

## **AFFA policies and programs for rural social and economic development**

### ***Summary***

Rural industries and communities across Australia are changing. Rural comparative advantage has shifted and rural communities have different development opportunities now than in the past. Many rural communities are now finding they can no longer depend on these traditional comparative advantages and markets to generate the employment needed to sustain themselves.

AFFA's rural policies and programs are directed at facilitating change and adjustment in rural areas with an emphasis on empowering communities to take advantage of the opportunities becoming available through this adjustment process. This includes policies that address economic, social and environmental issues leading to more sustainable rural development and in turn better employment prospects.

Within the broad framework presented here, it is crucial to remember that rural communities are widely diverse. They differ in their geography, demography, economy, resource base, political structure and social characteristics. National policies directed at assisting their future development must include key principles such as: leadership, community-based development, communication and decisions support services.

In addition, the provision of support and facilitation for the formation of partnerships within communities and between government and farming communities is required to encourage co-operative networks and provide a basis for community empowerment.

The current mix of AFFA programs reflects an emphasis on cross-sectoral policies and strategies that can cut across all portfolio industries such as structural adjustment, quarantine, natural resource management, training and skills development, telecommunications and social and economic development.

Key Departmental programs to deliver these policies include:

Agriculture – Advancing Australia, Supermarket to Asia Strategy and Regional Minerals and Forests Initiatives. These programs are focussed on overcoming impediments and positive change;

Natural Heritage Trust which provides for environmental and natural resource management issues to be addressed; and

The Rural Communities Program; FarmBis; Regional Strategic Planning Initiative; Understanding Rural Australia Program and the Regional Forests Agreements Social Assessment work which together provide for community empowerment, facilitation and planning.

The Department also recognises that in order to maintain a responsive approach to rural policy development, accurate information about rural areas at a regional scale is vital. To assist in the provision of such information the Department has collaborated with the Australian Bureau of Statistics to develop the Integrated Regional Database and is about to establish the Understanding

Rural Australia Program which will improve the availability and use of data on rural social issues and trends, particularly on a local and regional basis. In addition to these initiatives, the Department has the support of two professional bureaux, the Australian Bureau of Agriculture and Resource Economics and the Bureau of Resource Sciences, to provide analytical research into issues relating to rural policy and employment in regional Australia.

## **1. Policy Context**

The current suite of Commonwealth rural policies and programs relating to this portfolio focuses 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.

This is augmented by quarantine arrangements to protect the integrity of Australia's resource base, in particular Australia's unique flora, fauna and the wider resource base; investment in agricultural research and development; ongoing reform of commodity-specific marketing arrangements; a communications strategy to ensure agricultural policies and programs are understood by rural people; and bilateral and multilateral trade negotiations and work within the framework of the World Trade Organisation.

This submission has emphasised that many of Australia's rural communities are experiencing pressures to change. In many cases, community decline has been accelerated by recent changes in technology and rationalisation of services. This, in turn, is leading to demographic changes in rural areas with a shift in services and populations away from smaller rural centres and growth in larger regional centres. Improved access to telecommunications technology and information can play a major role in facilitating required changes in this area.

Where rural communities have been involved in responding to change, through for example, local initiatives and partnerships with Government and other stakeholders, there is evidence of a more strategic approach to the resolution of complex issues, closer involvement with government to target support, linking local activities to co-ordinate community outcomes, and an approach that reflects local self responsibility. This has allowed the Department to work closely with State agencies in the provision of programs that respond to the needs of community groups.

Communities engaged in activities that increase the skills, creativity and leadership capacities of their people provide a foundation for ongoing learning and development for people engaged in farm businesses.

Achievement of national goals for agriculture such as the ability to manage change and take advantage of emerging global market opportunities increasingly involves integrating policies that are cross sectoral in nature, in recognition that the community context within which farmers operate influences their ability to realise their goals.

This approach has also allowed the continued rationalisation of programs, avoiding the previous duplication across government agencies and at the same time fostering partnerships between communities and governments working together to achieve strategic rural development.

## **2. Policy Goals and Principles**

Current AFFA policies affecting rural industry performance and employment can be grouped into three main areas, which cover in turn the general economy, industry policy and 'cross-sectoral' policies.

The first area includes economic reforms to encourage investment and growth including taxation, labour market, industrial relations and waterfront reforms. It also includes trade liberalisation efforts to secure access to overseas markets for Australian products.

The second area involves specific industry policies aimed at enhancing industry competitiveness and profitability through ensuring appropriate industry structures and requiring industries to assume responsibility for their own affairs.

The third area consists of cross-sectoral policies and strategies aimed at introducing an appropriate framework in areas that cut across all the portfolio industries such as: rural adjustment; quarantine; natural resource management; training and skills development; telecommunications; and social and economic development in rural areas.

The overall intention of these policies is to achieve a more self reliant, profitable, competitive and outward looking rural sector with low levels of direct assistance.

## **3. AFFA Programs Impacting on Employment and Investment in Rural Areas**

The following are examples of key programs and policy initiatives with a cross-sectoral focus in agriculture, agri-food and forestry that have an impact on employment and investment in rural areas. These activities do not include other initiatives of the Department in industry policy such as wheat, meat, wool and dairy reform.

### ***Agriculture – Advancing Australia (AAA)***

The Agriculture–Advancing Australia initiative, announced in 1997, is a key initiative aimed at enhancing the performance of Australian agriculture and is the result of extensive reviews of rural policy. It is designed to build the competitiveness, sustainability and profitability of the agriculture sector, and in doing so, to maximise the contribution of the rural sector to the economic, social and environmental wellbeing of the nation. It includes an integrated set of programs aimed at - among other things - providing farmers with the necessary skills, risk management tools and business information to achieve a stronger business and marketing focus and to make the most of new market opportunities. It will assist farmers to adjust to the rapidly changing global trading environment and the emergence of new and vigorous competition.

In addition to farm business management initiatives, the AAA package contains program elements addressing rural adjustment, risk management (including for drought), natural resource management, research and development, farm family welfare, rural finance issues and rural community development. A more detailed description of the AAA package is provided in the section 'Programs for Rural Social and Economic Development' below.

### ***Supermarket To Asia Strategy***

The Supermarket to Asia Strategy is a major initiative aimed at significantly increasing Australian agri-food exports to Asia. The Prime Minister's Supermarket to Asia Council, established in

September 1996, has set the goal of increasing Australian agri-food exports to Asia from \$10 billion in 1996-97 to \$16 billion by the year 2001 and encouraging at least another 2000 agri-food businesses to become active exporters of food into Asia.

Total funding of \$14.5 million over the three years to 1998-99 is being provided to support the strategy.

This is expected to create more than 10,000 additional jobs in the Australian economy, with significant investment and employment benefits for rural and regional Australia.

The strategy features a number of the elements identified in this submission as essential to achieving rural development including: improved market access; stronger linkages with markets; co-operation and communication between Government and other stakeholders; enhanced provision of information; and a whole chain approach.

Specific initiatives within the strategy include:

- *Regional Export Forums:* bringing together key regional players and government leaders to find ways to remove impediments to export growth and to stimulate investment and job creation in the agri-food industry;
- *Establishment of Air and Sea Freight Export Councils* at each major export hub to bring together transport providers and exporters, State governments, airport lessees/authorities and port authorities to generate practical solutions to streamlining the export chain;
- *Competitive Performance:* dissemination of agri-food 'success stories' achieved through innovative business strategies;
- *Technical Market Access:* The Australian Quarantine Information Service (AQIS) is working directly with counterpart agencies in Asian countries towards the removal of technical market access barriers to Australian agri-food exports;
- *Supermarket to Asia:* The Delicatessen Program: Assisting food producers better appreciate the specific requirements of Asian customers and capture export opportunities for high value, niche market food products; and
- *Supply Chain Management:* The elements that make up effective supply chains to Japan, through the experience of Australian, Dutch and United States companies, are being assessed.

### ***Regional Forest Agreements***

The Government will maintain its commitment in 1998-99 to the Comprehensive Regional Assessments (CRA) process for forest areas leading to Regional Forest Agreements (RFAs) under the National Forest Policy Statement. A further \$3.9 million will be provided to AFFA for the CRA process in 1998-99 to ensure that RFAs are based on expert, scientific and comprehensive data.

The percentage of the total forest workforce is decreasing as a function of the increasing national workforce. It is expected that this trend will be reversed in coming years as the benefits from RFAs start to take effect. Principally, employment benefits will stem from two factors:

- greater resource certainty for the native timber industry, in turn flowing into more secure investment and thus employment opportunities; and
- an increased emphasis on labour intensive downstream processing and other value adding measures, as part of encouraging Australia's wood and paper industries to become more export oriented.

Three RFAs (East Gippsland, Central Highlands in Victoria and Tasmania) have been signed with the remaining nine major forest regions anticipated to be covered by an RFA by the end of 1999. These agreements provide an excellent outcome for the community, the environment and the forest-based industries in the regions involved. The long term forest management arrangements put in place by the RFA provide certainty both for conservation and for resource access and use, leading to increased investment, industry development and jobs in regional Australia.

Initial evidence from Tasmania suggests that increased industry confidence resulting from the RFA is already generating interest in investment in forest related industries.

The Government has also committed some \$101 million nationally over the period 1995-96 to 1999-2000 for a Forestry Industry Structural Adjustment Program to facilitate the long term restructuring of the native forest industry and to provide safety net assistance to those native forest industry business and workers that may be adversely affected by the implementation of Regional Forest Agreements. The Government's commitment to facilitating competitive and innovative regional forest industries in RFA regions in Victoria was reflected in an agreement to develop a joint \$27.6 million Commonwealth-Victorian Hardwood Industry Development and Restructuring Program. Further the Commonwealth and Queensland Governments have committed \$10 million each towards a joint Forest Industry Development and Adjustment Program.

### ***Plantations and Farm Forestry***

The Commonwealth, State and Territory Governments and industry have agreed to the Plantations 2020 Vision initiative, designed to achieve an internationally competitive plantation growing and processing industry that is commercially focused and market driven. The target of the Plantations 2020 Vision is to treble the effective area of Australia's plantation estate, from 1 million hectares to 3 million hectares, between 1996 and 2020.

Under the Prime Minister's Greenhouse package of November 1997, the Commonwealth has committed \$1.9 million over four years to help the Commonwealth meet its responsibilities in the Plantations 2020 Vision initiative. In addition, under the Natural Heritage Trust, \$36.5 million will be provided to expand and enhance the Farm Forestry Program to the year 2000-2001.

Farm forestry and plantation expansion have the potential to add an important additional dimension to rural and regional economies, creating up to 40 000 jobs in rural areas and flow on industries such as transport.

### ***Aboriginal Rural Industry Strategy***

The Department has also had a leading role in the development of the National Aboriginal and Torres Strait Islander Rural Industry Strategy in conjunction with Aboriginal and Torres Strait Islander Commission. It is a key aim of this strategy to address the present economic disadvantage experienced by indigenous people in rural and remote areas by enabling them to better use rural resources to produce economic benefits. The Strategy emphasises that economic development must be community-driven within a framework of objectives clearly established and owned by the community.

## **4. Natural Resource Management Programs Impacting on Employment and Investment**

A major initiative focussing on natural resource management is the Natural Heritage Trust. Activities to develop national principles and guidelines for rangelands management are also important.

### ***The Natural Heritage Trust***

Australia's long-term economic prospects depend on the sustainable use of its natural resources and conserving its biological diversity. Repairing past damage to land and water resources and restoring the environment for future generations is a significant challenge.

The Federal Government has responded to this challenge by establishing the Natural Heritage Trust. Through the Trust, the Government will invest \$1.25 billion over five years, most of which will go to practical on-ground projects addressing the problems at their source.

The Trust is focussed on funding mainly on-ground works that are supported by communities. Projects are assessed by regional and State panels, whose membership has a majority of community positions. Trust projects are selected for actions that enhance our soil, water, vegetation and biological resources.

Projects are funded through a number of programs under the Trust, focussing on five major themes of land, vegetation, rivers, biodiversity and coasts and marine. Total funding for all programs under the Trust in 1997-98 was \$294.5 million. A 'one-stop-shop' application and assessment process has been established to make the process user-friendly to groups that want to apply for funding. In 1997-98, funding of over \$124 million went to 1864 projects under the one stop shop through the Primary Industries and Energy portfolio.

One of the major programs under the Trust is the National Landcare Program (NLP). There are now more than 4250 landcare groups across Australia and the number continues to grow steadily. About one in three farmers is a member of a landcare group.

Natural Heritage Trust initiatives and funding for the period 1996-97 to 2000-01 for AFFA managed programs are as follows:

<b>Program</b>	<b>\$m</b>
National Landcare Program	268.3
Murray-Darling 2001	63.0
National Rivercare Initiative	69.3
Farm Forestry Program	41.0
Fisheries Action Program	10.4
National Land and Water Resources Audit	35.2
National Feral Animal Control Strategy	6.5
National Weeds Strategy	15.1
<b>TOTAL</b>	<b>608.8</b>

The Trust delivers assistance at three levels:

- *Community Projects:* community groups are encouraged to develop proposals in response to problems at the local or regional level. State and local government co-operation and support are important elements;
- *Regional Strategies:* assistance is provided for regional strategies that integrate biodiversity conservation and sustainable agricultural management; and
- *Commonwealth Activities:* funding is provided for projects that have national strategic benefit.

The Trust provides local communities with an opportunity to participate in conservation by identifying sites for environmental action and applying for funding to conserve, protect, rehabilitate and better manage local areas. It empowers communities to overcome local and regional environmental problems.

The NHT also has potential to enhance rural and regional employment. NHT approvals for 1997-98 totalled some \$136 million. The significant injection of NHT funds into rural and regional Australia will have provided a stimulus to local business. There is likely to be complementary investment by other stakeholders due to the cost-sharing arrangements that require cash or in-kind contributions from NHT funding recipients.

There are some measures available to encourage project proponents to take on employees when necessary and where it does not detract from the primary purposes of the NHT. Because of a significant number of additional technical, scientific, education and facilitation positions needed to ensure effective delivery of the programs, the NHT is estimated to directly create at least 2,000 jobs. However, the natural resource management programs within the NHT, as currently structured, will provide only limited employment prospects for unskilled labour. The programs have a direct focus on getting farmers and other managers of large land areas to change their management practices, so they are not labour intensive.

### ***National Principles and Guidelines for Rangeland Management***

Nearly three quarters of Australia is rangeland. The rangelands are economically and ecologically important. Past management practices and some current ones have led to significant areas of the rangelands being degraded.

Rangelands communities face a range of challenges in addition to their uncertain economic and highly variable natural resource bases. The activities to address rangelands management aim to increase access by rangelands users, managers and communities to policies and programs that can assist the rangelands communities with their social needs and achieve economically and ecologically sustainable management of the rangelands. Improving the co-ordination and delivery of programs and increasing awareness of them is important in this regard.

## **5. Programs for Rural Social and Economic Development**

In developing policies aimed at promoting economic and social development of rural areas AFFA is guided by the following vision:

Skilled and financially self-reliant rural people and communities, equipped to turn uncertainty and change into opportunity and prosperity.

Central to achieving this vision are communities and industries that have access to modern technology, world class management skills, information, transport, communications, education and community services.

### ***Empowerment and facilitation***

A central prerequisite for successful rural social and economic development is effective community ownership of activities. A major principle underlying Commonwealth activity in rural areas is empowering communities through community ownership.

Where communities grasp the opportunities presented by change, there are positive impacts on the whole community. The key to a positive response by communities is a preparedness to undertake strategic action to address their own needs. Very good examples of the different approaches being applied by rural communities to chart their own development can be found in the papers presented to the 'Country Towns Sessions' at the 1998 ABARE Outlook Conference.

The theme of empowering rural communities through community ownership is reflected in the Agriculture - Advancing Australia (AAA) initiative. The AAA initiative has four key objectives aimed at delivering benefits to the entire farm sector:

- to help individual farm businesses profit from change;
- to ensure the farm sector has access to an adequate welfare safety net;
- to provide positive incentives for ongoing farm adjustment; and
- to encourage social and economic development in rural areas.

The fourth objective reflects the interdependence of rural industries and communities and the role played by communities in supporting local industry and economic development. Key elements of the package aimed at this objective and discussed below are funding to assist communities to develop strategic regional plans for their futures (Rural Strategic Planning Initiative) and the



introduction of a flexible grants program (Rural Communities Program) to assist rural communities to use their assets, in particular their people, to face their challenges in a positive way and build better futures; Regional Telecommunications Infrastructure Fund; Credit Care; FarmBis and the Understanding Rural Australia Program.

### ***FarmBis***

FarmBis is a new program that aims to improve the business management skills of farmers and promote positive attitudes towards training.

The program will provide a direct financial contribution towards the cost of the programs and activities in which farmers participate. Participants will be required to contribute to the cost of training to ensure their commitment and that training is relevant to them.

FarmBis may include support for farm management planning, business and financial planning/advice, farm performance benchmarking and leadership, quality assurance, risk management, skills audits and marketing. This will help farmers manage their businesses to the best of their capacity, adopt new practices, market their products, and deal with climatic and commodity price variability.

FarmBis will focus on the benefits to farmers of continuous learning. This approach is consistent with rural industries moving to greater financial self-reliance and control of their own future competitiveness.

### ***Regional Telecommunications Infrastructure Fund (RTIF)***

Administered by the Department of Communications and the Arts, the five-year \$250 million Regional Telecommunications Infrastructure Fund, also known as 'Networking the Nation', provides funding for regional, rural and remote communities. Funding assists these groups to identify their communications needs, and develop and implement projects that meet those needs in conjunction with carriers and government. AFFA liaises with DOCA on issues relating to telecommunications as these impact, for example, on the performance of portfolio industries and AFFA programs such as the information services technology component of the Rural Communities Program. The Department is currently developing a partnership with DOCA to provide on-going funding to regional telecentres.

The information technology component of the Rural Communities Program may provide grants to regional and community groups to assist in delivering a range of effective up-to-date information services technology. For example, grants may assist communities to improve access to on-line services, data processing, training opportunities, information networks and electronic commerce.

## **6. Collection and Analysis of Information**

Given that rural policy development concerns rural people and their communities, how information is gathered and interpreted at a regional level is vital to the development of appropriate policies and programs. The Department recognises that availability of information on rural areas is not always sensitive to the diversity and needs of people living in rural and remote locations of Australia. To overcome this the Department has in place several initiatives designed to provide accurate analysis of rural issues. These activities are described below.

### ***The Integrated Regional Data Base (IRDB)***

The Department has provided development funds for the IRDB, which is a user friendly software product that contains a broad range of time series data held by the Australian Bureau of Statistics (ABS). This data includes key economic and social collections and information from selected Commonwealth Agencies.

The major aim of the IRDB is the integration of Commonwealth regional data holdings to serve policy analysis and associated program management activities.

### ***AFFA Bureaux***

AFFA's Australian Bureau of Agricultural and Resource Economics (ABARE) collects social, economic and resource management data relevant to rural communities development as part of its regular and commissioned collections. Recently, ABARE has undertaken research which reports on the employment market for members of farm families. This research draws on the trend on many farms to supplement the total farm income with off-farm work.

The Bureau of Resource Sciences (BRS) is currently establishing a Social Sciences Centre to complement the economic and resource/environmental work already undertaken by AFFA bureaux. The Centre will provide the Department with data that provides a social perspective on the implications of policies for resource management.

### ***Forest Social Assessment Unit and Social Impact Assessments***

In 1995, the Department established the Forest Social Assessment Unit as part of the Regional Forest Agreement Process in Australia.

In accordance with the National Forest Policy Statement, the Commonwealth and all State and Territory governments have agreed to a process for completing Comprehensive Regional Assessments (CRAs) of forests leading to the negotiation of Regional Forest Agreements (RFAs).

A key part of the CRA is the involvement of regional communities. On behalf of joint State/Commonwealth Regional Forest Agreement Steering Committees, the Social Assessment Unit, within the Department of Primary Industries and Energy, conducts regional social assessment. The Unit has developed a number of State-specific methodologies to understand the dimensions of rural community changes and to advise on appropriate policy.

Social assessment is a tool to predict the future effects of policy decisions upon people, their physical and psychological health, well-being and welfare, their traditions, lifestyles, institutions and interpersonal relationships. Social assessment methodology is used to highlight value choices, increase public involvement and efficacy, and give more democratic direction to the decision making process.

Public involvement is an integral part of any social assessment process as it is essential that communities play a legitimate role in the decision making process. Communities have a right to know how they may be affected, how decisions are made and the ability of a variety of community groups to express their concerns. These groups have local knowledge that can help decision makers predict impacts and develop impact management plans. Good public involvement informs decision makers and ultimately leads to more effective decision making and greater acceptance of decisions by all parties.

The cumulative nature of impacts should also be acknowledged. Attention should be paid to the interrelated effects of a number of changes in a region over a period of time, as the combined effects are likely to be greater than those considered separately. A community that has been

psychologically buffeted by a succession of impacts, or has been relocated or reconstituted involuntarily, has different adaptive potential compared to one that has had a relatively undisturbed life.

Social assessment is not only a formal inquiry but must also empower communities to participate effectively in land use decision making. Recognition of the perspective of the communities concerned is essential in any form of social assessment. Impact analyses are likely to be inaccurate if they discount the impacted people's values, social dynamics, and beliefs about events.

**ATTACHMENT B****Schedule of reviews of AFFA legislation*****1996–1997 DPIE Legislative Reviews—Completed***

*Quarantine Act 1908*

*Rural Adjustment Act 1992 and States and Northern Territory Grants (Rural Adjustment) Acts*

*Income Equalisation Deposits (Interest Adjustment) Act 1984 and Loan (Income Equalisation Deposits) Act 1976/1997*

***1998 AFFA Legislative Reviews—Underway***

*Agricultural & Veterinary Chemicals Act 1994*

*Imported Food Control Act 1992 and regulations*

*National Residue Survey Administration Act 1992 and related Acts*

*Pig Industry Act 1986 and related Acts*

*Primary Industries Levies Acts and related Collection Acts*

*Torres Strait Fisheries Act 1984 and related Acts*

***1998–1999 AFFA Legislative Reviews***

*Dairy Industry Legislation*

*Dried Vine Fruits Legislation*

*Export Control Act 1982 (fish, grains, dairy, processed foods etc)*

*Fisheries Legislation*

*Prawn Boat Levy Act 1995*

\* Export Control (Unprocessed Wood) Regulations under the Export Control Act 1982

\* Review deferred from 1997–98 to 1998–99

***1999–2000 AFFA Legislative Reviews***

*Wheat Marketing Act 1989*

## ATTACHMENT C

### Reforms in other sectors

#### *Telecommunications and postal reforms*

The arrangements for the delivery of both telecommunications and postal services have changed considerably in recent years in response to a range of economic pressures. Telecommunications in Australia are controlled under the Telecommunications Act 1997 (the Act) which provides for an open market in telecommunications services with considerable Ministerial powers to set a range of technical and pricing aspects of the industry. In earlier years, competition matters in the industry were handled by specific telecommunications agencies. While some matters are still dealt with by an industry specific body, the Australian Communications Authority (ACA), the Act brings the general competitive behaviour of communications carriers and service providers under the jurisdiction of the Australian Competition and Consumer Commission (ACCC) for the first time.

Because of the specific arrangements for the industry contained in the Act, the communications industry has not been examined under the National Competition Policy arrangements. The postal industry however, has been included in the National Competition Policy arrangements and was the subject of a review by the National Competition Council (NCC). In 1997–98, a review of the Australian Postal Corporation Act was conducted. Its report recommending an increased exposure of the present Australia Post monopoly to competition, has generated considerable debate on its implications for service levels in rural Australia. The Government has subsequently given assurances that any changes would not result in any further closures of post offices or mail centres in rural or regional Australia.

Telephone and letter delivery services have traditionally been major means of communications in rural Australia. Patterns of business and social life have been shaped by their limitations, especially in the more remote and isolated districts. Both are considered essential parts of the social infrastructure necessary for a functioning community in rural and remote areas of Australia.

The absolute cost of delivering postal and telephone services is generally higher in rural areas than in urban areas because of the distances over which the services are delivered. Further, because the population density in these areas is low, the per customer costs are generally amplified to reflect an even greater level of disparity with per customer costs in urban areas.

The traditional approach to the delivery of postal and telecommunications services has been to adopt a common pricing schedule for particular services across all parts of Australia. Typically there is a shortfall of revenue over costs in rural areas and an excess of revenue over costs in the urban areas. The shortfall in the rural areas was cross-subsidised from the excess in the urban areas. Services however may be differentiated in other ways, for example the limited application of timed local calls in rural areas or lower frequency of mail deliveries.

This cross-subsidy arrangement only remained possible whilst the telecommunications and postal sectors remained a tightly controlled government monopoly. While supported by the community from an equity viewpoint, the cross subsidy approach has been criticised for distorting the underlying economic signals related to location and traffic volume, and for increasing the costs of those consumers who are contributing to the subsidy elements. 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.

In the telecommunications sector in the 1990s, the funding of rural services has changed from an internal cross subsidy approach to an explicit payment system from a specific industry fund. The Telecommunications Act 1997 provides for all carriers to contribute to an industry fund that is subsequently distributed to the carrier nominated as the Universal Service Obligation (USO) carrier to cover losses on basic telephone services to unprofitable areas.

Currently the USO carrier across Australia is Telstra, although the Act provides for a regional tendering process to open the selection of the USO carrier to a contestable process. The payment system currently involves Telstra making an ex-post claim for reimbursement and submitting to an adjudication process to determine the exact quantum of USO payment to be made for any period. The current annual sum paid out for the USO subsidy is around \$250m, with the major concentration of payments being made for servicing the WA Wheatbelt. The Act also provides for a future change to this system through the introduction of an open tendering process for the provision of USO services. This change would replace the current situation where the USO sum is not known until completion of the adjudication process with one which is determined by the outcome of an upfront tendering process.

With the opening of the Australian telecommunications market under the 1997 Act, the number of carriers and service providers have proliferated. However, these new entrants to the industry have concentrated on serving the high volume business market, concentrated in capital cities. Even with the existence of the USO, few have entered the rural and remote markets.

Where new entrants have brought new services and technologies to rural Australia, the prices charged for these services are often higher than those charged for equivalent services in urban areas. The industry suggests that this merely reflects the longer distances and lower traffic volumes of the rural telecommunications market. Complaints from rural people about higher costs are met by counter-claims that the telecommunications industry is making responsible commercial decisions.

Opportunities exist in an open telecommunications market for new entrants to introduce new technologies such as wireless systems or satellite systems, which may be better suited to the low density service conditions found in rural areas. It is claimed that significant cost reductions over present technologies may be achieved by this means. However, to date little commercial interest has been shown in this approach. In part the failure of new entrants to enter this market relates to difficulties that potential entrants have had in attempting to negotiate interconnection with the public switched network managed by Telstra. Regional networks or stand-alone applications of new technologies offer little attraction if they are unable to readily interconnect with other carriers through the national network.

The Australian situation differs from the USA situation in this regard. In the USA, trunk network services are generally in the hands of separate carriers from the local subscriber connections to homes and farms. In Australia, the situation differs with Telstra owning both the network and the subscriber connections, across most of the sector. The US network-level carriers see new retail entrants as an opportunity to increase their business share, whilst in Australia, any new entrant is potentially seen as reducing Telstra's share of the retail level business.

While the 1997 Act provides potential remedies for anti-competitive behaviour in the telecommunications industry, in practice, new entrants and consumer groups lack the legal strength that the established major players can marshal in the case of a challenge.

The Minister for Communications, the Information Economy and the Arts has considerable powers under the 1997 Act to make a wide range of determinations and exclusions in relation to the

telecommunications industry. In general, these have been used in a way that balances the benefits of competition with the equity aspects of community telecommunications service provision. For example, the Minister has recently substantially increased the penalties and compensation related to the failure of a carrier to meet minimum service standards.

The issue of the technical standards applicable to the standard telephone service delivered under the USO has been a major issue in recent years. Some consumers have sought a general upgrading of the standard telephone network to include access to data services such as ISDN while the industry generally has opposed a universal upgrading of services to ISDN standard on commercial grounds. In August 1998, the Minister received the recommendations of a public inquiry into this matter. The report did not support the general upgrading of the telephone service to ISDN standards at public expense, indicating that all Australian consumers who wished to obtain ISDN connections are able to do so commercially from the end of 1998. A number of interests have contested the finding of the report and the Government has not yet indicated whether it will accept its recommendations.

The debate on the outcome of this inquiry clearly illustrates the conflict that permeates telecommunications policy considerations, between the benefits of competition and the strongly held view by some people that a natural entitlement to access to an essential public service, exists.

Postal services in rural and remote areas of Australia face similar pressures. In 1997-98, a major inquiry conducted by the National Competition Council (NCC) recommended to the Government increased contestability in postal services and a substantial opening up of the postal services market to competition by dismantling the Australia Post monopoly on a range of services. In particular, the benefits to business customers from such an approach were highlighted. In addition, the proliferation of courier delivery services and the development of email and related electronic messaging technologies is progressively undermining the ability of the postal service monopoly to generate a surplus to sustain the cross-subsidy on rural postal services. These developments challenge the ultimate sustainability of the present postal arrangements.

Following the release of the report, a vigorous debate followed, in which rural community members and rural industry groups asserted their right to a comprehensive postal service at the same prices as people in urban areas of Australia. The Government has attempted to balance the two viewpoints with the release of a service charter that sets out the performance standards for the postal service. It specifies that Australia Post must have a minimum retail presence of 4000 outlets, of which at least 2500 must be in rural or remote areas. The Government has agreed to retain the Standard Letter Rate service and is examining other ways in which postal services in rural and remote areas might be enhanced.

### ***Petroleum marketing***

The petroleum industry is another sector that has responded to pressures for change in recent years. Some of these pressures have been as a consequence of National Competition Policy, whilst others have been part of a broad set of evolving commercial and economic pressures in regional Australia.

For many years, the petroleum industry was characterised by hierarchal systems of dealerships and strict controls of the sale of bulk fuel to ensure the commercial viability of the established refining and distribution organisations. This arrangement supported a price structure that gave relative uniformity to rural petrol prices in all but the most remote areas, but kept petrol prices relatively high throughout the country to enable a cross subsidy arrangement to be supported by a dense network of depots. While there was retail competition at the bowser, the price levels were kept artificially high in many places to fund this extensive dealer network.

A number of discounters attempted over the years to undercut the petrol distribution system. These included importers who sourced their petrol from outside Australia and also on occasions, rural producer bodies who sought to use their membership power to broker special deals for their membership. A number of these attempts were aimed at extending to country consumers the benefits of the aggressive discounting that some petrol companies regularly practiced in high volume urban sites.

Some rationalisation of distribution infrastructure occurred during the 1970s and 1980s. In particular, storage depots were rationalised and consolidated on bigger regional centres. The distribution of bulk fuel by rail to smaller towns ceased and many smaller depots were closed.

In August 1996, the Australian Competition and Consumer Commission (ACCC) conducted an inquiry into petrol prices that resulted in a number of recommendations aimed at dismantling certain institutional features of the petrol industry that restricted competition. The Government has subsequently put forward a package of measures to deregulate the petrol industry.

As a consequence of these proposals, many operators of smaller service stations face closure as low volume sites are not considered viable under a competitive institutional arrangement. Operators of such sites were protected to some degree by the Franchise Act and the Sites Act which will be abolished under the current proposals. Industry representatives have claimed that the implications of these for small business numbers and employment in many rural towns are substantial.

The removal of the cap on wholesale prices has enabled pricing structures to reflect underlying costs and has removed one reason for companies to maintain an internal cross-subsidy in rural areas. The concentration of petrol sales into high volume sites is likely to further consolidate the provision of a wide range of non-petroleum services into the larger regional centres at the expense of the smaller towns.

Another feature of the current revised arrangements is the ability of larger customers to deal directly with the oil companies at the refinery level. Under such arrangements, large fuel users can gain significant advantages by purchasing fuel at the refinery and having it delivered to their site by road tanker, bypassing the regional distribution systems. In a recent case, the Victorian Farmers' Federation (VFF) has been brokering syndicates of grain farmers to buy fuel by the tanker load.

While such arrangements offer cost savings to individual farmers, the social cost of increased road traffic from metropolitan refineries to the recipient's farm is not brought into account in this cost. As fuel is one of the few significant freight items remaining on the country rail system, a switch of some traffic from rail to road transport may see the cessation of rail traffic on some country lines. Road safety aspects are also of concern to communities such as the Blue Mountains, which would see substantial increases in road tanker traffic through their towns.

A more competitive market in petroleum fuel has the potential to significantly reduce the fuel costs of some rural producers and for people in larger regional centres. However, people in smaller centres may face higher prices or longer journeys to buy fuel. It also may have significant social implications with the closure of smaller service sites, the reduction of regional employment in depots and service stations and the safety/risk implications of more road tanker traffic on the roads as traffic is diverted from rail.

### ***Road and rail transport***

The transport network has also been subject to competition policy. The government has sought the co-operation of States and Territories under the National Competition Policy (NCP) arrangements



to implement a program of road transport reforms. Although NCP has focused on road transport, rail transport reform has also received considerable attention as the subject of reform. As with telecommunications, rail reform has been the subject of separate industry-specific arrangements between the Commonwealth, States and Territories which has seen major institutional reform which has increased the exposure of the industry to competitive pressures.

Over the last two decades, the country rail system has changed from the general carrier of most rural freight to a specialist carrier of bulk produce. The freight carried to and from rural areas is now limited essentially to bulk grains, minerals, petroleum fuels and containers. Some lower volume traffic is important in specific areas, including bulk cement, live cattle and raw sugar, although these types of traffic are increasingly moving to road transport.

Since the 1930s, road traffic has made increasing inroads into rail freight. The convenience of direct road haulage reduces total journey time and the need for double handling between the transport modes. Typically Governments who operated the rail systems, attempted to protect the position of rail transport by transport regulations and the establishment of transport monopolies in some products.

By the 1960s, sealed roads had extended to most rural districts and it was clear that rail traffic for general goods services, parcels and passenger transport could only survive in areas where sufficient volumes of traffic were available to support competitive freight rates.

By the 1980s, even these classes of traffic had substantially moved from rail freight to road, leaving the rail authorities to restructure their operations as specialist bulk freight providers focusing essentially on high volume grain, minerals and container traffic.

Despite the lower costs to shippers, various governments have resisted the move of private freight to road for reasons generally related to their own funding situation. This includes the shortage of capital funds for road improvements that would be required for higher road volumes, the existence of cross subsidies for some rural services, the existence of substantial regional employment bases such as railway workshops and the inability of governments to effectively recover cost-related operating charges from road users. In addition, decisions were sometimes influenced by crude attempts to bring externalities into the decision, through support for rail to lower the road accident rate, support the coal industry by using local fuel or to maintain regional employment levels through supporting the railways.

In recent years, Australia has 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. Further work remains to develop the potential reforms of road transport into a workable set of policies and programs, acceptable to a range of industry stakeholders. Many of these matters involve fundamental institutional change. Topics such as road access charges, pose significant challenges to those agencies seeking to introduce them to the transport industry.

The establishment of these arrangements will move Australian industry towards the point where its transport decisions are based on pricing structures that satisfactorily account for the underlying competitive forces.

AFFA has an interest in the reform of rail services because of the importance of rail transport to key portfolio industries, including the mining and grains industries, which rely on rail services for the transport of bulk freight. Rail freight is a major cost element for the Australian export coal industry.

For many mines, it is the largest cost after labour. All of Queensland's export coal, and most of New South Wales', is transported to port by rail. Accordingly, any excessive charging or inefficiency significantly disadvantages the Australian coal industry in the competition for export markets. The Taylor Report (November 1994) found that the evidence of inefficiencies and charging above normal commercial rates suggested that both States were falling below world performance benchmarks and collecting what was, in effect, a resource rent through their freight charges.

The Commonwealth Government's micro-economic reform agenda has consistently addressed rail issues during the 1990s. Reports have been published by the Bureau of Industry Economics (BIE 1992, 1993a), the Industry Commission (IC 1991) and the Bureau of Transport and Communications Economics (BTCE 1992).

Consultants, Travers Morgan, carried out an analysis for the BIE in 1992 of the rail freight operating costs of Australian rail systems and world's best practice. The analysis found that Australian rail systems were inferior to world's best practice in their performance on the basis of price, service, quality, operating efficiency and cost performance. The Bureau concluded that this poor relative performance impacted directly on the competitiveness of Australian firms using rail freight services.

In the absence of publishable data from rail authorities, the IC drew estimates of excess charges for coal rail freights from a number of studies that had attempted to quantify the extent of overcharging. These studies showed excesses ranging from \$3.77 - 7.50 per tonne for New South Wales and \$3.50 - \$7.28 for Queensland. The IC concluded that there was 'evidence which strongly indicates that Queensland and New South Wales mines were being charged considerably more than it was costing rail authorities to provide the service'.

Both the IC and the Independent Committee of Inquiry on National Competition Policy (the Hilmer Report) stated that commercial charging could be achieved through the full commercialisation of railways by corporatisation and the introduction of competition in the provision of rail freight by the State Governments.

When the national Competition Policy Reform Act 1995 was enacted it exempted the NSW and Queensland government coal-carrying services from the reform proposals (ie. a reduction in any monopoly rent charged by the rail systems for coal freight) for five years. The exemption did not prevent either State Government from moving to allow third party access to the rail network on their own volition.

Both State Governments have made substantial progress in recent years in improving the efficiency of rail operations, cutting costs and making pricing more transparent.

It is recognised that coal freight is a significant cost to companies because coal is a high weight to value commodity. Therefore, a saving on rail freight of \$1 per tonne can significantly add to our export competitiveness.

While companies have received small cuts in real coal freight rates, it appears that the Queensland and New South Wales governments still have a long way to go in achieving full commercial pricing, access and competition of coal rail freight services.