to which lower prices are realised will depend on the power of processors and retailers to increase margins, and the level of competition for milk sales. For example, evidence suggests that New Zealand consumers have not benefited from the deregulation of its market (town) milk sector due to the market power enjoyed by processors (single processor in each region). However, the configuration of the processing sector in Australia may be different to New Zealand resulting in a different outcome for consumers.

A specific issue for further research is whether the competitive impacts of reforms further down the supply chain should be examined to ensure that the benefits of reform are shared equitably. The changes to returns will depend on the specific case. Therefore, where reforms do not seem to have the expected benefits, a review should be undertaken to ascertain why this has not been the case and whether further reforms down the supply chain are needed to gain the full net public benefit from NCP reforms.

Environmental impacts

The increasing use of gas as a result of the NCP reforms will go some way to improving the environmental outcomes for Australia. The use of gas rather than coal for energy purposes goes some way to meeting Australia’s environmental commitments with regard to greenhouse gases.

Environmental issues also pertain to the electricity industry. There is a need to ensure that the National Electricity Market takes full account of more environmentally responsible fuel and energy management options if Australia is to deliver the benefits of the NCP as well as achieving the environmental commitments coming out of the Kyoto Protocol. The challenges surround the encouragement and integration of natural gas, renewable energy supplies and alternative energy technologies, including co-generation, into the mainstream market.

Full implementation of the water reforms is also intended to generate better environmental outcomes, as well as an economically sustainable water industry with improvements in the

sustainability of natural resource use. The framework explicitly recognises the environment as a legitimate user of water and requires that jurisdictions allocate water specifically for environmental purposes.

AFFA believes that where competitive reforms are recommended, all benefits and costs which arise from the implementation of these reforms should be clearly identified and communicated to rural communities.

Where reforms do not seem to have the expected benefits, a review should be undertaken to ascertain why this has not been the case and whether further reforms down the supply chain are needed to gain the full net public benefit from NCP reforms.

Rural communities, whether positively or negatively affected by particular reforms, should be consulted when assessing the costs and benefits.

Section 5 Measures to facilitate the flow of benefits to country Australia

(a) Introduction

On the basis that there will be a net benefit to the whole Australian community over time, the NCP approach should continue. The pace of implementation is bound to be uneven across sectors and jurisdictions, in view of the various factors canvassed above, and the different approaches to implementation in different jurisdictions. There will be different short and long term effects for different sectors of the community, and different places, the implementation process, including any review of current policies or development of new areas of interest, should take account of these spatial, temporal and cumulative effects.

There are several measures needed.

(b) Sensitive administration of NCP

With hindsight, it can be argued that more attention should have been paid to possible short term dislocation effects and differential impacts when the NCP framework was developed.

The current doubts and confusion reinforce the need for willingness to apply the public interest test positively as part of a transition process, to avoid implementation scenarios that result in long term beneficial changes for all Australians at high cost to some segments of the economy. To avoid this, the public benefit test should cover all possible options to ensure that the best alternative is chosen.

The public interest test is used as part of the NCP process as a tool to help assess whether or not a restriction on competition should remain. If the benefits of restricting competition are greater than the costs, then it can be in the “public interest” to retain that restriction.

Under the CPA, when assessing the benefits against the costs of a policy or course of action (as required for legislative reviews), the following matters, where relevant, are to be taken into account:

- government legislation and policies relating to ecologically sustainable development;
- social welfare and equity considerations, including community service obligations;
- government legislation and policies relating to matters such as occupational health and safety, industrial relations and access and equity;
- economic and regional development, including employment and investment growth;
- the interests of consumers generally or of a class of consumers;

- the competitiveness of Australian businesses; and
- the efficient allocation of resources.

A number of jurisdictions have developed their own guidelines on what should be taken into account.

The public interest test's main application so far has been in assessing legislative restrictions on competition, where legislation includes Acts, enactments, Ordinances and regulations. A number of reviews of legislation have been conducted and the public interest test used in these reviews to assess whether or not a restriction should remain. Several jurisdictions have set down general processes to follow when assessing the net public benefit.

AFFA is of the view that the public benefit test provides useful criteria against which to assess the net public benefit of restrictions on competition and the rate and nature of implementation. In addition, although there are differences in approach between the jurisdictions, the process involved in assessing the net public benefit provides transparency, where the views of the different interest groups are made known and evaluated. Thus, more informed decision making is possible.

AFFA believes, however, that the way in which the test has been applied may not always give sufficient cognisance to adjustment costs and the flow-on impacts of the consequent reforms to other regions and industries.

The public benefit test should explicitly include an assessment of the temporal, spatial and cumulative effects of the reforms. In particular, the adjustment costs and the flow-on impacts of reform in other industries and regions should be clearly highlighted in the public benefit test.

Consultation with rural communities that are likely to be directly affected by particular reforms should be a requirement of the public interest test.

Government programs, at all levels of government and covering all agencies, should be considered as part of the public benefit test, in terms of the costs and benefits of reforms and whether the programs will effectively meet any adjustment costs.

(c) Some key social and economic needs for country areas

The risk of negative impacts for country Australia from implementation, review and development of NCP would be reduced if, at the same time, efforts are made to address the following key issues which would assist country Australia to become more resilient in the face of changes:

- the need for effective information services to address failures in information markets and to provide a basis for best practice decision making;
- the need for access to telecommunication services at the standard taken for granted in metropolitan areas;
- the requirement for education and reskilling to allow individuals and businesses to cope with the modern business and operating environment;
- improved market responsiveness and increased uptake of new technology and business practices to respond to the imperatives of globalisation and best practice, including attracting investment in appropriate infrastructure;
- the requirement for new skills in self management to assist individuals to cope with new business, family and social pressures; and
- the need for support and facilitation to assist communities to realise their potential and take responsibility for their own well-being.

(d) Some specific cases

Following are some examples of the need for further action, arising from experience to date.

Provision of “essential” services

The National Electricity Code contains guiding principles for transmission and distribution pricing. AFFA believes that services such as electricity should be priced efficiently, however, this could mean higher prices in country Australia. There are strong social reasons why rural communities should be subsidised with respect to essential and important services. This should optimally be done through Community Service Obligations (CSOs), transparently funded through government budgets.

New industries

Governments should consider measures to assist industries to set up in rural areas, where there are impediments to this occurring. The development of new regional industries would assist in overcoming some of the costs of the implementation of NCP in some cases, as well as address changes arising from other causes, particularly social welfare and employment costs.

(e) More and better information

One of the most important outcomes of this Inquiry will be an increase in our knowledge of the temporal, spatial and cumulative impacts of NCP. We should also learn more about the extent to which different forces are affecting country Australia.

AFFA believes that research on NCP and other effects should be increased, so that more sensitive and cost effective structural adjustment and transitional arrangements can be made as needed. We need to start distributing the benefits of NCP now so that all may share equitably from the beginning, rather than have some disadvantaged in the short term. Otherwise, community resistance could derail reforms that will benefit all Australians.

The end result of better monitoring and analysis should be a greater capacity to predict changes and those most vulnerable to them, and to develop well tailored programs to smooth the way.

(f) Sustainability

There is an increasing commitment to the development of sustainable patterns of production and consumption. There is a sustainability problem if food and fibre products are consumed at prices that inhibit or prevent producers from using fully environmentally sound production processes while at the same time earning an adequate rate of return. If there is a market failure in fully pricing for all costs of production (ie. including environmental costs), then this should be dealt with directly with appropriate measures rather than being tied up with the NCP.

(g) Value of country areas

There is sometimes an underlying theme in discussions about country problems that the metropolitan areas subsidise the country in various ways. Whilst this is not always the case, Australians do seem to place some social value on the “bush” whether for purely emotive, historical or food security reasons. Whether this is true and, if so, the extent of this value is beyond the scope of this submission, but it is an issue of which governments need to be aware

(h) AFFA programs

As noted above, AFFA is responsible for several programs with the aim of building the competitiveness, sustainability and profitability of the rural sector.

AFFA aims to enable portfolio industries to take control of their futures; to provide the best possible policy framework and program support for them; to encourage exports to flourish and to help realise investments that balance economic development and environmental outcomes in such a way that jobs in rural and regional Australia grow and communities prosper.

A partnership approach between industry and community at all levels has the potential to create the right environment for investors and to address impediments to growth. The increased emphasis of this portfolio on liaison with industry is an approach that is responsive to industry needs along the value chain and aims to generate wealth and increase employment and economic growth. All members of the partnership have a focus on, and understanding of, the end product and markets.

Success with these programs will increase the capacity of country Australia to cope with the many forces, including the NCP, bringing many changes to it.

AFFA is of the view that the public benefit test provides some criteria against which to assess the net public benefit of restrictions on competition, although it is silent regarding weightings for each criteria, and that it provides transparency in decision making.

AFFA believes that, given the sensitivity of the NCP to rural communities, the public benefit test should explicitly include an assessment of all the effects of the reforms. In particular, the adjustment and social and community costs and the flow-on impacts of reform in other industries and regions should be clearly highlighted.

AFFA supports the use of transparently funded CSOs to subsidise essential or important services that increase in price as a result of the NCP (and other) reforms.

Measures to deal with costs that are incurred in rural communities indirectly as a result of the NCP reforms should be considered by government on a case by case basis.

Conclusions

AFFA supports the continuation of the NCP as it allows portfolio industries to become relatively more efficient and competitive in overseas markets in the long term. However, the short term impacts on industries need careful management so that the longer term benefits are not put at risk.

AFFA sees merit in further study of the spatial, temporal and cumulative effects of the NCP reforms to better target any necessary adjustment initiatives.

AFFA believes that where competitive reforms are recommended, all benefits and costs which arise from the implementation of these reforms should be clearly identified and communicated to rural communities.

AFFA is of the view that the public benefit test provides some criteria against which to assess the net public benefit of restrictions on competition, although it is silent regarding weightings for each criteria, and that it provides transparency in decision making.

AFFA believes that, given the sensitivity of the NCP to rural communities, the public benefit test should explicitly include an assessment of all the effects of the reforms. In particular, the adjustment and social and community costs and the flow-on impacts of reform in other industries and regions should be clearly highlighted.

Rural communities, whether positively or negatively affected by particular reforms, should be consulted when assessing the costs and benefits.

AFFA believes that transitional arrangements would facilitate the speedy adoption of reforms without undue cost. Structural adjustment assistance would be useful in this regard. The competition payments to the States and Territories provide an incentive to undertake reforms and should be used to provide structural adjustment assistance.

Measures to deal with costs that are incurred in rural communities indirectly as a result of the NCP reforms should be considered by government on a case by case basis.

Continual monitoring and review in relation to the impacts on portfolio industries will be desirable as the NCP and other policies are implemented, so that the likely gains can be realised without undue dislocation and hardship for the few.

Where reforms do not seem to have the expected benefits, a review should be undertaken to ascertain why this has not been the case and whether reforms further down the supply chain are needed to gain the full net public benefit from NCP reforms.

More effort should be applied to communicating with rural communities on the benefits of the NCP and to explaining the differences between the NCP and other independent policies/developments.

AFFA supports the use of transparently funded CSOs to provide support for essential or important services that increase in price as a result of the NCP (and other) reforms.

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