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

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Summary

This submission examines the argument that rural and regional Australia has not received an equitable flow of benefits from national competition policy reforms. In preparing this submission three regional centres were visited and representatives of State and local government, industry, agriculture and the community interviewed to provide their assessment of the impacts of national competition policy. The three case study regions are Far North Queensland, Gippsland in Victoria and Parkes/Forbes in New South Wales.

The meetings provided a fairly consistent view of the regional impacts of national competition policy. The overall aims of national competition policy in terms of international competitiveness were seen as positive and generally needed in economic terms. Positive effects on the price of telecommunications, power and freight transport were recognised. However, it was widely believed the negative impacts suffered by regional Australia have been greater than those borne in metropolitan areas and have not been balanced by clearly identifiable benefits.

This submission makes a case that regional Australia is less able to readily adapt to the structural changes resulting from national competition policy and to aid in this adjustment process government intervention may be warranted.

The broad range of existing Federal Government programs for regional areas already significantly contributes to addressing some of the negative outcomes of reforms. There are also a number of measures specifically directed towards spreading the benefits of national competition policy reform, the continuance of which can assist regional adjustment. These include the sharing of implementation funding, use of CSOs, appropriately targeted structural adjustment packages, broad public education concerning the policy and specific training for those responsible for implementing the reforms.

A number of ways in which regional Australia could be both further assisted in its adaptation and also the benefits encouraged to flow to the regions are noted. The following potential measures are a response to the concerns raised in regional Australia regarding the impacts of the reforms. Possible actions could include the promotion of:

- improved public understanding of the reforms arising from national competition policy, the reasons for these reforms, and the expected benefits;
- greater public understanding of the nature of public interest tests and their practical form, through improved transparency of the process;
- increased transparency and accountability in government decisions and behaviour, particularly concerning the entry of GBEs into new markets, which may enhance the public view of the reforms;
- enhanced efficiency in reform implementation through sharing of lessons learnt between, and within, all levels of government;

- increased access to statistics for performance measurement and benchmarking at a regional level to support a learning environment; and
- the growth of strong regional leadership to develop people who can identify and promote the regional benefits of the reforms.

1. Objectives

Regional Australia comprises a substantial proportion of the nation's population and contributes significantly to the position of the country in global markets. The Government's objective for regional Australia is to provide the economic, environmental and social infrastructure necessary for Australia's regions to recognise their potential. National competition policy is one tool for improving the competitiveness of regional industries. As part of a wider range of reforms, the Government is providing opportunities for rural industry and communities to take advantage of the globalisation of markets through lower price structures.

This submission highlights the perceived gap between the expected benefits and costs of national competition policy, with a specific focus on the impacts felt by rural/regional Australia. These impacts take the form of changes in the structure, competitiveness and regulation of major industries and markets integral to rural areas, and include flow-on effects felt by the local regional communities and the broader Australian economy.

Separating concerns about structural change and change related to national competition policy requires a level of understanding of the aims and objectives of the policy and the methods of implementation. Appendix 1 provides a background to national competition policy. The submission explores the depth of this understanding in regional Australia and the implications of misunderstandings for the acceptance and effectiveness of national competition policy. Finally the submission examines existing methods of spreading the benefits and minimising costs from national competition policy and the potential role for new measures.

The assessment of the impact of national competition policy on rural and regional Australia is based on case studies of three regions in Australia. Together these regions provide a microcosm of regional Australia – encompassing a range of growth patterns and prospects resulting from the interplay of different population and employment trends, major industries and businesses, and geographical advantages. These regions are:

- Far North Queensland;
- Gippsland, Victoria; and
- Forbes/Parkes, New South Wales.

Through overlapping with some regions the Productivity Commission has visited, the information gathered provides a point of comparison and gave those involved in both visits a chance to present information after having had some time to reflect on the nature of national competition policy.

In the regions discussions were undertaken with representatives of State and local government, regional development organisations, major agriculture, industry, and commerce peak bodies, and community groups. The broad cross section of interests represented by these groups and the ability to interview similar groups across the three regions allows useful conclusions to be drawn as to the costs and benefits of national

competition policy to regional Australia. It also highlighted regional differences and the factors that drive these.

For the purposes of this submission, rural Australia is considered to be that area outside the capital cities. When regions are referred to it indicates an area outside the capital cities that tends to identify itself as a unit due to strong similarities in economic base, issues being faced, or some other such coalescing force. Regions tend to be groups of discrete local government areas, geographical areas or economic centres. Regional boundaries are flexible and are drawn to meet the requirements of different groups – ABS, local government, local business groups, catchment management groups or regional development organisations – and so are often overlapping. Within the submission the terms ‘regional’ and ‘rural’ are used interchangeably to refer to that area of Australia outside the capital cities.

The regional comparisons do not focus in detail on the implications for particular industries, rather the impacts felt by the region as a whole are examined. Within a region, although one industry may have difficulties adjusting to national competition policy reforms if others benefit or new industries grow, the overall impact of national competition policy may be positive.

The submission takes into account the interplay of factors determining the strength of regional economies and communities. In accurately assessing the range of outcomes from national competition policy it is necessary to filter out the effects of other factors (other government policy, business decisions and global trends) which also impact on regional performance. The initial economic health of various regions within Australia also can be expected to influence their ability to adjust and hence the impact of national competition policy reforms.

The following paper is divided into eight sections. The first examines the expected and theoretical impacts of national competition policy on Australia and in particular regional Australia. Section 3 outlines the range of other changes impacting on regional Australia, which act to confuse the impacts of national competition policy. The regions that form the case studies for this submission are described in section 4. This is followed by a section highlighting the views of those in the case study regions of the impacts of national competition policy. Section 6 examines the potential reasons for differences in the regional impacts of national competition policy. The length of adjustment period is discussed in section 7, while section 8 provides a set of measures that could act to support regional areas during this transitional period. A short conclusion comprises section 9.

2. Why Undertake National Competition Policy?

2.1 Expected economy-wide benefits of national competition policy

The objective of the national competition policy package is to improve performance, flexibility and productivity across the economy. National competition policy has opened up previously sheltered areas of the economy to competitive pressures and

supported various regulatory initiatives to create national markets operating under one set of rules.

National competition policy reforms should provide a gain to Australian producers and exporters through improved infrastructure services – telecommunications, power and transport. Both businesses and consumers can expect lower prices, wider choice and better levels of service as a result of greater competition in public utilities and a removal of anti-competitive regulations.

The NCC (1998) has found measurable public benefits from the reforms:

- Electricity bills have fallen about 23 to 30 percent on average, and up to 60 percent in some instances, for those Victorian and NSW businesses covered by the national competitive market, while wholesale prices in Queensland have fallen by around 23 percent since its internal competitive electricity market commenced.
- Rail freight rates for grain in Western Australia have fallen by 21 percent in real terms since deregulation in 1992-93, while rail freight rates for the Perth-Melbourne route fell 40 percent, and service quality and transit times improved, following the introduction of competition in 1995.
- Conveyancing fees in NSW fell 17 percent between 1994 and 1996, after the abolition of the legal profession's monopoly and the removal of price scheduling and advertising restrictions, leading to an annual saving to consumers of at least \$86 million.
- In Queensland, ten of the seventeen largest local councils (in terms of budget) have implemented two part tariffs for water, resulting in an average saving in water usage of 20 percent in the first year.

The Industry Commission (1995) estimated the economy wide benefits expected to arise from the reforms. These included a \$23 billion increase in real GDP – predominantly coming from government business enterprise performance (GBE) improvements. The size of the gain is difficult to predict, as is evidenced by the Business Council of Australia's estimate of a much lower \$14 billion gain to GDP (Madden 1995). Consumers were also expected to be better off, to the tune of \$9 billion, through a combination of real wage increases and new jobs (Industry Commission 1995).

2.2 Expected impacts on regional Australia

The Hilmer report, and later studies of the potential effects of national competition policy, took a whole of economy view and looked at the net economic influence of the proposed reforms. The regional impacts were not delineated. However it is possible to draw out some of the reforms which have the potential to benefit rural and regional Australia:

- The introduction of competition should reduce the cost of telecommunications services and encourage the spread of new technology. Telecommunication costs are a particular concern to those in rural areas, as timed long distance calls tend to

form a larger proportion of telecommunication costs than for metropolitan dwellers. These costs should become less of an inhibitor to business investment in regional Australia.

- The separation of the electricity industry into generation, transmission, distribution and retail segments and the interconnection of State systems should work to reduce the price to consumers.
- The wider use of water charging systems should direct water towards its highest value user, and allow environmental flows to be better balanced against agricultural demands.
- National competition policy should result in lower freight transport costs. For example, through reforms to the process of accessing interstate rail networks, easier access and an appropriate, transparent pricing structure should enable operators to compete more effectively with the road transport industry and exert downward pressure on freight rates in both industry sectors. Simpler and safer regulation for the road industry should also boost the performance of the road transport sector. The distances from markets make freight charges a significant factor in the international competitiveness of agricultural and other rural produce and also contribute to the often higher costs of goods in rural areas.
- Local government users should benefit from the lower costs of building and maintaining infrastructure and also from the lower costs of local government services.
- Access in regional areas to professional services should be increased as barriers to entry are reduced. Rural areas tend to have reduced choice of, and lower access to, medical, dental, optometry, pharmacy and legal services, amongst others.
- The open tendering of contracts for previously government-provided services should develop new markets for local firms with the local knowledge necessary to supply these services.

The potential positive impacts of such reforms are numerous. The international competitiveness of regional output should be increased through reduced costs of inputs and infrastructure services. Greater business opportunities should develop in regional areas and some of the costs of doing business in regional areas should be lessened. Rural areas may see a broadening of their industry base as the reforms remove barriers to the development of new industries. Finally, the standard of living in regional areas should be improved through increased farm/business incomes and also through greater access to services.

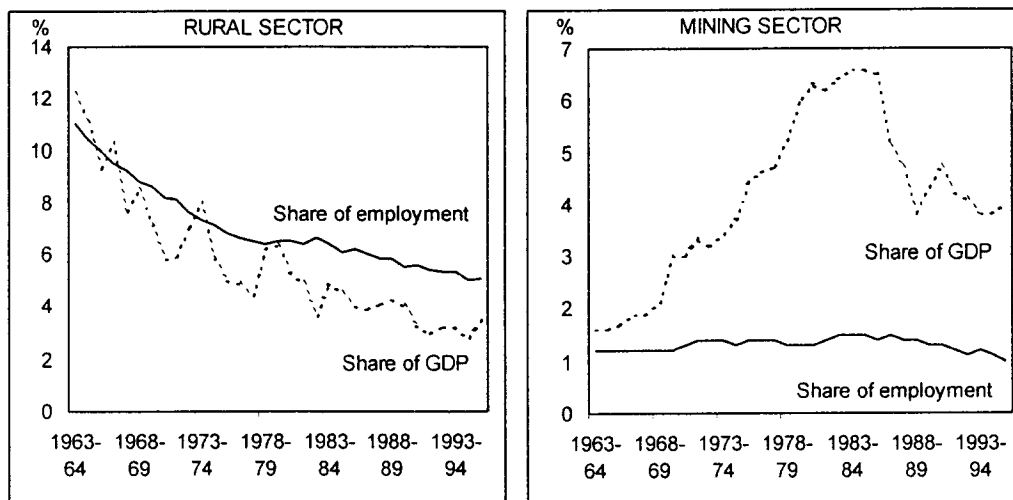
3. Broader influences on regional Australia

Measuring the net benefits of national competition policy to rural/regional areas is a difficult task as there are a range of other factors impacting on rural Australia that can

magnify or even camouflage the effects of national competition policy. These are factors which will influence regional employment, incomes and growth prospects.

Regional Australia is currently focussed on primary industries that, although increasing in terms of real earnings, are undergoing a long term declining trend as a component of the Australian economy. This shift away from reliance on rural-based primary industries towards an increasing focus on urban-based high value-added manufacturing and service industries is apparent world-wide as an outcome of changes in terms of trade and productivity growth. This decline takes the form of a falling contribution to GDP and decreasing share of employment. Figure 1 displays these trends in the rural and mining sectors, although the mining sector does not show as strong a trend due to the inclusion of mineral processing industries in these figures. Closely aligned with the sectoral shift is a demographic shift towards greater urbanisation of population that has been occurring since the beginning of the century (ABS 1998).

FIGURE 1: SECTORAL SHARES OF GDP AND EMPLOYMENT



Note: The rural sector comprises agriculture, forestry, fishing and hunting.
 Source: ABARE (1997).

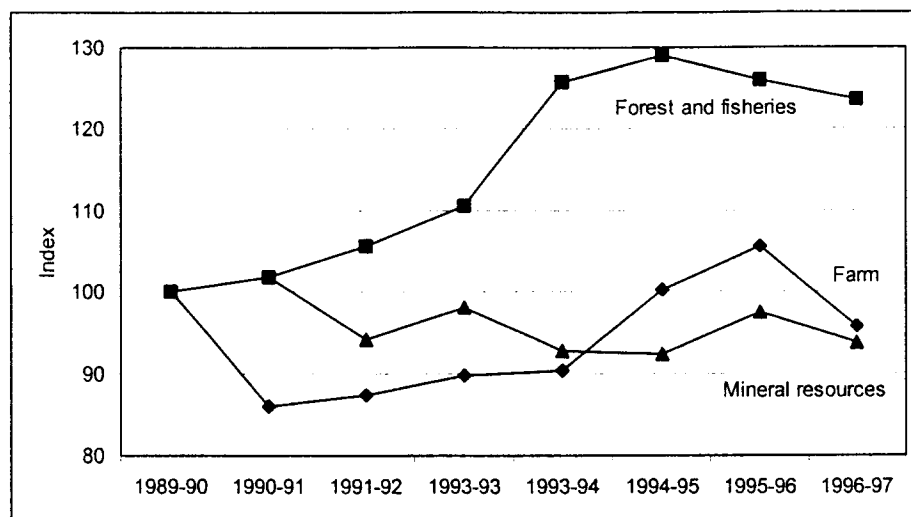
Another factor has been the shifts in consumer demand patterns. A decreasing proportion of income is spent on food (as distinct from pre-prepared food), with a relative shift towards spending in the household service sector.

Occasional economic shocks are particularly felt by regional Australia. The Asian financial crisis, with its rapid depreciation of a number of Asian currencies, has impacted on some of Australia's largest rural-based export markets. The Asian region provided a market for around 57 percent of agricultural shipments in 1997-98 (ABARE 1998) and so the economic performance of this region is important to the well-being of rural Australia. For some commodities (particularly live cattle, forest products, horticulture and wool) the export levels have declined significantly, while more generally, export growth rates have slowed (ABARE 1998).

Regional Australia is also suffering from fluctuations in world commodity prices (see figure 2). These movements are due to a combination of changes in the real price of

commodities (which have been trending downwards over time) and also exchange rate fluctuations. Lower commodity prices mean lower earnings for primary producers whose prices are set in the international marketplace. Unpredictable shifts in commodity prices may also act to dampen the growth of this sector, through lowered investment due to an increased perceived risk. Such changes have a flow-on effect on rural communities – these are strongest where they depend on a narrow economic base such as wool growing or mining.

FIGURE 2: INDEX OF COMMODITY PRICES



Note: Index in Australian dollars, Base 1989-90 = 100.

Source: ABARE (1997)

Domestic policy decisions and business decisions also effect the performance of regional Australia. For example, decisions by business such as the closure of rural bank branches, changes in investment by MIM affecting Mt Isa, or the withdrawal of BHP from Newcastle, can have a major effect on local employment and business. Government decisions about the location of educational and health facilities, and allocation of funds for police, social and welfare services also affect the economic health of regional Australia.

Finally, regional Australia is susceptible to natural disaster – floods, droughts and fires – due to the reliance of its agricultural industries upon the land and weather. In the short term the frequency and severity of such events in Australia can overshadow the impacts of many of the other factors mentioned above.

The effect of the situations described above on the economic performance of regional Australia has the potential to surpass the impacts of national competition policy reforms. There is even scope for the symptoms of these other factors to become confused with national competition policy thus distorting perceptions of the costs and benefits of national competition policy. This issue of a misconception as to the outcomes of national competition policy is discussed further later in this submission (section 5.2).

4. The case study regions

Visits were undertaken within three regions of Australia, each with a very different economic history and prospect, industrial base, demographic trend and geographic position. The regional case studies pointed to both a common set of perceptions as to the impacts of national competition policy on regional Australia, and also specific issues of particular priority to each region. Discussion of these forms section 5 of the submission. However, before looking at regional perceptions of national competition policy it is important to understand the structure of the regions.

It is misleading to view regional Australia as a whole, in the same way that distinctions can be made in the metropolitan and rural impacts of national competition policy so can the differences in impacts of national competition policy in various regional areas be noted. The specific impacts and ability of regions to adjust can be related to their different economic and social bases. Table 1 highlights the differences of these three areas and demonstrates the cross section of regional Australia discernible from an examination of these regions.

TABLE 1: COMPARISON OF CASE STUDY REGIONS

	<i>FNQ</i>	<i>Gippsland</i>	<i>Central West NSW</i>
Population density	0.8/km ²	5.5/km ²	1.3/km ²
Major industry by value	Tourism	Mining/Energy	Agriculture
Population growth rate (1992-1997)	+14%	-0.7%	-0.6%
Unemployment rate	7.3%	9.1%	6.1%

Source: DETYA 1999, ABS 1998b, W S Cummings Economic Research 1997.

4.1 Far North Queensland

This 270 000 km² region is based around Cairns and encompasses townships such Malanda, Innisfail, Mareeba, Atherton, Port Douglas, Kuranda and Mossman. It is one of the fastest growing regional economies in Australia. The residential population of the region is currently over 215 000 (ABS 1998b), with up to 30 000 visitors at peak times in the region (W S Cummings Economic Research 1997). The population growth rate of the area averaged 3.0 percent annually between 1992 and 1997, and projections indicate a doubling of the region's population over the next 20 years (ABS 1997).

This growth, during periods of decline in other areas of regional Australia, is based on two natural advantages – a bio-diverse environment and its proximity to Asia. This is the most internationalised of the three case study regions. The region exports goods and services to Asia and Pacific Rim countries. The international airport developed for the tourism industry also provides an important competitive advantage for the region's producers and services.

Far North Queensland is very reliant on Asia for trade and economic development, however the Asian crisis only had a temporary impact on tourist numbers which have now returned to pre-crisis levels. The area remains one of the largest regional tourism locations in Australia, with industry growth of around 6 percent annually (AHURI

1997). The tourist industry is now worth over \$1 billion a year to the region, attracting about 1.3 million domestic and 600,000 international visitors (W S Cummings Economic Research 1997). It is expected that within the next fifteen years visitors to the region will reach 3 million annually (Economic Development Steering Committee 1997).

The value of the region's agricultural sector, including associated processing, is currently about \$800 million annually (W S Cummings Economic Research 1997). This is made up of crop production (\$500 million), the pastoral industry (\$140 million) and the fishing industry (\$140 million).

Another industry of importance to the region is mining. Mining production has risen from being worth about \$60 million to the region in the mid 1970's to having a value of production today of about \$480 million (W S Cummings Economic Research 1997). Servicing the mining industry of nearby Asia (particularly the Freeport mine in Irian Jaya) and the Pacific has also provided stimulus to the region.

In a study conducted by Adams and Dixon (1998) the area was ranked 9th out of 57 regional economies for growth prospects, with a strong expected annual growth rate of 3.8 percent.

4.2 Parkes/Forbes/Condobolin, Central West NSW

Located in the central west of NSW are the shires of Forbes, Parkes and Lachlan. The total population of the three shires is 33 000, spread over 25 600 km² (ABS 1998b). Though many rural communities have suffered from population loss in recent years, the population of this region has remained relatively stable with a population loss of only 0.6 per cent over the period 1992 – 1997 (ABS 1998b).

The region relies heavily on agriculture and farming for employment and income generation. Agriculturally, the economy of the region is diverse – livestock, cereal crops, grain and oil seed crops, dairies, and horticulture. The use of the Lachlan River for irrigation is increasing. In aggregate the agriculture of the area generates approximately \$287 million annually (ABS 1998c). Mining is also important to the region, the largest mine being the Northparkes copper-gold mine that is projected to earn \$2 billion in export earnings over its life (Parkes Shire Council 1996). There is also a fairly high proportion of employment in secondary industry, such as meat and wool processing, skins/hide and leather production, pet foods, and viticultural industries. Other services include concrete and fertiliser production, wool distribution and sale yards. Recently a freight forwarding company has made a significant investment beginning operations in Parkes. Tourism in the area is small scale, adding \$4.85 million to the area's income (ABS 1998c).

In a study by Adams and Dixon (1998), central west NSW was ranked 37th out of 57 regional areas, with a moderate expected annual growth rate of 2.2 percent.

4.3 Gippsland, Victoria

Located in the south-east of Victoria, is the 43 000km² Gippsland region (ABS 1998b). Its population of 235 000 are spread across six shires – Baw Baw, South Gippsland, Bass Coast, East Gippsland, Wellington and La Trobe (ABS 1998b). Larger towns include Moe, Morwell, Orbost, Sale and Traralgon. Agriculture and industry are the main activities of the region, with almost 25 percent of the workforce being directly involved in agriculture, mining or electricity generation (Gippsland Research and Information Service 1998).

Agriculture and forestry have been traditional industries of the Gippsland region. Dairying, beef and vegetable production are the major farming enterprises, but fruit production, pigs, cut flowers, nurseries and sheep/wool are also important. The dairy industry generated revenue of almost \$500 million in 1996 (ABS 1996) and supplies almost all of Melbourne's milk. Its large rainfall and catchment areas also allow Gippsland to supply water to Melbourne.

Although the employment provided by these industries has fallen in line with the general shift away from primary industry employment towards secondary and tertiary industries, technological change and diversification has increased the value of farm product from this region. Diversification has been particularly important with the introduction of new niche market produce such as wine grapes and nuts.

The area is heavily reliant upon local primary non-agricultural industries and the businesses closely associated with them. The mining of significant brown coal deposits for power generation has been an important industry for many years, with the region generating 90 percent of Victoria's power (Ove Arup 1996). Other important industries include the piping of oil and natural gas ashore from Bass Strait.

The brown coal mining and electricity generation industries in the La Trobe Valley had provided large numbers of jobs, but the restructuring of the electricity supply industry, through the privatisation of the State Electricity Commission of Victoria, saw job shedding. An estimated 6000 jobs were lost in the La Trobe Valley and the immediate impact of the structural adjustment undertaken saw Gippsland having the highest unemployment in the State, averaging around 12.5 percent in the early-mid 1990s (ABS 1995). It remains the only one of the three regions visited with higher unemployment than the respective State average. The lowering of unemployment levels was partially due to a substantial loss of population. Between 1991 and 1996 it was the only Victorian region to experience population decline (Gippsland Regional Forum 1998). Over this period it also moved from having the highest to the lowest proportion of high-income households in Victoria (Gippsland Regional Forum 1998).

Dixon and Adams (1994) ranked Gippsland 53rd (and East Gippsland 55th) for growth prospects out of 57 regions, reflecting the expectations of further restructuring and increasing competition. In 1998 the picture had improved and Gippsland ranked 43rd and East Gippsland 52nd (Adams and Dixon 1998). One potential growth area is the tourism industry, attractions include Gippsland Lakes, the Phillip Island penguin colony and numerous national parks. Although not fully developed in the region,

during 1995 tourism provided over \$100 million to the region (Tourism Victoria 1996).

5. National Competition Policy and Regional Australia

5.1 Adjustment difficulties in regional Australia

In achieving a net gain for Australia, it is apparent that the reforms will have uneven impacts and some businesses, industries and regions will face adjustment costs. Some of these costs will be transitional in nature – only existing until the benefits arising from improvements in other areas of the economy flow through. However, competition forces those who are not able to compete out of the market – industries that have been protected by government regulation may struggle if this protection is removed and competition introduced. The same applies to marginal operators within an industry, as the performance of others improves, those who are less competitive may be forced out of the market.

A number of social and structural factors in regional areas reduce the ability to bear the adjustment costs of reforms. As acknowledged by Treasury (1998) regional communities can experience more extreme and more prolonged effects from structural change than do metropolitan regions. Even those regions that may benefit from national competition policy in the long term can incur short-term costs due to the limited size and scope of economic activity and access. The same factors also make it harder for the affected communities to reap the potential gains of national competition policy. This submission argues that it is these factors which result in the impacts of national competition policy reforms differing between regional and metropolitan Australia. The listing of these factors below expands on that provided by Wolman (1996) in his examination of the effect of locational differences on the ability of Americans to move from welfare to work.

- The potential for employment growth is often limited in rural areas due to the difficulties in attracting new investment. Absorbing the unemployed from restructuring of industry, agriculture or government is difficult, particularly when the existing higher unemployment rates in rural areas are taken into consideration. In 1996 the unemployment rate in metropolitan areas was 8.5 percent, two percentage points lower than the 10.5 percent unemployment rate in rural Australia (Productivity Commission 1998)
- Rural areas may have a lower skill base, due to factors such as limited educational opportunities in the local area and the drain of youth from rural Australia to urban centres. Two of the three regions had a higher proportion of the population who had left school before 16 years of age than did the relevant State as a whole. ABS (1998a) shows 26.1% of Gippsland's population left school prior to turning 16, compared with a State average of 22.1%; and for Parkes/Forbes this figure was 26.8% compared to a State average of 24.4%.
- Rural Australia is remote from large markets, both for products and for labour. The regions are strongly reliant on transport services and the distances from

markets makes attracting industry to regional Australia a difficult task. Even new telecommunications technologies have not fully bridged this divide. Some regional areas still do not have access to the full scope of telecommunications services available in cities.

- Rural Australia, especially the more remote locations, does not have access to the quality of infrastructure that metropolitan Australia takes for granted. Public transport can be non-existent in many rural areas. Private passenger transport systems operate infrequently and for freight transport there is often less choice than in metropolitan areas. Telecommunications systems do not always have the capacity for reliable Internet access or operation of facsimile machines. Repairs to power and telecommunication systems can take longer. This can make doing business in rural areas harder and more costly.
- Market structures differ between rural and urban areas – urban areas may have many competing market participants while in rural areas there are only a few. For example, the spread of large supermarkets to rural Australia has seen strong competition supplied to a range of small food retailers – grocers, butchers, bakers and fruiterers.
- A history of regulation in some rural industries (the tradition of the agricultural marketing board) and a high exposure to a small number of industries in most country areas is likely to amplify adjustment costs. For example, mining and agriculture activities are often the sole source of income for many rural areas and these will feel the first round impacts of reforms to these industries most strongly.

Recognising that there are pockets of disadvantage throughout both rural and metropolitan areas, the factors above point to the potential for national competition policy adjustment costs, particularly resultant long-term unemployment, being more difficult to remedy in regional and rural areas. When one industry or business closes or restructures and reduces staff those people need to seek new jobs. In a regional area this may be more difficult simply due to the combination of lower numbers of employers, the low growth rates of these employers, the lower skill base of job seekers, and the limited ability to travel to seek work. Unemployment in regional areas can mean moving to find work and taking entire families – this has a flow-on effect on the demand for business and government services in rural centres. As a result the quantity or quality of services available to those in the remaining community may decline.

5.2 Regional views of national competition policy impacts

Those groups who contributed to this study universally accepted the overarching objective of national competition policy – to improve Australia’s international competitiveness. This opinion was particularly strongly expressed by those in export industries.

There was, however, an argument made that the implementation of national competition policy had detracted from this objective. It was claimed regional Australia faced a number of difficulties that had arisen during the implementation of

the policy which were different to metropolitan areas. The issues are discussed below.

The structure of the interview process allowed comparisons of the impacts of national competition policy to be made both between regions and between industries, but also within the same industry located in different regions. In some cases similar industries were interviewed but differed in their views on the effects of national competition policy. These differences appear to be strongly related to the variations in implementation in each State and also other parallel State-based reforms.

Before the views of those interviewed are discussed, a note of caution needs to be made. Whereas gains from national competition policy tend to be spread broadly across regional communities, and may be relatively small in terms of a business's operating costs or an individual's income, this is frequently not the case with costs. The costs imposed by reforms are often directly borne by identifiable industries or businesses. As a result, some industries will either attempt to delay or stop the changes or lobby for recompense. At the same time, recipients often overlook benefits and financial gains, and with the wide dispersion of benefits there may be no one representative group. Where numerical records of the pre- and post-reform situations are not available there is, therefore, potential for relative costs and benefits to be miss-estimated.

The following assessment of costs and benefits of national competition policy reforms on a regional level will suffer from some distortions, as quantitative evidence of either was not readily available. However, the fact that particular concerns were raised by a broad group does indicate that national competition policy implementation is causing concern in regional Australia. Regardless of the size of the impact these concerns of rural communities need to be understood to ensure that national competition policy reforms do achieve their intended objective of improving Australia's competitiveness.

Flawed understanding of national competition policy

It was difficult for communities to separate the impact of national competition policy reforms from the impact of fluctuations in commodity prices, decisions by private companies and other microeconomic reform. National competition policy is a package of reforms with one set of objectives, but the reforms affect a multitude of industries and operations in a variety of ways. This complexity has also led to some misinterpretations of national competition policy. These misconceptions are apparent amongst regional communities.

The people who participated in the consultations represent those most concerned with the changes and with an interest in the impacts of the policy on regional Australia. As a result those interviewed tended to be well informed, however the depth of knowledge naturally varied with the importance of national competition policy in the daily dealings of these people. Many admitted the implementation of national competition policy had demanded they climb a steep learning curve.

There still remained questions amongst this well-informed group concerning the detail of the policy and the reasons and value in certain tasks are being asked of them, for

example “why are we reviewing our dog licensing regulations?”. This question reflects the perception of national competition policy implementation as overly bureaucratic and even dictatorial. The need for councils to demonstrate their progress in national competition policy also required substantial council time.

The misunderstandings are centred broadly on confusion with other elements of microeconomic reform and the business cycle. Some examples include:

- Private sector decisions, such as those involving the continuation of bank branches or the placement of supermarkets, have been confused with national competition policy. National competition policy only affects such decisions through addressing existing regulations which restrict the operation of segments of the same market differently, for example retail trading hours or liquor licensing regulations.
- Some saw national competition policy as promoting competition at all costs, whereas it requires non-economic concerns to be considered in implementing reforms. The use of public interest testing is specifically discussed below.
- The impact of national competition policy on government operations is particularly misunderstood. National competition policy does not require privatisation, corporatisation or contracting out of government functions, but it does require government to run its ‘significant’ businesses along commercial lines using competitive neutrality principles. In such cases the benefits achieved need to outweigh the associated costs.
- The use of tax equivalent payments was also viewed with suspicion by some who regarded it as “just another way for governments to raise revenue”.

Overall, the issue of public understanding is a problem. In consultations it was almost unanimously felt to be virtually non-existent. The lack of public understanding, and resultant misunderstanding, was seen to make the task of all levels of government in selling the benefits of reforms more difficult. Indeed it appears that the terms ‘competition’ and ‘market forces’ are viewed negatively, conjuring up images of small businesses being driven into the ground by big business, always from outside the region, at the behest of government.

Lack of specialist skills to deal with national competition policy demands

A significant proportion of the ongoing implementation of national competition policy is occurring at the local government level. Important reforms include contracting out services and structural and regulatory reform. Council implementation of national competition policy generates benefits for the community as a whole, but councils incur costs in quarantining significant business activities, reviewing by-laws that limit competition, and structural reform of public monopolies. Councils must also train staff and councillors in the implications of national competition policy, identify and cost community service obligations, conduct public benefit assessments and establish complaints mechanisms.

These tasks are not easily met by all. In some States, councils in more remote areas represent a small number of people, and have limited human and financial resources at

their disposal, which affects their ability to implement the necessary changes. For example, remote locations may face difficulties in attracting people with the requisite skills to perform tasks, such as review of regulations and tendering of contracts, because of the financial constraints they face. Rapidly approaching deadlines for completion and requirements for regular reports are placing financial strains on already tightly stretched councils leading to the temporary shifting of funding away from other council activities.

Within regions the problems of implementation were minimal when councils were large and well resourced. States have recognised these problems and some are sharing the bonus pool with councils. In Victoria \$44 million of the implementation payments from the Federal Government is being passed to councils, while in Queensland this figure is \$150 million over five years (commensurate with their broader responsibilities in areas such as water supply). However these payments are post reform and so have not aided in financing the process of regulatory review. The methods of sharing funds are also not strictly associated with the costs of reforms or even with the savings made. For example, in Queensland funds are given on an expenditure basis that those interviewed argue benefit inefficient councils or well-resourced councils.

Disempowerment of stakeholders

Another concern raised was the lack of control over the reform process by those charged with implementing reforms. The speed of changes, driven by completion dates, was criticised by councils. This is partially related to the lack of skills to deal with the reforms as discussed above. The speed of the reforms was seen to reduce the ability to implement lessons learned, such as improving subsequent tendering procedures. For example, in some cases the quick implementation of local government reforms meant numerous tenders were let almost simultaneously causing problems for interested contractors who didn't have the resources to bid for a number of contracts at once. These concerns must be balanced against the view that by delaying or slowing the reform process the final adjustments will be larger and so magnify the adjustment costs.

Business also made criticisms of the process claiming that the speed of national competition policy changes increased small business bankruptcies. This is difficult to quantify, however changes in dates for implementation of national competition policy were recognised to cause business uncertainty.

Lack of stakeholder involvement in decision making was seen to be a particular problem in rural areas, where information flows may be slower, industry organisations more stretched, and business sizes smaller so less time is spent on an issue such as national competition policy. Distance also proved to limit some interested parties from becoming more directly involved in discussions concerning the way national competition policy would be implemented.

Even if a speedy implementation is viewed as most appropriate, the feelings of lack of control do reduce 'ownership' of the national competition policy process, which can make implementation more difficult. If those actually implementing the reforms feel

they are not partners in the process it is much harder for them to objectively see the benefits from reform and to convince others.

Use of the public interest test

Subclause 1(3) of the Competition Principles Agreement (COAG 1995) calls for the following to be taken into account where relevant in an assessment of the merits of a particular policy or course of action:

- "Government legislation and policies relating to ESD
- Social welfare and equity considerations including CSOs
- Government legislation and policy 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 a class of consumers
- Competitiveness of Australian business
- The efficient allocation of resource."

This is what has become known as the 'public interest' test, although these words are not explicitly used. Through this the agreement recognised that it is not always possible, or sensible, to promote competition in each and every market. Consequently, it includes provisions that enable competition to be restricted where this can be shown to benefit the community as a whole. Unfortunately, there is little detail available on these provisions and, in some regions, there seems to be a lack of knowledge of the very existence of public interest provisions.

The information available on public interest tests is important as the lack of public knowledge on how these tests are conducted or why end decisions are reached can lead to some scepticism as to whether public interest is being appropriately considered. Views were expressed that national competition policy was price driven and social obligations and service quality were being compromised for commercial imperatives. The appropriate use of the public interest test was seen by those in regional Australia as essential to ensuring city/country differences were reflected in decision making. An awareness of this issue was apparent in some council's preference for local contractors – although they did not tend to associate such decisions with public interest tests. Issues such as social welfare, the welfare of consumers, remote communities, workers, and the environment need to be considered in the reform process.

One area of concern centred on the treatment of unemployment effects in a public interest test. Generally speaking, the rates of decline in employment have been higher and more varied in regional areas than in metropolitan areas. It was questioned whether the impacts of unemployment in rural/regional areas were fully understood and correctly included in any analysis of public interest. In particular the downstream effects of unemployment were felt to be only partially recognised. These include loss of population (especially the more productive and educated segments) from rural areas, the resultant loss of government and business services, and the social problems

sometimes associated with high unemployment (family break down, suicide, crime and drug problems). Regional areas were viewed to be more likely to suffer such problems as a result of unemployment due to the often long-term nature of this in regional Australia, made worse by regions that are less well-resourced than cities to cope with these problems.

Uncertainty regarding exemptions from national competition policy

Industries benefiting from current legislation and regulation on competition have strong reasons not to wish those benefits removed. Several agricultural industries are currently undergoing, or have recently undergone, reviews of legislation governing their industry, such as the review of the Victorian *Dairy Industry Act* which sets farmgate prices, the sugar industry in Queensland, and rice in New South Wales. Many have opposed any changes and have attempted to retain their benefits. In some cases this lobbying has been successful, the exemptions received by newsagents, pharmacists and Australia Post allow a perception that this may happen to a broader range of industries. Other industries are campaigning for similar protection, for example small retail traders have put forward arguments against the deregulation of trading hours.

Perceived reduced service quality

During consultations several examples were given of situations where national competition policy reforms, which were meant to introduce competition had not resulted in clear improvements at a regional level, particularly in quality of service.

Reforms have introduced competitors into the electricity and telecommunications industries. National competition policy allows for the continuation of community service obligations imposed by governments on service providers (including electricity and telecommunications) which provides rural and other targeted consumers with services at less than full cost. For example, in Queensland electricity tariffs are equalised so each household in that State pays the same tariffs as those living in Brisbane. While prices of telecommunications, and to a lesser extent, electricity were recognised to have fallen, one perceived outcome of State and national competition in these industries has been a fall in service standards – particularly in response times to repair outages. Anecdotal evidence pointed to both electricity and telecommunications faults which previously took one day to see repaired now taking as long as five days. Voltage variation was also a problem for some. An example was provided of faults experienced in telephone/facsimile lines in Central West NSW in late 1998 that took over a month to alleviate and caused widespread disruption to business activities in the area. The lack of local repair staff was seen as a contributing factor to both telecommunication and power problems. On a regional level there may still not be choice for customers. For example in Gippsland there was only one electricity distributor – if service quality is not that desired there still is no alternative. It was also felt that financial pressure on electricity distributors made connection to the electricity grid less likely in more remote locations. Reliance on stand alone power systems placed limits on the energy demands that could be met.

Education is not generally viewed as a 'significant' government business and the introduction of competition is not so widespread as in other government services. However, a fall in service quality was also seen as an outcome of the introduction of competition into Queensland's Technical and Further Education (TAFE) system. In the larger rural centres the growth of new market participants appeared to have only shifted who was providing the training rather than increasing the level of training. In smaller markets the entry of new competitors had not always improved the range of courses offered. Some providers were not attuned to local needs, while others were not in these markets for the long term. The price of providing education had risen in regional areas with the removal of widespread cross subsidies and so the range offered had been reduced. TAFE was looking to deliver services in innovative ways to reduce costs and increase access to their courses, for example, using electronic learning centres. However this was still viewed by users as a reduction in service quality.

Not all services were thought to have fallen in quality – substantial gains in the quality of rail transport are highlighted below.

Competition between local government, GBEs and the private sector

A number of issues arose regarding the perception of unfair competition.

GBEs were viewed as having advantages over private sector companies in gaining contracts for lucrative government funded business – including road building and maintenance, stationary, laundry services, baking and provision of playground equipment – and for some private sector contracts. The size of some GBEs was considered to convey market power to them. The accuracy of these claims could not be confirmed. Indeed the NCC concluded that Queensland is implementing elements of the NCP reforms, including competitive neutrality, in relation to road provision. Where GBEs are tendering for work, national competition policy requires that the operations of these areas be quarantined from other government functions. Additionally tax equivalent payments, the use of industry averages for cost elements not borne by GBEs, and requirement for a profit to be made should act to eliminate any advantage seen to be held by GBEs.

The centralisation of government purchasing was seen to disadvantage the regions in that it was common for capital city companies to secure government contracts for work in regional areas yet very abnormal for a non-capital city company to collect a capital city contract. There was seen to be a tendency for firms located close to the point where the tender was let (increasingly in capital cities) to be more likely to win.

A related issue of concern is that large private sector companies, not located in the region, were now providing some services previously provided by local government. This was noted as a particular problem in Far North Queensland, whereas in Gippsland the same problem had not occurred. In a number of States and Territories, especially in remote areas, local councils often relied on Federal or State road projects as a financial and employment lifeblood. In an open tender process such contracts are no longer guaranteed. The loss of these road projects to outside companies reduces local employment. Problems cited which reduced the ability of councils to win these

contracts included the size of the contract package, which makes the work unsuitable for councils, and tender deposit arrangements which councils have difficulty meeting.

The existence of such concerns indicates there is still much work to be done, even if only at an educational level or in increasing the transparency of government processes and opening these to wider scrutiny. The perception of unfair competition – if widespread – can reduce the number of companies bidding for contracts (often a costly process), weakening the competitive business environment and decreasing the expected benefits of national competition policy.

Reforms differ from State to State

Although providing a timetable for reform, the COAG agreement allows flexibility in the details of national competition policy implementation so that reforms can be designed to suit local requirements. There is no blueprint on the best way to handle the detail of policy implementation. A diverse set of government responses has resulted. This is not necessarily a bad thing – as it may reflect an effective adaptation to local circumstances. Indeed, theoretically, diversity spreads the risks of innovation in reforms as governments learn from each other's mistakes and successes.

However, businesses and local government pinpointed inefficiencies that are arising from States going it alone in national competition policy. These problems are not specific to regional areas, however as national competition policy reforms impact significantly on industries and sectors of importance to regions (transport; local government services; electricity and agriculture) these inefficiencies are having a deleterious impact on regional Australia. The problems arising from the differences between the reforms being undertaken by States include:

- Where business is integrated nationally State differences add to the costs of doing business and create business uncertainty.
- Reforms in each State are proceeding at slightly different paces and order of priority. Delays in implementation may be affecting the relative competitive positions of industries located in different States. For example, the dairy industry has been fully deregulated in NSW since mid 1998, resulting in lowered farmgate prices, but a review of the relevant Act is only now commencing in Victoria, which currently receives higher farmgate milk prices.
- Without a standardised public interest test the result could be inexplicable differences in approach to reform between jurisdictions.

Regional gains from national competition policy

Regional responses to national competition policy were not all negative. However participants did tend to be more vocal regarding the negative impacts. Four broad areas of gains to regional Australia from national competition policy were noted. It is recognised that these are not all encompassing of the expected benefits, yet only these were highlighted as viewed as a result of national competition policy. National

competition policy may well be providing other gains that are either going unnoticed or not seen as an outcome of national competition policy reforms.

- Telecommunication costs had been seen to fall in all regions visited. This was recognised as reducing what had been a major barrier to business investment in regional Australia. The generally high personal phone bills (figures of \$1500-\$2000 per year were estimated) also made the gains to individuals from increased telecommunications competition very noticeable. However, a perceived decline in service quality, poor mobile phone coverage, and a view this will only get worse with the shift to the digital system, detracted from these cost savings.
- Road freight was widely seen as very competitively priced. One high volume customer had seen a 30 percent fall in road freight charges, spread over a number of years, despite his location “at the end of the transport route”.
- Falls in rail freight charges were evident. One business had gained more than a 50 percent decrease in rail freight rates due to rail reforms. This was a significant benefit to the business and indeed had kept its operations economically viable. Falling freight rates had also assisted the growth of new business, for example the new FCL freight forwarding terminal in Parkes is a \$3 million investment which relies on cost effective rail transport. At the same time service quality was widely seen to have improved both in frequency and responsiveness to customer needs. In Victoria the rail authority is looking to design rolling stock specifically to transport wood products from Gippsland to seaports.
- Reduced electricity prices were noted by large users, particularly in NSW. The savings were clearly recognised by large users with savings of up to 40 percent. There remained concern that these reductions would not last – being absorbed by increased State government levies, power loss factor charges, and other such surcharges on the unit tariff. An example was given of the surcharge on a company for power loss factor increasing from 4.3 percent to 9.8 percent in two years, this was viewed as likely to increase given the ageing distribution infrastructure and increasing power demands of the region. In general smaller users did not recognise any price declines, “power prices have fallen but you have to do the maths to work it out”.

6. Drivers of regional differences

The regional impact of national competition policy cannot be said to be consistent. When visiting the three regions there were noticeable differences in both its perceived impacts and the acceptance that national competition policy will provide net gains. Interestingly within a region the views on the general objective of national competition policy were fairly consistent, albeit there was always differences in the specific implementation difficulties recognised. Across the three regions there were clear differences in strength of views on national competition policy. There were also some clear similarities of opinion between the same industries in different regions as to the industry specific impacts of national competition policy.

The inter-related factors below are an important influence on the perceived impact of national competition policy and the ability of regions to adjust to negative transitional impacts.

Economic performance of a region: A strong regional economy provides greater internal resources and an ability to attract external resources to counteract any negative impacts of reforms. Regions where the economy was performing well were well placed to reap the benefits from their improved competitive position – both domestically and internationally. All three regions were very aware of the broader difficulties facing regional Australia and had a range of initiatives – e.g. industry development plans, regional development organisations – to counteract the difficulties of regional living. Stronger performing regions did this to a greater extent and with a stronger international focus. This internationalisation was associated with a strong economic performance, which aided in recognition of the wider economic benefits of reform. Exporting industries had received significant gains from price decreases in freight transport and telecommunications.

Economic base: The impacts of national competition policy in regional Australia were partially determined by the industry focus of the region. Regions based on industries which had already undergone significant change or had always been fairly competitive (eg. tourism) felt the negative impacts of national competition policy much less than those reliant on industries which had undergone major restructuring in recent years (eg electricity industry). They also reaped the benefits of reform more immediately. A broad economic base gives a region greater flexibility to withstand exogenous impacts. Far North Queensland with its diversified economic base and strong services sector had clearly had an easier adjustment process than Gippsland with its narrow base in industries which were substantially affected by reform.

Social base: The people of the regions were vital to determining the impact the reforms had on the region. Existing high unemployment levels made resultant unemployment increases very difficult to bear. The skills of the local population were important in allowing them to adapt to change and develop new industries or grow existing industries. Although there was concern that reforms had stripped some areas of their highly educated population and so left the region with difficulties promoting future economic growth. The numbers of people in a region were also important in determining ability to gain from reforms. Higher populations generally were associated with larger councils with more resources, a broader and deeper economic base and also indicated a higher level of economic performance.

Distance: Issues of distance were frequently cited as exacerbating negative policy outcomes. Areas remote from the State capital or major rural centres felt more isolated from decision making processes concerning reforms, were less confident of what comprised national competition policy, and less well resourced to implement or adjust to the reforms. Yet they felt the reforms had the potential for greater harm in their regions, for example the negative impacts of infrastructure service decline were a major concern in remote areas.

7. Length of adjustment period

There are both permanent and transitional impacts of reform in regional Australia.

Permanent changes requiring regional adjustment are largely the result of structural shifts that see some participants exit an industry undergoing reform (theoretically the least productive producers). The long term outcomes may be a shift in economic base, relatively high unemployment, population loss and decline in services. These impacts may be felt even after the reforms have been implemented and the affected industry returned to a new, lower, equilibrium point. Regions based on uncompetitive industries facing permanent declines will have a longer adjustment period before new industries develop and existing industries grow to reattain former levels of regional economic performance. Many are already working to promote and develop regions through regional development organisations and business associations.

Transitional adjustment costs are faced during periods of industry churn when average producer incomes initially decline, regional land values may be affected and new industries are trialed. Those losing jobs or leaving uneconomic farms or businesses either have to find new employment, which may involve moving elsewhere, or remain unemployed. These costs of adjustment can be alleviated through the use of transitional mechanisms, which assist reskilling of workers, exit from declining industries, or entry to new industries. Such mechanisms have the potential to reduce the length and economic severity of the transitional period and are further discussed in section 8.

Victoria provides a case study of an area where many national competition policy-type reforms have gone ahead earlier and indeed further than national competition policy envisaged. In Victoria consolidation of councils was carried out between 1993-1995 and 210 councils became 78. The introduction of compulsory competitive tendering required councils to market test 20 percent of total operating expenses in 1994-95; 30 percent in 1995-96 and 50 percent in 1996-97 (Department of Premier and Cabinet Victoria 1996). The privatisation of the SECV occurred in the early 1990s.

The case of Gippsland provides some indication of the future of regional areas elsewhere in Australia being affected by national competition policy reforms. People in Gippsland recognised that the region had suffered because of the changes but feel the major impacts have already occurred and the reforms have now been well-bedded down. It was thought that the area is now on an upward trend and in effect has 'got over' the worst of the reforms and is starting to see the net benefits. The power industry is now seen as world class, infrastructure services were believed to be more efficient, as was the agricultural sector and local government. Those in the region perceived continuing high unemployment to be the major ongoing cost remaining from the reform process. Earlier estimates of a 15-18 year recovery may be at the higher end of adjustment periods as this region is now about seven years into the reform process and indicators of economic recovery are apparent.

Overall, the attitude in regional Australia to the impacts of national competition policy and the length of time necessary for the negative transitional impacts to give way to positive benefits for regional Australia was pessimistic. In part this is determined by

factors discussed above – when a region or an industry is faced with other problems of an external nature they have less reserve to trade through a difficult transitional period.

8. Spreading the benefits of national competition policy

Government policy aims to provide the economic, environmental and social infrastructure necessary for Australia's regions to recognise their potential. This suggests that transitional geographic disadvantage occurring as a result of national competition policy reforms should be assessed to ensure that higher costs are not imposed on regional communities which may stifle future regional economic gains. Specific packages to assist economic and social adjustment which identify and set a course towards a new viable economic future would be of benefit to hard hit regions. Such assistance would enable regions to adjust to the new environment gradually and so lessen the shock that rapid change can impose. The increased national income generated over time by reform provides some scope for adjustment assistance measures for individuals and groups who are made worse off by national competition policy. The need for assistance is not an argument against reform, rather a means of ensuring benefits are equitably shared.

Providing assistance for adjustment is not to suggest that long term assistance designed to prop up non-viable industries or businesses is beneficial. Such assistance would merely act to negate the broader economic gains being made from national competition policy reforms.

8.1 Existing measures to assist adjustment

There are a number of measures currently being used to ensure the benefits of national competition policy reforms are both being fairly spread and that negative impacts are minimised. Some of these measures are specific to individual States while the Commonwealth government implements others. The existence of the range of measures outlined here indicates the commitment of government at all levels to ease the difficulties arising from national competition policy for those living in regional Australia.

Direct financial assistance: Some States (including Queensland and Victoria) are passing a proportion of their implementation payments from the Commonwealth to local government. The allocation of such payments can help those regions bearing a disproportionate burden of reform reduce their adjustment costs.

Community Service Obligations (CSOs): The issue of CSOs is an important one in the national competition policy debate and is an area where government support can promote the interests of those living in regional Australia. Treasury (1998) explains that as businesses/utilities are opened up to competition, they become unable to cross-subsidise profits to pay for existing CSOs. As many CSOs have historically been directed towards services provided for regional areas, regional people may find their services under pressure. There is widespread community concern that adherence to CSOs will decline as a result of businesses complying with national competition

policy reforms being unable to afford the obligations. Telecommunications is an example where CSOs can potentially affect profits and where the Commonwealth Government is providing assistance. The Regional Telecommunications Infrastructure Fund has been developed to improve telecommunications through full and open competition. It is designed to provide support for projects over and above the universal service obligation (which ensures that all Australians, regardless of where they live or work, have reasonable access on an equitable basis, to the standard telephone service).

Structural adjustment packages: As many areas of Australia are dependent upon single industries, globalisation and macroeconomic reform can create difficult transitional impacts. In response the Federal Government has been involved in a variety of structural adjustment programs to assist regional Australia to cope with the impacts of major structural change. One recently initiated program is the Newcastle Structural Adjustment Package. This follows a decision by BHP to close its steel works in Newcastle. The Commonwealth will provide \$10 million to assist the local economy to adjust to the changes caused by BHP's decision. Interviews in the three regions elicited interest in similar packages for regions experiencing pronounced impacts from national competition policy reforms. However, the need for such packages should be less as national competition policy reforms are being implemented in a systematic manner that provides forewarning and a longer period for industry to accept and adjust to changes. This is in contrast to global trends and economic shifts, which are not easily predicted and so are more difficult to plan for.

Education and training: One of the strongest concerns about national competition policy was a lack of understanding and even sometimes misunderstanding of what it comprises. This is being addressed on a number of fronts. Government at all levels, industry associations and business groups have produced relevant information tailored to specific needs. One recent example is the interactive multimedia CD ROM training package which will assist council staff in understanding the implications of reforms that has been produced jointly by the ACCC, Municipal Association of Victoria and Central Gippsland TAFE (*The Age* 1998). The need for a broader public understanding of national competition policy has been recognised by the NCC and they have requested funding from the Commonwealth, State and Territory Governments to fund a campaign explaining the policy (*The Australian* 4 December 1998, p.32).

Broader regional support programs indirectly work to offset any localised negative impacts of national competition policy. Policy and program initiatives are being undertaken across all Commonwealth portfolios directed towards achieving broad objectives for regional Australia. The initiatives are being achieved through a 'whole of government approach' in which linkages between portfolios are further strengthened and where an increased emphasis is placed on communications to ensure regions are aware of and able to take advantage of relevant Commonwealth programs. These initiatives aim to promote economic growth, generate jobs, renew and extend regional infrastructure, ensure equitable access to services for people living in regional Australia and to ensure environmental sustainability. They are directly addressing the

social and structural factors that reduce the ability of regions to adapt to change. They include:

- Area Consultative Committees that act as a base for the development of employment policy specifically targeted at the regional level.
- The Regional Telecommunications Infrastructure Fund which aims to bridge gaps in the quality and the cost of telecommunications between metropolitan and regional Australia.
- The Federation Fund which finances projects which not only generate jobs in the construction phase, but also make a significant and ongoing contribution to the Australian economy.
- The Natural Heritage Trust, a package of conservation and natural heritage initiatives, which lays the foundation for the sustainable management of land, water, native vegetation and biodiversity.
- Improving the economic sustainability of the rural sector through programs such as Agriculture – Advancing Australia and Supermarket to Asia.
- The Institutional Investor Information Service which was introduced to help address the information gap between regional project proponents and institutional investors.
- Rural Health Services Centres which provides a number of services at one central location, such as GP services, aged care, child care, immunisation and other preventative health services.
- The Rural Doctor Retention Scheme which provides recognition of rural doctors' efforts through an annual payment of up to \$10,000 (commensurate with length of service) when a doctor lives and works in a rural community.
- Rural Transaction Centres are being funded by \$70 million over 5 years and comprise 500 locally operated centres which will provide primary transaction services such as banking, postal, Medicare EasyClaim, and telephone and fax services to small communities experiencing the closure of banks and other businesses.

8.2 Potential new adjustment assistance measures

An examination of the concerns raised by those interviewed in the three case study regions point to a number of actions government could take to alleviate some of the symptoms of reform. These measures, if undertaken, could improve the spread of benefits from national competition policy and so lessen the negative impacts being borne in some rural areas.

In listening to concerns there is a risk that opportunity to improve the welfare of the community will be lost or devalued if sectional interests highlighting the costs of

adjustment to themselves become influential. The measures outlined below will assist the sharing of the benefits of reform without risking the introduction of new distortions into the economy.

Improved public understanding of the reforms: All levels of government could assist in dispelling common public concerns by disseminating information more widely as to the expected benefits of national competition policy and the reasons for these reforms, particularly at the regional level.

Public interest test: There needs to be greater public understanding of the nature of public interest tests and their practical form, through improved transparency of the process. Clearly laid out procedures, and wider dissemination of findings would improve public confidence in the process.

Clear policy directions: The transition to a more competitive environment can be eased by gradual or phased changes which are clearly announced to allow time for those affected to adjust.

Sharing of lessons learnt: Those implementing reforms could benefit from sharing lessons learned on a regional, State and national level.

Transparency and accountability: The lesson for government from regional concerns about reform implementation is that as well as implementing requirements they must be transparently seen to do so. The separation of areas of government which tender work and areas competing for that work needs to be unquestionable, as do the competitive actions of GBEs.

Leadership training. Regions are undergoing enormous changes and strong leadership at a regional level is needed to manage such changes and capture the regional benefits of reform. The needs of councils in implementing national competition policy reform should be more closely examined. Regions could also benefit from programs to build entrepreneurial skills and awareness amongst a workforce which has for many years been governed by major public and private corporations.

Information for performance measurement: Although nationally comparable regional and sub-regional statistical information is collected by the ABS it must be purchased at this level of detail. A number of other organisations make regional statistical information available at a cost. This cost has discouraged organisations in regions from using it, although planning processes could benefit from this information. Increased access to statistics for performance measurement and benchmarking at a regional level would aid in informed regional and industry planning.

9. Conclusion

Regional Australia has put forward a range of concerns arising from the implementation of national competition policy. In part, such criticisms result from a confusion of national competition policy with broader macroeconomic reform and

changes to government service deliveries at all levels, and the indirect nature of the benefits of national competition policy.

Implementation of competition policy is not without costs. Governments are not, however, prevented from acting to ameliorate the effects of national competition policy, or broader microeconomic reform, where they impact particularly severely on communities. Where it is recognised that the short-term impacts of competition policy will be felt particularly strongly on a regional basis, the Commonwealth Government has provided resources to assist communities in addressing these impacts. The Commonwealth already has a broad range of policies and programs aimed at promoting economic growth and social welfare in rural areas. Such activities will continue to lessen the remaining negative impacts of the reforms.

It should be recognised that, internationally, considerable importance is placed on assisting regions currently suffering regional economic disparity. One third of the European Union's budget is allocated to regional development to stimulate economic and employment growth in the poorer regions through infrastructure development, promoting private sector investment, building industry networks, technology transfer and education and training.

It is important to remember that regional areas have also gained significant benefits from reforms. Gains from competition reform are often dispersed among the community and are frequently received down the track while the costs tend to be felt by concentrated groups of people and occur up-front. The explanation of benefits needs to be improved in regional areas – and better recognition of the objectives of the policy will flow therefrom.

Appendix 1: Background to national competition policy

The Council of Australian Governments (COAG) in April 1995 formally agreed to national competition policy. This followed the independent inquiry headed by Professor Fred Hilmer, the results of which were released in August 1993. However national competition policy really acted to progress ongoing microeconomic reform rather than change its direction.

The key objective of national competition policy is to develop a more open and integrated Australian market that limits anti-competitive conduct and removes the special advantages previously enjoyed by government business activities. The agreed package contained measures that extend competition policy to previously exempt sectors of the economy. The broad approach encompasses complementary structural reforms and legislative and regulatory change.

National competition policy reforms aim to encourage the better use of resources, which will increase productivity and lead to a higher standard of living for all Australians. One of the major impediments to this is the lack of competition in key markets within the economy. In the absence of competition, wastage of resources occurs, as industries are not operating at their optimum level. The underlying tenet of national competition policy is that competition is generally desirable, unless it can be demonstrated on a case-by-case basis that competition will not deliver socially beneficial outcomes. Technological and other advancements are increasingly making Australia a single national market and to increase the level of competition throughout Australia requires cooperation between each level of government.

The national competition policy agreement (COAG 1995) included:

- the extension of the Trade Practices Act to cover all businesses and State and local government business enterprises;
- principles for reforming public monopolies, such as electricity and gas (allowing third party access to nationally significant infrastructure facilities and reviewing excessive anti-competitive laws and regulations);
- provisions for competitive neutrality between public and private sector enterprises;
- the extension of prices surveillance to State and Territory government business enterprises; and
- a review of anti-competitive regulations.

The implementation of these reforms is outlined by the national competition policy framework, which consists of three intergovernmental agreements (COAG 1995):

- The Conduct Code Agreement that sets out the basis for extending coverage of the Trade Practices Act and consultative process on modifications to the competition law and appointments to the Australian Competition and Consumer Commission.

- The Competitive Principles Agreement which establishes principles on structural reform of public monopolies; competitive neutrality between the public and private sectors; prices oversight of government business enterprises; a regime to provide access to essential facilities; a review program for legislation restricting competition; and a consultative process for appointments to the National Competition Council.
- The Agreement to Implement National Competition Policy and related Reforms under which the Commonwealth provides payments to States and Territories that give effect to the intergovernmental agreements and meet reform commitments in electricity, gas, water and road transport.

To oversee this process a new institutional framework was devised. The Australian Competition and Consumer Commission was established to undertake the functions of the former prices Surveillance Authority and the Trade Practices Commission. It also oversees undertakings under the new access regime for essential facilities. The National Competition Council was created to advise on access declarations and prices oversight of State and Territory government business enterprises, and to undertake reviews of the Competition Principles agreement.

Appendix 2: Those who assisted with this study

Queensland

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Geoffrey Curruthers, Gippsland Development Ltd.
Phillip Davies, East Gippsland Shire Council
Barry Dunstan, La Trobe Valley Taskforce
Gary Gaffney, Baw Baw Shire Council
Michael Hall, Gippsland Agro-Forestry Network
Chris James, Victorian Farmers Federation
Terry Keeling, Department of State Development
Dominique Lafontaine, Victorian Association of Councils
Kerry Lee, Department of Treasury and Finance
Paul Myers, Department of Premier and Cabinet
Natalia Nunes, Department of Treasury and Finance
Peter Owen, United Dairyfarmers of Victoria
Peter Simons, Department of Treasury and Finance
Christina Whitcroft, GREEN Inc.

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Graham Hayley, Forbes Shire Council
Ken Keith, Deputy Mayor, Parkes
Peter McPhillamy, Farmer on Lachlan River
Peter O'Brien, General Manager, Lachley Meats
Des O'Shea, General Manager Lachlan Shire Council
David Rawlings, Forbes Shire Council
Chris Roylance, Forbes Promotion and Development
Anthony Ruzgas, Parkes Business Incorporated

Wayne Scott, Parkes Business Incorporated
Peter Smith, Forbes Shire Council
Rick Steele, Manager Supply and Logistics, Northparkes Mine
Michael Walker, Director, Walkers AGnVET
Robert Wilson OAM, Mayor of Parkes

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