

**Submission in response to the Draft Report on
Study into Standard Setting and Laboratory Accreditation,
Productivity Commission**
From EWN Publishing

Dear Sue Holmes

Many submissions to the Study into Standard Setting and Laboratory Accreditation attest to the price-inflating and 'gold-plating' effect of the excess market power of the Standards Australia - SAI Global partnership. I see few price and efficiency pressures on SAI Global and also see incentives for self-interested actions designed to collusively improve the share value of SAI Global for the gain of staff, and directors and owners of SA Global and Standards Australia. This is not in the public interest. Yet it appears the two profit from sole control of public goods.

I would support the PC view that serious cause for concern exists in the context of this review; as Standards Australia - acts as a virtual monopoly, and also licenses its competitors.

Standards Australia describes its self as a "national interest" body. However its actions appear to show it's more of a private interest profit body, closely linked to SAI Global. While SA and its members - in the review, call for increased subsidies and fees from government, SA has in the past three years, converted \$144,372 of "national interest" goods into about \$100 million in private assets and, at 2006, to about \$200 million in private investments.

ACCESS AGREEMENT

I propose a solution: a Trade Practice Act access agreement for Australian Standards and Guidelines; with the aim to:

- i. value the cost of Standards and Guidelines production;
- ii. assure the wholesale division (Standards Australia) value its cost of production; and
- iii. internally charge its "retail arm" (SAI Global), the same rate as other retailers;
- iv. financially and physically separate wholesale and retail operations;
- v. assure any subsidies for "free" production of "Standards" apply to all wholesale or retail participants in the chain and not just to SA and SAI;
- vi. make Standards Australia re-invest income gained from its monopoly 'rent'.

Thus, multiple retailers would "publish" Australian Standards; and

TOTAL SEPARATION OF STANDARDS LICENSING FROM STANDARDS AUSTRALIA AND SAI.

Standards Australia members or staff should not have the power to license competitors.

Comment

I call this "a partnership" - as Standards Australia - SAI Global share directors and one of the directors - who sits on both boards - sets directives for the CEO of SAI Global, and both own shares in SAI Global, (as do staff of much of both organisations). It looks like a collusive arrangement.

I see considerable risks in both the formal and informal relationships, and it appears to me the nature of those risks tend to replicate the model of the Australian Wheat Board in its relationship with BHP, and with Federal Government; that is, a group of people who feel "immune" to law and rules; who, in an ungoverned way, may feel free to use embedded relationships to arrive at stockholder gain, at the cost of the greater community. In short, this looks like community with acts with government powers, and government funds, but with stockholder gain.

And some of this, it does in secret. For example the two organizations stand to gain from the "security" industry. Over the last few months Standards Australia has been working with the Attorney General's Department to identify and clarify the security Standards requirements for the owners and operators of critical infrastructure. At a recent meeting; "A closed session was held in the afternoon. This session was by invitation only to participants of the Security Standards and Support Systems Project Survey and reported on the findings of the confidential draft Security Report" .

As Standards Australia has contracted a sole right to SAI Global to publish its standards, and valued that sole right in a stock market listing, of \$75 million this looks to me like a 'sale" of a public good; and good the public ought to get at no charge (like law), but under this model pay a monopoly price for. Those who gain are the shareholders of SA Global. Directors and staff of both organizations own shares.

The conflicts appear to start at the top. For example, Standards Australia's website lists its Chairman as John Castles. He is also a Non-executive Chairman of SAI Global. The 2006 annual report Standards Australia records Castles holds 20,000 shares in SA Global. I would argue it is a clear failure of governance that Castles sits on committee

which sets the SAI Global CEO's remuneration package "... based on achievement of performance objectives and developing appropriate objectives for both the short-term and long-term". So - the Chair of Standards Australia sets the performance objectives for the CEO of SAI Global, Ross Wraight. Wraight gets a bonus if earnings per share over the relevant period have increased by a compound annual rate of at least 5%.

(SAI GLOBAL LIMITED Financial Report Year Ended 30 June 2006).

The CEO of SAI Global and his family appear to hold over 300,000 shares. This was only recently revealed, on the ASX this in July, as were other director's shares and rights. In four cases there was failure to notify holding to the ASX.

On 1 July 2003 Standards Australia Ltd sold 100% of the issued share capital of SAI Global Inc for \$144,372 being the value of identifiable net assets sold. During 2004 Standards Australia Limited sold its commercial operations and certification trademarks to its subsidiary SAI Global Ltd for \$50 million. Prior to the listing of SAI Global Ltd on the Australian Stock Exchange, Standards Australia Limited also sold back part of its shareholding in SAI Global Ltd for \$12 million. Standards Australia Limited retained 40 million shares (40%) in the listed SAI Global Ltd.

<http://www.standards.org.au/downloads/SA%20Annual%20Report%202005.pdf>

The main beneficiaries appear the shareholders of SAI Global, who gain from the monopoly right over Australian Standards. And yet Standards Australia claims it works in the "national interest". I would dispute that claim. It would appear to me that Standards Australia and SAI Global work together to maximise share value of SAI Global. That does not equate with the "national interest". Standards Australia and SAI Global both act as publishers; SA as wholesaler and SAI as retailer.

This creates anti-competitive outcomes. Standards Australia has issued a "monopoly" right to SAI Global to publish Australian Standards, the "national interest" brand, copyright to Standards Australia. (See ASX 2005 Annual Report). "A large proportion of the company's assets are intangible in nature, consisting of value assigned to the Publishing Licence Agreement with Standards Australia Limited, and goodwill and identifiable intangible assets relating to businesses acquired. These assets are excluded from the calculation of, net tangible. Assets per security, which results in the negative outcome. Net assets per share

at 30 June 2006 were 134.5 cents per share compared to 68.1 cents per share at 30 June 2005.

I would propose (as SAI Global /Australian Standards acts as a partnership) the two, in concert; may

1. control a national public good, not replicable by a competitor; and
2. control the licensing of its competitors;

"The approval of Standards to be published as Australian Standards is the prerogative of Standards Australia and is normally exercised by the Standards Policy Boards. Standard Australia's Council also appoints membership of the Standards Accreditation Board that accredits other Australian Standards Development organizations to develop Australian Standards® "

<http://www.standards.org.au/cat.asp?catid=25>.

The names of the board are not on the site. "The Standards Accreditation Board is elected by Council and is comprised of members nominated in categories from Government, Industry and the Professions, as detailed in the Constitution and Membership Rules of the company". "The competitor may then have to pay royalties to Standards Australia, for: "publication, distribution, royalty payments or any other necessary aspects. "

3. this increases prices, and limits innovation;
4. this acts as a quasi-government body, with government subsidies, powers and fees. This allows private gain from a non-replicable public good. The model here reminds me of the conflicted and embedded risks found in the Australian Wheat Board and the NSW Rice Board and their related regulators, corporations and owners.

I note annual reports for SA and SAI show joint profits so large as to enable SAI Global to purchase companies in other countries from gains made from its monopoly over an Australian public good. For example in June 2005, SAI Global purchased the company: Easy i "According to the Chief Executive Officer of SAI Global, Ross Wraight: "This transaction is part of our growth strategy and delivers on our stated intentions to enter the compliance solutions market and establish a significant presence in Europe. "Easy i brings to SAI a blue chip client base and has a track record in delivering practical solutions that address the complete compliance training and reporting needs of organisations.

"Strategically the transaction extends our portfolio of standards and compliance based products and provides us with a tried and proven online training platform. It also offers a significant opportunity to grow our compliance based business and develop a broader range of information based

compliance products including the financial advisors market," said Wraight. Easy i has several million users based in more than 100 countries and its major clients include General Electric, the US Department of Defence, Airbus, Diageo, Eli Lilly, ING, Saudi Telecom, Roche, Standard & Poor's, TD Bank, PepsiCo and Daimler Chrysler. In paying \$28.3 million for the company, SAI's Chief Operating Officer, Tony Scotton, said, Easy i has a highly skilled workforce delivering substantial returns in the high growth compliance market " .

In 2006 the annual report showed these purchases:
Anstat Pty Limited was acquired in August 2005. Anstat, which is based in Melbourne, provides information and risk management solutions to the legal, property and corporate compliance markets.

Limited was acquired in December 2005. EFSIS, which is headquartered in the United Kingdom, provides food safety inspection and certification services to customers in the UK, Continental Europe and Asia.

Central Certification Service Limited (CCS) was acquired in March 2006. CCS, which is also headquartered in the United Kingdom, provides certification audits to more than 600 clients in the United Kingdom.

The ILI group was acquired in April 2006. Also headquartered in the United Kingdom, ILI is an international standards publishing and database subscription services business. ILI is a major acquisition for the group and represents an important strategic acquisition for the continued growth and expansion of the publishing business. ILI has operations in the United Kingdom and North America and has an extensive range of intellectual property licenses.

So it seem to me perverse that Standards Australia also seeks extended government subsidies and fees, when - it appears - is wholly able to meet publication and travel costs internally, from profits generated from its virtual monopoly.

The PC draft proposed making publications "free" to consumers (as is legislation); I support that proposal. However the PC might consider the need to discipline the cost of the "free" service.

Therefore I propose two actions:

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a. Trade Practice Act access agreement for Australian Standards and Guideline; with the aim to:

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- vi make Standards Australia re-invest income gained from its monopoly rent".

Thus, multiple retailers would "publish" Australian Standards. This would place price and efficiency pressure on SAI Global and remove some incentives for self-interested actions designed to improve the share value of SAI Global.

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