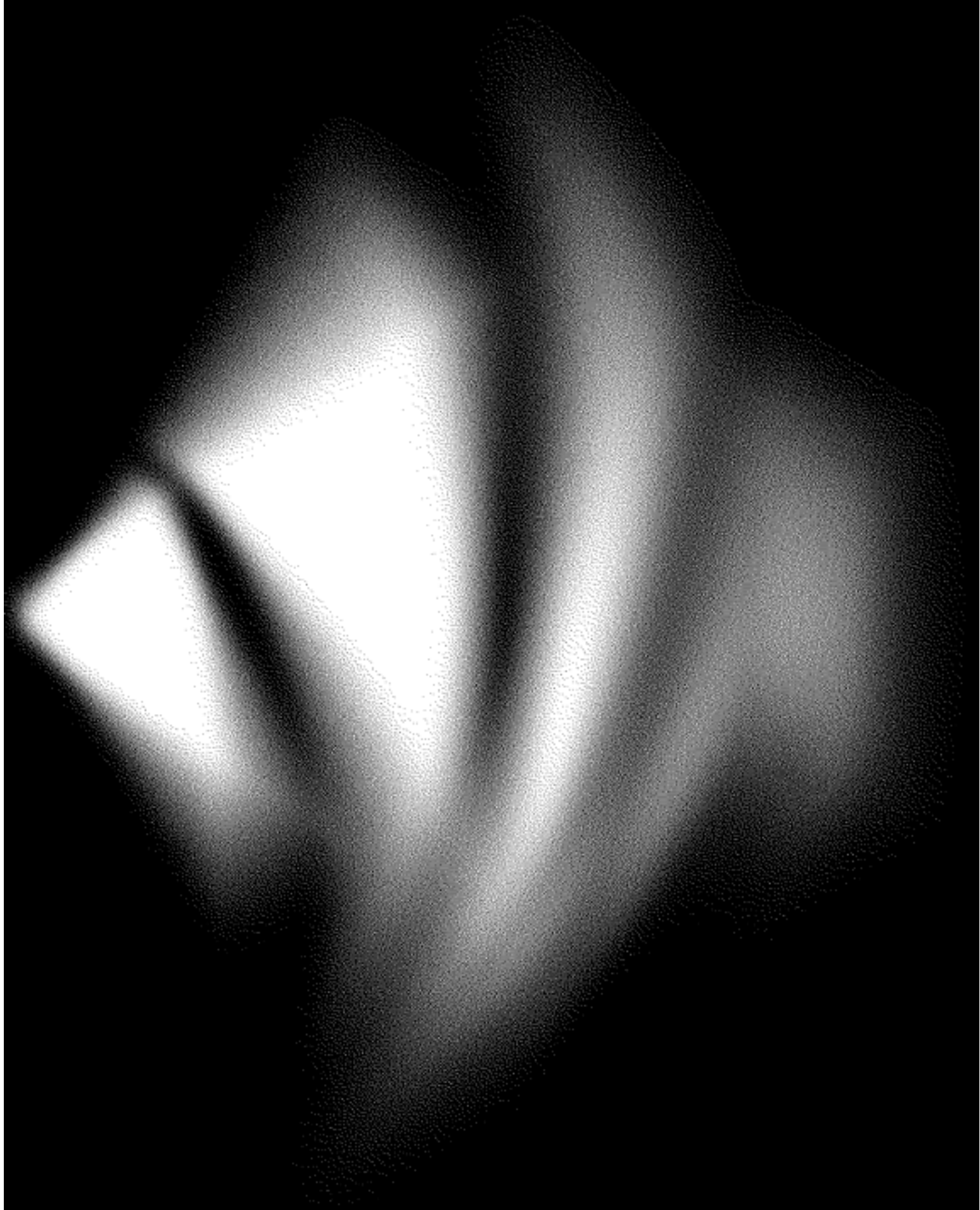




Annual Report 1999-2000



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The Productivity Commission

The Productivity Commission, an independent Commonwealth agency, is the Government's principal review and advisory body on microeconomic policy and regulation. It conducts public inquiries and research into a broad range of economic and social issues affecting the welfare of Australians.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Information on the Productivity Commission, its publications and its current work program can be found on the World Wide Web at www.pc.gov.au or by contacting Media and Publications on (03) 9653 2244.

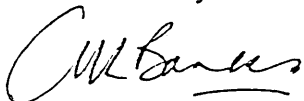
6 October 2000

The Treasurer
Parliament House
CANBERRA ACT 2600

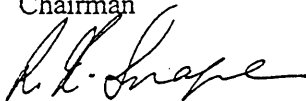
Dear Treasurer

We submit to you the Productivity Commission's annual report for 1999-2000. The report is prepared in accordance with section 10 of the *Productivity Commission Act 1998*. The Commission's Act requires that a copy of this report be tabled within 15 sitting days of each House of Parliament after the day of receipt of the report.

Yours sincerely



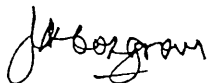
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Chairman



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Deputy Chairman



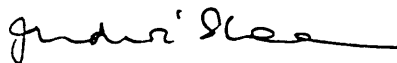
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Commissioner



John Cosgrove
Commissioner



Helen Owens
Commissioner



Judith Sloan
Commissioner



Michael Woods
Commissioner

Acknowledgment

The Commission wishes to thank its staff for their continued efforts, commitment and support during the past year.

G A Rattigan, 1911–2000

Mr G. A. (Alf) Rattigan, a former chairman of the Tariff Board and the Industries Assistance Commission, died in February 2000, aged 88. He will be remembered for his integrity and commitment as a public servant, and for his contribution to the transparency and reform of industry protection in Australia.

Mr Rattigan was Chairman of the Tariff Board from 1963 to 1973 and was appointed as the first Chairman of the Industries Assistance Commission in January 1974. He retired from the Commission in May 1976 due to ill-health. His distinguished career in the public service also included the positions of First Assistant Secretary and Deputy Secretary of the Department of Trade (1956–60), in which he played a key role in Australia's GATT negotiations, and Comptroller-General of the Department of Customs and Excise (1960–63).

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Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
APEC	Asia Pacific Economic Cooperation (forum)
APS	Australian Public Service
CCNCO	Commonwealth Competitive Neutrality Complaints Office
COAG	Council of Australian Governments
ESD	Ecologically sustainable development
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GTEs	Government trading enterprises
IC	Industry Commission
ILO	International Labour Organisation
IMF	International Monetary Fund
NCC	National Competition Council
NCP	National competition policy
NGOs	Non-governmental organisations
OECD	Organisation for Economic Co-operation and Development
ORR	Office of Regulation Review
PC	Productivity Commission
PMV	Passenger motor vehicle
RIS	Regulation Impact Statement
TCF	Textiles, clothing and footwear
TPA	Trade Practices Act
US	United States of America
WTO	World Trade Organization

1 Australia in the global economy

The 20th Century has seen historically unparalleled advances in global living standards and reductions in poverty. Greater economic integration among nations has played a role in underpinning increased prosperity. The benefits of liberalised trade and investment, as well as increased domestic competition, have been apparent in Australia's improved economic performance. Yet there are concerns and misconceptions evident in Australia and many other developed countries about aspects of 'globalisation', and particularly the rules governing the world trade system. These concerns threaten to erode community support for the policies and institutions needed for further improvements in living standards and reductions in poverty.

The performance of the Australian economy over recent years has been remarkable. Despite the crisis which enveloped a number of our major markets in Asia, Australia's GDP has continued to grow strongly, with per capita income growth averaging just under 3 per cent a year since late 1991. There has also been steady growth in full-time employment and even faster growth in the number of part-time jobs. The unemployment rate, while still higher than desirable given this period of growth, had fallen to a near 10 year low of 6.4 per cent in August 2000.

Good macroeconomic management has clearly played a key part, not least by keeping inflation historically low, thereby creating a stable environment for investment and consumer demand. But the acceleration in Australia's productivity growth in the 1990s — to rates rivalling the so-called 'golden age' of the early post-war decades — suggests more fundamental influences at the microeconomic level.

The timing, duration and dimensions of the productivity surge are such that it cannot be attributed in any significant measure to the business cycle or to wider international trends. Nor can it be explained simply by new developments in information and communication technology. Even in the United States, the role of these technologies, particularly the Internet, in stimulating productivity gains outside computer production remains contentious. In Australia's case, the increase

in productivity performance preceded any possible influence of the Internet by several years.

After considering other possible causes, it is difficult to reject the proposition that Australia's 'new economy' owes much to a series of policy reforms over the past two decades which have created better incentives in Australian workplaces to apply new technology and to be efficient, innovative and productive.

These reforms began with the progressive opening of the Australian economy to the pressures and opportunities of the world market. Reductions in barriers to trade and foreign investment have encouraged Australians to compete with and learn from the world's best. That challenge is being met. By a range of indicators, Australian firms have become much more productive and innovative, including through the adoption of new technologies. Rapid import growth has been broadly matched by export growth, with Australia's trade participation as a proportion of GDP now a third higher than it was in the mid-1970s. While the current account deficit was around 5.7 per cent of GDP in 1999-2000, Australia's external debt service requirement as proportion of export income is around half the peak of a decade ago.

Australia's economic transformation has also resulted from reforms in markets which do not compete directly with imports — such as in public utilities like electricity and gas — and reforms to the regulation of industrial relations. However, even in these important areas, pressures for improvements in efficiency have been strongly associated with the increased competition facing trade-exposed industries.

Given the pervasive influence on Australia's economic performance of its increasing integration into the world economy, the appearance of renewed efforts to stop or reverse this process is of concern. These have been caught up in a broader international backlash against the perceived adverse consequences of 'globalisation' and the role of the World Trade Organization (WTO) in particular. There is much at stake for Australia in this debate. It is important, therefore, to look carefully at the arguments and the evidence.

Globalisation: myths and realities

Here and in other countries, globalisation is portrayed by some as undermining national sovereignty, local values and standards and as working against a fairer distribution of income. These views reflect concerns about the pace of economic change and the costs of adjustment. But they frequently also involve misunderstandings about the real impact of globalisation — and the role of international economic institutions — on people’s lives. Differing perspectives on globalisation are presented in box 1.1.

The term globalisation is used to refer to a wide range of interactions across national borders (box 1.2). A key manifestation is the increasing involvement of people and firms in international trade and investment. The increase in short-term capital flows, the size and reach of multinational corporations, permanent migration and temporary labour flows, the standardisation of technology, and the speed with which events and ideas in one part of the world are conveyed elsewhere nowadays, provide other pointers as to how societies have become more economically integrated. In addition, a growing number of environmental issues — including ozone layer depletion, the maintenance of biodiversity, greenhouse gases and acid rain — have cross-border or global implications. Globalisation also has implications for culture, political systems, and defence and security.

Globalisation displays many different facets rather than constituting some monolithic force. International migration, capital flows, trade and foreign direct investment raise their own policy issues. For example, appropriate regulatory frameworks to obtain the most benefit from short-term capital flows are more contentious than for trade. A failure to distinguish between the various aspects of globalisation confounds popular understanding of the issues and can lead to simplistic policy advocacy.

What is driving globalisation?

The current extent and depth of economic integration is unprecedented but its underlying rationale is not new. Indeed, recent developments are a natural extension of people’s universal and age-old quest for trade and commercial opportunities beyond village, regional and national boundaries, limited only by the technology and capital available to them. Thus, except for a comparatively brief period embracing the two world wars, growth in world trade has consistently exceeded aggregate economic growth for two centuries or more (figure 1.1).

Box 1.1 Differing views on globalisation

Richard Trumпка, American Federation of Labor — Congress of Industrial Organisations Secretary Treasurer, Address to the ACTU Congress 2000, 26 June 2000:

... a global system is being created behind closed doors — a system whose purpose is to make all of us — in Beijing and Brisbane and Buenos Aires and Boston — work longer hours for less money — to pit us against each other — to put us under the thumb of global corporations — to reduce billions of living human beings to nothing more than an item on the cost side of an income statement.

Maude Barlow, Chairperson of The Council of Canadians, in a speech to a Conference on Globalization and the Live Performing Arts, Melbourne, 23 June 2000:

Dominated by American and Western values and lifestyles, driven by a consumer-based free-market ideology and carried through the massive US entertainment-industrial complex, the global monoculture has infiltrated every corner of the earth . . . In China, Latin America, the Pacific Region, South America, Africa and the industrialized world, young people want Nike sneakers, Gap clothes, the latest CDs, Michael Jordan t-shirts, baseball caps, Hollywood blockbuster movies, American television and mass-market books. Around the world, North American corporate culture is destroying local tradition, knowledge, skills, artisans and values . . .

Economic globalization is the creation of a single global economy with universal rules set by big business *for* big business in which a seamless global consumer market operates on free-market principles, unfettered by domestic or international laws or standards.

John Micklethwait and Adrian Wooldridge, authors of *A Future Perfect: The Challenge and Hidden Promise of Globalisation*, argue in *The Spectator*, 24 June 2000:

Globalisation is always illustrated by pictures of the Spice Girls, never the Guggenheim in Bilbao; always a Big Mac, never Chilean Sea Bass with Moroccan couscous and fresh Javan papaya.

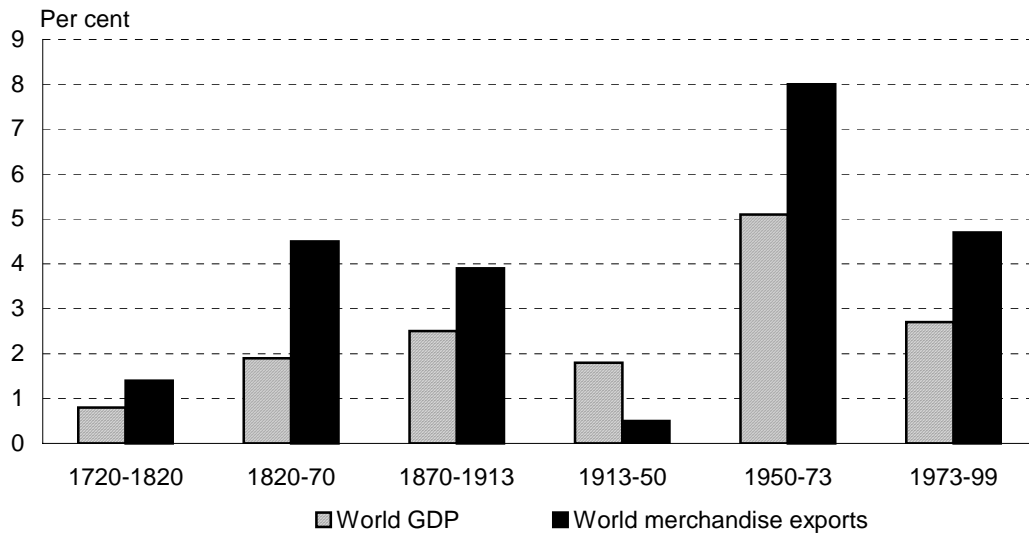
Donald Johnston, Secretary-General of the OECD, 'Globalise or fossilise!', *OECD Observer*, No. 219, December 1999:

Globalisation is not a policy; it is a process which will affect all aspects of our lives. We may not always like it; after all, it can compel us to give up cosy habits. But to stand against it would be sheer folly. Still, some believe they can somehow resist the powerful tide of globalisation. Take those who cling to protectionism to preserve jobs. Their thinking is fossilised. They forget that by their actions they drive up prices and actually destroy jobs, as well as choke off similar jobs in the developing world.

Mike Moore, former Prime Minister of New Zealand and current Director-General of the WTO, Address to the International Union of Socialist Youth Festival, 26 July 2000:

We on the Left have a lot to be proud of. We built the Welfare State that looks after people when they are sick, poor, or old. We fought for the equality of women and of minorities. We argued passionately for internationalism, for solidarity between workers in Sweden and those in Africa. So it is odd that some in the Left have sometimes opposed free trade. If international solidarity means anything, surely it means helping people around the world who are less fortunate than us. And surely that means buying coffee from a Ugandan grower and T-shirts made in Bangladesh as well as demonstrating against apartheid. The contradiction of the Left is that in church on Sunday we give generously to flood victims in Bangladesh. Then on Monday we petition the government to stop the Bangladeshis selling their garments in our country.

Figure 1.1 World GDP and merchandise exports, 1720 to 1999
Real average annual growth



Data sources: WTO (1998, 2000).

Technological change, reductions in government barriers to international trade and investment, and the development of the institutional arrangements necessary for global transactions have been the key drivers of this sustained trend towards globalisation.

Advances in *transport, communication and information technologies* have been powerful forces in reducing the effective distance between markets.

- Railways reduced the costs of trading goods by 85 to 95 per cent in the 19th Century. Steamships reduced maritime transport costs significantly, and containerisation and bulk shipping continued the trend. The unit cost of sea freight declined by almost 70 per cent in real terms in the last 10 to 15 years.
- Rapid technological advance has seen the price of computing power fall by more than 99 per cent in the past 45 years. The cost of a three minute telephone call from Australia to the UK fell from about \$350 in 1926 (in today's prices) to \$13 in 1980 and to around 65 cents today. An e-mail via the worldwide Internet is possible for not much more than the cost of a local telephone call, whereas a sometimes-muddled 20 word telegram to the UK cost the equivalent of about \$1200 in the 1890s.

Box 1.2 Dimensions of globalisation: trade, money and people

The trend in growing worldwide inter-connectedness is illustrated by the following indicators.

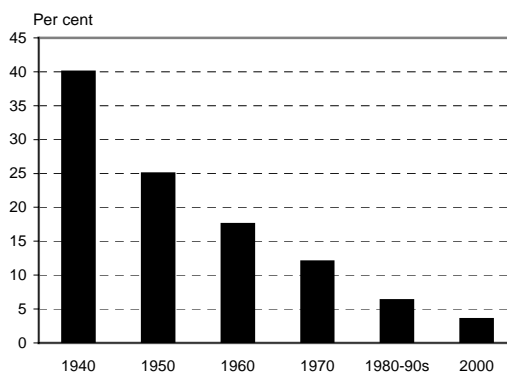
Trade

Countries have become increasingly engaged in international trade. World trade in goods and services has expanded at nearly double the pace of world real GDP between 1950 and 2000. In this period, world trade in goods and services (exports and imports) rose from barely one-tenth to about one-third of world GDP. Falling tariff barriers have facilitated trade growth.

World trade and output trends, 1950 to 1999



Average tariffs in industrialised countries



Technological change is increasing the intensity of competition and opening new avenues for trade in services. Drucker (1999) goes as far as to argue:

In the mental geography of e-commerce, distance has been eliminated. There is only one economy and only one market. . . . One consequence of this is that every business must become globally competitive, even if it manufactures or sells only within a local or regional market. The competition is not local anymore — in fact, it knows no boundaries.

The Internet is redefining business-to-business commerce with, for example, e-procurement systems offering access to competitive sources of supply and cost savings through lower transactions costs. Natural barriers to trade in services are also being broken down, with technology providing alternatives to temporary or permanent migration. Indian software developers and data processors on-line to firms around the globe are oft-cited examples.

Capital

A similar picture of intensified international interaction is evident in world capital movements. While foreign investment flows were large relative to GDP a century ago, they were directed to a narrower range of sectors and activities and, in contrast to today, mainly took the form of long-term investment.

- Foreign direct investment can substitute for trade — building factories abroad has been a way of jumping high tariff barriers — or it can complement and facilitate trade by establishing a commercial presence close to customers. In the case of some

Box 1.2 (Continued)

services such as fast food, a domestic presence is a prerequisite for selling to foreigners. Annual outflows of foreign direct investment expanded 17 times to reach US\$800 billion at the end of the two decades to 1999 and the stock of such investment in relation to world output has more than doubled in the last 20 years.

- Short-term capital movements have increased dramatically — the average daily turnover in foreign exchange markets increased from about US\$200 billion in the mid-1980s to well over seven times that in 1998, much larger than the value of world trade and long-term capital flows.

Multinational companies

Another sign of global integration is the increasing prominence of many goods and services that are provided by the same companies to markets almost everywhere. As Bordo et al. (1999, p. 11) note: 'Production and exchange by multinational firms has been a force in global trade since the days of the East India Company. There has been a quantum leap, however, in the importance of multinationals from the pre-World War I era'.

- In addition to being major drivers of investment flows, multinational corporations accounted for an estimated 25 per cent of the value of global output in 1998 and their intra-firm trade for a third of world trade.
- Multinationals play a key role in disseminating technology around the world: 70 per cent of all international royalties on technology involve payments between parent firms and their foreign affiliates.

Migration

The expansion of the international economy that took place during the 19th Century until the outbreak of World War I was accompanied by largely unfettered migration. Around 45 million people emigrated from Europe between the beginning of the 19th Century and World War I in search of land and opportunities for a better life. Levels of global migration were subdued in the interwar period but resumed with the massive population displacements following World War II. In addition to flows of migrant labour, a range of other people movements have developed, encompassing international tourism, temporary workers, business travellers, students, refugees and asylum seekers. Castles and Miller (1998, p.103) comment:

... international migration has become a crucial part of global transformations. It is linked to the internationalisation of production, distribution and investment and, equally important, to the globalisation of culture. Even countries like Japan, which have tried to close themselves off from foreign influences, are finding that participation in the international economy brings migration and cultural change.

Sources: Mussa (2000), WTO (2000), Stoeckel et al. (1990), UNCTAD (1999 and 2000), BIS (1998), Held et al. (1999).

Greater *openness of economies to international trade and investment* in the post-war period has also facilitated market integration.

- Notwithstanding the remaining high levels of assistance for agriculture, textiles and clothing, average tariff levels on manufactured goods in major industrialised countries have fallen by 90 per cent since the end of the World War II. Restrictions on direct investment in manufacturing have been reduced substantially over the past decade in nearly all OECD countries, but controls on foreign investment in service sector activities remain common. Many developing countries in Asia and Latin America had moved from inward to outward-looking trade and investment policies in the 1980s.
- Australia, which had amongst the highest tariffs of any OECD country and was a late comer to trade reform, has opened its economy substantially. Summary measures now place Australia amongst the more open of OECD countries to trade and investment (OECD 2000).

Increased cross-border activity has also depended on growing confidence in the broader *institutional and regulatory frameworks* which govern market exchange. Enforceable contracts and property rights, and transparent regulation reduce the riskiness of trade and investment in foreign countries. At the international level, commerce has been facilitated by post-war cooperative efforts to build a network of core market-supporting institutions including the GATT/WTO, the International Monetary Fund and the World Bank.

Globalisation and national living standards

Globalisation is not, as often portrayed, a ‘race to the bottom’ (box 1.3). One of the oldest and most enduring fallacies, for example, is that competition from low-wage countries threatens overall living standards in developed economies. In practice, by ensuring that an economy plays to its comparative strengths rather than tying up resources in activities with poor returns, trade supports higher living standards in both developed and developing countries. Trade enables access to cheaper, better and different goods and services. It also provides access to new technology, and to larger markets that allow specialisation and productivity improvement and keeps domestic producers ‘on their toes’. The market opportunities provided to poorer countries enable them to grow faster and to increase their purchases from developed countries. While low wages in some less developed countries can provide a competitive advantage in standardised labour-intensive products, low wages can also reflect low productivity — arising from a lack of skills and equipment, and inadequate market institutions. Wage levels alone are not decisive in determining where goods and services are produced.

The fact is that there has been a remarkable transformation in average living standards over the course of the 20th Century. At a time of unprecedented population growth, not least because of increased infant and childhood survival rates, real output per capita grew five-fold — with the bulk of the gain occurring in the period since 1950. The richest quarter of the world’s population became almost six times richer. The poorest quarter became almost three times richer (IMF 2000). A broader measure of living standards would also take account of improvements in life expectancy, literacy and other social indicators. Life expectancy in India, for example, rose from 36 years to 61 years in the second half of the Century.

Critics of globalisation point to the growth of inequality between people in rich and poor nations and the continuing extent of poverty in the world. Measures of inequality are sensitive to the methodology and time period used. For example, the growth in inequality is particularly pronounced if income divergence is measured by comparing countries, but significantly less so when, more properly, counting people (World Bank 2000). Indeed, the average per capita income growth of 70 per cent of the population of developing countries exceeded that in industrialised countries over the last three decades — reflecting economic growth in China, East Asia and India. As Castles (2000a, 2000b) notes, inequality in the average income of people living in the poorest fifth of the world and the richest fifth narrowed in the 1990s. Nevertheless, at the end of the century there were still some 1.2 billion people in developing countries and the transitional economies of Eastern Europe living in absolute poverty.

But it is clear that globalisation has not caused or worsened poverty. Indeed, openness to trade and investment and greater access to the markets of developed countries are important parts of the solution. The clear policy lesson of the past century is that those countries which shut themselves off from the rest of the world have done so at the expense of the living standards of their own people — including access to basic healthcare, education and other community services.

- When countries retreated into protectionism in the interwar period, compounding the international financial crisis, growth in world per capita income was almost halved.
- Openness is not a sufficient condition for economic development, but it is an essential ingredient. The series of in-depth country case studies sponsored by the World Bank and others from the late 1960s to the early 1980s found that ‘self-reliance’ (or import-substitution) strategies performed very poorly compared with export-oriented strategies. Much of Africa and Latin America has suffered from poor growth rates while East Asia has prospered with the largest and most rapid reduction in poverty in history, notwithstanding the temporary setback caused by the recent financial crisis.

Box 1.3 **Globalisation myths**

Will globalisation make us all paupers?

The argument that competition from low-wage countries threatens living standards in developed countries currently finds expression in: 'it's impossible for Australia to compete with countries paying workers 60 cents a day'. Leaving aside strong counter-arguments to do with productivity and comparative advantage, what evidence is there for this perceived threat?

- Over the past 20 years, developing countries increased their share of Australia's merchandise imports from 24 to 35 per cent. However, Australia's exports of goods to developing countries grew just as fast. Developing countries as a whole now take 46 per cent of Australian merchandise exports and purchase more from us than they sell to us.
- Despite claims about 'deindustrialisation' and a decline in the share of manufacturing in GDP, the real output of the Australian manufacturing sector is now 50 per cent larger than at the time of the 25 per cent tariff cut in 1973 and manufacturing exports have increased four times in real terms. Exports of elaborately transformed manufactures have increased even faster and accounted for two-thirds of Australia's total exports of manufactures in 1998-99.
- Protection does not preserve existing levels of employment, as the Australian experience shows. In the decade to 1984, the effective rate of assistance to the TCF industries increased by 12 per cent a year while employment fell by 3 per cent a year.

This is not to deny that many Australian workers in trade-exposed industries have been displaced from their jobs as a result of import competition. And there is an ongoing debate about how extensive an impact imports from developing countries have on wage levels in developed countries. Most overseas studies suggest that trade may play a small role in increasing wage disparities within a country but that the influence of technology on rewards for skill is by far the dominant factor (Cline 1997 and Williamson 1997 survey the literature). In Australia, Murtough et al. (1998) found that reduced trade barriers had not been a major contributor to the increasing inequality of earnings or to unemployment over the last decade and a half. The wage and employment effects of changes in trade barriers have been overshadowed by technological change (requiring more high skilled labour) and by other developments such as adverse shifts in international trading conditions for primary commodities. More recently, de Laine et al. (2000) showed that increasing imports are not leading to widespread change in the relative demand for skilled workers in Australia, although exports appear to be spurring the demand for skilled workers.

Globalisation and rapid change inevitably have significant impacts on some people who are the proper focus of policy concern. The provision of an adequate social safety net and targeted assistance to address concentrated adjustment difficulties can help people adjust to change better and increase community confidence that the gains from change are widely shared (PC 1998, 1999a, 2000e).

Are labour standards being undermined?

If investment flows to developing countries and openness to trade are undermining labour standards in developed countries, conclusive evidence is difficult to find. Empirical investigation of the claim that multinational companies are attracted to countries with lower labour standards to take advantage of lower costs suggests, if anything, that low labour

Box 1.3 (Continued)

standards deter rather than attract foreign direct investment (Aggarwal 1995, Rodrik 1996). Recent surveys of the literature find little statistically significant support linking low labour standards with enhanced export performance (OECD 1996, Brown 2000).

An environmental race to the bottom?

So far, most of the empirical studies of different countries, industries and periods conclude that environmental standards have hardly any impact on trade patterns. Pressures on firms to lower their environmental standards in order to keep otherwise uncompetitive industries in developed economies or to relocate dirty activities to 'pollution havens' in developing countries, do not seem to loom large in firms' locational decisions. Pollution abatement costs are typically a small proportion of a firm's total costs and, while there are exceptions, production technologies tend to be standardised for high environmental performance rather than adjusted for different parts of the world (WTO 1999, Harris et al. 2000). Moreover, the 'race to the bottom' argument ignores the fact that the demand for environmental protection in developing countries generally increases as income levels rise. Perhaps the greater risk to the world environment is the political pressure to close some polluting industries in developed countries, bringing a consequent expansion of similar but more polluting activities in developing countries with more harmful outcomes for the world environment.

Weakened national autonomy in policy making?

Some of the most highly charged aspects of the globalisation critique concern national sovereignty. Are nations constrained in pursuing their own monetary and fiscal policies in a world of capital mobility? Is their ability to choose tax rates and systems and to set social welfare expenditures undercut?

Market integration necessarily sets some limits on policy action, though the extent varies. In a world of integrated financial markets, for example, countries which eschew financial stability as a policy goal and fail to ensure adequate prudential supervision expose themselves to greater risks. Similarly, tax competition between countries creates pressures for efficiencies in government expenditure. Yet as trade has expanded in the post-war period, the share of government expenditure in GDP in industrialised countries has increased. While decisions on where to locate investment are complex, numerous studies show that tax rates alone are not the determining factor — influences related to market demand provide the major impetus (IC 1996).

A globalised culture?

While some claim that an homogenisation of culture is sweeping the world and nations are powerless to stop it, others point to openness to ideas and values as the hallmark of a liberal society and view any restrictions on freedom of expression as an anathema. Where governments seek to meet cultural objectives, it is important that they find efficient and effective means of doing so without forsaking the benefits of diversity. The Commission's report on broadcasting argued that diversity of media ownership, sources of information and Australian content were more likely to be promoted by treating foreign investment in the media in the same manner as foreign investment in other industries (PC 2000a). Messerlin (2000) argues that the complicated and costly system of protection provided to the French audiovisual industry has had perverse cultural outcomes: promoting clones of Hollywood films that have accelerated the Americanisation of the French film industry while making French cultural film production sterile.

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- Moreover, many of the poorest countries — for example, Myanmar, Sierra Leone, Rwanda, Guinea-Bissau, the Republic of Congo, Chad, Burundi, Albania and North Korea — are not in that state because of globalisation. Rather, responsibility lies with internal institutions and policies and other factors inimical to economic growth such as political instability, poorly defined property rights, civil unrest and disease.

Despite the demonstrable benefits of a more open trading system, the role of the WTO as a ‘rule setter’ for global trade liberalisation has come under fire. It is important that this strand of globalisation is not undermined by misunderstandings of its role and contribution.

Australia’s stake in the WTO system

The Seattle Ministerial Meeting of the WTO in December 1999 focused world attention on the role of the WTO in the globalisation process. Similar issues were evident at the World Economic Forum summit in Melbourne in September 2000. The WTO has been charged variously with being an undemocratic world government, anti-small country, driven by the interests of corporations, and insensitive to labour and environmental standards and cultural values. For some, the WTO is seen as having too much power; for others, too little. Within Australia, there is frustration over lack of access to some foreign markets and perceptions about ‘adverse’ findings on Australian quarantine controls on fresh salmon and assistance to automotive leather products.

The WTO is in fact a forum where governments voluntarily agree to abide by a set of principles to preserve and develop an open trading system (box 1.4). The WTO itself does not write trade rules. Its members — sovereign states — do this through negotiation and consensus. Countries voluntarily agree to abide by the ‘rules of the game’ because it is in their overall interests to do so. They have agreed to constrain their own behaviour in return for other countries constraining theirs. Countries are free to withdraw. Few did so from the GATT, and then for political rather than trade considerations. In fact, GATT/WTO membership has continued to grow.

Governance arrangements based on consensus mean that small countries have a voice and that large trading nations and trading groups cannot altogether ignore the interests of smaller nations, especially if these nations can agree amongst themselves. The Cairns Group of agricultural exporting nations, in which Australia has a leading role, is an example of such a like-minded grouping which has played a significant negotiating role within the WTO.

Box 1.4 **The World Trade Organization**

The WTO provides a framework of rules for international trade. This framework was established in 1947 by 23 countries signing the General Agreement on Tariffs and Trade (the GATT). It has evolved through eight successive rounds of negotiations to cover goods, services and trade-related aspects of intellectual property. There are currently 138 members of the WTO and a further 30 countries — including China and the Russian Federation — are waiting to join.

The main functions of the WTO are to:

- administer and implement the trade agreements which together establish the WTO;
- provide a forum for multilateral trade negotiations;
- monitor national trade policies;
- assist in resolving trade disputes; and
- cooperate with other international institutions involved in global economic policy making.

Rather than being the centre of a ‘global conspiracy’ as its detractors claim, the development of a rules-based trading system overseen by the GATT/WTO has best been described as one of ‘accidental success’. The GATT had a somewhat shaky start — a supposedly interim arrangement pending wider agreement to form an international trade organisation — but ended up providing the framework for multilateral trade until the establishment of the WTO 47 years later. Negotiating rounds can be difficult and protracted — the Uruguay Round took eight years — and the Seattle Ministerial meeting was not the first time that ministerial meetings aimed at advancing trade negotiations have failed.

The benefits of a rules-based trading system

Key WTO provisions require members to apply their trade rules in a transparent and non-discriminatory manner. This helps to protect those with limited bargaining power.

The most-favoured-nation rule means that all WTO members have to be accorded as favourable access to a particular country’s market as any other country (with limited exceptions for free trade agreements, customs unions and preferential arrangements with developing countries). The benefit to small countries is illustrated by the outcomes achieved from the series of bilateral negotiations China is undertaking as part of its accession to the WTO. Australia negotiated reduced Chinese tariffs, for example, on wine (down from the current 65 per cent to 20 per cent) and butter (down from 50 per cent to 25 per cent). The European Union negotiated even lower tariffs (14 per cent on wine and 10 per cent on butter). Application of the most-favoured-nation rule means that the most favourable

concessions negotiated by each of China's trading partners will automatically become available to all WTO members.

Other key provisions provide a measure of certainty and protect smaller nations from arbitrary and discriminatory changes in the application of trade rules.

- The requirement to accord 'national treatment' means that, once foreign products have passed quarantine and customs, they must not be treated less favourably than domestically produced goods. This means, for example, that the European Union could not apply quality or health-based standards to imports of Australian grains that it did not apply to its own producers. As a result of telecommunications negotiations, foreign telecommunications companies have the same conditions of access to domestic networks as national companies.
- Once a country's tariffs have been agreed with other WTO members, the rates are 'bound' and cannot be increased unilaterally without offsetting compensation.
- Special mechanisms to suspend or void these general provisions — such as safeguard measures against increased imports, antidumping measures and countervailing action against subsidies — are available to all WTO members, but are prescribed and monitored.

Even strong supporters of the WTO system would acknowledge deficiencies in the coverage of its rules. The growth of regional trade agreements which override the most-favoured-nation principle and provide preferential treatment within groups of countries is a cause for concern in many quarters. The virtual exclusion of many textile and agricultural products from significant barrier and subsidy control has been another. Nonetheless, the foundations for agricultural liberalisation were laid in the Uruguay Round. Much rests on reducing these barriers in the next WTO round of trade negotiations. The recent setback in initiating a new round of trade negotiations at the Seattle Ministerial meeting, and challenges to the WTO itself, should thus be of particular concern for Australia's rural industries, as well as developing countries dependent on agricultural exports.

The benefits of a strengthened dispute settlement system

The WTO dispute settlement system keeps large and small countries alike accountable and provides a forum in which treaty rights can be defended. WTO members are committed not to take unilateral action against perceived violations of their rights. If conciliation is unsuccessful, the parties in dispute must instead argue their case before an independent panel. The rulings of this panel (often as amended on appeal) are binding unless rejected by consensus of the Dispute Settlement Body,

itself constituted by all the members. Even then, the party found to be in breach of its WTO obligations has choices. It can choose to remove the measure or to adjust the measure to bring it into WTO conformity. Failure to comply with the rulings risks WTO-sanctioned retaliation.

A strengthened dispute settlement system — particularly the increased difficulty for members to block findings adverse to them — was arguably a major advance over previous arrangements under the GATT. There is, however, a need (discussed in the concluding section below) to reduce the risk that the increased legal decisiveness of dispute rulings could harm the international political consensus and diplomacy on which the GATT/WTO system has depended. There is also the risk that the power and success of the dispute settlement process will encourage countries to bring disputes of issues to the WTO that are essentially political, the settlement of which is not appropriate for a trade organisation. Such political disputes could unravel the dispute settlement processes of the WTO.

Nearly 200 disputes had been brought to the WTO between 1995 and May 2000. Fifty of these were initiated by developing countries. The US and the European Union have registered the most complaints — 60 and 50, respectively — but they are also the most frequently cited for not complying with WTO rules. Of the 77 disputes resolved, 41 were resolved without going to adjudication by a panel. Australia has been involved, or had an interest, in 32 disputes, including five as a respondent (two of them involving salmon quarantine and two involving automotive leather).

Some claim that the WTO is flawed because, as they see it, trade interests prevail over environmental objectives in disputes. Specific provisions in the WTO charter provide exemptions from its general rules and allow members to impose trade measures ‘relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production and consumption’ or which are necessary for health and safety. Nevertheless, a ‘green’ folklore has developed around a series of high profile trade disputes — involving dolphins caught in tuna nets, chemical standards for reformulated gasoline and turtles netted with shrimp — that went against particular US trade measures. In each case, however, the rulings found that the US had breached its obligations to other WTO members not because it had set environmental standards, but because of the *discriminatory way* in which policies were implemented.

There is insufficient recognition of the direct benefits from the dispute settlement mechanism. Australia and other smaller countries, for example, have gained from:

- *a faster opening of markets* — for example, India, having lost a case taken by the US in the WTO, agreed to remove quantitative restrictions on agricultural,

textile and other industrial products two years earlier than previously negotiated with other members, including Australia;

- *countering market-closing measures* — for example, the US, having lost the case brought against it by Malaysia, Thailand, India and Pakistan, altered its shrimp import regulations thereby allowing Spencer Gulf prawns access to the US market previously denied because Australia did not mandate turtle-excluding devices on fishing nets despite the extremely low incidence of sea turtles in that fishery;
- *the opportunity to challenge marketing restrictions* — for example, Australia's claim that Korean regulations discriminate against Australian beef by confining sales of imported beef to specialised stores and limiting the manner of its display has been upheld, as has a similar claim made by the US;
- *requiring large countries to abide by the rules* — for example, the findings against the US tax treatment of export income and the European Union banana import regime demonstrate that even powerful countries are not 'above the law' even if, as in the long-running banana saga, they delay bringing their arrangements into conformity with their treaty obligations; and
- *securing the interests of Australian consumers, producers and taxpayers.* Notwithstanding recent controversy over imports of fresh salmon, it is in Australia's overall interests for the dispute settlement system to require science-based quarantine protocols. Such protocols help to prevent Australian exports being discriminated against in foreign markets (as they have done with the finding that Japan's testing requirements for different varieties of some fruit were inconsistent with its treaty obligations). And they mean that Australia cannot use its quarantine system as an economic protection device — which would impose costs on consumers and other Australian industries. Similarly, apart from the domestic implications of subsidy assistance, Australia's interests would not be well served if other countries had unchallenged rights to emulate the subsidies paid to the automotive leather producer, Howe Leather.

The WTO dispute mechanism is encouraging the observance of agreed obligations and supporting the openness of the world trading system. Paradoxically though, the ultimate sanction available to parties in dispute is trade retaliation which restricts market access and hurts both parties (Robertson 2000).

Sanctions are a feature attractive to those who seek to impose labour and environmental standards on other countries. They see the WTO as one of the few international systems with 'teeth'. However, proposals to link trade retaliation with these issues have significant implications for the functioning of the WTO system.

Labour standards, the environment and the WTO system

Demands by a variety of non-governmental organisations (NGOs) for the WTO to be changed to promote and enforce core labour standards and strong environmental policies reflect a variety of motives, from altruistic concern for the plight of people in developing countries to thinly disguised protectionism. There is also concern that WTO rulings weaken environmental protection. Despite claims that the WTO has too much power, some NGOs want to be represented in it and give it even more responsibility.

Labour standards, in particular, have also been a concern of US administrations since the early GATT days. The indication that the Clinton Administration would move to link trade sanctions to labour standards was one of a number of factors scuttling the Seattle meeting. There is clearly no universal agreement on the general applicability of human rights standards beyond the prohibition against slavery. The linkage proposal is strongly resisted by most developing countries who see it as an invasion of their sovereign right to determine their own standards and a threat to their trade prospects and economic development (box 1.5). A Commission study under way is looking at these linkage issues in detail. Some of the emerging findings are highlighted below.

Box 1.5 **An objection to linking labour and environmental standards to the WTO**

Around 100 Third World academic and non-governmental organisations issued the following statement in the lead up to the Seattle Ministerial meeting:

... we declare our unambiguous opposition to Linkage of Labour and Environmental Standards to WTO and to trade treaties. We also wish to disabuse the media and the governments in the developed countries of the notion that those who oppose Linkage are corporate interests and malign governments ...

The demand for Linkage via a social clause in the WTO (and corresponding preconditions on environmental standards for WTO-protected market access) ... is the result of an alliance between two key groups: *Politically powerful lobbying groups that are 'protectionist'* and want to blunt the international competition from developing countries by raising production costs there and arresting investment flows to them; [and] *The morally-driven human rights and other groups* that simply wish to see higher standards abroad and have nothing to do with protectionist agendas ...

The former groups are not interested in improving the wellbeing in the developing countries; they are actuated by competitiveness concerns and are hence selfishly protective of their own turf ...

On the other hand, there are also *morally-driven groups* that genuinely wish for better standards for labour and the environment in the Third World; and they must be fulsomely applauded. But their demands for Linkage ... while not deceptive and self-serving, are nonetheless mistaken and must also be rejected. Superior ways of advancing these objectives and agendas exist, which lie outside of the trade context and can be pro-actively pursued instead. (TWIN-SAL 1999)

The most basic difficulty in using trade instruments to raise labour and environmental standards is that trade is usually unrelated to or not the major factor in the activities and outcomes to which people object. Trade sanctions are at best a blunt instrument and may actually work against the outcomes desired by their advocates. Sanctions are seldom effective unless they enjoy widespread multilateral support. Even then, most of the worst abuses by undemocratic governments have proved intractable in the face of sanctions (Hufbauer 1998).

Most impacts on the environment arise not from trade itself, but from the production or consumption of goods and services. Problems like the rampant conversion of forests to other land uses (such as cattle ranches in the Amazon or palm-oil, coffee, cocoa and rubber plantations in West Africa and South East Asia) and illegal logging can be tackled effectively only at the source of the problem, by countries fixing their property rights regimes and enforcing regulatory controls. The imposition of trade sanctions against countries with inadequate environmental protection may, for example, have little effect on forest clearing, much of which occurs as part of land-use change, with the sale of wood merely defraying the costs of clearing. Indeed, sanctions could perversely increase the extent of deforestation if lower export timber prices undermine the commercial viability of those forests which could be managed sustainably, hastening their conversion to other land uses. More generally though, unless deficiencies in property right regimes are taken into account in a trade liberalisation strategy, opening markets to trade may lead to the overexploitation of environmental resources.

Similarly, sub-standard labour conditions have more to do with poverty in third world countries than international trade. The capacity of developing countries to improve their labour conditions depends on their rate of economic development and income growth, as well as social and cultural values. Trade restrictions imposed by other countries because these labour conditions are unacceptable by the standards of developed countries would weaken the ability of developing countries to trade their way to higher incomes. Access to export markets, imports and technology were key means by which today's developed economies began to prosper and enabled improvements in their working conditions and living standards to be sustained.

Trade sanctions against the exports of developing countries do nothing to increase the real resources available to poor countries to address their pressing social and environmental priorities and may well be counterproductive. Wages and conditions in the more export-orientated sectors of these economies are typically better than in their non-traded sectors. Trade restrictions — whether to compel the implementation of existing commitments on labour standards or to improve them — would limit export opportunities, close down firms dependent on exports and force workers back into lower paid or subsistence activities and would not improve conditions for the vast majority who work in the non-traded and informal sectors.

According to World Bank estimates, less than 5 per cent of working children are employed worldwide in the export manufacturing and mining sectors and only 1 per cent to 2 per cent in export-oriented agriculture (Fallon and Tzannatos 1998). The International Labour Organisation (ILO) has acknowledged that developed country boycotts against the use of child labour have sometimes perversely forced children into even worse predicaments, including prostitution (box 1.6).

Box 1.6 Child labour

The ILO has estimated that, in developing countries alone, 120 million children (mainly in Asia and Africa) aged between 5 and 14 are involved in full-time work, and that work is a secondary activity for another 130 million children. About 40 per cent of African children work. Although poverty is a prime reason why children work, cultural and social norms can also play a role.

A number of widely-ratified ILO Conventions — most recently, the Worst Forms of Child Labour Convention 1999 — have sought to prohibit and eliminate the use of child labour and are seen by many people as constituting a core labour standard. Nevertheless, as the (then) Director-General of the office of the ILO observed:

The last few years have witnessed the proliferation of campaigns against child labour carried out by consumer organisations, trade union organisations or non-governmental organisations in the developed countries. These campaigns have taken on various forms; but those which have been most in the public eye have been campaigns to *boycott* products made totally or partially by children and to promote *labels* guaranteeing that the product or service, bearing the label, has not been produced from work carried out by children. In both cases, the idea is either to encourage the consumer not to buy a boycotted product or to prefer a product or service bearing a label over another for ethical reasons — as the exploitation of child labour is morally reprehensible.

However, these movements might, depending on their origin or methods used, risk being arbitrary or being put to improper use. By attacking a product or a category of products, the labelling or boycott campaign aims at a sector geared to export and overlooks the fate of the majority of children working on other products or for the domestic market alone. Moreover, labelling and boycott campaigns do not involve any accompanying measures for the children themselves who, as a result, might find themselves without a job. Even worse, they might result in children being transferred from one sector of activity to another, which is more or better hidden, and even more hazardous for the children involved.

This situation occurred in Bangladesh in 1994-95: following a threat of boycotts, employers in the textiles industry abruptly dismissed children under 15 years of age working in this sector. Given the lack of adequate education and training infrastructures and accompanying measures, many of these children had no other choice but to work in the informal sector, in workshops subcontracted for the textiles enterprises, under working conditions that were much more precarious and dangerous than those under which they had previously been working. A good number of these children found themselves on the streets of Dhaka, forced to beg or enter prostitution (Hansenne 1998).

Environmental issues with worldwide ramifications are appropriately handled by multilateral environmental agreements (MEAs). The Montreal Protocol on Substances That Deplete the Ozone Layer, for example, has been successful in limiting fluorocarbon emissions. Only a minority of these MEAs incorporate trade restrictions, in order to encourage compliance with their widely agreed environmental objectives. In these instances, it is difficult to envisage a problem in regard to WTO rules where all signatories are WTO members and agree to forgo their rights. While no trade disputes have arisen to date, there is, however, a potential for conflict between MEA-sanctioned trade restrictions and WTO rules were a member of the WTO to use such sanctions against another member which was not a signatory to the relevant environmental agreement (Sampson 2000).

There are alternative international forums with oversight roles in relation to labour standards — most notably, the ILO. Indeed, ILO Conventions form the basis for the core labour standards — such as freedom of association and freedom from child labour — most commonly proposed for inclusion in WTO trade rules, in a manner similar to the exception already made for the products of prison labour. While these ILO conventions have been widely ratified, it is probable that many countries would not have signed them had they known that trade sanctions would be used for enforcement. At the 1996 Singapore Ministerial meeting of the WTO, member governments committed to the observance of internationally recognised core labour standards and agreed that the ILO was the competent body to set and deal with these standards (WTO 1996). However, members rejected the use of labour standards for protectionist purposes and asserted their belief that economic growth and development fostered by increased trade and further trade liberalisation contribute to the promotion of these standards.

In view of the outright opposition of much of the developing world to linking trade and labour standards in particular, attempting to embed these issues in the WTO would at best be unwieldy and might make the WTO unworkable. It would certainly divert the WTO from its core business of reducing trade distortions — to the detriment of developing countries which are seeking better access to developed country markets for their agricultural, textile and other labour-intensive manufacturing exports. It could also erode WTO disciplines on trade policy and lead to the escalation of retaliatory measures which hurt all parties.

Shoring-up national support for the international trading system

Dispelling community misconceptions about the GATT/WTO system is difficult when some of the language of trade negotiation — ‘concessions’, ‘negotiating coin’, and ‘retaliation’ — conveys the impression that trade is a zero-sum game rather than a source of mutual advantage. And in denying claims by domestic

interest groups for special treatment, national governments are prone to blame ‘WTO rules’ rather than cite national interest grounds.

The GATT/WTO bargaining approach to trade negotiations, based on the reciprocal exchange of concessions, allows governments to sell the benefits to particular domestic constituencies, such as exporters. The downside is that this can reinforce a mercantilist view of the gains from trade liberalisation — that increased exports are good for a country whereas imports are not.

As Krugman (1997, p. 113) put it:

The compelling economic case for unilateral free trade carries hardly any weight among people who really matter. If we nonetheless have a fairly liberal world trading system, it is only because countries have been persuaded to open their markets in return for comparable market-opening on the part of their trading partners. Never mind that the ‘concessions’ trade negotiators are so proud of wresting from other nations are almost always actions these nations should have taken in their own interests anyway; in practice, countries seem willing to do themselves good only if others promise to do the same.

Concerns about the GATT/WTO have arguably been reinforced as governments have collectively agreed to extend the influence of its rules beyond tariff and quota barriers in merchandise trade to include trade in services, rights to provide services from within foreign countries and regulation to do with domestic subsidies, quarantine and intellectual property. These expanded areas of commitment have also been accompanied by more robust dispute settlement disciplines, as already noted.

Yet, as Hudec (1999, p. 12) has observed, the heightened international obligations have not been matched with greater resolve at the national level:

The new WTO system asks for a stronger political commitment because it sets the bar higher. Yet it is difficult to identify any major changes in national political life in the major WTO countries that will make their political systems more receptive to WTO legal discipline than they were in the decade or two before the WTO came into being.

Events in Seattle were a reminder that pressure group politics remain a potent force, domestically and internationally, which could impede further international liberalisation of trade and investment and the resultant improvement in development prospects and living standards.

If there is a deficiency in responding to the concerns of various interest groups, it lies primarily in domestic democratic processes. Some of the more responsible critics have a point when they argue that corporations often find it easier than consumers and many non-governmental organisations to attract the ear of national governments. It is important that the legitimate concerns and agendas of interest

groups be addressed at the national level. If they are not, those groups who feel disenfranchised nationally will continue to target the WTO itself, which is neither designed nor equipped to accommodate them directly in negotiations. That said, some governments include non-governmental groups in national delegations to WTO meetings. In addition, the expertise of these groups can be drawn upon by dispute panels, and there may be informal means by which interactions between these groups and WTO members could be expanded.

There is a range of governance issues in the WTO which needs to be addressed. For example, resource constraints impede the ability of many of the poorer developing countries to identify and defend their interests and participate actively in WTO activities. Such countries also face large compliance costs and difficulties in meeting commitments. The growth in WTO membership means that more inclusive ways of structuring negotiations need to be found. These and related issues, which have been raised by the Director-General of the WTO, as well as his designated successor (Panitchpakdi 2000), constitute a substantial action agenda for the WTO.

Ultimately, the future of the WTO system depends on achieving a better understanding within each member country of the benefits and costs of its own liberalisation. That requires political leadership to articulate the benefits of freer trade and that the adjustment consequences be addressed. In most countries, those groups who benefit from protection and other anticompetitive arrangements have been a dominant influence. As the Australian experience shows, greater domestic transparency of the costs of protection (and who bears them) can be a powerful counterweight, promoting wider public understanding of what is at stake in trade reform. Indeed, Australia could be said to have had the best of both worlds — it has mainly taken the unilateral route in reducing its trade barriers, yet effectively obtained ‘credit’ for this in subsequent trade negotiations (PC 2000c).

The role of domestic transparency in underpinning liberal international trade was recognised in the first stages of the Uruguay Round through the work of the negotiating group on the Functioning of the GATT System. As the Round progressed, the question of agreed institutional arrangements to achieve greater transparency was placed on the ‘backburner’ and the Trade Policy Review Mechanism was established instead. This vehicle for international surveillance of member countries’ trade policies has generally been regarded as a significant advance. Nevertheless, it remains a mechanism that is largely external to the policy debate within member countries and further initiatives are required at national levels. Reviving consideration of this issue within the WTO could play a useful role in shoring-up support for the WTO system itself. A rules-based trading system is still the surest way of promoting global economic growth through trade and the associated rising standards of living.

2 Commission activities

The Commission had an extensive program of work in 1999-2000, completing major inquiries into gambling, broadcasting and the impact of competition policy reforms on rural and regional Australia, as well as research to promote community understanding of productivity issues and structural change. It sought feedback and actively monitored reaction to its work in order to improve its performance and contribution to policy making.

The Productivity Commission is the Commonwealth Government's principal review and advisory body on microeconomic policy and regulation. Consistent with the objective of raising national productivity and living standards, its work covers all sectors of the economy. The Commission's work extends to the private and public sectors and covers areas of State, Territory and local government, as well as Commonwealth responsibility. Details of its role, functions and policy guidelines were outlined in the Productivity Commission's first annual report (PC 1998).

The Commission is expected to contribute to well-informed policy making and public understanding on matters related to Australia's productivity and living standards. Its work is based on independent and transparent analysis taking a community-wide perspective rather than just considering the interests of particular industries or groups. It often deals with contentious and complex issues where the potential long-term payoff for the nation from better informed policy making is high.

The breadth of the Commission's work is indicated by the reports it published in 1999-2000 (box 2.1). A full listing of all outputs, including inquiry draft reports, position papers and work-in-progress reports, is in appendix F.

Box 2.1 Commission publications in 1999-2000

Government-commissioned projects

Progress in rail reform	Australia's gambling industries
International liner cargo shipping	Broadcasting
International telecommunications market regulation	Impact of competition policy reforms on rural and regional Australia
The environmental performance of commercial buildings	Work arrangements on large capital city building projects

Performance reporting

2000 Report on Government Services: education, health, justice, emergency management, community services, and housing	International benchmarking of telecommunications prices and price changes
Linking inputs and outputs: activity measurement by police services	Arrangements for setting drinking water standards
Payroll tax in the costing of government services	Performance indicators for children's services

Competitive neutrality complaints

Australian Institute of Sport Swim School	National Rail Corporation
ABC Productions facilities	Customs treatment of Australia Post

Annual report suite of publications

Annual report 1998-99	Regulation and its review 1998-99
Trade & assistance review 1998-99	

Inquiry report supplements

An assessment of the performance of Australian railways, 1990 to 1998	Modelling the regional impacts of national competition policy reforms
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Conference proceedings

Structural adjustment — exploring the policy issues	Policy implications of the ageing of Australia's population
1998 Industry Economics Conference	1999 Industry Economics Conference

Submissions to other review bodies

Review of WA Rail Access Regime	National Review of Pharmacy
Review of the Export Market Development Grants Scheme	Interim Report of the Reference Group on Welfare Reform

Research reports

The role of training and innovation in workplace performance	Microeconomic reforms and Australian productivity: exploring the links
Productivity and the structure of employment	Regulation of the taxi industry
Update of productivity estimates — 1998-99	Private hospitals in Australia
The structure of the FTAP model	Multilateral liberalisation of services trade
An index number framework to evaluate microeconomic reforms	The Asian financial crisis (Address by Professor Anne Krueger)

Year in review

The Productivity Commission's goal of contributing to public policy making and community understanding of productivity issues is pursued through five major outputs. The principal developments in these activities during 1999-2000 were as follows.

Government-commissioned projects

The Commission commenced or finalised a broad range of inquiries and other government-commissioned projects in 1999-2000. It had 10 public inquiries under way at some time during the year. Of the inquiries completed during the year, three in particular attracted significant public participation and attention.

- The inquiry on Australia's gambling industries provided a wide-ranging and detailed report on the performance of the gambling industries and their social and economic impacts across Australia, including their impact on other industries, and on Commonwealth, State and Territory budgets.
- In its inquiry on broadcasting, which stemmed from Commonwealth Government commitments under National Competition Policy, the Commission reported on all aspects of broadcasting covered by the Broadcasting Services Act. These included free-to-air television and radio, pay television and radio, community and indigenous broadcasting, datacasting, narrowcasting and some aspects of the Internet, and regulation of Australian content and children's television, ownership and foreign investment.
- The inquiry on the impact of competition policy reforms on rural and regional Australia reported on the effects of those reforms against the background of long-term demographic and economic influences. It proposed measures which would improve the implementation and operation of National Competition Policy and addressed some key adjustment issues.

A number of other inquiries completed during the year covered important economic infrastructure services: railways; international telecommunications; and liner cargo shipping. The Commission commenced an inquiry in June 2000 on telecommunications-specific competition regulation, including that covering access and interconnection arrangements, anticompetitive conduct and licence conditions.

At the request of five State governments and the two Territories, the Commission was sent a reference to review their legislation and associated regulations relating to the architectural profession. A review of the scope for reducing Australia's general tariffs was another inquiry commenced and substantially completed in 1999-2000. An inquiry reviewing the Prices Surveillance Act was also underway at year's end.

Early in the year the Commission completed the fourth in a series of work arrangements case studies — on large capital city building projects. In addition, following a request by the Assistant Treasurer on behalf of the Department of Industry, Science and Resources, the Commission undertook a research study on the factors influencing the adoption of environmentally sustainable features in commercial buildings, including impediments to their adoption and how to overcome them.

Further information on government-commissioned projects undertaken by the Commission and, where available, government responses to reports, is provided in appendices B and C.

Performance reporting and other services to government bodies

The Productivity Commission's work under the auspices of the Steering Committee for the Review of Commonwealth/State Service Provision is in its seventh year. The *Report on Government Services 2000* is the most comprehensive source of comparative information on the performance of education, health, justice, emergency management, and community and housing services throughout Australia. Collectively, these services account for about \$55 billion of governments' expenditure. Although some significant performance reporting gaps remain — particularly in school education outcomes, health, linkages between services and on the ability of mainstream services to meet the needs of indigenous Australians — the quality and coverage of the reporting on services continues to improve.

Other publications arising from this performance reporting program in 1999-2000 were two international benchmarking studies: one compared Australia's telecommunications prices and regulatory arrangements with those in other OECD countries; the other compared approaches to drinking water quality regulation in Australia with those in other selected countries. Information on these projects and other performance reporting activities in the year is provided in appendix B.

Regulation review activities

The Office of Regulation Review (ORR), which is part of the Productivity Commission, continued its role in helping the Commonwealth Government, departments and regulatory bodies achieve better regulatory processes and outcomes. The ORR advises the Government, Commonwealth departments, regulatory agencies and statutory authorities on appropriate quality control mechanisms for the development of regulatory proposals and for the review of existing regulations. The Regulation Impact Statement process is designed to assist in the formulation of regulation which meets the Government's objectives without

imposing unnecessary costs on business and the community. The ORR promotes the appropriate use of regulation by providing advice and training on best practice approaches and monitoring compliance with the Government's Regulation Impact Statement guidelines (box 2.2)

Competitive neutrality complaints activities

The Productivity Commission administers the Commonwealth Government's competitive neutrality complaints mechanism. Competitive neutrality requires that government businesses not have advantages (or disadvantages) over their private sector rivals simply by virtue of their public ownership.

The Commonwealth Competitive Neutrality Complaints Office operates within the Commission to receive and investigate complaints and provide advice to the Treasurer on the application of competitive neutrality arrangements. The Office received seven written complaints in 1999-2000, four of which proceeded to formal investigations and reports. Details of complaints and the action on them, and the advising and research activities of the Commonwealth Competitive Neutrality Complaints Office, are reported in appendices B and D.

Box 2.2 Compliance with RIS guidelines in 1999-2000

The Commonwealth Government requires the preparation of a Regulation Impact Statement (RIS) — detailing costs and benefits and alternative ways of achieving desired objectives — when policy makers consider new and amended regulation which affects business or restricts competition. The Commission is required to report annually on compliance. Its 'report card' for 1999-2000 shows that:

- of the regulatory proposals introduced via *primary legislation*, some 75 per cent were accompanied by an adequate RIS when policy approval was sought, while about 95 per cent were accompanied by an adequate RIS when tabled in Parliament;
- compliance at the decision-making stage for *delegated legislation* was around 80 per cent; and
- compliance with the RIS requirements for those *quasi-regulations* reported to the Office of Regulation Review was 100 per cent at the decision-making stage.

While the overall result is similar to that achieved in 1998-99, some major legislative proposals in 1999-2000 were not accompanied by adequate RISs at the decision-making stage.

A full compliance report on these and other areas of regulatory activity — including the Commonwealth's Legislative Review Program, Ministerial Councils and national standard-setting bodies — is provided in PC (2000d).

Supporting research and activities and annual reporting

The Commission is explicitly empowered to undertake its own research — on matters relating to industry development and productivity — to complement its other activities. It must also report annually on these matters, including the effects of assistance and regulation, and has an educative role in promoting public understanding of how productivity and the living standards of Australians can be enhanced.

The development of themes and projects for this program of supporting research benefited from wide-ranging consultation. Those consultations, and the Commission's decision to give priority to research on the impacts of micro-economic reform and to the adjustment consequences of policy changes and reform, provided the framework for the research program in 1999-2000 (box 2.3).

Box 2.3 Supporting research themes and objectives

Following consultations with government, industry, community groups and academics, the research themes which guided the 1999-2000 program of supporting research were:

- the relationship between labour market flexibility, productivity and employment;
- domestic and international competition policy;
- the adjustment and regional consequences of economic change;
- microeconomic reform in health services; and
- microeconomic reform and the environment.

Proposals for research projects in 1999-2000 were considered against these themes and their relevance to the Commission's overarching objectives for its supporting research program: contributing to understanding the impacts of microeconomic reforms on productivity and living standards; and gaining a better understanding of the adjustment consequences of policy changes and microeconomic reform. Research to enhance the Commission's use of analytic and modelling techniques was also undertaken.

External and internal consultations during the year led to a reappraisal of the themes which should guide the Commission's research program for 2000-01 and beyond (PC 2000b). The three themes guiding project selection will be:

- the impacts on productivity and living standards of microeconomic reforms and other policy changes, including their adjustment consequences;
- the effects on industry and the broader community of advances in information and communications technology, as well as changes in society more broadly; and
- the effects of existing government regulation, policies and programs on economic performance and community welfare.

In addition to the listing provided in box 2.1, information on the Commission's supporting research publications in 1999-2000 is provided in appendix E, together with details of the 114 presentations given by Commissioners and staff during the year to parliamentary committees, industry and community groups, and conferences.

Transparent and consultative processes

A distinguishing feature of the Commission is its open, consultative processes and the scope these provide for people to participate in and scrutinise its work. These processes are integral to its operation. They ensure that the Commission's research and policy advice is robust and contribute to the Commission being seen as independent of government and of the many interest groups with which it comes in contact.

Transparent procedures

The Commission's public hearing process, public access to the submissions made to its inquiries and the publication of draft and final inquiry reports are among the better known aspects of the Commission's operations.

More recently, internet technology has facilitated speedier and easier notification of developments in inquiries. The Commission places submissions to inquiries on its website as soon as possible after receipt, thereby increasing opportunities for earlier and less costly public scrutiny of the views and analysis being put to it. Submissions to the broadcasting inquiry, for example, were accessed from the website nearly 38 500 times over the life of the inquiry. Transcripts of public hearings, draft reports and position papers, inquiry circulars and final inquiry reports (when released by the Government) are all posted on the website for ease of access and scrutiny.

The contribution made by these processes in facilitating public policy debate was recently acknowledged by Senator Bourne in hearings of the Senate Environment, Communications, Information Technology and the Arts Legislation Committee in the following terms:

It seems to me that the Productivity Commission writing this [Broadcasting] report and seeking submissions has driven public discussion of this whole area over the last year. That is a fabulous thing because, substantially, we would not have had it if you had not done that. I know when the submissions were made public, everybody eagerly awaited them and went through them with fine-tooth combs. I am sure everybody else in this room has, not just us. (SECITA 2000, p. 80)

The Commission's website also provides ready access to its research publications, proceedings from conferences sponsored or part-sponsored by the Commission, competitive neutrality complaints reports, Commission submissions to other review bodies, benchmarking studies and reports arising from its secretariat work for the Review of Commonwealth/State Service Provision.

The Commission's website was visited approximately 1.4 million times by external parties in 1999-2000, an increase of 70 per cent on the previous year. The website is being upgraded to improve its scope and ease of use.

Consultative procedures

The Commission's practice of extending consultative processes beyond its public inquiry work continued during the year.

Following recent practice, the Commission held a series of external consultations with government agencies, industry, community and environmental groups during April 2000 to discuss current and future research. Meetings are also held with academics and others on an ongoing basis. Together with contributions from Commissioners and staff, these consultations help to determine broad themes for the Commission's program of supporting research and guide project selection. The Commission publishes its research program annually and updates the details on individual projects twice a year.

The Commission also participates in collaborative projects with academic institutions. Current partners in such research include the University of Adelaide and the Australian National University on measuring impediments in international trade in services and in identifying factors restricting competition within the service sector, and the Melbourne Institute of Applied Economic and Social Research (Melbourne University), Warwick University and the Centre for Strategic Economic Studies (Victoria University of Technology) on a range of innovation, labour market, income distribution and productivity issues.

The Commission continues to involve outside policy advisers and researchers through its conference program. Each year the Commission co-sponsors a conference on a major topic of policy interest. Publication of the papers and proceedings of this year's conference — on achieving better regulation of services — is intended to promote wider public understanding of policy issues (box 2.4). In conjunction with Monash University, the Commission also organised the 8th Industry Economics Conference in July 1999 and subsequently published the proceedings. The conference theme of 'Regulation, competition and industry

structure' reflected current interest in competition policy issues and the evolution of industry regulatory frameworks.

Workshops and roundtables provide other opportunities to utilise wider sources of expertise in the Commission's inquiry and research work.

- The Commission organised a roundtable discussion on assessing the incidence and costs of problem gambling in October 1999 in order to draw on the expertise of recognised professionals.
- Before finalising its commissioned research study on the environmental performance of commercial buildings, the Commission held a roundtable of key interested parties in November 1999 to present and obtain feedback on its preliminary findings.
- In addition to consulting widely with government, industry and others during its international benchmarking study of regulatory arrangements for setting drinking water standards, the Commission held a workshop in December 1999 to provide a forum for a discussion of the study methodology, the preliminary results and their interpretation.
- As part of its inquiry reviewing Australia's general tariffs, the Commission held a technical workshop in April 2000 to discuss quantitative analysis of the effects of tariff reductions. As a result, the Commission's analysis of national, regional and industry effects moved from an evaluation of policy and other economic changes at a single point in the future (that is, comparative statics) to a year-on-year (that is, fully dynamic) evaluation.

Box 2.4 Conference on achieving better regulation of services

The Productivity Commission and Australian National University joint conference on *Achieving Better Regulation of Services*, held on 26–27 June 2000, brought domestic and international expertise together to consider why services need to be regulated and how. The conference focused on the best approaches to regulation so as to:

- promote competition — for example, in rail, telecommunications and air transport;
- protect consumer confidence — for example, in finance, the professions and pharmacies; and
- achieve social goals — for example, in community services, protecting culture and regulating areas of addiction.

Conference papers and participants also assessed the costs of too much regulation, and compared regulatory competition with regulatory harmonisation as two different approaches to improving the regulation of services. The conference proceedings will be published by the end of 2000 (PC/ANU 2000).

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- The Commission held a series of consultations to advance specific areas of its research program. The Commission:
 - invited several specialist labour market researchers to a roundtable to develop priorities and methodologies for a series of potential labour market research projects;
 - following a series of consultations with interested parties, convened a roundtable discussion with environmental economists to scope a series of projects related to the effective conservation of biodiversity; and
 - organised a workshop to bring together researchers using data from the ABS Business Longitudinal Survey, a data set also being used in several Commission research projects. The purpose of the workshop was to enable researchers to pool lessons from using these data, and to expose preliminary findings from the various projects to peer scrutiny.

Feedback on the Commission's work

During the past year the Commission actively monitored reaction to, and sought feedback on, its work in order to improve its performance and contribution to policy making.

The Commission surveyed recipients of a selection of its research and inquiry reports in July 2000 to assess external perceptions about the quality of a range of Commission's reports and the quality of its inquiry processes (appendix B).

The Commission's reports rated well in terms of providing good coverage of issues, practical advice, supporting analysis and clear arguments. In addition, its reports were valued highly as sources of reference material. The majority of respondents rated reports between 'easy' and 'moderate' in terms of readability. Respondents also gave favourable feedback on the Commission's inquiry process with respect to openness and transparency and encouraging participation by interested parties. While responses suggested that its inquiries were generally well advertised, some respondents thought that the Commission could do more to advertise its inquiries in rural and regional areas.

In commenting on their personal experiences throughout an inquiry, respondents were generally satisfied with the time allocated to respond to the issues paper and draft reports, and with the arrangements for their participation at public hearings. Some respondents were less satisfied with how their comments and submissions were addressed in reports.

The Commission also conducted a survey of ‘clients’ to assess how the ORR is perceived externally, to gauge the effectiveness of its work and processes, to identify any weaknesses or problem areas and to obtain suggestions for ways in which it could improve its performance. Overall, the ORR received favourable feedback on the quality, timeliness and usefulness of its work (appendix B and PC 2000d).

The influence of the Commission’s work is reflected in a range of recent policy developments which have drawn on its analysis and recommendations. For example:

- In recognition of the contribution of its reports to enhanced community understanding and policy debate, the Government released two inquiry reports — on the impact of competition policy reforms on rural and regional Australia and on broadcasting — in advance of any decisions on them.
- The Commission’s draft and final reports on Australia’s gambling industries received wide recognition for the information they provided on the social and economic impacts of gambling and were drawn on extensively in parliamentary and community debate, particularly as State governments sought to enact new legislation for the gambling industries.
- The Government strongly endorsed the recommendations and findings in four of the six inquiry reports completed in 1999-2000 — namely, the impact of competition policy reforms on rural and regional Australia, international telecommunications market regulation, Australia’s gambling industries, and international liner cargo shipping.
- Indicators of the influence of a range of other Commission activities during the year — its performance reporting, regulation review, competitive neutrality work and supporting research — are provided in appendix B.

The impact of the Commission’s work on policy debates and outcomes can extend over a number of years. For example, while the Industry Commission recommended in 1997 that private health insurance incorporate unfunded lifetime community rating, this was not implemented until Lifetime Health Cover commenced on 1 July 2000.

Commission inquiry and research reports, from this and previous years, were used extensively by parliamentarians in debates and questions. During the 1999-2000 sittings of the Federal Parliament:

- 59 Members and 38 Senators referred to 36 different Commission inquiries or reports, or to the Commission’s role in policy processes;
- of the 173 mentions in debates and questions, federal parliamentarians cited the Commission in an authoritative way three-quarters of the time, and 59 per cent

of the mentions were supportive of the particular finding, report or Commission attribute referred to (7 per cent were critical and 34 per cent were neutral); and

- the reports on nursing home subsidies, broadcasting, gambling, the impact of competition policy reforms on rural and regional Australia and international air services featured most prominently.

Commission reports were also drawn on in federal parliamentary committee work and in speeches to business and community groups. For example, 15 Senate and House of Representatives committee reports in the past year drew on 16 different inquiry or research outputs — including three inquiry outputs from 1999-2000, but also inquiry and research outputs from the early and mid-1990s (table B.3).

Commission inquiry and research reports, from this and previous years, were also used extensively in debate and questions by State and Territory parliamentarians. During the 1999-2000 sittings of these eight parliaments:

- 117 members referred to 18 different Commission inquiries or reports, or to the Commission's role in policy processes;
- of the 233 mentions in debates and questions, State and Territory parliamentarians cited the Commission in an authoritative way 90 per cent of the time, and nearly three-quarters of the mentions were supportive of the particular finding, report or Commission attribute referred to (7 per cent were critical and the residual were neutral); and
- the Commission's draft and final reports on Australia's gambling industries featured most prominently (accounting for two-thirds of the mentions). Other reports mentioned included those on nursing home subsidies, the impact of competition policy reforms on rural and regional Australia, and government service provision.

One indicator of interest in the Commission's inquiry and other work is the invitations it received in 1999-2000 to present papers and briefings to parliamentary, business and community groups and to conferences (table E.1).

A further indicator of public interest in the Commission's work, and its potential influence, is the extent of media coverage. During 1999-2000, 88 editorials in 15 major newspapers drew on the findings or recommendations in 13 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission rated an average of 146 mentions a month in the electronic media and an average of 118 mentions a month in print media. The Commission's gambling and broadcasting inquiries attracted particular attention.

Associated reporting

Staffing and management developments and issues in 1999-2000 are reported in appendix A.

The audited financial statements for the Commission are contained in appendix G.

In association with this annual report, the Commission will shortly be releasing the following publications:

- *Regulation and its Review 1999-2000*; and
- *Trade & Assistance Review 1999-2000*.

A Corporate review

This appendix provides information on staffing and management issues and additional information in accordance with parliamentary requirements for departmental annual reports.

Role of the Commission

The Productivity Commission was formally established on 16 April 1998 following Royal Assent to the *Productivity Commission Act 1998*. The Commission is the Commonwealth Government's principal review and advisory body on micro-economic policy and regulation.

Further information about the Commission's role is contained in its first annual report (PC 1998, chapter 2).

Structure

The Commission comprises a Chairman and between four and eleven other Commissioners, who are appointed by the Governor-General for periods of up to five years. In addition, Associate Commissioners can be appointed by the Treasurer for terms of up to five years or for the duration of specific inquiries.

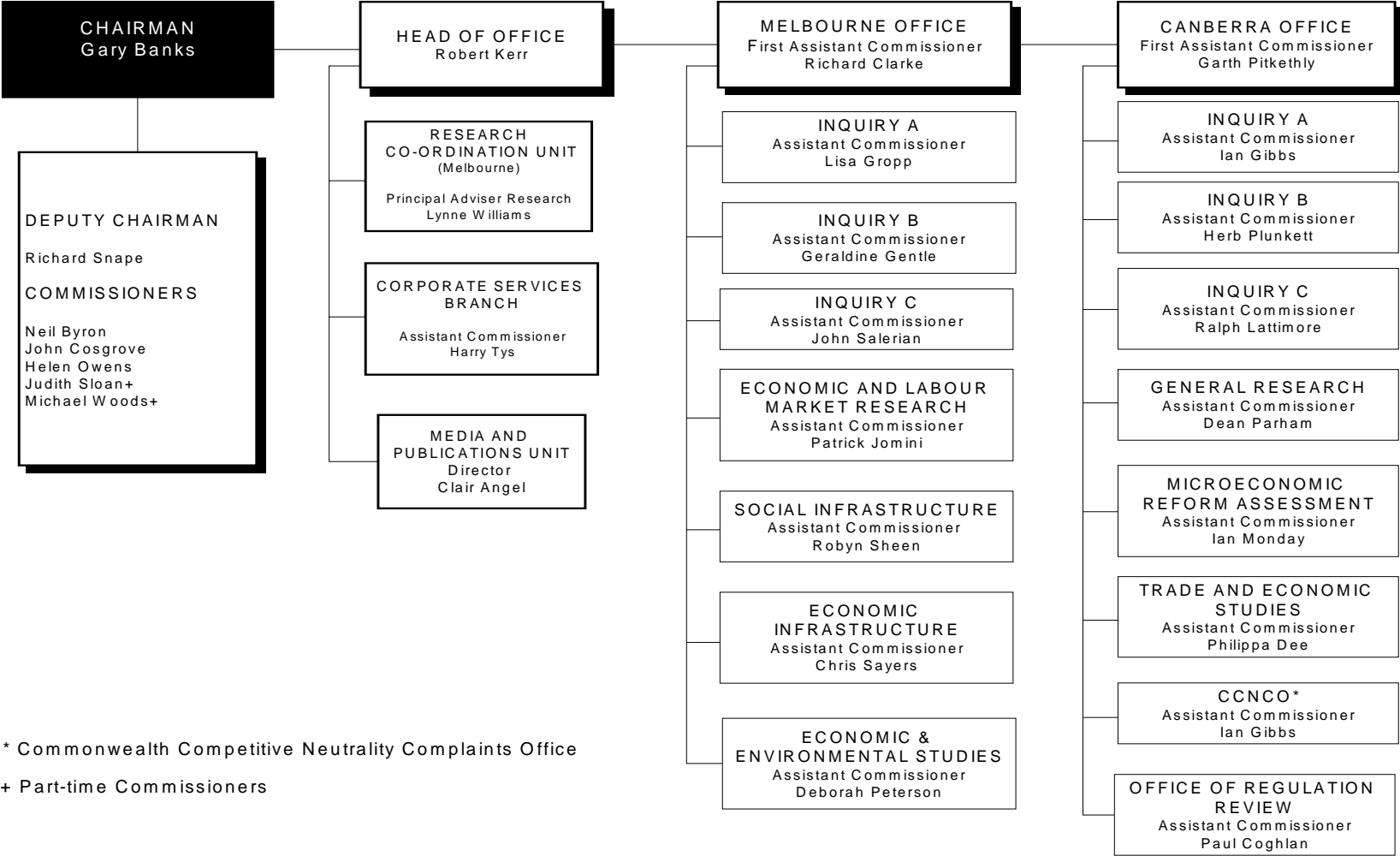
The Commission's structure and senior staff at 30 June 2000 are shown in figure A.1.

Commissioners

At 30 June 2000, in addition to the Chairman, there were six Commissioners, two of whom were part-time (table A1.1 of attachment A1). Biographical information on the Commissioners can be found on the Commission's website.

No new Commissioners were appointed during 1999-2000.

Figure A.1 Productivity Commission structure and senior staff, 30 June 2000



* Commonwealth Competitive Neutrality Complaints Office

+ Part-time Commissioners

Associate Commissioners

The Productivity Commission Act enables the Commission to draw on people with specific expertise in conducting its inquiries.

Five Associate Commissioners, appointed for the duration of particular inquiries on a part-time basis, completed their terms in 1999-2000. One additional appointment was made during the year (table A1.2 of attachment A1).

Mr John MacLeod was appointed part-time Associate Commissioner for the inquiry on the legislation review of the Prices Surveillance Act. He has extensive business experience in the banking and mining industries and was Group Economist for CRA Ltd from 1974 to 1995. In addition, Mr MacLeod has been a past president of the Economic Society of Australia and the Asian Business Economists Club. Mr MacLeod is currently chairman, or a director, of several companies and is Chairman of the Australian Statistics Advisory Council and the Griffith University International Business and Politics Advisory Committee.

Background details on other Associate Commissioners were provided in last year's annual report (PC 1999b, p. 39).

Staff

Staff numbers at 30 June decreased from 201 in 1999 to 197 in 2000.

The Commission's 'natural' rate of staff attrition — that is, excluding departures from end-of-contract and voluntary redundancy packages — was around 15 per cent in 1999-2000. This was 5 percentage points higher than in the previous financial year, but remains significantly lower than in a number of previous years. Natural attrition continues to be higher in the Melbourne office than in Canberra reflecting, in part, the different labour markets.

The Commission recruited 46 staff during the year, including eight (five females and three males) through its graduate recruitment program.

Statistical information on staffing is provided in tables A1.3 to A1.7 of attachment A1.

Key management developments

During the year management continued to focus on a range of matters to ensure sound corporate governance. In particular:

- the effectiveness of the various management structures outlined in last year's annual report was assessed and adjustments made where considered necessary. For example, the Commission's Chairman became a member of the Research Committee, reflecting the importance of the research function;
- the scope of the review work undertaken by the Audit Committee this year was broadened significantly;
- a number of procedures were reviewed and/or implemented to enhance accountability (for example, those relating to conflict of interest procedures, engagement of consultants and travel allowances); and
- risk management and contingency planning were undertaken in respect of the Year 2000 computer issue and for ensuring compliance with the introduction of the goods and services tax.

These and other matters are covered in more detail below.

External relationships

Feedback surveys

During the year the Commission built on two earlier surveys of external views and perceptions of the Commission's performance. Feedback was sought in respect of a number of reports (report quality and readability) and inquiries (inquiry process and personal experience). The feedback was generally positive, although some respondents saw scope for improvement in certain areas. Recipients of all Commission reports will henceforth receive a questionnaire seeking views on their quality and the Commission's processes.

The Commission also obtained favourable feedback from its survey on the quality, timeliness and usefulness of the work of its Office of Regulation Review.

Details of the feedback surveys are provided in appendix B.

Service charters

The Productivity Commission and, given its separate functions, the Commonwealth Competitive Neutrality Complaints Office located within the Commission, have had service charters for the last two years. The charters are reviewed periodically.

Performance against the charter is monitored on an exceptions basis through complaints to designated senior managers. Four complaints were recorded for the Commission in 1999-2000. These related to concerns about public hearing processes and each was handled within the charter's timeframe. One complaint was received by the Commonwealth Competitive Neutrality Complaints Office and was still being addressed at 30 June 2000.

Website developments

The Commission's website, located at <http://www.pc.gov.au>, has become an important means of communicating with the community. Visits to the site continue to grow — its pages were accessed around 1.4 million times in 1999-2000, compared with 830 000 visits in 1998-99 and 300 000 visits in 1997-98.

In view of its growing importance, a general evaluation was undertaken to gauge the site's usefulness and provide direction for its ongoing development. Feedback from both internal and external users, as well as a technical expert, was considered. This resulted in a recommendation to engage a website design consultant to help upgrade the site and improve its visual appearance, navigability, accessibility and to ensure its compliance with the requirements of the Government Online 2001 Strategy. This upgrade will be undertaken during 2000-01.

Conflict of interest procedures

The Commission is often required to make judgments about contentious policy issues in which substantial interests can be at stake. It is important that transparent procedures are in place to avoid any potential conflicts of interest — whether real, inadvertent or perceived — which could undermine the Commission's independence.

Following a review of procedures in the previous year, revised procedures based on the latest Australian Public Service (APS) guidelines were implemented during the year. The revised procedures are designed to ensure that all Commissioners and staff have a copy of the relevant APS guidelines. The Commission's procedures include the requirement at particular times for written statements from senior employees of their own private interests and those of their immediate family, and consideration of the interests of other staff where relevant.

Social justice and equity

The Commission's processes contribute to the Government's social justice and equity policies in a number of ways. At the broadest level, the statutory requirement

for the Commission in all its work to take into account impacts on the community as a whole is intended to promote fairer outcomes.

The transparency of the public inquiry process provides the opportunity for anyone with an interest in an inquiry to make their views known and to have these considered. The Commission actively seeks out those who are likely to have an interest in an inquiry, so that a range of views and circumstances can be taken into account. The transparent and consultative processes integral to the Commission's operations are also discussed in chapter 2.

The Commission's Access and Equity Plan sets out the processes in place to provide groups with special needs an opportunity to participate in Commission activities.

Freedom of Information

The Commission received one application for access to information under the *Freedom of Information Act 1982* in 1999-2000. The applicant sought information in respect to consultants engaged by the Commission and salary expenditure in 1999-2000. Full access was granted within an agreed timeframe.

A statement encompassing formal reporting requirements is provided in attachment A2.

Staff employment matters

Staff survey

In the early part of the financial year, the Commission addressed a number of issues which arose out of a staff survey conducted in March 1999. The survey sought staff views on a range of organisational and management issues, and was designed to help identify areas where current practices could be improved and ways to provide a better working environment for staff.

The key issues to arise out of the survey related to the Commission's performance management scheme, internal information and communication, management/ leadership skills and workloads.

Certified Agreement

In March 2000 negotiations commenced with staff for a new certified agreement under section 170LK of the *Workplace Relations Act 1996*. The Commission's first

agreement has a nominal expiry date of 10 August 2000. A formal offer to staff was made on 12 September 2000.

Australian Workplace Agreements

All Senior Executive Service staff and seven staff below this level have negotiated Australian Workplace Agreements. Negotiations for second-round agreements were completed in the first quarter of 2000-01.

Occupational health and safety (OH&S)

The Commission continued to have a significant focus on OH&S outcomes. The effectiveness of this effort is evidenced by a reduction in the organisation's workers compensation premium rate (0.41 per cent of salary expenditure, down from 0.55 per cent in the preceding year) and a reduction over the years in the number and seriousness of workplace accidents and illnesses.

An important role is played by the OH&S committee which met four times during 1999-2000. The committee oversees the Commission's annual OH&S program including the review of relevant policies (for example, first aid policy, employee assistance program and return to work policy).

Particular initiatives during the year included the following:

- the Canberra office volunteered to participate in Comcare's new SafetyMap planned investigation program and was subsequently audited in September 1999. The investigation concluded that the Commission's OH&S management system functioned well and a number of recommendations for further improvement were made;
- in an attempt to address work-related stress, staff are being asked to complete a working hours questionnaire over a 12 month trial period. The questionnaires are completed as major projects are finished or on a six monthly basis;
- stress management seminars were conducted for senior employees; and
- free flu vaccinations and health assessments were offered to all staff (with take-ups of around 40 and 55 per cent, respectively).

The Commission also continued its program of providing ergonomic assessments as a preventative strategy for the early identification of potential workplace injuries. All new employees are assessed and the service is available to any employee who requires advice.

No formal OH&S investigations were conducted during the year and no Provisional Improvement Notices were served.

Employee Assistance Program

The Commission offers its employees a program which provides independent, confidential and professional counselling, consultation and training assistance for work-related or personal problems. The service is available to employees as well as their immediate families. Following a review of the contract for the Canberra office in May 2000, the new provider is Occupational Services of Australia who is also the Commission's current Melbourne provider.

Utilisation of the service has been growing and was used by around 15 per cent of staff (or their family members) in 1999-2000.

Training and development

Recorded expenditure on training and development in 1999-2000 increased to 2.7 per cent of the annual salary budget, compared with 2.1 per cent in the previous year. One hundred and eighty six employees undertook a total of 755 days of training and development in 1999-2000. These activities do not include the extensive on-the-job training within the Commission or attendance at the regular internal seminar programs.

A particular initiative in 1999-2000 was the provision of training on aspects of performance management for all employees. This followed feedback from the 1999 staff survey.

The Commission has also extended to staff at all levels the practice of annual 'planning days'. Previously these involved only senior staff. Typically these events comprise a day away from the office to discuss work-related issues and to pursue personal development. They also enhance inter-office communication and the exchange of ideas.

Other development opportunities are provided by the Commission under its Studies Assistance Scheme for part-time students and its Post-Graduate Study Awards Scheme. Eighteen employees participated in the Studies Assistance Scheme during 1999-2000. Direct financial assistance totalled \$3900, in addition to approximately 1400 hours of paid leave granted to participants. Two employees were granted post-graduate study awards to undertake full-time study at a cost of \$27 000.

Performance appraisal and pay

Commission employees operate under performance agreements and participate in six-monthly performance appraisals. Ratings achieved are linked to remuneration.

In addition, the Senior Executive Service (SES) and Staff Levels 3 and 4 participate in a performance pay scheme. The bonus amount is linked to the rating achieved on a 5-point scale, where a rating of 5 provides the highest bonus.

Performance ratings for eligible employees in 1999-2000 were:

- for the SES — 5 per cent were rated at 5, 54 per cent at 4, and 41 per cent at 3; and
- for Staff Levels 3 and 4 — 3 per cent were rated at 5, 47 per cent at 4, 48 per cent at 3, and 2 per cent at 2.

For the SES, 24 eligible staff received bonuses totalling \$224 000, which averaged around 11 per cent of salary. For Staff Levels 3 and 4, 90 eligible staff received bonuses totalling \$343 000 which averaged 5.5 per cent of salary. A higher proportion of remuneration is available as performance bonuses for the SES than for Staff Levels 3 and 4.

Workplace diversity

The Commission endeavours to foster a culture which is supportive of staff achieving their potential and which values staff diversity. This is facilitated through the commitment in the Commission's Certified Agreement 1998–2000 to implement the requirements of the Equity and Diversity Strategic Plan and Workplace Harassment Policy.

The Commission remains an active participant in a workplace diversity network in Victoria and has provided the venue and secretariat for a number of meetings.

Data specific to designated equal employment opportunity groups are shown in tables A1.8 and A1.9 of attachment A1. The Commission has already achieved or exceeded the APS targets in a number of areas.

Employee consultation

The Commission uses a range of measures to encourage employee participation in policy formulation and to improve the work environment. These include staff representation on committees, open consultation on important issues and a variety of means of communicating internally. The Productivity Commission Consultative

Committee, which was established on 26 October 1998 following the implementation of the Commission's Certified Agreement, meets at least quarterly. The Chairman and senior management hold regular meetings for all staff.

Other

The Commission paid entry fees for three employees who took part in the Public Service Games. It also participated in the Olympic Job Opportunities program and facilitated working arrangements for one employee selected for Australia's 2000 Olympic team.

Systems, processes and facilities

Management information systems

Following an earlier evaluation, a decision was taken during the year to enter a bureau arrangement for part of the Commission's human resources services. Due to unexpected delays in system customisation, the bureau service is not yet operational, but implementation work is continuing with the external provider.

Further enhancements to the Commission's financial management and information system (Finance One) enabled the Commission to be fully compliant with the Government's requirements for capturing goods and services tax information and for electronic production and submission of the monthly Business Activity Statement. Implementation of the system's integrated asset module provides efficiencies in the recording and depreciation of the Commission's non-financial assets.

Consultancy procedures

A detailed review of the Commission's procedures for engaging and managing consultants was undertaken during the year. Particular regard was had to the mandatory public tendering requirements in the Commission's legislation, the statistical clearing house requirements in respect of surveys and 'best practice' Commonwealth procurement.

Information technology

The year's activities included a Commission-wide upgrade of desktop hardware and software, the decommissioning of obsolete mini-computers used for modelling and

econometric processing, and the adoption of updated application software enabling smooth information interchange.

The result of these activities is a more stable information technology infrastructure, providing enhanced compatibility with outside organisations. There has been an increase in the dependence of the organisation on technology, both for information management and communication via email and video conferencing. Increased use of the latter has contributed to a decrease in travel expenditure.

Following extensive preparation and detailed contingency planning, the Commission was not adversely effected by any Year 2000 issues.

A new three-year Information Technology Strategic Plan was approved in March 2000. The key features of the new plan address issues of security and business continuity, development of a strategy for dealing with increased volumes of electronic information, and the provision of infrastructure allowing for flexible working arrangements. The Plan also provides for the market testing of the internal provision of information technology services, which will be undertaken in 2000-01.

Library

The further development of a corporate intranet (PCNet) enabled the library to move access to all its electronic and web-based information sources and products to PCNet. Commission staff now have desktop access to an expanded variety of research tools including the online catalogue, several electronic databases, the journals list, current contents bulletin and a number of statistical data sources.

A user needs assessment was conducted during the year to assist in appropriate planning for the future information needs of the Commission. The outcome of the assessment will be implemented in 2000-01.

Travel

A review of various aspects of the Commission's travel policy was undertaken, prompted by an Australian National Audit Office report and the Government's *A New Tax System* in respect of the goods and services tax.

A key change resulting from the review is that, from 14 August 2000, only the actual cost of accommodation incurred by staff at commercial establishments will be met. Savings in expenditure are unlikely to arise from this change, but it should improve external accountability and enable the Commission to recoup the goods and services tax on accommodation expenditure.

Chief Executive Instructions

A revised set of Chief Executive Instructions was issued during the year.

Development of the instructions provided the opportunity to implement a number of improvements in administrative processes.

Audit Committee

The Commission's Audit Committee has a charter to review processes and practices, examine financial statements and advise on improvements. The Committee's efforts during the year related mainly to the financial statements, the implications for the Commission of Australian National Audit Office reports issued during the year, additional estimates procedures, the Year 2000 computer issue and goods and services tax compliance.

External reviews

The Australian National Audit Office provided an unqualified Independent Audit Report on the Commission's 1998-99 financial statements.

Office accommodation

The Commission consolidated its Melbourne office operations towards the end of the financial year, allowing the sub-lease of a part-floor it previously occupied. Planning is well advanced on a refit of the two floors on which the Commission is now located.

Resources

The Commission's audited financial statements for 1999-2000 are included in appendix F.

The Government's expected outcome in respect of the Commission's operations, as agreed between the Treasurer and the Commission, is stated as follows:

Well-informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective.

The Commission seeks to achieve this outcome through the provision of five outputs which, together with associated resourcing for 1999-2000 and the preceding year, are described in table A.1 and appendix B.

Table A.1 Financial and staffing resources summary

	<i>Budget 1999-00</i>	<i>Actual 1999-00</i>	<i>Budget 2000-01</i>
Price of Outputs	\$'000	\$'000	\$'000
Output 1.1 – Government-commissioned projects	11 000	7 200	11 200
Output 1.2 – Performance reporting and other services to government bodies	3 000	2 900	3 100
Output 1.3 – Regulation review activities	2 600	2 000	2 600
Output 1.4 – Competitive neutrality complaints activities	200	400	200
Output 1.5 – Supporting research and activities and annual reporting	5 250	8 951	5 363
Total Price of Outputs	22 050	21 451	22 463
Revenue from Government	21 662	21 662	22 148
Revenue from other sources	388	582	315
Total Resources	22 050	22 244	22 463
Staff years (number)		<i>1999-00</i> 202	<i>2000-01</i> 200

Other

Consultancies

The Commission continued to utilise the services of a range of consultants where it was cost effective to do so. A summary of consultancies let in 1999-2000 is shown in table A.2. Further details are provided in attachment A3.

Section 45 of the *Productivity Commission Act 1998* requires that, where the estimated value of a consultancy exceeds the amount prescribed by regulations

Table A.2 Summary of consultancies let in 1999-2000

<i>Purpose</i>	<i>No. of consultancies</i>	<i>Contract amount (\$)</i>
Government-commissioned projects	4	18 960
Performance reporting	5	19 200
Supporting research and activities and annual reporting	5	31 200
Corporate management and services	2	17 080
Total	16	86 440

under the Act, the Chairman of the Commission must ensure that an open and competitive tendering process is used to select the consultant. On 30 July 1998 the Governor-General made a regulation prescribing that amount to be \$20 000.

Special payments

The Commission made a number of special payments during 1999-2000. Such payments were made to organisations and activities judged by management as making a worthwhile contribution to the Commission's outputs. The main payments were as follows:

Consortium membership: \$27 052 for membership to the Global Trade Analysis Consortium based at Purdue University, US. The Commission's contribution supports the development and updating of a publicly available database and model framework for multicountry trade policy analysis. It also gives the Commission early access to database updates, priority access to model training and input to the future direction of model and database development.

Research partnership: \$17 000 to the Melbourne Institute of Applied Economic and Social Research, University of Melbourne, as the third of three annual instalments for a project on innovation, productivity and profitability in Australian enterprises. The Commission is one of four partners in this project. The others are IBIS Information Pty Ltd, the Australian Taxation Office and the Victorian Department of State and Regional Development. The project brings together a range of data, some previously unavailable for research purposes, to examine issues related to the performance of Australian enterprises.

Conference sponsorships: \$2000 to the University of NSW for part sponsorship of the 2000 Industry Economics Conference; \$5000 for the Economic Society of Australia 2000 Conference of Economists; and \$1500 to the Victoria University of Technology for the Migrants and Labour Market Deregulation conference.

Awards: \$500 to the top 1999 student, Master of Economics, at the Australian National University (Robert Jones Prize).

Advertising and market research

The Commission publicises its government commissioned inquiries and studies so that any individual, firm or organisation with an interest has an opportunity to present their views. Publicity takes the form of newspaper advertisements, regular distribution of *pc update*, press releases and direct mailing of Commission circulars.

A total of \$83 091 was paid for advertising (including recruitment) in 1999-2000, being \$1631 to Public Service and Merit Protection Commission and \$81 460 to Advertising Investment Services P/L.

Publications and submissions

Appendix F lists all publications and submissions to other review bodies completed in 1999-2000.

Annual reporting requirements and aids to access

Information contained in this annual report is provided in accordance with section 74 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*, section 49 of the *Financial Management and Accountability Act 1997* and section 8 of the *Freedom of Information Act 1982*.

The entire report is provided in accordance with section 10 of the *Productivity Commission Act 1998*.

The annual report has also been prepared in accordance with parliamentary requirements for departmental annual reports issued by the Department of Prime Minister and Cabinet. A compliance index is provided in attachment A4.

The contact officer for inquiries or comments concerning this report is:

Assistant Commissioner
Corporate Services Branch
Productivity Commission
Locked Bag 2
Collins Street East Post Office
MELBOURNE VIC 8003
Telephone: (03) 9653 2251
Facsimile: (03) 9653 2304

Inquiries about any Commission publication can be made to:

Director
Media and Publications Unit
Productivity Commission
PO Box 80
BELCONNEN ACT 2616
Telephone: (02) 6240 3239
Facsimile: (02) 6240 3300

Attachment A1

Corporate information and statistics

Table A1.1 **Chairman and Commissioners, 30 June 2000**

	<i>Period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr G R Banks (Chairman)	20 May 1998	19 May 2003
Prof R H Snape (M) (Deputy Chairman)	17 Apr 1998	16 Apr 2003
Dr R N Byron (M)	17 Apr 1998	16 Apr 2002
Mr J H Cosgrove (C)	17 Apr 1998	16 Apr 2002
Mrs H J Owens (M)	17 Apr 1998	16 Apr 2001
Prof J Sloan (M) (p/t)	17 Apr 1998	16 Apr 2001
Mr M C Woods (C) (p/t)	17 Apr 1998	16 Apr 2001

(C) denotes Canberra based, (M) denotes Melbourne based and (p/t) denotes part time.

Table A1.2 **Associate Commissioners appointed to inquiries, 1999-2000**

	<i>Inquiry</i>	<i>Period of appointment</i>	
		<i>From</i>	<i>To</i>
<i>Appointments made in 1998-99:</i>			
Dr D Scrafton	Progress in rail reform	29 Aug 1998	30 Sep 1999
Mr R A Braithwaite	Impact of competition policy reforms on rural and regional Australia	16 Dec 1998	31 Oct 1999
Mr R W Fitzgerald	Australia's gambling industries	26 Aug 1998	24 Dec 1999
Mr S A Simson	Broadcasting	26 Mar 1999	30 Apr 2000
Dr B R Stewardson	Liner cargo shipping	13 Apr 1999	30 Sep 1999
<i>Appointments made in 1999-2000:</i>			
Mr J D S MacLeod	Prices Surveillance Act	13 Apr 2000	14 Feb 2001

Table A1.3 Staff profile^a, 30 June 2000

<i>Level</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
Senior Executive Service Band 3	0	1	1
Senior Executive Service Band 2	1	2	3
Senior Executive Service Band 1	5	11	16
Staff Level 4	13	27	40
Staff Level 3	20	26	46
Staff Level 2	19	31	50
Staff Level 1	36	5	41
Total	94	103	197
Corresponding totals at 30 June 1999	91	110	201

^a Excludes 15 inoperative staff at 30 June 2000 and 21 at 30 June 1999.

Table A1.4 Senior Executive Service staff^a by employment status, 30 June 2000

<i>Level</i>	<i>Status</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
SES Band 3	Full-time ongoing	0	1	1
SES Band 2	Full-time ongoing	1	1	2
SES Band 2	Full-time non-ongoing	0	1	1
SES Band 1	Full-time ongoing	4	11 ^b	15
SES Band 1	Full-time non-ongoing	1	0	1
Total		6	14	20
Corresponding totals at 30 June 1999		6	16	22

^a Excludes 3 inoperative staff at 30 June 1999. ^b Includes 1 on higher duties.

Table A1.5 Staff other than Senior Executive Service^a by employment status, 30 June 2000

<i>Status</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
Full-time ongoing	81	81	162
Full-time non-ongoing	3	2	5
Part-time ongoing	7	2	9
Part-time non-ongoing	1	0	1
Total	92	85	177
Corresponding totals at 30 June 1999	85	94	179

^a Excludes 15 inoperative staff at 30 June 2000 and 18 at 30 June 1999.

Table A1.6 Staff^a by level and location, 30 June 2000

<i>Level</i>	<i>Melbourne</i>	<i>Canberra</i>	<i>Total</i>
Senior Executive Service Band 3	1	0	1
Senior Executive Service Band 2	2	1	3
Senior Executive Service Band 1	8	8	16
Staff Level 4	15	25	40
Staff Level 3	27	19	46
Staff Level 2	35	15	50
Staff Level 1	26	15	41
Total	114	83	197
Corresponding totals at 30 June 1999	115	86	201

^a Excludes the following inoperative staff at 30 June 2000 — Melbourne 4 and Canberra 11, and at 30 June 1999 — Melbourne 8 and Canberra 13.

Table A1.7 Staff by level and reason for separation, 1999-2000

<i>Level</i>	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Retirement</i>	<i>VRP^a</i>	<i>Other</i>	<i>Total</i>
SES ^b	0	2	3	0	0	0	5
Staff Level 4	0	2	1	0	0	3	6
Staff Level 3	1	1	7	1	0	0	10
Staff Level 2	0	1	11	0	1	2	15
Staff Level 1	0	3	4	0	1	12	20
Total	1	9	26	1	2	17	56
Corresponding totals at 30 June 1999	4	7	14	2	4	9	40

^a Voluntary Redundancy Package. ^b Senior Executive Service.

Table A1.8 Staff by equal employment opportunity groups, 30 June 2000

Level	Gender			Aboriginal or Torres Strait Islander peoples	People with disabilities	NESB ^b	
	Female	Male	Total			1 st gen.	2 nd gen.
SES ^a Band 3	0	1	1	0	0	0	0
SES ^a Band 2	1	2	3	0	0	0	0
SES ^a Band 1	5	11	16	0	2	1	2
Staff Level 4	14	30	44	0	2	0	6
Staff Level 3	22	28	50	0	3	4	9
Staff Level 2	21	35	56	0	0	0	12
Staff Level 1	37	5	42	0	3	0	7
Total	100	112	212^c	0	10	5	36

^a Senior Executive Service. ^b Non-English speaking background (1st generation and 2nd generation).
^c Includes 15 inoperative staff.

Source: Based on staff responses to voluntary EEO surveys. Staff may choose not to identify themselves in EEO groups.

Table A1.9 Proportion of staff in equal employment opportunity groups^a

EEO Group	Productivity Commission		APSB ^b	
	Per cent at 30 June 1999	Per cent at 30 June 2000	Per cent at 30 June 1999	Year 2000 target per cent
Females				
– in SES	27	30	24	20
– in Staff Level 4	30	32	27	28
– in total staff	46	47	47	50
Aboriginal or Torres Strait Islander people in total staff	0	0	2	2
People with disabilities in total staff	6	5	4	5
People of non-English speaking background in total staff	22	19	15	15

^a Based on staff responses to voluntary EEO surveys. ^b Public Service Commissioner and PSMPC (1997).

Attachment A2

Freedom of Information Statement

The following information is provided in accordance with section 8(1) of the *Freedom of Information Act 1982*.

Organisation, role and functions

The role, functions and organisational structure of the Commission are detailed elsewhere in this report.

Arrangements for outside participation

The Commission is required under its Act to conduct public inquiries on matters referred to it by the Government and the Commission's inquiry procedures actively seek to encourage participation by all interested parties. In respect of its non-inquiry work, the Commission's procedures aim to promote transparency to the greatest extent possible.

The Commission may inspect and copy relevant documents and summons persons to give evidence in the course of its inquiries. Such persons are protected under the Act from being subject to prejudicial treatment as a result of their giving evidence, as are people who assist the Commission in the performance of its functions in any other way. Details of inquiry participation and consultation are given in each inquiry and commissioned research report.

Each year the Commission invites a range of government departments and agencies, peak employer bodies, unions, community and environmental groups and academics to consultations on the Commission's supporting research program.

The Commission acts as the Secretariat for the Steering Committee for the Review of Commonwealth/State Service Provision. The Committee comprises senior representatives from Commonwealth, State, Territory and local governments.

The procedures of the Commonwealth Competitive Neutrality Complaints Office allow any individual, organisation or government body to consider and, if necessary, lodge a complaint in relation to the application of competitive neutrality. In addition, representatives from various competitive neutrality branches and complaint offices from the Commonwealth, State and Territory governments meet

regularly to discuss issues relevant to the interpretation and implementation of competitive neutrality policy.

Categories of documents

Principal categories include:

- inquiry records including information circulars, issues papers, inquiry guidelines, draft reports, submissions, participant correspondence and public hearing transcripts;
- documents relating to infrastructure research and performance monitoring across the Commonwealth, States and Territories;
- documents relating to national and international benchmarking;
- competitive neutrality complaint queries and details of investigations;
- documents relating to research on industry and productivity issues;
- Regulation Impact Statements and correspondence;
- Commonwealth legislation review correspondence;
- regulatory best practice correspondence;
- administrative, policy, procedural and contractual documents, relating to information technology, human and financial resource management;
- legal advice and other legal documents;
- Freedom of Information documents;
- media releases;
- mailing lists;
- speeches;
- consultancy documents;
- service charters;
- parliamentary questions and answers; and
- submissions to inquiries undertaken by other organisations.

Facilities for access

Information circulars, issues papers, information on the inquiry process and draft reports are sent to interested parties and inquiry participants. They are available on the Commission's website and, on request, to the public free of charge. Final reports

are distributed, free of charge, to inquiry participants and are also available for downloading from the Commission's website.

Documents available from the Commission's website and for purchase at Government Info Shops include:

- the Commission's annual report to Parliament;
- reports on matters referred to the Commission by the Minister;
- reports on matters researched and monitored by the Commission; and
- reports on competitive neutrality matters investigated by the Commission.

Copies of submissions made to inquiries, excluding confidential material, and transcripts of public hearing can be downloaded from the Commission's website or purchased through Photobition Digital Imaging, GPO Box 427, Canberra, ACT 2601.

Copies of submissions and transcripts of public hearings may be inspected in the Commission's libraries in Melbourne and Canberra between 9.00am and 5.00pm, Monday to Friday. These documents can also be accessed through all State libraries and the Commission's website.

Information and written requests for access to Commission documents under the *Freedom of Information Act 1982* can be made to:

FOI Coordinator
Productivity Commission
Locked Bag 2
Collins Street East Post Office
MELBOURNE VIC 8003
Telephone (03) 9653 2107
Facsimile (03) 9653 2199

Attachment A3

Consultancies let in 1999-2000

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
Government-commissioned projects			
Brian Dermott & Associates	Marketing audit and media typology of the Roy Morgan Research database for the broadcasting inquiry	14 460	Directly approached one provider
Assoc Professor Craig Langston University of Technology, Sydney	Referee the research study of environmental performance of commercial buildings	1 500	Directly approached one provider
Assoc Professor Geoff Edwards La Trobe University	Referee the research study of environmental performance of commercial buildings	1 500	Directly approached one provider
Mr John Wells Australian Building Energy Council	Referee the research study of environmental performance of commercial buildings	1 500	Directly approached one provider
<i>Government-commissioned projects — total</i>		<i>18 960</i>	
Performance reporting			
Ms Lyn Gain	Measuring client views in children's services	12 000	Tender brief on PC website
Dr Murray Raff Melbourne University	Referee the water quality discussion paper	1 150	Directly approached one provider
Assoc Professor Jennifer McKay University of SA	Referee the water quality discussion paper	800	Directly approached one provider
Dr Tim Fry Monash University	Referee the telecommunications benchmarking paper	2 250	Directly approached one provider
Professor Peter Forsyth Monash University	Referee the telecommunications benchmarking paper	3 000	Directly approached one provider
<i>Performance reporting — total</i>		<i>19 200</i>	

(Continued on next page)

Consultancies (Continued)

<i>Consultant</i>	<i>Nature of consultancy</i>	<i>Cost (\$)</i>	<i>Method of selection</i>
Supporting research and activities and annual reporting			
Professor Peter Dixon Monash University	Mentor the Productivity Commission's application of the Monash Model in dynamic mode for the review of Australia's general tariff arrangements	14 000	Directly approached one provider, as the acknowledged expert on the MONASH model
Professor Ron Duncan Australian National University	Referee modelling for the review of Australia's general tariff arrangements	5 000	Chosen on the basis of familiarity with type of modelling
Dr Rod Tyers Australian National University	Referee modelling for the review of Australia's general tariff arrangements	5 000	Chosen on the basis of familiarity with type of modelling
Dr John Madden University of Tasmania	Referee modelling for the review of Australia's general tariff arrangements	4 950	Chosen on the basis of familiarity with the type of modelling
Assoc Professor Ian Wills Monash University	Referee the genetically modified products research paper	2 250	Directly approached one provider
<i>Supporting research and activities and annual reporting — total</i>		<i>31 200</i>	
Corporate management and services			
Excelerated Consulting	Finance One asset data	4 800	Directly approached one provider
Andrew Raszewski	Architect for Melbourne office refit	12 280	Proposals from four providers
<i>Corporate management and services — total</i>		<i>17 080</i>	
Total consultancies		86 440	

Attachment A4

Compliance index

<i>Topic</i>	<i>Page</i>
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Alphabetical index	217
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Program performance reporting	chapter 2, appendix B
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Staffing overview	41
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B Program performance

The role of the Productivity Commission is to contribute to well-informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards. It performs this role by undertaking independent and transparent analysis from a community-wide perspective.

The Commission's outputs comprise government-commissioned projects, performance reporting and other services to government bodies, regulation review activities, and competitive neutrality complaints activities, as well as supporting research and statutory annual reporting.

This appendix reports on some general considerations in assessing the Commission's performance, the results of external feedback surveys undertaken this year, and the Commission's outputs and related performance in 1999-2000.

Assessment of the Commission's performance

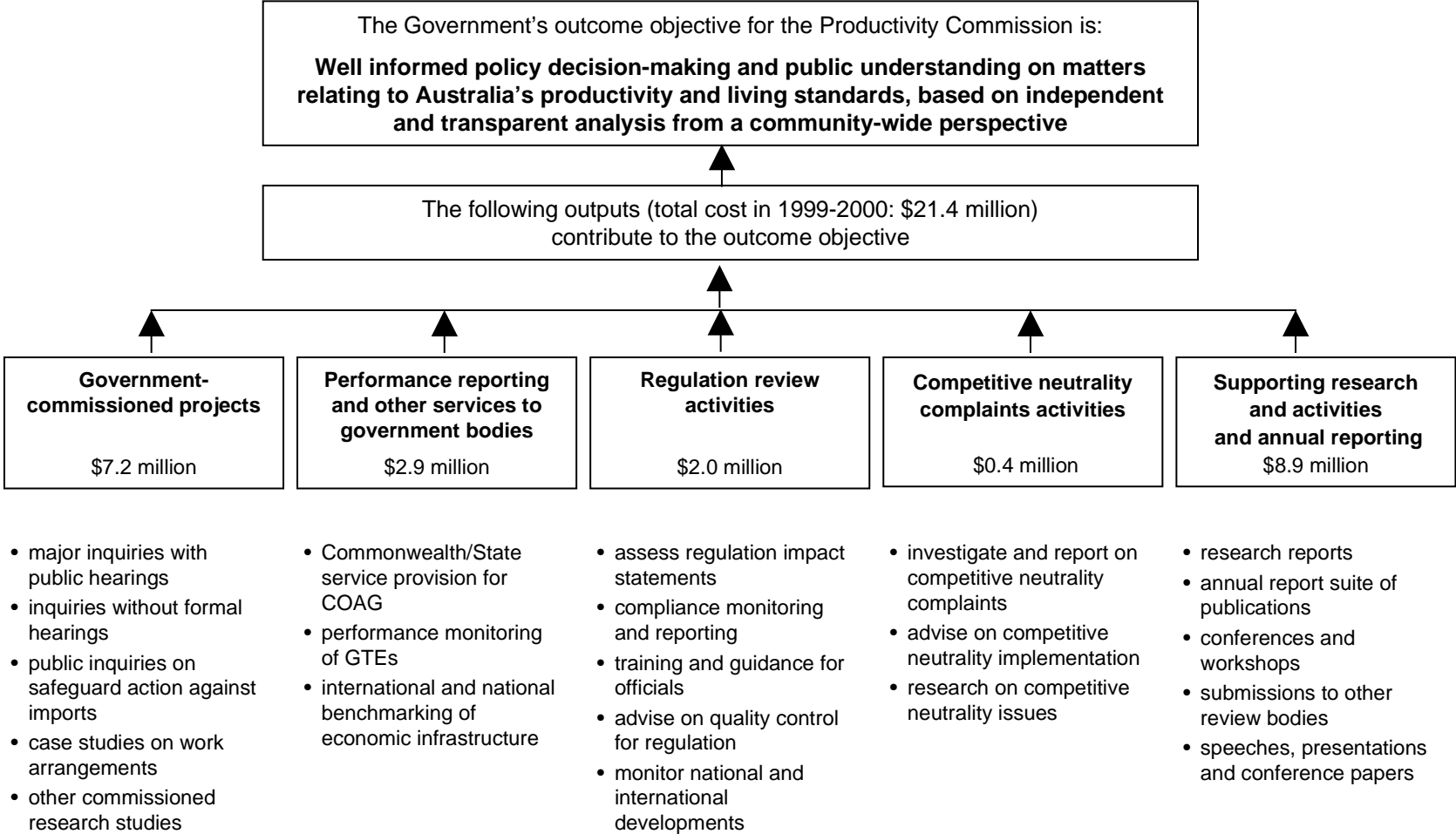
The Commission's inquiry, research, advisory and associated activities derive from its statutory functions. Having regard to the Government's accrual budget outcome and output framework, and with the agreement of the Treasurer, these activities have been classified into five outputs:

- government-commissioned projects;
- performance reporting and other services to government bodies;
- regulation review activities;
- competitive neutrality complaints activities; and
- supporting research and activities and annual reporting (figure B.1).

The outcome by which the Commission's overall performance is to be assessed is:

Well informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective.

Figure B.1 **Productivity Commission outcome/output framework 1999-2000**



Interpreting performance indicators for the Commission

Although a range of indicators on which to assess the Commission's performance in any one year is available, there are a number of factors which need to be taken into account when interpreting its performance indicators.

Firstly, the effectiveness with which the Commission's outputs contribute to the achievement of its designated outcome can be difficult to assess and is often subjective. The Commission is but one source of policy advice on matters relating to Australia's productivity and living standards. Furthermore, feedback on the Commission's performance often can be of an informal kind, which is hard to document and collate systematically. Where views are documented, they can reflect the interests of those affected by the Commission's analysis or advice.

Secondly, the Commission's work program often covers contentious and complex structural policy issues on which the Commission's impact should properly be assessed over the medium to long term. For example, the 1997 Commission recommendation for private health insurance to incorporate unfunded lifetime community rating took until 1 July 2000 to be implemented. Other examples from the past year of the 'shelf life' of many Commission reports are provided later in this appendix.

Thirdly, the Commission has to give priority to certain outputs and allocate its resources accordingly. Although the processes the Commission brings to bear are mostly within its control, the quantum and scope of the Commission's work are largely determined externally. This includes the number and timing of government-commissioned projects, regulation impact statement assessments and competitive neutrality complaints. Similarly, its secretariat and research work for the Review of Commonwealth/State Service Provision is guided by a Steering Committee. As a consequence, the number or timeliness of outputs from the Commission's supporting research program, for example, need to be interpreted in the light of the demands of its public inquiry workload and other commitments.

Fourthly, the Commission has no control over the release of its final inquiry reports or the time taken for decisions on such reports. Extended delays in the tabling of inquiry reports and decision making can compound the difficulties of assessing outcomes. The Productivity Commission Act requires that the Minister table inquiry reports in Parliament within 25 sitting days of receipt. This year, inquiry reports on progress in rail reform and the implementation of ecologically sustainable development (ESD) by Commonwealth departments and agencies were not tabled within the statutory period. The Government has not yet responded to the May 1999 report on ESD implementation, nor to the Industry Commission report of January 1998 on ecologically sustainable land management.

This appendix reviews some broad-based indicators of Commission performance before reporting on each of its five outputs against the indicators agreed under the Government's accrual budget outcome and output framework.

Feedback surveys

The Commission undertook a number of surveys to gather external feedback on a range of its activities in 1999-2000.

In May 2000 the Commission initiated a survey in order to understand better how its Office of Regulation Review (ORR) is perceived by other agencies, to gauge the effectiveness of its work and processes, to identify any weaknesses or problem areas and to obtain suggestions for ways in which it could improve its performance. Overall, the ORR received favourable feedback on the quality, timeliness and usefulness of its work. The survey results are summarised below (pp. 92–4). More detail on the conduct of the survey and the results is provided in PC (2000d).

The Commission's survey of external recipients of its quarterly information bulletin, *pc update*, attracted too few responses to provide informative feedback on its use and content. First published in July 1998, *pc update* is mailed to more than 3000 individuals and organisations and is posted on the Commission's website, as well as being circulated to all Commission staff. Each edition covers key events on the work program, major activities and publications released by the Commission.

In July 2000 the Commission surveyed recipients of a selection of its research and inquiry reports from 1999-2000 to assess external perceptions about their quality as well as surveying views on the Commission's inquiry processes (box B.1). Commission attributes which survey respondents rated most highly — more than 80 per cent agreement — are summarised in table B.1, whereas those attributes for which the Commission received more moderate ratings (less than 70 per cent agreement) are listed in table B.2. In the case of the latter, however, high levels of 'not applicable/no opinion' were recorded. It should be noted that the overall response rate for this survey was low.

Respondents rated the Commission reports particularly well in terms of providing coverage of issues, practical advice, supporting analysis and clear arguments and as sources of reference material. The majority of respondents rated reports between 'easy' and 'moderate' in terms of readability. The majority of respondents were also satisfied with the length of reports and overviews and the use of jargon and technical terms. Some comments received indicated that indexes would be of assistance in larger reports.

Discounting the issues for which there was a high level of no opinion, the area in which the Commission fared least well in the survey was in relation to taking all the interests of the community into account, although two-thirds of respondents gave a favourable assessment. The Commission rated better than in the previous year's survey with respect to providing advice in its reports which is sensitive to social impacts.

In the main, the results for each research and inquiry report did not differ significantly from the overall results. The Commission's inquiry report on Australia's gambling industries received the most positive feedback.

More than 90 per cent of respondents agreed that the Commission's inquiry processes were open and transparent and encouraged participation by interested parties. While survey responses suggested that the Commission's inquiries were

Box B.1 Survey of inquiry and research reports and inquiry processes

In July 2000 the Commission conducted surveys of seven recent inquiry and research reports and experiences with its inquiry processes.

- A report survey was mailed to all 959 recipients of the research reports *International Benchmarking of Telecommunications Prices and Price Changes*, *Arrangements for Setting Drinking Water Standards*, *Private Hospitals in Australia* and *Microeconomic Reforms and Australian Productivity: Exploring the Links*.
- Both a report survey and an inquiry process survey were mailed to all 1034 recipients of the inquiry reports *Impact of Competition Policy Reforms on Rural and Regional Australia*, *Australia's Gambling Industries* and *Broadcasting*.
- In addition, 158 regular recipients of Commission reports were invited to provide feedback on one research report and one inquiry report.

The 'report survey' and 'inquiry process survey' forms were modelled on the Feedback Survey and Inquiry Feedback Survey used by the Commission in previous surveys, the results of which were reported in its annual report for 1998-99. Each survey was divided into two sections: the report survey sought views on quality and readability; and the inquiry process survey sought general views on the inquiry process and feedback on personal experience. Each survey offered a mixture of open and closed questions. Respondents were given the option of identifying their name and/or organisation. Respondents were invited to respond in the knowledge that, while the survey results would be published, no individual respondents would be identified.

At 31 August 2000, 371 responses had been received on the report survey (a 17 per cent response rate, excluding survey forms which could not be delivered) and 207 responses on the inquiry survey (also, a 17 per cent response rate). These were much lower than the response rates achieved in the surveys conducted in 1998-99, and the results need to be interpreted in that light.

well advertised, some respondents commented that more could be done to advertise them in rural and regional areas.

In commenting on their personal experiences in an inquiry, respondents were generally satisfied with the time allocated to respond to the issues papers and draft reports, and with the arrangements for their participation at public hearings. Some respondents were less satisfied with how their comments and submissions were addressed in reports. Some suggested more submissions could be covered in inquiry reports.

The survey results have been considered by management, and issues have been identified on which the Commission can seek to do better.

The Commission is now enclosing a survey form in each report as it is mailed out and a report survey form can be downloaded from the index page for each new report placed on the Commission's website.

Table B.1 Widely held views and perceptions of the Commission's work

<i>View/perception of Commission's work</i>	<i>Agreement</i>
	per cent
The Commission encouraged participation by parties with an interest in the inquiry	95
The report provides good coverage of the subject matter and/or terms of reference	95
The arguments presented in the report are clear	94
The report is an important source of reference material	92
The inquiry process was open and transparent	91
The report provides sufficiently practical advice, findings and/or recommendations	88
The inquiry was well advertised/publicised	86
Access to submissions and transcripts on the Commission website was useful	85
Recommendations are supported by argument/research and are consistent with the analysis	84

Table B.2 Less widely held views and perceptions of the Commission's work

<i>View/perception of Commission's work</i>	<i>Agreement</i>
	per cent
The report takes all interests of the community into account	67
The report has been influential in public discussions/policy development	66 ^a
Questioning of participants in public discussion forums was fair	63 ^a
Questioning of participants in public discussion forums was thorough	60 ^a

^a A high percentage of 'not applicable/no opinion' (over 20 per cent) was recorded on this issue.

Commission outputs and the work of the Parliament

As noted in chapter 2, during 1999-2000 nearly 100 Members and Senators in the Commonwealth Parliament referred to 36 different Commission inquiries or reports, or to the Commission's role in policy processes. Although current and past inquiry work figured most prominently, parliamentarians also drew directly on the work arrangement case studies on the meat processing industry (published in 1998) and large capital city building projects (1999), and such staff research papers as *The New Economy? A New Look at Australia's Productivity Performance* (1999), *Productivity and the Structure of Employment* (1999), *Youth Wages and Employment* (1998) and *Informal Equity Investment* (IC 1997).

Commission outputs are also used in parliamentary work in a variety of other ways.

- A number of parliamentary committees during the year drew substantively on a range of Commission inquiry and research outputs in their own reports (table B. 3).
- People appearing at the hearings of parliamentary committees in 1999-2000 referred to a range of Commission outputs — from recent inquiry reports on gambling and broadcasting to Industry Commission inquiry reports of the early 1990s, as well as the work arrangements case studies. Commissioners and staff presented briefings to five different parliamentary committees during the year (table E.1).
- Research material provided to parliamentarians during 1999-2000 by the Parliamentary Library — such as Current Issues Briefs, Research Papers and Bills Digests — drew on a range of Commission outputs, including the Commission's assistance estimates, productivity research and inquiry reports such as those on rail, international air services, black coal, ESD implementation and gambling.
- As the external auditor of the Commonwealth public sector, the Auditor-General reports directly to the Commonwealth Parliament. Commission inquiry and research outputs referred to in five recent audit performance reports of the Australian National Audit Office are shown table B.3.

Table B.3 Use of Commission outputs in recent parliamentary committee and Audit Office reports

Parliamentary Committee and report	Commission output used
Joint Committee of Public Accounts and Audit, <i>Australian Government Procurement</i> , June 1999	PC/BIE Research Report, <i>WTO Agreement on Government Procurement</i> , December 1996
Joint Select Committee on the Retailing Sector, <i>Fair Market or Market Failure? A review of Australia's retailing sector</i> , August 1999	PC inquiry draft report on the Impact of Competition Policy Reforms on Rural and Regional Australia, May 1999
Senate Select Committee on the Socio-Economic Consequences of National Competition Policy, Interim Report, <i>Competition Policy: Friend or Foe (Economic Surplus, Social Deficit)?</i> , August 1999	PC inquiry draft report on the Impact of Competition Policy Reforms on Rural and Regional Australia, May 1999
House of Representatives Standing Committee on Industry, Science and Resources, <i>Inquiry into the effects on research and development of public policy reform in the past decade</i> , September 1999	IC inquiry reports, <i>Research and Development</i> , May 1995 and <i>Telecommunications Equipment, Systems and Services</i> , April 1998; 1997 IC Submission to the West Review of Higher Education; PC inquiry draft report on the Impact of Competition Policy Reforms on Rural and Regional Australia, May 1999
Senate Employment, Workplace Relations, Small Business and Education References Committee, <i>Jobs for the Regions: A report on the inquiry into regional employment and unemployment</i> , September 1999	IC inquiry report, <i>Impediments to Regional Industry Adjustment</i> , December 1993; PC inquiry draft report on the Impact of Competition Policy Reforms on Rural and Regional Australia, May 1999
Senate Rural and Regional Affairs and Transport References Committee, <i>Deregulation of the Australian Dairy Industry</i> , October 1999	PC inquiry report, <i>Impact of Competition Policy Reforms on Rural and Regional Australia</i> , September 1999
Senate Finance and Public Administration References Committee, <i>Inquiry into Business Taxation Reform</i> , November, 1999	IC inquiry report <i>Research and Development</i> , May 1995
Senate Select Committee on the Socio-Economic Consequences of National Competition Policy, <i>Riding the Waves of Change</i> , February 2000	PC inquiry report, <i>Impact of Competition Policy Reforms on Rural and Regional Australia</i> , September 1999
House of Representatives Standing Committee on Primary Industries and Regional Services, <i>Time running out: Shaping Regional Australia's Future, Inquiry into infrastructure and the development of Australia's regional areas</i> , February 2000	PC inquiry report, <i>Impact of Competition Policy Reforms on Rural and Regional Australia</i> , September 1999, and Supplement to the draft report
Joint Committee of Public Accounts and Audit, <i>Corporate Governance and Accountability Arrangements for Commonwealth Business Enterprises</i> , February 2000	1995 IC Supplementary Submission to the Joint Committee of Public Accounts inquiry into the commercialisation of public sector operations

House of Representatives Standing Committee on Industry Science and Resources, *Of material value? Inquiry into increasing the value added to Australian raw materials*, March 2000

Senate Information Technologies Committee, *Netbets: A review of online gambling in Australia*, March 2000

Senate Rural and Regional Affairs and Transport Legislation Committee, *An Appropriate Level of Protection? The Importation of Salmon Products*, June 2000

Standing Committee on Primary Industries and Regional Services, *Work in Progress: Proceed with Caution, Inquiry into primary producer access to gene technology*, June 2000

Senate Community Affairs References Committee, *First Report — Public Hospital Funding and Options for Reform*, July 2000

Senate Foreign Affairs, Defence and Trade References Committee, *Inquiry into Australia in relation to Asia Pacific Economic Cooperation*, July 2000

Australian National Audit Office reports

Audit Report No. 13 1999-2000, *Management of Major Equipment Acquisition Projects: Department of Defence*, October 1999

Audit Report No. 17 1999-2000, *The Commonwealth–State Housing Agreement: Department of Family and Community Services*, November 1999

Audit Report No. 36 1999-2000, *Home and Community Care: Department of Health and Aged Care*, March 1999

Audit Report No. 1 2000-2001, *Commonwealth Assistance to the Agrifood Industry*, July 2000

Audit Report No. 9 2000-2001, *Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*, August 2000

IC inquiry report, *Minerals and Mineral Processing in Australia*, February 1991; IC/PC research reports, *The Changing of Australian Manufacturing*, December 1996 and *Microeconomic Reform and Australian Productivity*, November 1999

PC inquiry report, *Australia's Gambling Industries*, November 1999

IC commissioned research study, *Australian Atlantic Salmon: Effects of Import Competition*, December 1996

PC Staff Research Paper, *Trade-Related Aspects of Intellectual Property Rights*, May 1999

Review of Commonwealth/State Service Provision, *Report on Government Services 2000*, February 2000

PC Staff Research Paper, *APEC Early Voluntary Sectoral Liberalisation*, July 1998

IC inquiry report, *Defence Procurement*, August 1994

IC inquiry report, *Public Housing*, November 1993

PC inquiry report, *Nursing Home Subsidies*, February 1999

PC Trade & Assistance Review 1998-99, October 1999

CCNCO Research Paper, *Rate of Return Issues*, December 1998

Other broad-based performance indicators

In addition to the performance indicators for 1999-2000 referred to in chapter 2 and those detailed elsewhere in this appendix, recognition of the ability of the Commission to contribute to policy making and public understanding through independent and transparent analysis was demonstrated by the following developments:

- the call made by all the Premiers and Chief Ministers in July 1999 for the Productivity Commission to undertake a wide-ranging inquiry into the nation's health system which, although not acceded to by the Government, was the subject of continuing political and media comment during 1999-2000;
- the referral on behalf of the governments of the Northern Territory, the Australian Capital Territory, Tasmania, Western Australia, South Australia, Queensland and New South Wales of their legislation and associated regulations relating to the architectural profession to the Commission for inquiry and report;
- the request, approved by the Assistant Treasurer, for the Commission to undertake a research study examining the environmental performance of commercial buildings on behalf of the Minister for Industry, Science and Resources;
- the view expressed by the Electricity Supply Association of Australia to the House of Representatives Standing Committee on Industry, Science and Resources in October 1999 that 'it would be useful if the Productivity Commission could look at the workings of the [national electricity] market and give advice to government';
- the call in May 2000 by the Housing Industry Association for the Commission to undertake a review of the town planning approval system in each State and Territory; and
- the extensive range of suggestions for potential Commission research projects which were forthcoming during external consultations on its research program with government agencies, industry, community and environmental groups held in May 2000 (PC 2000b, appendix A).

The remaining sections of this appendix report on the activities and performance for each of the Commission's five outputs.

Government-commissioned projects

These are major tasks commissioned or explicitly requested by Australian governments. The tasks encompass the conduct of public inquiries, work arrangements case studies, program evaluations, taskforces and other commissioned research projects. These projects typically involve extensive public consultation.

In response to these requests, the Commission aims to undertake projects in accordance with required processes and to produce reports which are of a high standard, delivered on time and useful to government. Performance against these indicators is reported below.

The resources used in producing this output in 1999-2000 are estimated to have been:

- 46.9 staff years; and
- \$7.2 million on an accrual basis.

Activities in 1999-2000

The Commission had 12 government-commissioned projects underway at some time during the year. The program of government-commissioned projects is summarised in table B.4.

The range of public inquiries underway indicates the diverse and complex policy issues to which the Commission has been asked to contribute in recent years.

- The six inquiries completed in the year were on progress in rail reform, international telecommunications market regulation, the impact of competition policy reforms on rural and regional Australia, international liner cargo shipping, Australia's gambling industries and broadcasting.
- The four inquiries commenced in 1999-2000 were reviews of Australia's general tariff arrangements, State and Territory legislation regulating the architectural profession, the Prices Surveillance Act and telecommunications-specific competition regulation.

The Commission's study of work arrangements on large capital city building projects was released on 24 August 1999. This study was the final in a series of case studies commissioned by the Treasurer in January 1997. Details of the previous studies — on work arrangements in container stevedoring, the black coal industry and meat processing — were provided in the Commission's previous annual report.

Table B.4 Program of public inquiries and other government-commissioned projects^a

	1998-99					1999-2000												2000-01								
	Month	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	
Public inquiries:																										
Progress in rail reform																										
Impact of competition policy reforms on rural and regional Australia																										
Australia's gambling industries																										
International telecommunications market regulation																										
Broadcasting																										
International liner cargo shipping																										
Review of Australia's general tariff arrangements																										
Legislation regulating the architectural profession																										
Legislation Review of the Prices Surveillance Act																										
Telecommunications-specific competition regulation																										
Cost recovery by Commonwealth agencies																										
Case studies on work arrangements:																										
Large capital city building projects																										
Commissioned research studies:																										
Environmental performance of commercial buildings																										
International pharmaceutical price differences																										

^a Shaded area indicates the approximate duration of the project in the period covered by the table.

During the year the Commission also undertook a government-commissioned research project on the environmental performance of commercial buildings. The study, which was released in December 1999, analysed the factors influencing the adoption of environmentally sustainable features in commercial buildings, including impediments to their adoption and how to overcome them.

Trends in inquiry activity and participation are shown in table B.5. Information on individual projects is provided in appendix C.

The Commission endeavours to conduct government-commissioned projects in an economical manner. For each inquiry completed in 1999-2000, total estimated costs (covering salaries, direct administrative expenses and an allocation for corporate overheads) are as shown in table B.6. Costs for other government-commissioned projects completed in the year are also listed.

The major administrative (non-salary) costs associated with public inquiries and other government-commissioned projects relate to the Commission's extensive consultative processes and the wide dissemination of its draft and final reports. Comparisons of these costs for the period 1996-97 to 1999-2000 are in table B.7.

Variations in the administrative cost of inquiries and other commissioned projects arise from the extent and nature of public consultation, the number of participants, the complexity and breadth of issues, the need for travel, printing costs and the duration of the inquiry or project.

Table B.5 Public inquiry activity, 1996-97 to 1999-2000

<i>Indicators</i>	<i>1996-97</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>
References received	4	4	8	4
Issues papers released	4	3	9	4
Public hearings (sitting days) ^a	32	30	57	40
Organisations/people visited in inquiries:				
completed during the year	375	241	277	306
under way during the year	nr	nr	440	103
Submissions to inquiries:				
completed during the year	774	626	421	1 086
under way during the year	nr	nr	996	1 017
Draft reports/position papers completed	6	4	6	4
Reports completed	7	3	5	6
References on hand (at 30 June)	2	3	6	4

nr Not recorded. ^a Excludes forums and roundtable discussions.

Table B.6 Cost of public inquiries and other commissioned projects completed in 1999-2000^a

<i>Government-commissioned project</i>	<i>Total cost</i>
	\$'000
Progress in rail reform	1 049
International telecommunications market regulation	300
Impact of competition policy reforms on rural and regional Australia	1 677
International liner cargo shipping	524
Australia's gambling industries	1 866
Broadcasting	1 786
Work arrangements on large capital city building projects	366
The environmental performance of commercial buildings	260

^a Includes overheads.

Table B.7 Direct administrative expenditure on commissioned projects^a, 1996-97 to 1999-2000

<i>Expenditure item</i>	<i>1996-97</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>
	\$	\$	\$	\$
Travel	307 157	326 663	471 210	195 142
Printing	269 305	162 932	107 589	216 865
Consultants	122 578	163 957	228 509	49 262
Other ^b	165 105	131 498	240 072	222 355
Total	864 145	785 051	1 047 380	683 623

^a Expenditure other than salaries and corporate overheads. ^b Includes other costs, such as advertising, venue hire, court reporters/transcription services and data acquisition.

Consultative processes

The practice of consulting widely with industry, government departments and agencies, academics and the broader community during the course of inquiries continued in 1999-2000. Trends in the number of visits conducted and public hearing days held are shown in table B.5.

The Commission continued to enhance the ways in which its inquiries draw on and encourage community input. Internet technology has increased the accessibility of the Commission's reports and facilitated speedier and easier notification of developments in inquiries. In particular, participants' submissions to all inquiries and transcripts of hearings are now placed routinely on the Commission's website. This has increased the opportunities for earlier and less costly public scrutiny of the views and analysis being put to the Commission. Submissions and hearing transcripts for inquiries current in 1999-2000 were accessed nearly 106 000 times by external parties in the period to 30 June 2000.

As appropriate, the Commission extends inquiry-like processes to the conduct of its other government-commissioned projects. For example, in conducting its study of the environmental performance of commercial buildings the Commission visited 20 relevant organisations and sought submissions from interested parties. Those early consultations and assessments revealed that a key environmental concern was the use of greenhouse gas-intensive energy in commercial buildings and, as a consequence, the study focused on energy use.

The generally favourable feedback on the Commission's inquiry processes obtained from its July 2000 survey is discussed earlier in this appendix.

Quality indicators

Quality assurance processes are built in to the way the Commission conducts its public inquiries and other government-commissioned projects. The Commission receives extensive feedback on the accuracy and clarity of its analysis of its inquiry work and the relevance of its coverage of issues. Much of this feedback is on the public record through submissions on draft reports or position papers, and transcripts of public hearings.

The Commission's quality assurance process for its studies of work arrangements on large capital city building projects and the environmental performance of commercial buildings included obtaining comments from independent referees and inviting comments from interested parties on work-in-progress reports. As well, for the latter, the Commission convened a roundtable to discuss its preliminary conclusions before finalising its report.

The Commission utilises wider sources of expertise in inquiries where economic modelling is used to provide policy insights. The Commission's legislation requires that, when formal mathematical economic modelling is used, the Commission must use two models, or where a single model is relied upon, to have that model assessed independently. In addition to arranging independent refereeing, in April 2000 the Commission held a technical workshop to discuss its quantitative analysis of the effects of tariff reductions as part of its inquiry reviewing Australia's general tariffs. As a result of the comments received, the Commission's analysis of national, regional and industry effects of tariff reductions moved from a long-run comparative static basis to a dynamic basis.

The results of the feedback surveys conducted in July 2000 indicate that the Commission maintains a reputation for quality work.

The Government's formal responses to the work it has commissioned potentially provide another indicator of the quality of that work. These responses are also an indicator of usefulness and are reported under that heading below. Government responses to Commission reports in 1999-2000 are provided in appendix C.

Timeliness

Notwithstanding the complexity of some major inquiries and the relatively tight reporting periods on others, the Commission completed nearly all of its government-commissioned projects on or close to schedule in 1999-2000.

A number of important submissions, including several from State governments, were provided late in the inquiry on the impact of competition policy reforms on

rural and regional Australia and the Commission took extra time to consider these submissions before finalising its report. The Commission's report, which was due at the end of August 1999, was not forwarded to the Treasurer until mid-September.

The need to design and conduct the three national surveys, together with the extensive public interest in the gambling inquiry — requiring extra time for submissions and supplementary public hearings — led the Commission to seek additional time for its inquiry. The Assistant Treasurer agreed to extend the reporting date for the final report by three months, and the Commission adhered to this timing.

Indicators of usefulness

The usefulness of government-commissioned projects undertaken by the Commission in contributing to policy making and public understanding is demonstrated by a range of indicators.

- The usefulness of Commission reports completed in the past year is indicated, in part, by reference to them in parliamentary debate and questions. For example:
 - The Commission's inquiries and reports on broadcasting, gambling and the impact of competition policy on rural and regional Australia were referred to on 22, 16 and 14 occasions, respectively, by 34 different Members and Senators in Parliament, as well as in parliamentary committee hearings.
- Reference during parliamentary debate and questions to Commission inquiry reports and government-commissioned research studies completed in previous years is an indicator of their continuing usefulness to parliamentarians. For example:
 - The Commission's recent inquiry reports on nursing home subsidies and on international air services were referred to on 27 and 10 occasions, respectively, by 23 different Members and Senators in Parliament in 1999-2000.
 - Other inquiry reports drawn on in the Federal Parliament this year included those on private health insurance (completed by the Industry Commission in 1997), packaging and labelling (1996), charities (1995), petroleum products (1994) and adding further value to Australia's forest products (1993).
- Of the more than 230 mentions of the Commission in State and Territory parliamentary proceedings during 1999-2000, two-thirds were in relation to the Commission's draft or final reports on Australia's gambling industries. The Commission's findings were referred to extensively during debate on legislation (the Gambling Legislation Amendment (Responsible Gambling) Bill, the Gambling Legislation Amendment (Gaming Machine Restrictions) Bill and the

Casino Control Amendment Bill in the New South Wales Parliament; the Gambling Legislation (Responsible Gambling) Bill in the Victorian Parliament; the Acts Amendment (Fixed Odds Betting) Bill in the Western Australian Parliament) and the Gambling and Racing Control (Consequential Provisions) Bill 1999 in the ACT Legislative Assembly), in ministerial statements on gambling policy in the Queensland and the Northern Territory parliaments, and in debate in the South Australian Legislative Council. Other inquiry reports drawn on by parliamentarians in State legislatures during the year included those on nursing home subsidies, the impact of competition policy reforms on rural and regional Australia and progress in rail reform.

- The contribution of Commission reports to enhanced community understanding and policy debate was recognised in the Government's decisions to release two final reports in advance of any decisions on them. The inquiry report on the impact of competition policy on rural and regional Australia was released ahead of the Regional Australia Summit in order to improve community understanding of national competition policy. In recognition of the extent of community interest in the Commission's wide-ranging recommendations on broadcasting, the Government expedited the release of the Commission's final report.
- The Commission's impact on policy making is revealed most directly through government decisions on its reports. The Government has strongly endorsed the key recommendations and findings in four of the six inquiry reports completed in 1999-2000: the impact of competition policy reforms on rural and regional Australia, international telecommunications market regulation, gambling, and international liner cargo shipping. The acceptance of recommendations in other inquiry reports from this and previous years, as well as government responses which differed from Commission recommendations, are documented in appendix C.
- A measure of the effectiveness of the Commission's inquiry and other government-commissioned reports in contributing to public understanding of policy issues are the invitations it received in 1999-2000 to present papers and briefings to parliamentary, business and community groups and to conferences. Commissioners and staff made 23 and 15 presentations, respectively, on its inquiries and other government-commissioned work (table E.1).
- Other measures of the Commission's effectiveness in contributing to public understanding are the use of its website and media coverage of its reports. For inquiries current in 1999-2000, the Commission's website pages were accessed approximately 318 000 times in the 12 months to 30 June 2000, with the gambling and broadcasting inquiries together accounting for 65 per cent of those accessions. The Commission's inquiries and reports receive extensive media

coverage and in 1999-2000 there were 64 editorials in major newspapers on inquiries current in the year (including 44 on gambling and 14 on broadcasting).

Performance reporting and other services to government bodies

The Commission undertakes three major activities in this output group. It:

- provides secretariat and research and report preparation services to the Steering Committee for the Review of Commonwealth/State Service Provision in respect of performance indicators for government provided or funded services;
- continues performance monitoring and related research on government trading enterprises, work the Commission previously undertook for the disbanded COAG Steering Committee on National Performance Monitoring of Government Trading Enterprises; and
- undertakes national and international benchmarking of the performance of key Australian industries — primarily economic infrastructure and government services — to help identify and provide information on significant gaps in performance.

The Commission aims to produce reports of a high standard which are completed on time and useful to government.

The resources used in producing this output in 1999-2000 are estimated to have been:

- 25.0 staff years; and
- \$2.9 million on an accrual basis.

Activities in 1999-2000

The six publications arising from the Commission's performance reporting activities this year were:

- *Report on Government Services 2000*, 3 volumes;
- *Linking Inputs and Outputs: Activity Measurement by Police Services*;
- *Payroll Tax in the Costing of Government Services*;
- *Using Consumer Views in Performance Indicators for Children's Services*;
- *International Benchmarking of Telecommunications Prices and Price Changes*;
- and
- *Arrangements for Setting Drinking Water Standards*.

Review of Commonwealth/State Service Provision

The Review of Commonwealth/State Service Provision was established by the Prime Minister, Premiers and Chief Ministers in July 1993. Its main tasks are to develop, and publish data on, agreed national performance indicators for key services delivered by governments in Australia and to analyse reforms in government services. The aim is to work cooperatively to facilitate and encourage innovation in the delivery of services.

The fifth *Report on Government Services* was released in February 2000. Reporting is an ongoing process, and each year the Steering Committee endeavours to build on developments in previous years. The 2000 Report:

- improved the quality of financial data for emergency management, corrective services, vocational education and training, public acute care hospitals and services for people with a disability;
- improved the quality of effectiveness data for general practice and breast cancer management;
- developed new indicators for police, child protection and supported placements, aged care, general practice, breast cancer management and mental health services;
- enhanced the reporting on a range of existing indicators; and
- provided more contextual information, particularly in the areas of State-based assessments of learning outcomes for school education, the courts system, centre-based long day care, and children's services.

The estimated cost to the Commission of assisting governments in the production of the 2000 Report was around \$1.1 million (compared with \$1 million for the 1999 Report).

The Review is continuing to refine the methodology for measuring the performance of government services and to improve the comparability of the data published.

- The Review's research paper, *Linking Inputs and Outputs: Activity Measurement by Police Services*, which was released in October 1999, demonstrated how agencies may use activity measurement in output costing and internal measurement. It outlined the steps involved, based on the experience of police services.
- The Review's research paper, *Payroll Tax in the Costing of Government Services*, which was also released in October 1999, examined the effects that differences in payroll tax regimes had on unit costs and proposed means of improving the comparability of cost estimates.

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- The consultant's report *Using Consumer Views in Performance Indicators for Children's Services*, which was released in February 2000, examined the feasibility of developing national performance indicators suitable for annual reporting on children's services.
 - In partnership with the National Disability Administrators, the Review commissioned a national satisfaction survey of clients of disability services which was conducted by consultants between March and November 1999. The consultant's report was published in July 2000.
 - The Review also began research on the measurement of capital costs, which is examining how differences in asset treatment (such as depreciation rates, asset valuation and capitalisation) between jurisdictions and service areas affect the comparability of unit costs.

Efforts have been made to improve the reporting of data on indigenous Australians. A scoping study was undertaken early in 2000 to identify where data are already collected and reported, what data are expected to be reported in 2001 and their reliability, and the impediments to reporting in other areas which are not currently reported.

A scoping study was also undertaken with the purpose of improving reporting on rural and remote areas. The study identified areas which are currently being reported and under which system of classification, data availability for the 2001 Report, and the impediments to improved reporting.

With a view to expanding the indicators of quality in courts administration, a survey has been developed which is to be piloted in late 2000. The survey aims to identify the needs of court users and to assist courts in providing appropriate client services.

Performance monitoring of government trading enterprises

The Commission undertook a study into the financial performance of government trading enterprises during 1999-2000. The objective was to provide a range of financial indicators for 63 government trading enterprises for the period 1994-95 to 1998-99. The study is the successor to a series of broader studies by the Steering Committee on National Performance Monitoring of Government Trading Enterprises for which the Commission provided the Secretariat. The study was published in July 2000.

Benchmarking

The Commission released two reports in 1999-2000 as part of its continuing program of research into the performance of Australia's economic infrastructure industries.

- In December 1999 the Commission released an international benchmarking study, *International Benchmarking of Telecommunications Prices and Price Changes*, which compared Australian telecommunications prices, price changes and regulatory arrangements with those in nine other OECD countries, updating a similar study released in March 1999. The time taken to develop and refine the methodology in that earlier study meant that the comparative data were a year old when published. Drawing on the same approach, the Commission presented updated information as at June 1999 and also charted, in a consistent way, the price changes that had occurred in each country since February 1998. In addition, it included information on some key Asian countries not covered previously.
- In April 2000 the Commission released its report on *Arrangements for Setting Drinking Water Standards*, which compared regulatory approaches to setting drinking water quality standards in Australia and other selected countries — Canada, France, New Zealand, the UK and US — against a framework of 'best practice' principles for regulation making. Consultations with government and industry had identified this as a particularly useful area for examination.

During 1999-2000 the Commission commenced a research project to provide information on the influence of line density on cross-country telecommunications price comparisons by estimating the differences in average line costs that can be attributed solely to differences in the way populations (and hence telecommunication lines) are distributed. The research was published as a Staff Research Paper in August 2000.

As part of its inquiry on progress in rail reform, the Commission undertook an assessment of the economic performance of rail transport in Australia within a broad international context. That report, *An Assessment of the Performance of Australian Railways, 1990 to 1998*, was published as a supplement to the inquiry report and released in April 2000 at the time the Government released the inquiry report. To facilitate further analysis by the research community, the data and program code used in the data envelopment analysis used for benchmarking railway performance were published on the Commission's website as an electronic annex. The resources used in undertaking this railway benchmarking work were classified to the Commission's supporting research activity.

Quality indicators

Although assessments of quality are subjective, the Commission has a range of 'quality assurance' processes in place for its performance reporting activities. These processes help to ensure that it is using the best information available and most appropriate methodologies — thereby increasing confidence in the quality of the performance reporting.

- The Commission's work for the Review of Commonwealth/State Service Provision is guided by a Steering Committee. This Steering Committee consists of senior officers from each jurisdiction, chaired by the Chairman of the Productivity Commission, and serviced by a secretariat drawn from the staff of the Commission. The Committee, in turn, is supported by 12 national Working Groups comprising representatives from 85 government agencies — totalling around 200 people who provide specialist knowledge on each service area — and draws on other bodies such as the Australian Bureau of Statistics, the Australian Institute of Health and Welfare, and ministerial councils.
- In undertaking its international benchmarking of Australian telecommunications prices and price changes, the Commission convened a workshop of government and industry representatives and other interested parties to seek views on methodological issues at the commencement of the project, and consulted extensively with industry participants as the study progressed. Industry experts were invited to check the reliability of price comparisons and accuracy of the underlying data before final publication. The study also benefited from the consultations with a wider group of organisations undertaken during the preceding telecommunications benchmarking study.
- Extensive consultation was undertaken before the commencement of the drinking water standards project with the Water Services Association of Australia and selected water authorities to help ensure that the project focused on issues that were relevant to the industry. The study outline was posted on the Commission's website and the Commission invited people to provide formal or informal comment. The Commission also held a workshop in December 1999 to discuss the study methodology, preliminary results and their interpretation. Drafts of the report chapters were independently refereed.

A further indicator of quality is overseas interest in the Commission's performance reporting activities.

- The telecommunications benchmarking methodology and reporting continues to attract interest in the OECD, and the previous bench-marking study has been drawn on in OECD research (Boylaud and Nicoletti 2000). The International Telecommunication Union has provided positive feedback on the quality of the Commission's telecommunications benchmarking work.

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- Officials from the New Zealand Department of Treasury visited the Commission to consult on strategies for improving benchmarking activities in line with that undertaken in the Review of Commonwealth/State Service Provision.

Timeliness

Two-thirds of the intended output from the Commission's performance reporting activities in 1999-2000 was completed and released on or close to schedule.

- The 2000 Report on Government Services was published on schedule in February 2000. The research papers on payroll tax and the measurement of police services activity, as well as the consultancy report on performance indicators for children's services, were also completed on schedule. However, publication of the consultancy report on satisfaction with disability services was delayed by about five months due to data errors discovered late in the process. Further work was undertaken to improve the data quality and overall presentation of this report, which was published in July 2000.
- The benchmarking studies of telecommunications prices and drinking water quality standards were each released within a month of their originally anticipated completion dates. The report on the financial performance of government trading enterprises was delayed by about four months because of the late receipt of new accrual-based data, the need for consistency checks with previous data sets and vetting by State and Territory jurisdictions. The study on the impact of telephone line density on costs took longer than expected because of unanticipated methodological complexities and problems with staff availability.

Indicators of usefulness

The usefulness of the Commission's performance reporting activities in contributing to policy making and public understanding is demonstrated by a range of indicators.

Evidence of usefulness relating to the Commission's work for the Review of Commonwealth/State Service Provision is available from a number of sources.

- Feedback from Steering Committee members — senior representatives from each State and Territory, the Commonwealth and local government — indicates that the 2000 Report was generally well received and that the reports on government services continue to be important inputs to budgetary negotiations and policy reviews.

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- The ongoing commitment of the various jurisdictions to improving and enlarging the scope of the Review's reporting confirms its relevance, credibility and quality.
 - Performance information in the 2000 (and earlier) reports has been used in parliamentary debates and questions this year by both government and opposition members. For example:
 - data on child care funding were drawn on in Senate debate;
 - the Chief Minister of the Northern Territory used data from the 2000 Report during parliamentary debate on mandatory sentencing; and
 - in the South Australian Parliament, the Minister for Police, Correctional Services and Emergency Services said the 2000 Report provided 'useful and practical insight into community attitudes' in relation to satisfaction with service provision.
 - Along with the earlier work on superannuation costs and the cost of capital, the Review's work on the treatment of payroll tax and activity measurement is being incorporated in its performance reporting so as to provide better information for judgments which rely on comparisons of unit cost data.
 - Media coverage of the 2000 Report on Government Services was more extensive and comprehensive than in previous years. In the period since its release, there have been 120 press articles drawing on the report and it has been mentioned 70 times and 10 times on radio and television, respectively. Nearly 1875 copies of the report were distributed by the Commission and a further 240 copies (in book and CD form) were sold through government bookshops. External parties used the Commission's website to access the 2000 Report around 4530 times in the period to 30 June 2000. The 1999 Report continued to be accessed from the website throughout 1999-2000, with around 2100 visits from external parties.
 - Secretariat staff have provided presentations to a number of government agencies about the work of the Review, its background and its approach to performance management. Details of the seven presentations are provided in appendix E.

Evidence of the usefulness of the report that benchmarked Australian telecommunications prices and price changes is found in the following indicators.

- The Australian Telecommunications Users Group advised that the Commission's international telecommunications benchmarking work was most useful and provided a credible base upon which carriers can be encouraged to reduce the price of services offered to their customers.

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- More than 95 per cent of the respondents to the Commission's July 2000 feedback survey who commented on this report agreed that it provided good coverage of the subject matter.
 - The report received extensive media coverage, including nearly 50 mentions in the print and electronic media. The report was accessed more than 1200 times on the Commission's website in the seven months to June 2000. (Interest in the Commission's previous telecommunications benchmarking report continues: it was accessed more than 1500 times from the Commission's website during 1999-2000.)

Favourable feedback on the usefulness of the report on drinking water quality standards was received from participants, both at the December 1999 workshop on the preliminary results and since release of the final report.

- The Water Services Association of Australia is acting on the report and has decided to include standards setting as one of the themes in a major conference in April 2001, at which the Commission has been invited to present a paper.
- The Consultation Paper, *A New Regulatory Framework for Drinking Water Quality in Victoria*, released in August 2000 by the Victorian Departments of Human Services and Natural Resources and Environment, used the Commission's report as an authoritative source and drew extensively from it.
- More than 95 per cent of respondents to the Commission's July 2000 feedback survey who commented on this report agreed that it provided good coverage of the subject matter.
- Although radio and newspaper coverage at the time of the report's release was limited, coverage was nevertheless favourable and two feature articles appeared in major daily newspapers that were supportive of the project and its conclusions.

Regulation review activities

Regulation review matters are dealt with principally by the Office of Regulation Review (ORR), which is part of the Productivity Commission. The activities of the ORR in the past year are covered in detail in a separate publication, *Regulation and its Review 1999-2000*.

The objective of the Commission's regulation review activities is to promote processes that, from an economy-wide perspective, improve the effectiveness and efficiency of legislation and regulations developed and administered by Commonwealth departments and regulatory agencies. The Commission aims to

assess Regulation Impact Statements (RISs) and undertake associated activities to a high standard, with advice that is timely and useful to government.

The resources used in producing this output in 1999-2000 are estimated to have been:

- 16.9 staff years; and
- \$2.0 million on an accrual basis.

Activities in 1999-2000

The range of activities that the ORR is required to undertake is set down in its charter (box B.2).

In advising on quality control mechanisms for making and reviewing regulation, in 1999-2000 the ORR:

- provided guidance to Commonwealth Government departments and agencies on appropriate terms of reference for 15 legislation reviews undertaken as part of a four-year Australia-wide program under the Competition Principles Agreement to review and reform all legislation which restricts competition;

Box B.2 Charter of the Office of Regulation Review

In 1997 the Government directed that the ORR issue a charter outlining its role and functions. Ranked in order of priority, the ORR's seven principal activities are to:

- advise on quality control mechanisms for regulation making and review;
- examine and advise on RISs prepared by Commonwealth departments and agencies;
- provide training and guidance to officials;
- report annually on compliance with the Commonwealth Government's RIS requirements;
- advise Ministerial Councils and national standard-setting bodies on regulation making;
- lodge submissions and publish reports on regulatory issues; and
- monitor regulatory reform developments in the States and Territories, and in other countries.

The ORR, together with the Treasury, advises the Assistant Treasurer in his role as the Minister responsible for regulatory best practice, and the Minister for Financial Services and Regulation on legislative review matters.

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- continued to work with, and provide assistance to, the Office of Small Business (in the Department of Employment, Workplace Relations and Small Business) in relation to the development of the regulatory plans and regulatory performance indicators; and
 - gave a presentation on the RIS process to the Task Force on Industry Self-regulation in Australia, convened by the Minister for Financial Services and Regulation, and attended meetings of the special advisory group to the Task Force.

In the process of examining RISs and advising Commonwealth departments and agencies, the ORR gave advice on about 200 different regulatory issues, of which about 50 concerned amendments to taxation arrangements.

The ORR examined and provided advice on 28 RISs for Ministerial Councils and a further three for national standard-setting bodies.

During the year, the ORR conducted 15 general training sessions in eight different departments or regulatory agencies attended by 284 Commonwealth officials.

The annual publication of Regulation and its Review fulfils the requirement to report annually on compliance with the Government's regulation review requirements. The report for 1998-99, which was released in November 1999, expanded reporting on compliance to a portfolio basis for the first time. The compliance report for 1999-2000 takes the form of a separate report in the Commission's annual report series (see also box 2.2).

In monitoring regulatory reform developments around Australia and internationally this year, the ORR:

- convened a meeting with State and Territory officials to discuss regulatory best practice in Australian jurisdictions;
- participated in several meetings of the COAG Committee on Regulatory Reform;
- met with five members of the Victorian Parliament's Scrutiny of Acts Committee, as part of the committee's review of the effectiveness of Victoria's *Subordinate Legislation Act 1994*;
- met with a representative of the Brisbane City Council, to discuss incorporating RIS requirements into the Council's regulatory development processes;
- represented Australia at an OECD meeting on regulatory reform, which included reviews of reforms in Greece and Italy;
- received a visit from the Legislation Coordinator of the New Zealand Cabinet Office, and exchanged information of mutual interest; and

-
- hosted, for one week, three officials from Japan's Economic Planning Agency who were in Australia to study the regulatory reform system.

The Commission conducted a survey of ORR clients in May 2000 to assess the quality, timeliness and usefulness of advice provided by the ORR (box B.3). More detailed results than those reported below are available in PC (2000d).

Quality indicators

Reporting on quality indicators for the ORR is limited by the confidential nature of the advice it provides to Commonwealth departments and agencies, to the Assistant Treasurer, to the Minister for Financial Services and Regulation and to Cabinet. Its major activities in advising on RISs and legislative reviews typically involve interaction and iteration with sponsoring departments and agencies. Willing participation in the RIS process and favourable feedback from these sponsoring agencies are the ORR's strongest direct evidence as to the quality of its work.

Responses to the feedback survey indicate that the ORR is generally providing a high quality service. Seventy per cent or more of respondents rated the ORR's performance as either good or excellent in terms of its staff's ability to understand regulatory issues with which they were dealing, clarity of advice provided, overall competence and quality of the working relationship. Further, 95 per cent of respondents reported that ORR staff were courteous and willing to listen. The bulk of comments received reflected these generally favourable assessments of the ORR's performance. One respondent indicated that 'preparing RISs is not easy, but ORR certainly adds value'.

Box B.3 ORR client feedback survey

In May 2000 the Commission conducted a client survey to assist in assessing the quality, timeliness and usefulness of the ORR's work. Most questions offered a rating along a 5 point scale and survey participants were provided with an opportunity to comment on issues being surveyed. While the respondents were classified according to the areas of departments and agencies in which they worked — legal, policy, legal/policy and other — the Commission undertook not to identify individuals. In order to maintain confidentiality, the ABS was contracted to collate the results.

The feedback survey was delivered to 243 Commonwealth department and agency officials who had worked with the ORR on RISs during 1999-2000. In total, 132 responses were received from officials in 28 different departments and agencies, an overall response rate of 54 per cent. Most respondents worked in a policy area and had consulted the ORR on RIS-related matters on more than one occasion during the year.

Some of those surveyed had less favourable views on the ORR's performance. About 15 per cent of respondents considered that the clarity of advice provided and overall competence of ORR staff was only average. Thirty per cent of respondents were of the view that, given the time frames involved, the ability of ORR staff to understand the regulatory issues being dealt with was average to poor. Some stated that the advice provided was 'naive' and at times 'insensitive' to political issues.

Timeliness

The demand for RIS assessments is externally driven and timing is often determined by Cabinet and parliamentary processes, as well as the resource priorities of departments and agencies. The ORR does its best to accommodate these demands. As a general rule, officials preparing a RIS are asked to allow around two to three weeks in case several rounds of consultation with the ORR and redrafting are required so the RIS can be cleared as of an adequate standard. But it is often possible to complete the process in less than a week. For more complex issues, such as the development of terms of reference for reviews, the suggested time over which consultation may be spread is much longer — a minimum of three months.

Five per cent of survey respondents indicated that they typically allowed less than a day to consult the ORR for advice. Around half allowed two to five days and a third allowed five to ten working days. The remaining 11 per cent allowed more than two weeks for consultation with the ORR.

Most respondents to the survey were happy with the overall timeliness of the ORR's advice. Thirty-nine per cent of respondents rated the ORR's timeliness as excellent, 48 per cent as good, and 11 per cent as average.

Indicators of usefulness

The usefulness of the Commission's regulation review activities in contributing to better regulatory outcomes, generating greater understanding within agencies of the Government's 'best practice' regulatory requirements and enhancing community understanding of regulatory issues is demonstrated by a range of indicators.

- Some regulatory proposals have been changed as a result of analysis undertaken during the RIS process. For example, in a few cases the ORR suggested new options, which were subsequently recommended to the decision-maker. More often, proposals were altered to reduce the compliance burden or costs imposed on business or other parties affected by the proposal.
- Regulation Impact Statements, tabled with the Explanatory Statements and Memoranda, have provided greater transparency of the reasoning behind

regulatory decisions so that the Parliament and the community are better informed. Parliamentarians have drawn on the Statements in debate. For example, the disallowance of regulations designed to prevent the importation of second-hand diesel engines designed for use in road vehicles unless these engines complied with current Australian motor vehicle emission standards can be traced to information revealed in the accompanying RIS — a RIS which the ORR had assisted in preparing.

- ORR reports are widely distributed and read:
 - 1265 copies of *Regulation and its Review 1998-99* were distributed in 1999-2000 and the report was accessed more than 800 times on the Commission's website by external parties in the period to 30 June 2000; and
 - 840 copies of the second edition of *A Guide to Regulation* have been distributed for use by policy and regulatory officers in all Commonwealth Government departments, agencies, statutory authorities and boards and to other people interested in regulatory reform. The Guide was accessed more than 1800 times on the Commission's website during 1999-2000. About three-quarters of respondents to the feedback survey found the Guide to be useful or very useful. Some constructive suggestions were made about how the Guide could be improved, particularly by the inclusion of some examples or template RISs.
- The ORR provided RIS training for 284 officials, including 100 Civil Aviation Safety Authority officials, in 1999-2000. Training evaluation forms were received from 125 people. Their views indicated that RIS training had been well received, with almost two-thirds rating training as good or very good and a further 16 per cent rating their RIS training as excellent. Thirteen per cent and 4 per cent of training participants considered the training to be satisfactory or fair/unsatisfactory, respectively.

Competitive neutrality complaints activities

The Commonwealth Competitive Neutrality Complaints Office (CCNCO) is an autonomous office located within the Commission. As specified in the Productivity Commission Act and the *Commonwealth Competitive Neutrality Policy Statement* of June 1996, the role of the CCNCO is to:

- receive and investigate complaints on the application of competitive neutrality to Commonwealth government businesses, and make recommendations to the Government on appropriate action; and
- provide advice and assistance to agencies implementing competitive neutrality, including undertaking research on implementation issues.

The CCNCO aims to finalise most investigations, and report to the Minister for Financial Services and Regulation, within 90 days of accepting a complaint, and to undertake reporting and associated activities that are of a high standard and useful to government.

The resources used in producing this output in 1999-2000 are estimated to have been:

- 3.3 staff years; and
- \$0.4 million on an accrual basis.

Activities in 1999-2000

Complaints activity

The CCNCO received seven written complaints during the year and prepared reports on four investigations (table B.8). Two complaints did not require formal investigation, while another was put on hold, with the agreement of the parties, following discussions between the complainant and the government agency concerned. In two cases — aviation forecasts and ABC copyright payments — the CCNCO drew the issues to the attention of the relevant Minister and/or agencies (appendix D provides details).

Table B.8 Competitive neutrality complaints, 1998-99 and 1999-2000

<i>Activity</i>	<i>1998-98</i>	<i>1999-00</i>
Written complaints received	6	7
Action:		
Complaints formally investigated	2 ^a	4
Complaint investigations suspended	–	1
Complaints not investigated	4	2
Reports completed	1	4
Complaints on hand (30 June)	–	–

^a Two complaints related to the same matter: Counter Terrorist First Response Services provided by the Australian Protective Service.

Research

In December 1999 the CCNCO commenced a substantial research project analysing the implications of competitive neutrality policy for State and Territory government forestry activities. The project is based on a proposal that was presented to, and approved by, State and Territory representatives at a Competitive Neutrality Roundtable. Amongst other things, the research report will address:

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- how State and Territory guidelines for the implementation of competitive neutrality have been translated into operational requirements for forest agencies;
 - the institutional changes that have been required to facilitate the implementation of competitive neutrality;
 - the effects of these changes on operating practices in state forestry agencies; and
 - whether the application of competitive neutrality requirements will address concerns about the underpricing of logs used in wood products.

The report will draw heavily on information provided by State and Territory governments. The CCNCO expects to submit a draft of the report to those governments early in 2001 and to publish a final report as soon as possible thereafter.

Advice on the application and implementation of competitive neutrality

An important part of the CCNCO's role is to provide formal and informal advice on competitive neutrality matters and to assist agencies in implementing competitive neutrality requirements. During 1999-2000, the Office:

- provided advice to agencies over the telephone or in ad hoc meetings around four times a week, on average;
- was an active participant in the Competitive Neutrality Roundtable held in Melbourne in December 1999;
- provided input to the Competitive Neutrality Roundtable paper prepared for the COAG Working Group reviewing national competition policy arrangements; and
- presented papers on the application and implementation of competitive neutrality to two childcare conferences.

Quality indicators

The increased use of the complaints mechanism during 1999-2000 provided the opportunity for the CCNCO to refine its procedures for conducting investigations. A number of parties commented favourably on those procedures, including on the provision of briefings to interested parties at the conclusion of investigations.

To reflect these refinements in procedures, the Office released an updated brochure providing background information on the Commonwealth Government's competitive neutrality arrangements and the role of the CCNCO. It has also updated its complaints form to serve the needs of clients better.

The CCNCO's role in providing advice to agencies and private organisations on the application and implementation of competitive neutrality, and its participation in Roundtable activities, were aimed in part at improving procedural outcomes. It has also introduced the practice of routinely circulating its reports to State and Territory complaints bodies to facilitate the exchange of information and procedural experiences.

Timeliness

The CCNCO has set itself the objective of reporting on complaints investigations within 90 days. It met this objective for the report on the Australian Institute of Sport Swim School. For the other three formal investigations completed during the year, the Office failed to meet its 90 day target. However, in each case, the delay resulted either from circumstances beyond the CCNCO's control or from a concern to give interested parties maximum opportunity to contribute to the investigation process.

- The report on the complaint against the National Rail Corporation exceeded the target completion date by about two weeks, largely because of a delay in resolving some procedural issues related to the lodgment of a significant submission by the Corporation.
- The report on the complaint against ABC Productions exceeded the target date by about two weeks, largely because of a delay involved in securing an initial meeting with the ABC.
- The report on the complaint relating to the Customs treatment of Australia Post exceeded the target reporting date by around five weeks. This reflected a decision by the CCNCO to delay the report in the light of discussions between the complainant and various government agencies aimed at resolving a goods and services tax issue referred to in the complaint. The successful resolution of the tax issue led to the withdrawal of this aspect of the complaint.

Indicators of usefulness

The CCNCO received a range of comments suggesting that its outputs are contributing to better policy making and improved resource allocation. For example:

- The Independent Pricing and Regulatory Tribunal (NSW) commented that the CCNCO's report on ABC Productions provided a template for similar investigations by State and Territory complaints bodies.

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- Updated competitive neutrality guidelines released by the New South Wales Government during 1999-2000 embody the avoidable cost methodology advocated by the Office in an earlier research publication on cost allocation (CCNCO 1998a). A number of Commonwealth agencies indicated that they found the cost allocation paper useful in considering pricing issues for their businesses, as well as for implementing competitive neutrality.
 - The rate of return targets identified in the CCNCO (1998b) research paper on rate of return issues were used in the recent audit assessment of the Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative (ANAO 2000).
 - Although released in 1998, these two CCNCO research papers continue to attract interest — the papers were accessed around 400 times each on the Commission’s website in 1999-2000.
 - During the Commission’s consultations on its research program, the Australian Conservation Foundation and forest industry representatives all expressed support for the CCNCO’s research project on competitive neutrality in forestry.
 - The CCNCO received very positive feedback about its presentations to two major childcare conferences.

Supporting research and activities and annual reporting

While much of the Commission’s research activity is externally determined, it has some discretion in meeting its legislative charter to undertake a supportive program of research and to report annually about matters relating to industry development and productivity, including assistance and regulation.

The Commission aims to produce research and associated reports to a high standard which are timely, useful to government and raise community awareness of microeconomic reform issues.

The resources used in producing this output in 1999-2000 are estimated to have been:

- 72.9 staff years; and
- \$8.9 million on an accrual basis.

Activities in 1999-2000

The output of the Commission’s annual report and supporting research activity program this year included:

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- research to meet the Commission's statutory annual reporting obligations, comprising:
 - its annual report for 1998-99, tabled in December 1999, which looked at developments in competition policy, work arrangements and industry assistance, as well as the importance of social infrastructure to the wellbeing of Australians and the productivity of the economy as a whole; and
 - two companion publications on trade and assistance issues and regulatory developments in the year;
 - quantitative analysis to support Commission inquiries on progress in rail reform and the impact of competition policy reforms on rural and regional Australia, and modelling in support of the Commission's inquiry reviewing Australia's general tariffs;
 - 10 finalised research reports — encompassing Commission research papers, staff research papers and staff working papers — and a substantial number of research projects, many of which are due for completion early in 2000-01;
 - four submissions to other review bodies;
 - four volumes of proceedings from workshops/conferences conducted or co-sponsored by the Commission; and
 - other projects associated with inquiry and research support, conference papers, assistance to other government departments, and journal articles.

The research publications produced in the supporting research program in 1999-2000 are listed in box B.4. Details of Commission research papers, staff papers and the 114 presentations given by the Chairman, Commissioners and staff in the year are provided in appendix E. The range of research projects underway at the end of the year is illustrated in box B.5.

Quality indicators

The quality of the Commission's supporting research projects is monitored through a series of internal and external checks. Proposals for research are considered against current research objectives and themes; their capacity to contribute policy-relevant information; other research underway; whether the Commission is best placed to conduct the research; and available resources.

Part of the research process for some projects involves consulting with key interested parties on the issues they view as important. These visits also assist the Commission to understand better how agencies, firms and other relevant bodies operate in practice. For example, part of the research on the analysis of productivity trends in Australia's wholesale and retail trade involved visits to several large

companies in these industries. Similarly, in developing the paper on genetically modified products, the Commission staff visited a range of government, non-government and private sector organisations with interests in this area.

Research is monitored internally as it progresses. Seminars are held to expose research as it develops.

Where appropriate, drafts of research reports are refereed externally. Referees are chosen both for their expertise on a topic and to reflect a range of views. While

Box B.4 Supporting research program and annual reporting, 1999-2000 publications

Annual report suite of publications

Annual report 1998-99

Regulation and its review 1998-99

Trade & assistance review 1998-99

Inquiry report supplements

An assessment of the performance of Australian railways, 1990 to 1998

Modelling the regional impacts of national competition policy reforms

Conference proceedings

Structural adjustment — exploring the policy issues

Policy implications of the ageing of Australia's population

1998 Industry Economics Conference: privatisation, regulation and reform

1999 Industry Economics Conference: regulation, competition and industry structure

Submissions to other review bodies

Review of WA Rail Access Regime

National Review of Pharmacy

Review of the Export Market Development Grants Scheme

Reference Group on Welfare Reform: Interim Report

Research reports

The role of training and innovation in workplace performance

Microeconomic reforms and Australian productivity: exploring the links

Multilateral liberalisation of services trade

Regulation of the taxi industry

The structure of the FTAP model

Private hospitals in Australia

An index number framework to evaluate microeconomic reforms

Productivity and the structure of employment

Update of productivity estimates — 1998-99

The Asian financial crisis (Address by Professor Anne Krueger)

referees provided a range of constructive criticism, they were generally complimentary about the overall standard of the Commission research projects they reviewed. The incorporation of responses to referees' comments enhanced the quality of the final research outputs.

Box B.5 Supporting research projects underway at 30 June 2000

Single-desk marketing: assessing the economic arguments #	Growth of non-traditional employment: are jobs becoming more precarious? #
Submission to the NCP Review of the Wheat Marketing Act #	Restrictions on trade in professional services #
Restrictions on trade in distribution services #	Genetically modified products: a consumer choice framework #
The increasing demand for skilled workers in Australia: the role of technical change #	Productivity in Australia's wholesale and retail trade #
Long-term aged care: expenditure trends and projections	Distribution of the economic gains of the 1990s
Modelling the effects of removing general tariffs: supplement to inquiry report	Achieving better regulation of services: conference proceedings
Links between government assistance and firm performance	Microeconomic reform, structural adjustment and the environment: workshop proceedings
Implications of the Internet for the Australian economy	Liberalising foreign investment regimes: progress and options for further reform
Quantifying the sectoral effects of liberalising trade in services	The restrictiveness of trade in health and education services
WTO and the civil society: exploring the policy issues	Links between industrial relations practices and labour productivity growth
Unemployment and re-employment of displaced workers	The growth and decline of employment at the firm level
The contribution of the reallocation of resources to industry productivity growth	Structural adjustment — key policy issues
Environmental labelling	Firm exits
Assessing domestic regulation in service industries — electricity *	Labour market inequality in Australia: trends, causes and consequences *
Innovation, productivity and profitability in Australian enterprises *	Unemployment: economic analysis and policy modelling *

Published between July and October 2000. * Collaborative projects. Information on a range of research projects is provided in the Commission's *Research Program 2000-2001*, July 2000.

Another form of quality assurance and measure of relevance is the Commission's practice of bringing leading policy analysts and researchers, including international experts, to workshops and conferences which the Commission either conducts or co-sponsors under its supporting research program. This year's major conference, convened with the Australian National University, brought international and domestic policy analysts together in June 2000 to discuss how to achieve better regulation of services (box 2.4). The conference proceedings will be published by the end of 2000.

To help ensure the relevance of the Commission's program of supporting research, its selection of research themes and projects is guided by consultations with a range of government, industry and community interests. For example, in mid-2000 the Commission held discussions with a range of interested parties on developing a series of research projects relating to the effective conservation of biodiversity. These discussions culminated in a workshop with several environmental economists in June 2000, as part of a process to determine key research issues impacting on private sector involvement in biodiversity conservation activities. A similar series of consultations and a workshop were held to assist in identifying the most relevant projects for the Commission in the labour market area.

Continuing what is now an annual practice, the Commission invited a range of government departments and agencies, peak national employer bodies, unions, and community welfare and environmental groups to meet in April 2000 to discuss current and future research. Meetings are held with academics on an ongoing basis. Consultations with Commissioners and staff also contribute to the identification of broad research areas.

Timeliness

Around three-quarters of the research projects listed in box B.4 were completed on or very close to anticipated schedules. Government-commissioned projects take priority and the Commission allocates its resources accordingly. Decisions to divert staff temporarily to higher priority work, redefinition of project scope and delays in obtaining data and referee comments were common reasons for extended completion times for research projects in the past year. In some cases, initial estimates of the time needed to undertake the required research proved too ambitious.

Indicators of usefulness

Evidence of the usefulness of the Commission's supporting research and annual reporting activities in contributing to policy making and to public awareness of

microeconomic reform issues is demonstrated by a range of indicators. For example:

- The Commission's research on productivity — in particular, the Commission Research Paper, *Microeconomic Reforms and Australian Productivity* and the Staff Research Paper, *The New Economy? A New Look at Australia's Productivity Performance* — was widely cited this year in domestic and international commentary on Australia's economic performance and structural reform policies. This Commission analysis was used, for example, in ministerial speeches, academic papers and journals, research undertaken by the OECD's Directorate for Science, Technology and Industry, Parliamentary Library research, and media reporting.
- Collaborative research undertaken by the Commission to quantify barriers to trade in specific services for Australia and a range of other countries in our region and to quantify the gains from multilateral liberalisation of services trade is attracting wide international interest — from World Bank researchers, academics in Australia and overseas, and in APEC forums — because it is part of the first attempt to quantify such barriers. The research is also providing insights on negotiating priorities in multilateral forums.
- The conference papers and proceedings, *Policy Implications of the Ageing of Australia's Population*, were launched by the Governor of Victoria in August 1999 and have attracted widespread interest by policy makers, health officials and the media. Attendance at forums held on the book in Melbourne and Canberra by the Melbourne Institute, co-convenor of the conference, attracted almost 210 people. The publication had been accessed from the Commission's website nearly 3000 times in the period to 30 June 2000.
- Research studies which provided a better information base for current community debate on the 'casualisation' of the Australian workforce attracted parliamentary and media attention. The first study, *Productivity and the Structure of Employment*, published in July 1999, highlighted changes in the numbers and shares of workers in different industries defined by the ABS as casual. The second study, *The Growth of Non-Traditional Employment: Are Jobs Becoming More Precarious?*, published in July 2000, focused on explaining the different definitions of 'casual' used by the ABS and that commonly used in the industrial relations context. It also showed that a large proportion of workers classified as casual by the ABS were not genuine employees with a casual employment contract or worked in ways that were not occasional, irregular or short-term. Further research is currently under way to understand better the characteristics of those workers whose employment is occasional, irregular or short-term.

More generally, important means by which research projects contribute to public debate are through media coverage, the dissemination of reports to key interest groups and the ready accessibility of reports on the Commission's website. Most of the 1999-2000 publications received media coverage upon their release. Two research papers — on taxi industry regulation, and productivity and the structure of employment — and the proceedings from the conference on the policy implications of the ageing of Australia's population were the subject of editorials in major newspapers. In total, more than 14 000 printed copies of research publications listed in box B.4 were available for distribution by the Commission and 580 copies were sold by government bookshops. To 30 June 2000, external parties had accessed the index pages of those reports on the Commission's website 16 220 times.

C Commissioned projects

The nature and breadth of the public inquiries and other work which the Commission is requested by governments to undertake, and the acceptance rate of the Commission's recommendations, provide some broad indicators of the quality and impact of Commission work.

This appendix updates information provided in the previous annual reports of the Productivity Commission on public inquiries and other projects specifically commissioned by the Government. It includes terms of reference for new inquiries and projects and the principal findings and recommendations from reports which have been released, together with government responses to those reports.

The Productivity Commission is required to report annually on the matters referred to it. This appendix provides details of projects which the Government commissioned during the year and government responses to reports completed in 1999-2000 and previous years. It also reports on commissioned projects received, reports released and government responses to reports since 30 June 2000.

This appendix is structured as follows:

- terms of reference for new government-commissioned projects;
- reports released and, where available, government responses; and
- government responses to Industry Commission and Productivity Commission reports from previous years.

Table C.1 summarises activity since the Commission's 1998-99 annual report and indicates where relevant information can be found.

Table C.1 **Stage of completion of commissioned projects and government responses to Commission reports**

<i>Date received</i>	<i>Title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>Major findings/ recommendations</i>	<i>Government response</i>
Inquiries					
29-1-96	Medical and Scientific Equipment Industries	IC AR 95-96	IC Report No. 56 signed 20-12-96	IC AR 96-97	page 145
13-7-98	Nursing Home Subsidies	PC AR 97-98	PC Report No. 4 signed 13-1-99	PC AR 98-99	page 146
5-8-98	Progress in Rail Reform	PC AR 97-98	PC Report No. 6 signed 5-8-99	page 140	page 142
25-8-98	Implementation of Ecologically Sustainable Development by Commonwealth Departments and Agencies	PC AR 97-98	PC Report No. 5 signed 25-5-99	page 131	page 132
26-8-98	Australia's Gambling Industries	PC AR 97-98	PC Report No. 10 signed 26-11-99	page 123	page 126
31-8-98	Impact of Competition Policy Reforms on Rural and Regional Australia	PC AR 97-98	PC Report No. 8 signed 8-9-99	page 116	page 118
23-2-99	International Telecommunications Market Regulation	PC AR 98-99	PC Report No. 7 signed 23-8-99	page 120	page 121
5-3-99	Broadcasting	PC AR 98-99	PC Report No. 11 signed 3-3-00	page 133	page 139
12-3-99	International Liner Cargo Shipping	PC AR 98-99	PC Report No. 9 signed 15-9-99	page 128	page 130
22-10-99	Review of Australia's General Tariff Arrangements	page 108	PC Report No. 12 signed 22-7-00	not yet released	na
5-11-99	Review of Legislation Regulating the Architectural Profession	page 109	PC Report No. 13 signed 4-8-00	not yet released	na
14-2-00	Legislation Review of the <i>Prices Surveillance Act 1983</i>	page 111	In progress	na	na
21-6-00	Review of Telecommunications-specific Competition Regulation	page 112	In progress	na	na

17-8-00	Review of Cost Recovery by Commonwealth Regulatory, Administrative and Information Agencies	page 113	In progress	na	na
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Other commissioned projects

19-5-99	The Environmental Performance of Commercial Buildings	PC AR 98-99	Report released 9-12-99	page 127	128
1-9-00	International Pharmaceutical Price Differences	page 115	In progress	na	na

na not applicable

Note: References to previous annual reports (AR), inquiry and other reports are to those of the Industry Commission (IC) and the Productivity Commission (PC).

Terms of reference for new projects

This section outlines the terms of reference for commissioned projects received since the Commission's annual report for 1998-99 which are in progress or for which the report has not yet been released. Full terms of reference are available on the Commission's website and in the relevant reports.

Review of Australia's general tariff arrangements

On 21 October 1999 the Assistant Treasurer referred the scope for a post-2000 reduction in the general tariff (covering only rates of 5 per cent or less, and excluding the PMV and TCF sectors) for inquiry and report within nine months of receipt of the reference.

The Commission was to:

- consider the Government's desire to:
 - improve the overall efficiency of the Australian economy;
 - encourage the development of sustainable, prosperous and internationally competitive industries in Australia;
 - promote the provision of high quality, competitively priced goods and services to Australian businesses and consumers;
 - abide by Australia's international commitments, including the commitment under APEC to review its post-2000 general tariff arrangements by 2000; and
 - participate in a new round of multilateral trade negotiations in which bound tariff reductions will be considered by Australia and other WTO members;
- report on the costs and benefits to Australian consumers, industries and their employees, and the general community, of a reduction of all general tariff rates under reference;
- include options, including a preferred option, and implementation strategies for any recommended changes to general tariff arrangements that took into account:
 - the impact of microeconomic reform and pace of structural adjustment on Australian industry;
 - recent and prospective progress in regional and international trade liberalisation of interest to Australia;
 - other international economic and trade developments;
 - the impact of the floating exchange rate on the competitiveness of Australian industry;

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- implications for trade negotiation strategies, including how the timing of any reductions in general tariffs would best assist Australia's negotiating position at the forthcoming WTO round;
 - interaction with the various tariff concession arrangements including the Manufacture in Bond and the TRADEX schemes;
 - budgetary implications, including the effects of any changes in domestic economic activity flowing from tariff reductions;
 - the economic, social, environmental and regional policy objectives, including employment objectives, of Australian governments;
 - existing preferential trade arrangements; the Government's commitment to the APEC goal of free and open trade and investment in the Asia Pacific by 2010 for industrialised economies and 2020 for developing economies;
 - the schedule for tariff reform in the PMV and TCF industries;

and report on the first seven of these matters;

- identify and report on the costs and benefits of removing tariffs on tariff lines at the 8-digit level for which there is no significant Australian production; and
- consider the appropriateness of the Tariff Concession System and Project By-Law arrangements.

The reference was received on 22 October 1999 and the Commission's final report was signed on 22 July 2000.

Review of legislation regulating the architectural profession

On 5 November 1999 the Assistant Treasurer referred legislation and associated regulations relating to the architectural profession for report within nine months of receipt of the reference. The reference was sent on behalf of the governments of the Northern Territory, the Australian Capital Territory, Tasmania, Western Australia, South Australia, Queensland and New South Wales and was to assist State and Territory governments meet their legislation review obligations under the Competition Principles Agreement.

The Commission was asked to report on the preferred option for regulation, if any, of the architectural profession in Australia, taking into account the following principles:

- legislation which restricts competition should be retained only if the benefits to the community as a whole outweigh the costs; and if the objectives of the

legislation cannot be achieved more efficiently through other means, including non-legislative approaches; and

- the need to promote consistency between regulatory regimes and avoid unnecessary duplication.

In making assessment in relation to these principles, the Commission was to have regard to the following matters, where relevant:

- the quality of the built environment and government legislation and policies relating to ecologically sustainable development; social welfare and equity considerations, including community service obligations; government legislation and policies relating to matters such as occupational health and safety, industrial relations, access and equity; economic and regional development, including employment and investment growth; the interests of consumers generally or of a class of consumers; the competitiveness of Australian business; and the efficient allocation of resources;
- any recent or current State/Territory legislation reviews of the architects profession, including those in Victoria, South Australia, Western Australia and the Northern Territory;
- the Council of Australian Governments' *Guidelines for the Review of Professional Regulation*, February 1999; and
- other legislation which impacts specifically upon the activities of architects.

The Commission was to:

- identify any differences between the legislation in each jurisdiction;
- identify any public interest rationale for the legislation;
- clarify the objectives of the legislation and, given the identified rationale, their continuing appropriateness in each jurisdiction;
- identify potential restrictions on competition arising under the legislation;
- identify relevant alternatives to the legislation, including non-legislative approaches, and the extent to which these would achieve the identified objectives;
- analyse the likely effect of any identified restriction on competition on the economy generally;
- assess and balance the costs and benefits of the restrictions identified — benefits, costs and impacts of the restrictions, and their alternatives, were to be quantified wherever practical;

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- in assessing costs and benefits, consider the long-term social, cultural and economic impacts of architectural services;
 - identify the different groups likely to be affected by the legislation and the alternatives identified; and
 - determine a preferred option for regulation, if any, in light of the principles set out above.

The Commonwealth Government intends to release the Commission's final report promptly and the State and Territory governments have agreed to consider the Commission's report and respond within six months of it being made public.

The Commission signed its final report on 4 August 2000.

Legislation review of the *Prices Surveillance Act 1983*

On 14 February 2000 the Assistant Treasurer referred the *Prices Surveillance Act 1983* (the PSA) to the Commission for inquiry and report within nine months of receipt of the reference. The Commission is to focus on those parts of the legislation which restrict competition or which impose costs or confer benefits on business.

The Commission is to report on the appropriate arrangements, if any, for prices surveillance, taking into account the following:

- legislation/regulation that restricts competition should be retained only if the benefits to the community as a whole outweigh the costs; and if the objectives of the legislation/regulation can be achieved only by restricting competition. Alternative approaches which may not restrict competition include quasi-regulation and self-regulation;
- where relevant, effects on the environment, welfare and equity, occupational health and safety, economic and regional development, consumer interests, the competitiveness of business (including small business), and efficient resource allocation;
- the need to ensure that regulation achieves its objectives, using the most appropriate means;
- the need to promote consistency between regulatory regimes and efficient regulatory administration, through improved coordination to eliminate unnecessary duplication;
- compliance costs and the paperwork burden on business should be reduced where feasible, particularly for small business; and

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- the potential for increasing competition in those markets to which the provisions of the PSA have been applied.

In making assessments in relation to these matters, the Commission is to have regard to the analytical requirements for regulation assessment by the Commonwealth Government, including those set out in the Competition Principles Agreement and it should:

- identify the nature and magnitude of the problem(s) that the PSA seeks to address;
- clarify the objectives of the PSA;
- identify whether, and to what extent, the PSA restricts competition;
- consider alternative means (including non-legislative approaches) of achieving the objectives of the PSA, including changes to the operation of existing price oversight arrangements and alternatives to prices oversight;
- analyse and, as far as reasonably practical, quantify the benefits, costs and overall effects of the PSA and alternatives;
- identify the different groups likely to be affected by the PSA and alternatives;
- determine a preferred option for regulation, if any, in light of objectives for legislation review; and
- examine mechanisms for increasing the overall efficiency (including minimising the compliance costs and paper burden on small business) of the PSA and, where it differs, the preferred option.

Review of telecommunications-specific competition regulation

On 21 June 2000 the Commission received a reference from the Treasurer on telecommunications-specific competition regulation for inquiry and report within 12 months of receipt of the reference. Section 151CN of the *Trade Practices Act 1974* requires that, before 30 June 2000, the Minister for Communications, Information Technology and the Arts commission a review of Part XIB of that Act which deals with anticompetitive conduct in the telecommunications sector. At the Minister's request, the matter was referred to the Productivity Commission.

In conducting the review, the Commission is to have regard to the intent of the Parliament in establishing the review, the state of competition in the telecommunications market, and the impact of new technologies and delivery platforms. In making its recommendations, the Commission should aim to improve the overall economic performance of the Australian economy.

In particular, the Commission was requested to examine and report on:

- the operation to date of Parts XIB and XIC of the *Trade Practices Act 1974* and the following provisions of the *Telecommunications Act 1997*:
 - Part 17, which deals with pre-selection in favour of carriage service providers;
 - Division 5 of Part 21, which deals with technical standards about the inter-connection of facilities;
 - Part 22 as it pertains to number portability;
 - Division 3 of Part 25, which deals with ACCC inquiries, particularly in relation to the declaration of services under Part XIC; and
 - Parts 2 to 5 of Schedule 1, which deal with various access matters;
- the community and economic benefits and costs, including ongoing network investment, flowing from all these provisions;
- whether these provisions are sufficient to prevent integrated firms taking advantage of their market power with the purpose or effect of substantially lessening competition in a telecommunications market, or whether alternative arrangements are required or appropriate; and
- whether any or all of the current provisions should be repealed or amended.

The Commission's review does not encompass the structural separation of Telstra, in line with government policy on this issue.

Review of cost recovery by Commonwealth regulatory, administrative and information agencies — including fees charged under the *Trade Practices Act 1974*

On 16 August 2000 the Assistant Treasurer referred the cost recovery arrangements of Commonwealth Government agencies for inquiry and report within 12 months of receipt of the reference. The inquiry is principally a general review of cost recovery arrangements across Commonwealth regulatory, administrative and information agencies. In addition, the inquiry incorporates the review of fees charged under the Trade Practices Act which is required under the Commonwealth's Legislation Review Schedule.

The Commission is to report on:

- the nature and extent of cost recovery arrangements across Commonwealth Government regulatory, administrative and information agencies, including identification of the activities of those agencies for which cost recovery is undertaken;

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- factors underlying cost recovery arrangements across Commonwealth Government regulatory, administrative and information agencies;
 - who benefits from the regulations, administrative activity and information to which cost recovery arrangements are applied;
 - the impact on business, particularly small business, consumers and the community of existing cost recovery arrangements, including any anti-competitive effects and incentive effects;
 - the impact of cost recovery arrangements on regulatory, administrative and information agencies, including incentive effects;
 - the consistency of cost recovery arrangements with regulatory best practice;
 - appropriate guidelines for:
 - where cost recovery arrangements should be applied;
 - whether cost recovery should be full, partial or nil;
 - ensuring that cost-recovered activities are necessary and are provided in the most cost-effective manner;
 - the design and operation of cost recovery arrangements, including the treatment of small business;
 - the review of cost recovery arrangements; and
 - where necessary, implementation strategies to improve current arrangements.

In reporting on these matters, the Commission is to have regard to:

- the implications of recent and emerging technologies; and
- legal constraints on the design and operation of cost recovery arrangements.

With respect to fees charged under the Trade Practices Act, the Commission is to have particular regard to: those fees charged that restrict competition, or which impose costs or confer benefits on business; and whether cost recovery arrangements that restrict competition should be retained in whole or part, taking into account whether the benefits to the community as a whole outweigh the costs, and whether the objectives of those arrangements can be achieved only by restricting competition.

In making its assessment of fees charged under the TPA:

- the Commission is to have regard to environmental, welfare and equity considerations; economic and regional development; occupational health and safety; consistency between regulatory regimes and efficient regulatory administration; the interests of consumers generally; the competitiveness of

business including small business; compliance costs and the paperwork burden on small business; and the efficient allocation of resources; and

- among other things, the Commission is to:
 - identify the rationale for fees charged under the TPA;
 - clarify and assess the objectives of the fee arrangements;
 - identify whether, and to what extent, the fee arrangements impose costs or confer benefits on business or restrict competition;
 - identify any relevant alternatives to these fee arrangements;
 - analyse and, as far as reasonably practical, quantify the benefits, costs and overall effects of the arrangements and alternatives identified;
 - determine a preferred option for the fee arrangements, if any; and
 - examine mechanisms for increasing the overall efficiency, including minimising the compliance costs and paper burden on small business, of the arrangements and, where it differs, the preferred option.

International pharmaceutical price differences

On 1 September 2000 the Assistant Treasurer asked the Commission to undertake a research study examining the differences between the prices of pharmaceutical benefit items in Australia (those listed on the Pharmaceutical Benefits Scheme) and the prices of the same items in comparable overseas countries, and to identify as far as possible the reasons for any differences. The Department of Health and Aged Care and the Department of Industry, Science and Resources had sought the Commission's assistance in undertaking a research study of pharmaceutical prices.

The Commission's analysis is to have regard to the following:

- The basket of drugs to be examined should include new, innovative drugs (those for which there is no reasonable alternative and also those with efficacy, quality of life and/or safety improvements, including better modes of delivery of active ingredients), new chemical entities for which alternatives are available (so-called 'me-too' items) and drugs subject to generic competition. At least 10 of the major drugs in each group should be examined.
- The group of countries to be considered in the price comparison should include a sample of those which offer similar subsidy arrangements for drugs as Australia and those which adopt different arrangements.
- Price comparisons should be made at the ex-factory levels so as to avoid any confusion that may arise due to the application of wholesalers' mark-ups/

margins and fees/allowances, and mark-ups added by pharmacists or other retailers.

- Some form of weighted average prices should be estimated, using for example, Australian sales volumes as weights.

In addition, the Commission is to take account of:

- both the price of generic brands and the original brand for drugs subject to generic competition;
- the range of medical conditions for which a drug is subsidised;
- discounts, bonuses and other incentives offered by industry;
- risk sharing arrangements (price/quality arrangements); and
- the regulatory arrangements and the underlying cost structures in the countries for which prices are compared.

The Commission is required to provide regular progress reports and its final report is to be published within nine months of commencing the study.

Reports released by the Government

This section summarises the main findings and recommendations of commissioned projects which were released by the Government during 1999-2000. Where available, the government response to reports is summarised.

Impact of competition policy reforms on rural and regional Australia

Inquiry Report No. 8 signed 8 September 1999, released 14 October 1999.

Among the key findings of the report were that:

- Communities in rural and regional Australia are being affected by a range of beneficial and adverse influences, of which national competition policy (NCP) is one.
- Most of these influences are of a long-term nature and largely beyond government control — for example, declining terms of trade for agriculture, changes in technology and in consumer tastes.
- Such long-term factors are mainly responsible for the declining share of primary industries in Australia's economy and the associated drift of population away from inland country areas.

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- NCP has become a scapegoat for some of the effects of these broader influences.
 - Governments should take steps to improve community understanding of NCP, including clarification of how matters of wider public interest, and social considerations in particular, are to be taken into account in its implementation.
 - While there are costs associated with implementing NCP, it will bring net benefits to the nation, and to rural and regional Australia as a whole over the medium term. That said, the early effects have favoured metropolitan areas more than rural and regional areas.
 - There is likely to be more variation in the incidence of benefits and costs of NCP among country regions than in metropolitan areas.
 - Where adjustment pressures develop rapidly and are regionally concentrated, governments may need to consider whether, in addition to generally available assistance measures, specific forms of adjustment assistance are warranted for some people in adversely affected regions.

To improve community understanding of the NCP and to ensure NCP is not misrepresented, the Commission recommended that:

- All governments should take steps to ensure that the information they provide about their NCP undertakings is:
 - accurate in terms of both its content and relationship to other policies; and
 - publicly available in a readily accessible form and is provided to those implementing, and those most likely to be affected by, NCP reforms.
- All governments should publish and publicise guidelines which:
 - outline the purpose and scope of the ‘public interest’ provisions of the Competition Principles Agreement; and
 - provide guidance on how the provisions should be interpreted and applied.
- The common set of basic principles for application of the ‘public interest’ test which is intended to be developed jointly by governments also should be published and disseminated widely.
- Governments should require major legislation reviews to go further than simply determining compliance or otherwise with NCP principles. Reviews should be based on genuine public input, be conducted in a transparent manner, outline the likely distribution of costs and benefits, and inform interested parties why and how reform, or maintenance of the status quo, will lead to superior outcomes and performance than the alternatives.

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- In the case of reviews of anticompetitive legislation which may have significant impacts extending across jurisdictions, the benefits and costs should be weighed in terms of the interests of Australians as a whole.
 - The National Competition Council should no longer be asked to conduct legislation reviews.
 - At this juncture, there should be no across-the-board extension of the NCP target dates.
 - All jurisdictions should ensure that their regulatory agencies responsible for the oversight of NCP-related reforms are subject to periodic independent review to ensure that they are performing appropriately.
 - All benefit–cost studies of major new water infrastructure investments should be publicly available and clearly identify the nature and magnitude of any social and environmental benefits and costs.

The conclusion that NCP reforms are producing benefits overall for metropolitan and country areas does not mean that adverse effects of some reforms on some country communities should be ignored. Governments have at their disposal policy instruments to mitigate such effects. The Commission made the following recommendations in respect of adjustment issues:

- Governments should rely principally on generally available assistance measures to help people adversely affected by NCP reforms. The effectiveness of these measures should be kept under review.
- Where governments decide that specific adjustment assistance is warranted to address any large, regionally concentrated costs, such assistance should:
 - facilitate, rather than hinder, the necessary change;
 - be targeted to those groups where adjustment pressures are most acutely felt;
 - be transparent, simple to administer and of limited duration; and
 - be compatible with general ‘safety net’ arrangements.

Government response

When releasing the report on 14 October 1999, the Treasurer stated:

The Government welcomes the Report, which provides a comprehensive analysis of the factors behind economic and social developments in rural and regional Australia and the effects of competition policy on the community. The Government is releasing the Report now because it believes it will provide a valuable contribution to discussion at the Regional Australia Summit, which is to be held on 27-29 October. The Government is making the Report available for the Summit in order to improve community

understanding of national competition policy. A formal response to the Report's recommendations will be made in due course. (Costello 1999)

On 10 August 2000 the Treasurer released the Commonwealth Government's formal response which welcomed the evidence of the benefits of NCP to rural and regional Australia and endorsed the thrust of the Commission's recommendations (Costello 2000). In response to the specific recommendations in the report, the Government:

- would continue to make all information available on its undertakings under NCP and provide detailed information on how NCP interacts with related policies;
- agreed that NCP is sometimes incorrectly blamed for difficulties faced by rural and regional Australia and that access to accurate and detailed information would increase community understanding. The Commonwealth would raise this issue with the States and Territories with a view to proposing that full information be made available to those who implement NCP reforms and to ensure that the benefits of NCP are not clouded by incorrect attribution to NCP of unrelated policy decisions;
- agreed with the need for major legislation reviews to be both comprehensive and accessible to those affected by the outcomes of the review. This would require that both positive and negative impacts of proposed NCP reforms on regional communities to be assessed and identified in the application of the public interest test required under NCP;
- agreed with the recommendation that, in legislation reviews with significant impacts across jurisdictions, costs and benefits should be weighed in terms of the interests of Australians as a whole;
- decided that no further legislation reviews would be carried out by the National Competition Council until the roles and operations of the Council are considered by the intergovernmental review of the NCP arrangements;
- did not favour an across-the-board extension of NCP target dates, but would consider adjustments in the light of the review of the intergovernmental agreements;
- in respect of cost–benefit studies of major new water infrastructure investments, agreed the such studies should clearly identify the nature and magnitude of any social and environmental benefits and costs. The Commonwealth noted that the COAG water reform agreement requires the States and Territories to conduct robust, independent appraisal before undertaking new investment in water infrastructure. The National Competition Council requires that the justification for such investment be transparent; and

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- agreed that, in principle, generally available assistance measures are the most appropriate form of assistance and endorsed the general principles identified by the Commission in respect of adjustment assistance.

As much of the implementation of competition policy is the responsibility of State and Territory governments, the Prime Minister would write to Premiers and Chief Ministers asking them to consider the issues raised in the report and its recommendations. The Commission's recommendations would also be able to be considered by governments in the light of the report of the Working Group reviewing the intergovernmental agreements forming the basis of NCP.

International telecommunications market regulation

Inquiry Report No. 7 signed 23 August 1999, released 23 November 1999.

The report focused on the reform of international telecommunications markets, in particular on the payment arrangements between providers of international telecommunications services. The Commission found that:

- The traditional accounting rate system for international telephony has significantly declined in importance in recent years. There is increasing scope for commercial negotiation between providers, with prices determined on the basis of the services required.
- Accounting rates for international telecommunications traffic to and from non-liberalised countries remain well above underlying costs.
 - Australia could increase pressure for reform through negotiation with other countries in the International Telecommunications Union to extend endorsement of alternative calling procedures and to seek removal of categories of international traffic, such as that originating or terminating on mobile networks, from the accounting rate system.
- There is evidence of inefficient pricing for some services between liberalised markets, including the Internet.
 - The relative importance of domestic interconnection in the total costs of international telecommunications continues to grow. The work of the ACCC should ultimately result in a better alignment of interconnection prices with underlying costs.
 - There is a potential anomaly in levying a Universal Service Obligation contribution on international satellite operators, but not on international cable consortia.

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- It is difficult to link the market conduct and investment behaviour of international telecommunications providers directly to the inefficiencies inherent in past and existing payment systems. There is considerable evidence, however, that providers adopt strategies that minimise the adverse effects of those systems and that they continue to exploit remaining market power.
 - While individual providers adopt strategies to reduce the costs imposed on them by inefficiencies in payment arrangements, greater benefit to the community would be obtained by reform of the payment arrangements themselves and further liberalisation of markets.
 - Although the available estimates of the losses arising from inefficiencies in payment arrangements appear relatively small, they are likely to underestimate the full benefits which could be obtained from current and future reform.
 - The potential benefits from reform would be more visible if the ACCC included more services in the scope of its annual public report on telecommunications charges paid by consumers and also published information about the underlying costs making up the elements of international telecommunications services.
 - The broad strategies adopted by Australia in pursuit of telecommunications market reform in general, and of reform of international telecommunications payment arrangements in particular, have been appropriate. They include:
 - liberalising the Australian domestic telecommunications market;
 - pursuing liberalisation of domestic markets of other countries through the WTO;
 - following through on the commitment of WTO members to take up reform of the accounting rate system in forthcoming negotiations;
 - seeking a commercially negotiated cost-based pricing approach to international telecommunications and its various service components, including originating and terminating interconnection;
 - continuing to seek reform through the International Telecommunications Union;
 - building strong bilateral and regional relationships to maximise Australia's effectiveness in multilateral forums; and
 - pursuing reform of internet charging arrangements in an international context.

Government response

In response to the Commission's findings, the Government agreed that:

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- the traditional accounting rate system for international telephony had significantly declined and there was increasing scope for commercial negotiation between providers;
 - accounting rates with non-liberalised countries remain well above costs; and
 - there are inefficiencies in past and present payment systems (Alston 1999).

The Government presently promotes reform in international forums (including a multilateral agreement through APEC on internet pricing and access principles), encourages Australian carriers to adopt strategies which minimise the adverse effects of the payment systems, requires carriers and service providers in Australia to observe international conventions and agreements to which Australia is a party, and has adopted measures to mitigate any attempt by Australian carriers and service providers to abuse any market power they might have.

The Government noted the Commission's concern about high Public Switched Telephone Network and other access charges in Australia which may deter the entry of new players and result in increased prices for international telephony and other services. The Government acknowledged this issue and noted that it was being addressed under the telecommunications access regime under Part XIC of the Trade Practices Act. (In June 2000 the Government referred Part XIC to the Productivity Commission for inquiry and report.) The Government expected that increased competition in the international transmission market would facilitate access at reduced prices and, in relation to the calculation of Universal Service Obligation contributions, it was committed to promoting competitive neutrality between telecommunications service providers.

As to payment arrangements, the Australian telecommunications regime allows carriers to negotiate payment arrangements directly with their correspondent relations. The Government noted that the traditional correspondent relations between countries for the termination and settlement of international telecommunications are being superseded by new arrangements. Some of these arrangements are finding expression in International Telecommunications Union Recommendations, but others are freely agreed between relevant carriers, without any involvement from governments.

The Government expressed concern in respect of the finding that the ACCC include more services in the scope of its annual public report on telecommunications charges paid by consumers and publish information about the underlying costs making up the elements of international telecommunications services. A major difficulty was that, as the Commission had noted, services to business are generally supplied as a package under individual, confidential contracts. The multiplicity of such contracts and their commercial sensitivity make monitoring difficult. The

Government considered it important that the potential benefits of disclosing detailed cost and pricing information be balanced against the possible detrimental effects on competition, both between suppliers of telecommunications services and the acquirers of those services. It was concerned about the high level of scrutiny of international charges the Commission appeared to be suggesting in an increasingly competitive market.

The Government noted the Commission's endorsement of the broad strategies being adopted for the reform of the telecommunications market in Australia and of the international telecommunications payment systems in particular.

Australia's gambling industries

Inquiry Report No. 10 signed 26 November 1999, released 16 December 1999.

The Productivity Commission was requested by the Commonwealth Government to provide an information report on the economic and social impacts of Australia's gambling industries to enhance public understanding of the issues and assist government decision making. While there were no policy recommendations in the report requiring a formal response by the Commonwealth Government, the report provided a range of policy relevant findings to assist all governments in Australia.

The Commission's key findings were that:

- Gambling provides enjoyment to most Australians, over 80 per cent of whom gambled in the last year — spending about \$11 billion — with 40 per cent gambling regularly.
- Gambling is a big and rapidly growing business in Australia, with the industries currently accounting for an estimated 1.5 per cent of GDP, and employing over 100 000 people in more than 7000 businesses throughout the country.
- The main source of national benefit from the liberalisation of gambling has been the consumer gains from access to a service that gives people enjoyment.
 - Net gains in jobs and economic activity are small when account is taken of the impact on other industries of the diversion of consumer spending to gambling.
- The principal rationales for regulating the gambling industries any differently than other industries relate to:
 - promoting consumer protection;
 - minimising the potential for criminal and unethical activity; and
 - reducing the risks and costs of problem gambling.

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- Around 130 000 Australians (about 1 per cent of the adult population) are estimated to have severe problems with their gambling. A further 160 000 adults are estimated to have moderate problems, which may not require ‘treatment’ but warrant policy concern.
 - Taken together, ‘problem gamblers’ represent just over 290 000 people, or 2.1 per cent of Australian adults.
 - Problem gamblers comprise 15 per cent of regular (non-lottery) gamblers and account for about \$3.5 billion in expenditure annually — about one-third of the gambling industries’ market.
 - They lose on average around \$12 000 each per year, compared with just under \$650 for other gamblers.
 - The prevalence of problem gambling is related to the degree of accessibility of gambling, particularly gaming machines.
 - The costs include financial and emotional impacts on the gamblers and on others, with on average at least five other people affected to varying degrees. For example:
 - one in ten said they have contemplated suicide due to gambling; and
 - nearly half those in counselling reported losing time from work or study in the past year due to gambling.
 - The adverse impacts on individuals and the community help explain the ambivalence of most Australians about the gambling industries, despite their widespread involvement:
 - around 70 per cent of people surveyed believed that gambling did more harm than good; and
 - 92 per cent did not want to see further expansion of gaming machines.
 - Quantification of the costs and benefits of the gambling industries is hazardous. Uncertainty about key parameters constrained the Commission to providing low and high estimates. For the gambling industries as a whole, estimates of their net contribution to society ranged from a net loss of \$1.2 billion to a net benefit of \$4.3 billion.
 - This masks divergent results for different gambling modes, with lotteries revealing clear net benefits, whereas gaming machines and wagering include the possibility of net losses.
 - Policy approaches for the gambling industries need to be directed at reducing the costs of problem gambling — through harm minimisation and prevention measures — while retaining as much of the benefit to recreational gamblers as possible.

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- The current regulatory environment is deficient. Regulations are complex, fragmented and often inconsistent. This has arisen because of inadequate policy-making processes and strong incentives for governments to derive revenue from the gambling industries.
 - Restrictions on competition have not reduced the accessibility of gambling other than for casino games. With the possible exception of casinos, current restrictions on competition have little justification.
 - Venue caps on gaming machines are preferable to State-wide caps in helping to moderate the accessibility drivers of problem gambling. However, more targeted consumer protection measures — if implemented — have the potential to be much more effective, with less inconvenience to recreational gamblers.
 - Existing arrangements are inadequate to ensure the informed consent of consumers, or to ameliorate the risks of problem gambling. Particular deficiencies relate to:
 - information about the ‘price’ and nature of gambling products (especially gaming machines);
 - information about the risks of problem gambling;
 - controls on advertising (which can be inherently misleading);
 - availability of automatic teller machines and credit; and
 - pre-commitment options, including self-exclusion arrangements.
 - In such areas, self-regulatory approaches are unlikely to be as effective as explicit regulatory requirements. In most cases, regulation can be designed to enhance, rather than restrict consumer choice, by allowing better information and control.
 - Counselling services for problem gamblers serve an essential role, but there is a lack of monitoring and evaluation of different approaches, and funding arrangements in some jurisdictions are too short term.
 - Services, awareness promotion and research activities related to problem gambling are likely to be most effectively funded from earmarked levies on all segments of the gambling industry, with the allocation of funds independently administered.
 - Internet gambling offers the potential for consumer benefits, as well as new risks for problem gambling. Managed liberalisation — with licensing of sites for probity, consumer protection and taxation — could meet most concerns, although its effectiveness would require the assistance of the Commonwealth Government.

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- On the basis of available information, there is not a strong or unambiguous case for significantly reducing gambling taxes, with the possible exception of lotteries. Any changes would need to be incremental and carefully monitored.
 - The mutuality principle, combined with lack of constraints on gaming machine numbers, appears to be distorting the investment and pricing decisions of some clubs, with impacts on competitors. Of the options for dealing with it, only tax action at the State level appears feasible.
 - Policy decisions on key gambling issues have in many cases lacked access to objective information and independent advice — including about the likely social and economic impacts — and community consultation has been deficient.
 - An ideal regulatory model would separate clearly the policy-making, control and enforcement functions.
 - The key regulatory control body in each State or Territory should have statutory independence and a central role in providing information and policy advice, as well as in administering gambling legislation. It should cover all gambling forms and its principal operating criteria should be consumer protection and the public interest.

Government response

In releasing the report the Prime Minister said:

The Productivity Commission report is the first comprehensive investigation of gambling in Australia and it is the first time we have had a complete picture not only of the economics and regulatory structure of the gambling industries, but also of the social consequences of the recent rapid expansion of gambling in this country. (Howard 1999a)

The Prime Minister also stated that the Commission's report was:

a very balanced attempt to strike the right pitch between the rights of people to gamble, the recognition of [gambling's] role as part of the social fabric of Australia, but also to recognise that those who have a problem do experience in many cases a total blighting of their lives. The analysis of the tendency to suicide, job loss, family breakdown, family deprivation, all of the other things that attend the lives of the almost 300 000 people identified by the report as being problem gamblers in Australia. I think it makes very interesting and very compelling reading. (Howard 1999b)

While the regulation of gambling has traditionally been an area of State government responsibility, the Commonwealth announced its intention to take a leadership role in coordinating a national response to problem gambling.

In response to the report, the Commonwealth Government proposed the establishment of a Ministerial Council on Gambling aimed at achieving a national approach to problem gambling. The Council would report to the Council of Australian Governments. The Minister for Family and Community Services would represent the Commonwealth, with other Ministers participating on relevant issues. An expert advisory panel to the Council was also proposed, consisting of representatives of community organisations and the gambling industries.

The Commonwealth would also undertake a range of measures to increase the priority given to the prevention and treatment of problem gambling within its own social programs.

In addition, since the report's release, a number of significant policy initiatives directed at problem gambling have been introduced by State and Territory governments, particularly Victoria, New South Wales and Queensland.

The environmental performance of commercial buildings

Key findings from this commissioned research report, which was completed in November 1999 and released on 9 December 1999, were:

- A range of innovative, input-saving technologies and processes (ISTPs) could be incorporated in commercial buildings during their design, construction, operations, maintenance, refurbishment or demolition stages to reduce their environmental impact. Many appear to be inexpensive and commercially viable.
- However, at current prices, ISTPs (particularly for energy conservation) are simply not a high priority for many businesses. The costs of inputs of energy and other environmental resources used in a building are commonly only a small fraction of a firm's costs. ISTPs have been, and are, adopted where input costs are significant (such as energy and water costs in hotels), and they do not detract from the firm's other objectives.
- There are numerous 'hidden costs', like disruption to business, and risks, such as lower reliability, which reduce the apparent attractiveness of many ISTPs.
- Information about ISTPs is widespread and readily accessible. The main reason the information is not widely applied is that improving the environmental performance of commercial buildings is generally a low priority for business.
- But there are environmental externalities, where businesses do not take into account the environmental costs of their use of natural resources (particularly the greenhouse gas emissions from burning fossil fuels in electricity generation).

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- Market-based approaches are the best way of accounting for externalities, the effects of which will be economy-wide, flexible and transparent (such as with the tradable emission permits being investigated by the Australian Greenhouse Office).
 - In contrast, mandatory technical performance standards for energy- or input-efficiency are likely to be distortionary, inefficient and inflexible, targeting only the commercial buildings sector and possibly stifling further innovation.

Government response

As at 6 October 2000, there had not been a formal response to the report. However, the Australian Greenhouse Office is sponsoring an Australian Building Energy Code that is being developed through the Australian Building Energy Council. It is planned to incorporate this Code in the Government's Australian Building Code. Contrary to the Commission's findings, a key feature of the Code under development would appear to be the implementation of mandatory energy performance standards.

International liner cargo shipping: a review of Part X of the *Trade Practices Act 1974*

Inquiry Report No. 9 signed 15 September 1999, released 23 December 1999.

Key messages of the report were that:

- As an importer of liner cargo shipping services, Australia's national interest is served by obtaining liner shipping services that meet shippers' diverse needs at the lowest possible price.
- Because transport costs and service levels directly affect their competitiveness, Australian exporters and importers have a direct interest in obtaining the best possible deal from foreign liner carriers. Thus pursuit of their self interest in relation to liner shipping also serves the national interest.
- Conferences — groupings of liner carriers which coordinate services on individual trade routes — can be an efficient way of meeting an important part of shippers' diverse demands. But any form of market cooperation increases the potential for market power.
- The tension between the benefits and potential costs of conference arrangements has led to special treatment of conferences worldwide. Part X of the Trade Practices Act (TPA) is an industry-specific, legislated industry code which exempts conferences from some general provisions of the TPA, *provided* they

meet certain obligations to Australian exporters and they do not misuse any market power. Exporters also are allowed to form collective buying groups to enhance their negotiating power, backed up by regulatory intervention as they see fit.

- The current regulatory approach has promoted the national interest because Part X allows the efficiencies of conference arrangements while letting competition from non-conference lines and the countervailing power of Australian exporters constrain their potential market power.
- Repeal of Part X in favour of a potentially more interventionist approach under the general (authorisation) provisions in Part VII of the TPA is unlikely to deliver greater net national benefits. Scope for successful intervention appears limited and, moreover, the general provisions of the TPA are likely to involve greater administrative and compliance costs than Part X.
- While a Part X-type outcome for regulation of liner shipping *could*, in principle, be replicated under Part VII (especially if block authorisation were allowed) or under a special notification procedure, there can be no certainty that these alternatives would, in practice, meet the criteria as well as Part X does. Nor could they be introduced at negligible transitional cost.
- The ultimate test for any regulation or legislation is whether it promotes the national interest and does so more efficiently than alternatives. Part X passes this test.

The Commission recommended that Part X be retained and be re-examined in 2005.

In addition, the Commission recommended that the operation of Part X could be improved by:

- clarifying that the exemption relating to rate setting extends to land-based charges that normally form part of a ‘terminal-to-terminal’ shipping contract (that is, one that includes not only the ‘blue water’ component, but also the sorting and stacking of containers within a container terminal). The Commission favoured widening the definition of terminal from the present ‘within the limits of the wharf as under the Customs Act 1901’ to include terminals located within the metropolitan area of port cities;
- confirming existing practice allowing members of shipping conferences to negotiate collectively with stevedores;
- deleting sections 10.14.2 and 10.22.2 which allow the fixing of door-to-door freight rates for outward and inward liner conferences respectively, recognising that the deletion of these sections will make it necessary for insertion of a clause

in sections 10.14.1 and 10.22.1 permitting conferences to set terminal-to-terminal rates;

- repealing section 10.05 which prohibits price discrimination in certain circumstances. The Commission considered that the price discrimination provisions of Part X serve no useful purpose and indeed are potentially harmful if they discourage efficient price discrimination. In addition, they would be extremely difficult to implement;
- adding a ‘national interest’ test, similar to that in section 10.67, to apply to any determination by the Minister in relation to sections 10.45(a)(v) and 10.53. This amendment would ensure that shippers’ interests were taken into account explicitly in a Ministerial determination as to whether a conference or non-conference carrier with substantial market power was misusing market power in order to hinder an efficient Australian carrier; and
- providing for more effective and flexible enforcement of undertakings. The provisions of section 87C of the TPA could serve as a useful model.

The Commission also made a number of findings on which it did not make recommendations.

Government response

On 23 December 1999 the Government announced that it had accepted the key recommendations that Part X be retained and re-examined in 2005, as well as all other recommendations made by the Commission (Anderson and Kemp 1999).

The Government also agreed with the Commission’s findings on the itemisation of terminal handling charges, current controls on non-conference carriers with substantial market power, processes for registering conference agreements, funding for the Australian Peak Shippers Association, and retention of international liner shipping regulation in the TPA.

In regard to the other findings, the Government decided that:

- as far as practicable, the arrangements applying to outward conferences should also apply to inward conferences;
- the Minister for Transport and Regional Services and the ACCC should have increased powers to deal with concerns that may arise, in ‘exceptional circumstances’, from the operation of certain agreements — such as accords and discussion agreements — that are likely not to result in a public benefit; and
- while accepting the Commission’s finding that shipping lines should be allowed to continue to form closed conferences, where refusal by the existing members

to admit a new member to the conference is considered to be contrary to the interests of shippers, the Minister and the ACCC would be empowered to investigate the situation. If an investigation found that refusal to admit a new member is unreasonable, the Minister would be able use the increased powers noted above.

Implementation of ecologically sustainable development by Commonwealth departments and agencies

Inquiry Report No. 5 signed 25 May 1999, released 15 February 2000.

Some key findings were that :

- there is a lack of clarity regarding what ecologically sustainable development (ESD) means for government policy;
- ESD implementation is constrained by inadequate information; and
- performance measurement with respect to ESD-related policies and programs is generally poor.

The Commission recommended an integrated package of improved frameworks and processes to address the impediments to ESD implementation. In summary form, the Commission recommended that:

- Guidelines of existing policy development and evaluation mechanisms — such as regulation impact statement guidelines and environmental impact assessment guidelines — should include specific reference to assessing the likely social, economic and environmental costs and benefits of proposals, in both the short term and long term.
- The relevant ministerial councils should routinely, and as a matter of course, inform each other of ESD issues likely to have relevance and implications for other councils.
- Recognising that all levels of government have responsibility for ESD outcomes, Commonwealth, State and Territory governments should seek to improve the efficiency and effectiveness of the processes of these ministerial councils with respect to ESD implementation.
- Consistent with the principles of good practice policy making, departments and agencies should regularly, and as a matter of course, monitor the efficiency and effectiveness of their ESD-related policies, programs and regulations. As such, the development of performance indicators against clearly stated objectives should occur early in the policy development phase.

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- In recognition of the importance of establishing a consistent data series on key environmental attributes, the Commonwealth Government should commit to producing a state of the environment report on a regular basis (for example, every five years) and consider involving the States and Territories in this activity.
 - Data collection relating to ESD issues should be rationalised to avoid duplication of effort in some areas and gaps in coverage in others.
 - The Commonwealth Government, in cooperation with State and Territory governments, should develop a framework to facilitate performance measurement and enable comparisons of the effectiveness and efficiency of Commonwealth, State and Territory policies and programs in ESD-related areas such as the environment and natural resource management. Development of this new process should take into account the experiences and institutional and analytical frameworks of the Steering Committee for the Review of Commonwealth/State Service Provision.
 - The Prime Minister's Science, Engineering and Innovation Council has recently demonstrated leadership in such areas as dryland salinity and greenhouse science and could consider further emphasis of the ESD dimensions of issues before it. For example, the Council could:
 - provide advice on strategic matters relating to long-term sustainable development;
 - facilitate interaction between leading experts and relevant ministers on ESD issues; and
 - report (on a triennial basis) on matters relating to further implementation of ESD with a longer term strategic focus.

Government response

Upon tabling the report, the Minister for the Environment indicated that a number of Commission recommendations would be addressed by the Commonwealth's new Environment Protection and Biodiversity Conservation Act (Hill 2000). There had been no formal government response to the report as at 6 October 2000.

Broadcasting

Inquiry Report No. 11 signed 3 March 2000, released 11 April 2000.

Some key messages from the report were that:

- The digital revolution promises consumers new and better broadcasting services throughout Australia. Broadcasting, telecommunications and the Internet are converging rapidly, not only in terms of technology and services, but also in company structures.
- If policies are to be effective in an environment of continuing uncertainty, regulatory distinctions between media, services or delivery platforms should be avoided.
- Competition in Australian media may be increased or threatened by digital broadcasting and convergent technology. Broadcasting policy must be reformed quickly to deal with the new competitive dynamics.
- The current analog system has a voracious appetite for spectrum ('airwaves'). Rapid and certain conversion to digital television is the key to unlocking the spectrum. It will create opportunities for new players and new services.
- Without substantial changes, the digital conversion plan is at serious risk of failure.
- Diversity of sources of information and opinion is most likely to be served by diversity in ownership of media companies, and by competition.
- Australian drama, documentaries and children's programs contribute to Australians' social and cultural identity. But the current quotas are designed for analog television and will not work in the digital age.
- Sports coverage will be improved if major sporting events of national significance are made available to any form of broadcasting without exclusion of other forms, and if new media are not restricted from showing sport.
- Regional consumers and broadcasters would be disadvantaged by policies that deepen the digital divide between country and city. They should not suffer from regulatory restrictions on the types or amounts of services they receive.
- Broadcasting is important for indigenous communities, providing a primary level of service in remote areas and in local languages.
- The administration of broadcasting policy should be more accountable and transparent.

The Commission made recommendations in eight broad areas.

Managing broadcasting spectrum

- Licences granting access to spectrum should be separated from content-related licences that grant permission to broadcast.
- Spectrum for new broadcasters should be sold competitively, subject to ongoing licence fees. The level of ongoing fees should be adjusted to reflect significant changes in the value of spectrum.
- Licence fees for existing commercial radio and television broadcasters should be converted to fees that reflect the opportunity cost of spectrum used.
- Revenue-based licence fees for each service type (television, FM radio and AM radio) in each licence area should be converted to spectrum-based licence fees. These fees should be revenue neutral in the first year and set thereafter on a basis similar to the fees for other spectrum.
- The planning criteria for the broadcasting services bands, currently found in section 23 of the Broadcasting Services Act (BSA), should, for commercial broadcasting, be restricted to those relevant to the technical planning of the spectrum.
- The Australian Broadcasting Authority (ABA) should retain responsibility for issuing licences to broadcast, and for determining the number of non-commercial broadcasting licences in an area. It should also retain responsibility for regulating content, enforcing codes of practice and monitoring ownership.
- Responsibility for planning and licensing the broadcasting services bands of the spectrum should be transferred to the Australian Communications Authority and managed under the provisions of the Radiocommunications Act.

In addition the Commission made recommendations about: levying fees on existing television broadcasters for spectrum used for digital services other than digital simulcast of the analog program; use of community service obligation funding mechanisms for supplying digital broadcasting services in areas where they are not commercially viable; the ABA developing templates for reserving spectrum in licence areas with different characteristics; valuing and reporting on spectrum reserved for non-commercial broadcasting services; and making spectrum used for commercial narrowcasting available using the same processes and on the same terms as those for spectrum for commercial broadcasters.

The transition from analog to digital

- Prior to the commencement of digital terrestrial television in 2001, the digital television conversion plan should be modified.

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- The Government should set a firm and final date of 1 January 2009 for the end of the simulcast period. The final date should apply to metropolitan and regional areas.
 - Necessary amendments should be made to provide for shorter simulcasting periods, enabling the switch-off of analog services earlier than 2009 in areas where that proves feasible.
 - The Government should formulate and publish specific criteria suitable for approving the early switch-off of analog services.
 - The digital television conversion plan should be further modified.
 - Prior to the sale of any spectrum in the broadcasting services bands in 2000, the Government should announce its intention to release and sell any spectrum which becomes available for digital broadcasting during the conversion period.
 - Within two years of the commencement of digital broadcasting in a licence area, unassigned channels should be identified and sold for new digital broadcasting services.
 - Within two years of the commencement of digital broadcasting in a licence area, channels suitable for low cost spectrum clearance should be identified. The channels should be sold for new digital broadcasting services, subject to clearance of the spectrum by the purchaser.
 - Two years prior to the termination of the simulcast period, the spectrum manager should plan and sell for new digital services all remaining spectrum used for analog television broadcasting, with possession after analog switch-off.
 - As the digital switch-over proceeds, the Government should design appropriate policies to ensure switch-off of analog services on 1 January 2009 in areas of slow take-up.
 - A new regulatory framework will facilitate consumers' adoption of digital television.
 - High definition transmission should be permitted but no longer mandated.
 - Datacasting services should be defined as digital broadcasting services.
 - Multichannelling and the provision of interactive services by commercial and national broadcasters should be permitted. The proposed reviews of multichannelling and subscription broadcasting by free-to-air services should be cancelled.

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- Digital radio policy should be modified.
 - Analog radio broadcasting licences should not be converted without charge to digital licences.
 - Spectrum for new commercial digital radio services should be sold by a competitive process.
 - Existing commercial radio broadcasters should not be constrained from participating in the new medium.

Structural diversity in Australian broadcasting

In summary form, the Commission recommended that:

- The Australian Broadcasting Authority:
 - conduct regular research on the demand for community radio and television programming;
 - conduct evaluations of existing community licensees before renewal every five years to assess whether licensees are meeting the objectives of the licence and the licence reallocated if the licensee has not met its objectives; and
 - review the allocation of each community broadcasting licence every 10 years.
- If demand exists for non-profit television services, a standard definition channel should be made available by the digital broadcaster that tenders for the lowest government subsidy to do so.
- A new licence category for indigenous broadcasters should be created, with appropriate conditions relating to advertising. Spectrum should be reserved for indigenous broadcasters to provide a primary service for indigenous communities, where appropriate, and the Government should examine the need for, and feasibility of, establishing an indigenous broadcasting service.
- The restrictions on advertising and sponsorship on subscription television services be removed and subscription television channel providers should be licensed separately from the subscription television carrier.
- Education providers and government agencies should share access with community groups to a standard definition digital television channel which could be made available in each licence area where there is sufficient demand.

Concentration, diversity and regulatory barriers to entry in Australian media

- When the non-technical criteria in section 23 of the BSA are removed, spectrum plans should be reviewed to make any unallocated spectrum available for sale.

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- Section 28 of the BSA, which prevents any new commercial television licences being allocated before 31 December 2006, should be repealed immediately.

Ownership and control

- Foreign investment in broadcasting should be covered by Australia's general foreign investment policy. All restrictions on foreign investment, ownership and control in the BSA should be repealed.
 - If this recommendation is not adopted, the BSA should be amended immediately to remove restrictions on investment by foreign managed, but Australian sourced, funds in Australian commercial television businesses.
- The TPA should be amended immediately to include a media-specific public interest test which would apply to all proposed media mergers. The test would be administered by the Australian Competition and Consumer Commission, and require that the Commission seek ABA input on social, cultural and political dimensions of the public interest.
- After the following conditions have been met:
 - removal of regulatory barriers to entry in broadcasting (section 28 and the section 23 non-technical criteria), together with the availability of spectrum for new broadcasters;
 - repeal of BSA restrictions on foreign investment, ownership and control; and
 - amendment to the Trade Practices Act to provide for a media-specific public interest test to apply to mergers and acquisitions;

the cross-media rules should be removed.

- The retention of the audience reach rule should be reviewed in the light of developments in new digital broadcasting and information services.
- As the normal competition provisions of the Trade Practices Act would apply to mergers of commercial broadcasting licences within a licence area, sections 54 and 53(2) of the BSA should be repealed.

Australian content regulation

- Both the Australian content quota of 80 per cent for advertisements on all commercial television stations and the Australian production expenditure quota of 10 per cent for subscription adult and children's drama channels should be removed immediately.

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- For all current and future policies and regulations aimed at achieving the social and cultural objectives of broadcasting, the ABA should conduct regular, public evaluations against the stated policy objectives.
 - To ensure that the social and cultural objectives of broadcasting continue to be addressed in the future digital media environment, the Government should:
 - commission an independent, public inquiry into Australian audiovisual industry and cultural policy, to be completed by 2004; and
 - following this review, but prior to the final switch-off of analog services, implement a new framework of audiovisual industry and cultural policy.
 - Until this new policy is implemented, the following quotas for free-to-air commercial broadcasters should be retained in their current form and at their current levels:
 - the overall transmission quota of 55 per cent for Australian programming;
 - the Australian first release drama quota;
 - the Australian first release documentary quota; and
 - all quotas for children's 'C' and preschool 'P' programs.

Broadcasting of sport

- Broadcasters in one form of broadcasting should not be allowed to acquire the broadcast rights of sporting events of major national significance to the exclusion of those in other forms of broadcasting.
- To implement this, the Commission recommended:
 - adopting criteria for a new and much shorter anti-siphoning list that should include demonstrated national significance, consistency of free-to-air broadcasts of the event in the past five years, and ratings; and
 - transferring responsibility for administration from the Minister to the ABA and streamlining procedures to improve their certainty and transparency.

Codes, conditions and compliance

In summary form, the Commission recommended that:

- The ABA should undertake or commission research into the influence of the various forms of media on Australian society.
- A further objective 'to promote freedom of expression' should be added to the objectives in section 3 of the BSA.

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- Schedule 2 of the BSA should be amended to require broadcasters to take reasonable steps to prevent the broadcasting of programs that, in accordance with community standards, are not suitable for their section of the industry to broadcast, to ensure the protection of children from exposure to potentially harmful program material, and to provide methods for handling complaints.
 - The ABA should actively promote ethical practices in broadcasting and develop standards dealing with fair and accurate coverage and ethical news gathering and reporting practices.
 - The Commission made a number of recommendations addressed at improving consultation on the development of codes of practice and requiring that a proposed code of conduct has general support from within the relevant section of the industry, and improving the operation and visibility of complaints handling mechanisms.
 - The co-regulatory scheme should be amended such that, in addition to existing sanctions:
 - licensees found to be in breach of a relevant licence condition are required to broadcast an on-air announcement of the breach finding and subsequent action during the relevant program or time slot; and
 - the ABA be given the power to issue directions for action to broadcasters found in breach of a relevant licence condition.
 - The regulatory scheme for controlling access to online content — including the legislative requirements on internet content hosts and internet service providers, the associated codes of practice and the NetAlert initiative, associated hotline and community education campaigns — should be reviewed after one year of operation.

Government response

In a joint press release announcing the release of the report on 11 April 2000, the Treasurer and the Minister for Communications, Information Technology and the Arts stated:

The Government welcomes the Report, which provides an informative and rigorous discussion of key issues in broadcasting, in particular the relevance of current broadcasting legislation in a converging media environment. It contains wide-ranging recommendations — covering the conversion to digital television, management of the broadcasting spectrum, ownership and control rules, structural diversity in broadcasting, Australian content (including advertising) and the broadcasting of sport.

The Government is releasing the report now in recognition of the considerable public interest in these issues. The Government will respond to the Commission's recommendations in due course. (Costello and Alston 2000)

Progress in rail reform

Inquiry Report No. 6 signed 5 August 1999, released 13 April 2000.

Two key findings were that:

- reforms in the 1990s have transformed the structure and operations of Australia's railways — there is now greater competition between railways, more private sector participation in some corridors and productivity has increased significantly, albeit is still much lower than in North America — but further reform is essential for the survival of most Australian railways; and
- most government-owned railways are still not viable: they face increasing competition from other transport modes; suffer from inadequate investment; and require significant government subsidies.

The Commission's recommendations covered six areas:

Structural arrangements

- Urban rail networks should be vertically integrated and horizontally separated from other rail networks.
- Train operations should be vertically separated from track infrastructure on the entire interstate network. The infrastructure should be managed by a single network manager.
- A process involving the Commonwealth and affected States should be established to determine the roles and functions of the network manager and develop a code of conduct.
- Regional rail networks without market power should be horizontally separated from other networks and vertically integrated.
- Regional rail networks with market power — the main coal lines — should be horizontally separated from other networks.

Public and private participation

- Governments which own railways should pursue further private sector involvement (through contracting out, BOOT-type arrangements, franchising or privatisation) as an integral part of their approach to rail reform.
- All remaining government-owned freight operations should be privatised, with special arrangements for the rollingstock used on the main coal lines.

Access to rail infrastructure services

- The pricing and allocation of train schedules should reflect the value that users place on the track. To encourage this, the Commonwealth Government should establish a process to investigate the feasibility of developing a market approach for allocating schedules or transferring capacity on the interstate network.

Regulatory reform

- A national approach should be developed for charging rail safety accreditation fees, with a single annual fee for accreditation and mutual recognition.
- The principles of best practice regulation, as endorsed by the Council of Australian Governments, should be applied to the development and implementation of railway codes of practice.
- The Commonwealth Government should establish a permanent mechanism to ensure the ongoing harmonisation or uniformity of railway operating procedures and standards.

Competitive neutrality in the land transport system

- The National Road Transport Commission should prepare — and recommend to the Ministerial Council for Road Transport for adoption — a revised schedule of heavy vehicle charges which ensures that each class of vehicle pays the full cost of its road use.
- Governments should adopt a more commercial approach to railways and road provision. This would involve:
 - the Commonwealth Government introducing an overarching policy framework for national transport;
 - applying competitive contracting out, franchising or full privatisation to railways;
 - establishing a network manager for the interstate track to manage competitive access and facilitate planning;
 - applying the purchaser-provider model rigorously where non-commercial objectives are being pursued; and
 - evaluating major road and rail projects using cost–benefit analysis where the projects are expected to have significant external effects.
- The Commonwealth Government should — as a matter of national priority — allocate additional funds to projects which would alleviate route congestion in

the Sydney metropolitan area, subject to the adoption of a network manager for the interstate track.

- The Commonwealth Government should establish a public inquiry into road provision in Australia to examine: road transport planning processes; methods of investment appraisal; funding arrangements; the scope to improve road pricing; and current institutional arrangements and alternatives.

Better provision of non-commercial rail services

- Governments need to address the deficiencies in the application of the purchaser-provider framework to rail and should enter into transparent contractual arrangements with clearly specified non-commercial objectives.

Government response

On 13 April 2000 the Minister for Transport and Regional services announced the Commonwealth Government's combined response to the Commission's report and to three other land transport reports — the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform inquiries into the Commonwealth's role in the nation's road system, *Planning Not Patching*, and rail reform, *Tracking Australia*; and the Rail Projects Taskforce, a private sector investigation of Australia's rail system headed by Mr Jack Smorgon, titled *Revitalising Rail* (Anderson 2000).

As outlined below, the Commonwealth endorsed broadly a number of the Commission's recommendations relating to areas of Commonwealth responsibility. However, in a number of other areas, it preferred to assess progress within existing or new institutional settings for a period of time before considering the Commission's recommendations.

Structural arrangements

In accordance with the Commission's recommendations, the Commonwealth's preferred model for the interstate track is that train operation be vertically separated from track infrastructure and that the network be horizontally separated from the urban system. The Australian Rail Track Corporation is pursuing opportunities to manage the mainland interstate rail network on this basis. Commission recommendations on the integration of urban and regional networks should be considered by State Governments.

Public and private participation

The Commonwealth agreed that rail reform would be best served by the sale of government-owned above-rail freight operations to private bidders. To this end, it reaffirmed its intention to sell its interest in National Rail as soon as possible. Private owners should not be at a competitive disadvantage where the public sector maintained its involvement in rail freight operations.

Access to rail infrastructure services

The Commonwealth would encourage the Australian Rail Track Corporation to lodge with the ACCC a National Rail Access Regime for the interstate network as soon as possible after signing access agreements with the relevant States and Territories. The structure of the Australian Rail Track Corporation's access pricing would be a commercial matter for the Corporation.

The Commonwealth agreed to the establishment of an effective national track access regime and had sought to do so through an intergovernmental agreement which established the Australian Rail Track Corporation. If these track access arrangements were not working effectively by the mid-2001 review of the Australian Rail Track Corporation, a new institutional framework would need to be developed. This may involve a network manager based on Commonwealth legislation, if necessary and practicable.

Regulatory reform

The Commonwealth supported action to provide consistency in rail safety accreditation and investigation processes, but intended to allow time for current reform processes to continue, aiming for industry co-regulation and State mutual recognition. However, if current State-based arrangements were not effective in achieving national consistency by mid-2001, it would consider establishing a Commonwealth regulatory body for accreditation, standard setting and safety regulation on the national network.

In respect of the Commission recommendation on the railway operating procedures and standards, the Commonwealth stated it had been working with the rail industry and State and Territory governments to standardise interstate rail operations. However, if the current process of rail industry co-regulation under State/Territory accreditation and operational codes were not working effectively by mid-2001, the Commonwealth would seek the agreement of jurisdictions to establish a new institutional framework for the rail industry, similar to the National Road Transport Commission, using Commonwealth legislation.

National Codes of Practice for rail operations — covering interface managements issues, operations and safeworking, rollingstock and track, and civil and electrical infrastructure — were in preparation and, consistent with regulatory best practice, the Commonwealth is preparing a Regulation Impact Statement for the codes.

Competitive neutrality in the land transport system

The Commonwealth Government:

- supported the principle of competitive neutrality between modes of transport. However, it commented that the road and rail sectors have different usage, charging and funding structures with differential benefits between modes. Transport Ministers had voted in November 1999 on a revised schedule of heavy vehicle charges (to be implemented by 1 July 2000) prepared by the National Road Transport Commission;
- agreed that governments should adopt a more commercial approach to rail infrastructure development and management;
- agreed that there is a need for improved coordinated and cross-modal consideration of transport regulatory and infrastructure provision issues but, given the reluctance of the States to cede rail control to national bodies, the Commonwealth would use cooperative Australian Transport Council processes to develop a coherent national planning process for strategic land transport infrastructure. Transport Ministers had agreed in November 1999 to establish a National Transport Secretariat to advise on transport issues that are of cross-modal, cross-jurisdictional, strategic and national significance. The Commonwealth would consult with other jurisdictions and examine the benefits of bringing interstate rail and road regulation under one umbrella structure before the National Road Transport Commission legislation sunsets in January 2004;
- noted that proposals for funding road and rail projects are assessed under a commonly based cost-benefit analysis which addresses relevant externalities, but it did not accept the proposition that the allocation of funds should be made solely on the strict basis of such analysis;
- accepted there is an argument for investment in rail infrastructure to enable rail to provide interstate freight service levels comparable to road transport between the major urban centres. While the Commonwealth was not convinced that it had the sole responsibility for that investment, it would consider the allocation of further funding for rail infrastructure in the Budget context, taking account of the progress in rail reform and the feasibility of attracting further private sector investment and/or contributions from State and Territory governments. Prior to

responding to the report, the Minister announced that almost half of the \$250 million Rail Investment Program would be targeted towards generating additional freight paths through Sydney (Anderson 1999); and

- did not accept the Commission's recommendation that there be a public inquiry into road provision in Australia. It was not convinced there was currently a need for another public inquiry into road provision and considered adequate institutional arrangements were in place to ensure that essential community roads infrastructure is provided and properly maintained.

The Commonwealth response did not directly address the Commission's recommendation to governments on the application of the purchaser-provider framework to rail and transparent contractual arrangements relating to non-commercial objectives.

Government responses to Commission reports from previous years

Medical and scientific equipment industries

Industry Commission Inquiry Report No. 56 signed 20 December 1996; report released and initial response on 6 August 1997, further government response on 24 July 1998 (details in PC 1998).

On 17 September 1999 the Parliamentary Secretary for the Minister for Health and Aged Care announced that the Government had decided to:

- adopt the internationally accepted classification and essential requirements for medical devices from the European Union;
- continue to play a leading role as one of the five Global Harmonisation Task Force countries to pursue international regulatory harmonisation for medical devices;
- maintain, for now, the Therapeutic Goods Administration's role to:
 - approve products for supply in Australia; and
 - assess medical devices to European Standards under the Memorandum of understanding with the European Community; and
- introduce legislation to enable this framework to be put into place as soon as possible (Tambling 1999).

The Industry Commission had recommended that the Government implement the approach of the European Union to regulating medical devices by mandating in legislation the relevant essential requirements in the Directives of the European Union.

In relation to the Therapeutic Goods Administration, the Commission had recommended that its role in approving products for supply should be assigned to a commercially autonomous enterprise, overseen by an accreditation regime. A further recommendation on the Therapeutic Goods Administration, which the Government has not adopted, was that responsibility for regulating medical devices and pharmaceuticals should be assigned to a statutory authority with operational independence from the Department of Health and Family Services (now Health and Aged Care).

Nursing home subsidies

Inquiry Report No. 4 signed 13 January 1999, report released 31 March 1999.

On 6 December 1999 the Minister for Aged Care released a response to the Commission's report which announced that the Government would provide additional funding of \$148 million over six years to replace its existing coalescence policy with a Funding Equalisation and Assistance Package under which the States would reach uniform national subsidy rates at different times over different periods (Bishop 1999).

- Jurisdictions with below average subsidy rates — Queensland, South Australia, Western Australia and the Australian Capital Territory — would reach the national average by 1 July 2002, two years earlier than originally intended.
- States with significantly above average subsidy rates — Tasmanian and Victoria — would reach the national average by 1 July 2006, two years later than originally intended.
- The funding equalisation path for New South Wales and the Northern Territory would remain unchanged as their subsidy rates were already close to the national average.

The Government had rejected the Commission's alternative coalescence proposal that funds earmarked for indexing current subsidies should be redirected to progressively increase the basic rates for the low subsidy States until coalescence was achieved.

On 16 December 1999 the Government's response to each of the Commission's recommendations was released through the Department of Health and Aged Care to an aged care working group.

The Government:

- accepted, in principle, that it should adopt nationally uniform basic subsidies for each category of high care resident;
- accepted, in principle, that it should specify its intended outcomes in terms of a standard of care benchmark. It considered that the best measure of the adequacy of subsidies to provide the benchmark of care is the long-term viability of the industry together with the accreditation and certification arrangements;
- agreed, in principle, that the pensioner, oxygen, enteral feeding, respite and hardship supplements should be retained in their current form and suitably indexed;
- accepted, in principle, that additional funding for higher cost homes in special circumstances — such as smaller higher cost homes in rural and remote areas — should come from a special needs funding pool. The Government had increased its commitments in this area in the 1999-2000 budget;
- accepted the recommendations that:
 - there should be no requirement for providers to acquit subsidy payments;
 - residential aged care subsidies should continue to be paid to providers rather than to residents; and
 - it should work closely with providers and other stakeholders to resolve quickly all outstanding concerns in relation to program administration and transparency of information.

The Government had rejected other recommendations.

- The Government considered the recommendation to determine the output purchase price on the basis of a five yearly assessment of the jurisdictional and national average input costs of providing the benchmark level of care was inconsistent with its financial reforms that focus on outputs and that the return to an input-based system would require a higher level of industry regulation and administrative costs.
- The recommendations that basic subsidy rates should reflect nursing wage rates and conditions applicable in the aged care sector and that Basic Subsidy rates should be adjusted annually according to indices which reflect changes in the average cost of the standardised input mix (adjusted for productivity) were

rejected as being inconsistent with the Government's financial management and workplace relations reforms.

- The Government rejected recommendations that the concessional supplement should be set at a uniform daily rate and that the current payroll tax supplement be replaced by a system of cost reimbursement for payroll tax paid by providers for the employees and contract and nursing staff. The inclusion of a component to reflect average workers compensation premiums in the assessment of costs was also rejected. However, the Government accepted in principle that superannuation charges should be included in the assessment of costs at rates appropriate for each Residential Classification Scale category.
- The Government rejected the recommendation that the current subsidy reduction for government-run homes and those transferred to the non-government sector should be phased out over a five-year period because there is a longstanding agreement between the Commonwealth and the States and Territories that it is not responsible for the capital improvement of State Government facilities.
- The recommendation to provide greater opportunity for the provision of extra services through user charging was also rejected.

D Competitive neutrality complaints

The Productivity Commission Act and the Government's Commonwealth Competitive Neutrality Policy Statement require the Commission to report annually on the number of complaints it receives about the competitive neutrality of government businesses and business activities and the outcomes of its investigations into those complaints. The Commonwealth Competitive Neutrality Complaints Office (CCNCO) received seven complaints in 1999-2000. Four of these required formal investigation and reporting. This appendix summarises the action taken in relation to all the complaints received in the year and government responses to CCNCO reports.

Complaints formally investigated

Australian Institute of Sport Swim School

In August 1999 the Minister for Sport and Tourism forwarded a competitive neutrality complaint from the Kippax Pool and Fitness Centre, endorsed by the Kaleen Health and Fitness Centre, against the Australian Institute of Sport Swim School (AISSS).

The Kippax Pool and Fitness Centre complained that:

- the AISSS's costing and pricing principles did not comply with competitive neutrality principles;
- it was inappropriate for the AISSS to replicate swim school services already available in the private sector; and
- if the AISSS continued its commercial activities, it should adopt a corporatisation model for this purpose.

In its report of October 1999, the CCNCO found that the AISSS:

- derived no significant net competitive advantage as a result of its ownership by the Commonwealth Government;

-
- employed costing and pricing practices that were consistent with, and exceeded, the requirements that would apply were it subject to competitive neutrality;
 - received no significant competitive advantage from its tax exempt status; and
 - had not priced its services in a way that had eliminated or substantially damaged a competitor, deterred entry or competitive conduct in the market, or been inconsistent with efficient resource allocation (CCNCO 1999).

However, the CCNCO went on to conclude that subjecting the AISSS to appropriate competitive neutrality arrangements would involve negligible costs while ensuring that the swim school did not gain an unreasonable competitive advantage from government ownership in the future. It therefore recommended that the AISSS be subject to competitive neutrality requirements (in the form of full-cost pricing rather than a corporatisation model).

The National Rail Corporation

In October 1999 Capricorn Capital Limited — a company with interests in privately-owned freight operations — lodged a complaint against the National Rail Corporation (NRC). The Corporation was jointly owned by the Commonwealth, New South Wales and Victorian governments, with the Commonwealth as the majority shareholder.

Capricorn Capital alleged that the NRC did not earn a commercial rate of return on its operations between 1995-96 and 1997-98, and thereby breached the competitive neutrality requirements imposed on the Corporation by all three owner-governments. Capricorn Capital also claimed that the NRC's financial performance was worsening.

The CCNCO advised the competitive neutrality complaints offices of the New South Wales and Victorian governments of the complaint and consulted with them during its investigation.

In its report of January 2000, the CCNCO found:

- that the NRC had not earned a commercial return for the years 1995-96 to 1998-99;
- but that, taking account of the substantial restructuring and associated delays involved in the formation of the NRC, this was not sufficient to constitute a breach of competitive neutrality requirements which require government businesses to achieve commercial rates of return over a reasonable period (CCNCO 2000a).

The CCNCO went on to argue that while determining what constitutes a ‘reasonable period’ involves considerable judgment, the returns projected in the NRC’s Corporate Plan for 2000-02 would not be sufficient to comply with competitive neutrality requirements on an ongoing basis. The CCNCO also noted that, if a government business is unable to operate commercially in the longer term (and thereby comply with competitive neutrality), one option is for the owner-government to sell the business.

In response to a further complaint by Capricorn in February 2000, the CCNCO agreed to a further investigation of financial results in 1999-2000.

Subsequently, the Commonwealth Government announced that the NRC would be sold, following agreement between the three owner-governments (Anderson and Fahey 2000). The CCNCO advised Capricorn that further investigation was not warranted given that the NRC is to be sold.

Report on ABC Productions facilities

In November 1999 Global Television Pty Ltd lodged a complaint against ABC Productions — a business unit within the Australian Broadcasting Corporation engaged in the commercial supply of production facilities and labour to other film and television producers.

Global Television claimed that ABC Productions was able to provide services at a lower cost than its private competitors because of its access to resources purchased for non-commercial production. Specifically, it alleged that ABC Productions’ prices did not fully cover costs, including an appropriate allocation of capital costs, labour and on-costs, and that the unit was not subject to a range of taxes paid by private competitors.

In its report of February 2000, the CCNCO found that ABC Productions’:

- method of costing labour and facilities exceeded the minimum cost benchmark consistent with competitive neutrality; and
- accounting and control systems provided a basis for ensuring that all relevant costs were identified in the unit’s bids, and that its costing and pricing practices were followed in practice.

It further found that ABC Productions generated a commercial level of profits in 1998-99, including when a notional allowance for payroll tax was incorporated in the cost base. The CCNCO concluded, therefore, that no action was required in response to the complaint (CCNCO 2000b).

Customs treatment of Australia Post

In February 2000 the Conference of Asia Pacific Express Couriers lodged a complaint against Australia Post. The Conference argued that there was significant and increasing competition between express couriers and Australia Post. It went on to contend that Australia Post enjoyed a competitive advantage in competing for business by virtue of differences in the regulatory arrangements for postal and non-postal items through:

- higher dollar thresholds for incoming and outgoing postal items before formal Customs screening requirements took effect; and
- exemption for postal items from recently introduced reporting and cost recovery charges for ‘high volume, low value’ consignments.

The Conference also claimed that its members would be disadvantaged by the differing administrative treatment under the goods and services tax of the transport services provided by Australia Post and express couriers. However, it subsequently withdrew this aspect of the complaint following a resolution of the issue with the Commonwealth Treasury, the Australian Taxation Office and the Australian Customs Service.

In a report finalised in June 2000, the CCNCO found that aspects of the current Customs arrangements did breach competitive neutrality principles and led to a misallocation of resources between the courier and postal systems. It therefore recommended that:

- the value thresholds for formal screening by the Australian Customs Service of incoming and outgoing postal and non-postal items be aligned;
- the Government give further consideration to imposing cost recovery charges for informal Customs screening of incoming postal items, provided that Australia Post can pass those charges on to postal authorities in other countries; and
- the concerns of express couriers about the high volume/low value charging scheme be addressed as part of the Government’s consideration of the cost recovery issue (CCNCO 2000c).

Complaints not subject to formal investigation

Provision of aviation forecasts

In February 2000 Metra — a subsidiary of the Meteorological Services of New Zealand Limited — lodged a complaint about the arrangements governing the

provision of aviation forecasts. The Australian Bureau of Meteorology (BOM) provided these forecasts on a cost recovery basis. Metra alleged that the Civil Aviation Safety Authority's (CASA's) interpretation of civil aviation regulations prevented Metra from competing with BOM.

The CCNCO held a number of discussions with Metra, CASA, BOM and the Commonwealth Department of Transport and Regional Services. The outcome of these discussions was a further discussion between Metra and CASA aimed at resolving the issue without the need for a formal investigation by the CCNCO. Metra subsequently requested that the CCNCO place the investigation on hold, pending the release of a discussion paper by CASA on the competitive provision of weather forecasts to the Australian aviation industry. The CCNCO agreed to this course of action.

ABC copyright payments

In December 1999 the Phonographic Performance Company of Australia (PPCA) wrote to the Minister for Financial Services and Regulation and the CCNCO requesting that alleged competitive advantages for ABC radio arising from section 152 of the *Copyright Act 1968* be investigated. At issue was the methodology used to calculate the fees paid by commercial radio stations and the ABC to the PPCA for the broadcast of copyright material. The PPCA claimed that the ABC paid lower fees than equivalent commercial broadcasters.

The CCNCO did not investigate the complaint because ABC radio is a non-commercial service provided for public policy reasons. As such, it does not satisfy the business test contained in the Commonwealth Government's competitive neutrality policy statement. The CCNCO rejected the PPCA's argument that the business test should be broadened to accommodate the complaint.

However, the CCNCO wrote to the Minister for Financial Services and Regulation providing him with relevant background information and analysis in the event that he wished to pursue the underlying issue further. Amongst other things, the CCNCO noted that copyright payments represent a very small proportion of the ABC's radio budget. It went on to suggest that an increase in the Corporation's payments to bring them into line with comparable commercial broadcasters would therefore have a minimal impact on ABC programming outcomes and, therefore, on the radio broadcasting market. The CCNCO also forwarded a copy of the letter to the Intellectual Property and Competition Review (chaired by Professor Henry Ergas) being conducted under the terms of the Competition Principles Agreement.

Government responses

The Commonwealth Government has a general commitment to respond to recommendations in complaint investigation reports by the CCNCO within 90 days.

In two of the four formal investigations conducted in 1999-2000 — National Rail Corporation and ABC Productions — the CCNCO recommended no changes to competitive neutrality policies. However, in line with a CCNCO suggestion, the Minister for Communications, Information Technology and the Arts wrote to the ABC suggesting that ABC Productions include a notional allowance for payroll tax in bids for commercial work.

In its report on the Customs treatment of Australia Post, the CCNCO recommended:

- the value thresholds, over which customs entries are required, be aligned for Australia Post and other modes of carriage such as couriers; and
- that the Government further consider the issue of cost recovery for Australia Post.

The Government had not responded to this recommendation as at 6 October 2000.

In its report on the AISSS, the CCNCO recommended that the swim school be formally subject to competitive neutrality requirements, notwithstanding the fact that its pricing complied with the principles underlying those requirements. The Government has yet to respond to this recommendation.

In 1998-99 the CCNCO released a report on Counter Terrorist First Response Services provided by the Australian Protective Service. The CCNCO's recommendations relating to charging by the Australian Protective Service have been implemented.

E Supporting research and related activities

The Commission's supporting research program encompasses a range of activities to promote greater community awareness about the productivity performance of the economy and of Australian industry, factors affecting industry performance, assistance and regulation affecting industry, and related matters. This appendix provides brief summaries of Commission research reports, conference proceedings, research submissions made to other review bodies and staff research and working papers. It also lists the presentations given by the Chairman, Commissioners and staff to parliamentary committees, conferences, and industry and community groups in 1999-2000.

Commission research papers

Modelling the regional impacts of national competition policy reforms

Supplement to the Commission's inquiry report, *Impact of Competition Policy Reforms on Rural and Regional Australia*

September 1999

The study used the MONASH-RR model, a version of the MONASH model, to quantify the effects of national competition policy reforms and national economic forces on Australian regions. This modelling framework was selected because it has the detailed commodity and industry structure appropriate to analyse the effects beyond the State level so as to provide detailed regional results. The reforms examined were those of most relevance to rural and regional Australia — reforms of major infrastructure (electricity and gas, telecommunications, road, rail and water) and reviews of Commonwealth and State statutory marketing arrangements.

The estimated effects of national competition policy derived from the modelling were no more than broadly indicative. Nevertheless, they suggested that there would be net benefits for Australia as a whole from national competition policy. Output

was estimated to be higher than otherwise in nearly all regions and income per person to be higher than otherwise in all regions. There was much wider variability of estimated outcomes for employment and income per person employed in country regions than in metropolitan regions. Nonetheless, the estimated effects on most, but not all, regions from national competition policy reforms were likely to be less significant than those resulting from the broad economic forces — such as new technology, changing terms of trade and macroeconomic developments — that are continually reshaping economic and social conditions in Australia.

Microeconomic reforms and Australian productivity: exploring the links

November 1999

Australia's productivity performance improved significantly during the 1990s. The rate of Australia's productivity growth has been at a record high in recent years, double its previous average. As a result, growth in average incomes has been restored to rates achieved back in the 1950s and 1960s.

The paper explored the links between microeconomic reform and productivity by:

- outlining the nature of the reforms and what they were intended to achieve;
- exploring the mechanisms through which microeconomic reforms can affect productivity performance; and
- gathering evidence through case studies and other general indicators on the nature and significance of the links between microeconomic reforms and productivity improvement.

The general trends and case studies in the paper provide evidence that the Australian economy has been undergoing a transformation which is delivering improvements in productivity performance. This transformation has been taking place through:

- resources being allocated more productively;
- production becoming more specialised within industries;
- firms reorganising, and improvements in management practices and workplace arrangements;
- increased use of up-to-date technology and innovation; and
- increases in workforce skills.

Microeconomic reforms have a number of linkages to these changes:

- direct and specific linkages to production relationships — for example, through the effects of tariff, tax and industrial relations reforms on resource allocation;
- opening the economy to overseas trade and investment and enhancing competition from domestic as well as overseas sources; and
- influencing business expectations and attitudes through changes to the general policy and institutional environment in which firms operate.

Improved macroeconomic management has also contributed to the improved productivity performance. Other factors — such as recovery from recession, new technologies and increased work intensity — may also have played some role, but cannot explain the strength of the productivity rises.

An assessment of the performance of Australian railways, 1990 to 1998

Supplement to the Commission's inquiry report, *Progress in Rail Reform*

November 1999

The study provided an assessment of the economic performance of rail transport in Australia within a broad international context. A broad approach to measuring the performance of Australian railways was adopted, encompassing productivity as well as outcomes for consumers, shareholders and employees.

The study found that the productivity of Australia's government-owned railways had improved substantially since 1990. Productivity gains had been passed on mainly in decreased freight rates, although employees and shareholders had gained as well.

Despite these productivity improvements, there remained a gap between Australian performance and best practice. Part of this gap may never be bridged because of factors, such as scale, that inherently limit Australian railways attaining best practice productivity. However, a substantial part of this gap was due to differences in technical efficiency, implying that there was still room for improvement.

Improvements in performance had coincided with substantial reform of the Australian rail industry. While it was difficult to draw conclusions regarding the link between these reforms and performance improvements because of data limitations and the recent nature of many reforms, it was more than likely that the reform had had a positive impact on performance.

Regulation of the taxi industry

November 1999

Governments in Australia have tightly regulated the provision of taxi services. Entry restrictions have been a key part of this regulation. Given this constraint on competition, commitments made under the Competition Principles Agreement require all States and Territories to review their taxi and hire car regulation.

This paper, which drew on previous Commission work, was intended to assist policy makers by providing a framework for the assessment of some key issues.

Consistent with the findings of some State/Territory reviews, the Commission found that the removal of regulations that restrict the number of taxis would result in significant benefits for consumers through lower prices, shorter queues or a combination of both. However, it would also result in large losses for taxi licence holders by eroding most of the market value of licences — up to \$250 000 or so.

Because of differences between taxi markets and associated administrative arrangements in different parts of Australia, questions of compensation and adjustment assistance may require different responses by individual State and Territory governments. The report offered a framework to assist governments in deciding on the nature and extent of any such transitional assistance.

The paper also explored whether there is a need for government regulation of other aspects of taxi operations — in particular, regulation of fares and of the ‘quality’ of taxi services.

Private hospitals in Australia

December 1999

The paper examined the structure and performance of Australia’s private hospital industry. Private hospitals perform an important role in Australia’s health care system, providing 30 per cent of acute care hospital beds and treating 45 per cent of all surgical patients. Moreover, the demand for private hospital services has been increasing.

The private hospital sector has been undergoing some significant structural changes. They include changes in the relationship between private hospitals and health funds, which have increased the pressure on hospitals to deliver their services more efficiently. There has also been an increase in the co-location of private hospitals and public hospitals, which allows for the sharing of facilities and provides greater

convenience for patients and doctors. In addition, procedures not requiring an overnight hospital stay are accounting for an increasing share of activity, while at the same time the procedures performed on overnight patients are becoming more complex.

Despite these significant structural changes, it has been over a decade since there has been a major independent study of the private hospital sector. The paper attempted to overcome this information gap by:

- providing a statistical overview of the industry, drawing on a range of unpublished data;
- examining some indicators of the financial performance, efficiency and quality of service within the private hospital sector;
- looking at some of the key factors affecting performance, including the relationships between private hospitals, doctors and the health insurance funds; and
- without making any recommendations, bringing attention to a number of policy issues relevant to the industry's future performance, including licensing arrangements for private hospitals and competitive neutrality.

Submissions to other review bodies

Productivity Commission submission to the NCC's Review of the Western Australian Rail Access Regime

October 1999

This submission focused on two issues relating to the proposed amendments to the regime: the allocation of train paths (including capacity transfer arrangements); and asset valuation.

Competition between train operators for schedules is an important element of competition in the rail industry. Capacity trading arrangements have the potential to 'free up' the allocation of train paths and ensure that schedules are obtained by those operators who value them most highly. These arrangements have the potential to benefit both existing operators and new entrants. The Commission supported the inclusion of a capacity trading policy in the regime and suggested that an explicit requirement to develop a capacity transfer and trading policy based on market mechanisms be included in the Government Railways (Access) Code.

While there is no simple answer to the complex issue of appropriate asset valuation methodologies, the Commission expressed concern at the multiplicity of methodologies being used across Australia to value railway assets. These valuations are used in the calculation of rates of return and the specification of floor and ceiling prices for access. The similarity in purpose for which the asset valuations are sought suggests a need for similar methodologies across jurisdictions. A particular concern is that the choice of methodology could, in some cases, be made such as to justify higher revenue streams, thereby potentially increasing sale proceeds to government were the railway to be privatised.

The Commission proposed that the NCC examine the merits of the differing approaches to valuing railway assets and encourage an approach in Western Australia that would facilitate greater consistency among jurisdictions.

Productivity Commission submission to the National Review of Pharmacy

November 1999

The Review of Pharmacy Regulation examined legislation governing pharmacy ownership, licensing of pharmacists and the location of pharmacies approved to dispense medicines subsidised under the Pharmaceutical Benefits Scheme (PBS).

In looking at the regulatory arrangements for the sector, the Commission did not seek to make judgements as to whether particular regulations were in the public interest. Rather the Commission sought to:

- discuss the benefits and costs of the regulations for consumers, pharmacists and the wider community; and
- canvass alternative ways of meeting the underlying objectives.

The Commission explored two broad options which would encourage greater competition in the provision of pharmacy services, while still addressing the objectives of the current regulatory regime:

- a package of relatively modest changes, including some easing of ownership restrictions, fine tuning of licensing and drug scheduling requirements, changes to the basis for remunerating pharmacists for dispensing some PBS drugs and modifications to the location controls; and
- a ‘pro-competitive’ reform package, involving the abolition of most ownership controls (together with any requirements that prevent general retailing outlets offering pharmacy services), facilitation of price advertising by pharmacists (including an end to the prohibition on the discounting of patient charges for

subsidised PBS drugs), a reduced role for the Commonwealth in determining pharmacists' remuneration for dispensing subsidised PBS drugs and the abolition of controls on new pharmacy approvals and pharmacy relocations.

In putting these options forward, the Commission attempted to provide the Review with indicative benchmarks against which to assess current arrangements. The Commission also canvassed ways of addressing social and adjustment issues that would arise in a move to a more competitive pharmacy market.

The Commission's submission suggested that the careful implementation of greater competition in the pharmacy sector has the potential to provide cost savings and convenience benefits to a wide range of consumers, as well as to reduce the costs of the PBS for taxpayers.

Productivity Commission submission to the Review of the Export Market Development Grants Scheme

February 2000

The submission responded to a request by Austrade for written submissions to a review of the Export Market Development Grants Scheme (EMDGS).

In the submission, the Commission drew on its experience in the analysis of a wide range of industry assistance issues. It outlined an analytical framework which it considered appropriate for the assessments that the Austrade Board has been required to make, and made some observations to assist the Board in assessing the performance of the scheme.

Ideally, a comprehensive evaluation of the EMDGS would involve:

- exploring the various rationales commonly used to justify government assistance for firms' export marketing activities to ascertain whether there is a sound basis for continued government involvement; and
- assessing whether assistance in the form provided by the EMDGS yields net benefits to the economy as a whole, rather than just to certain exporters. This requires that account be taken of relevant costs — such as those associated with raising the revenue to finance the scheme and compliance and administration costs — as well as the effects of the scheme in increasing marketing expenditure and exports.

In evaluating the scheme, it is important to assess the effects of grant payments in inducing *additional* marketing expenditure and exports. This requires the

development of an improved methodology to overcome shortcomings in the form of analysis used in the previous review.

Key design features of the EMDGS — such as the eligibility criteria and the scale and duration of assistance — should be reviewed to see if it is possible to improve the targeting of the scheme (that is, achieve greater increases in marketing expenditure and exports per dollar of assistance).

Productivity Commission submission to the Interim Report of the Reference Group on Welfare Reform

May 2000

The submission was a response to the interim report, *Participation Support for a More Equitable Society*, of the Reference Group on Welfare Reform. The Group was appointed by the Minister for Family and Community Services to assist the Government with the development of a Green Paper on welfare reform. The interim report was released in March 2000.

The Commission's submission focused on two areas where it has undertaken relevant work: a framework in which to consider policy proposals; and service delivery approaches.

The submission drew attention to a number of issues of relevance to the Reference Group including:

- the need for assessment of the net benefits of the proposed reforms, based on the principles used to make, review and reform regulation;
- the appropriateness of the different methods of service delivery (that is, direct government delivery, competitive tendering and contracting, and demand-based funding) and the relative costs and benefits of these alternative approaches;
- the considerable scope for involvement of non-government organisations in service delivery and the increased choice this may provide for the recipients of those services; and
- the use of previous experience in other areas of government service provision to gain insights into how design elements can strengthen incentives for providers to deliver less costly and/or higher quality services.

Conference/workshop proceedings

Structural adjustment — exploring the policy issues

Workshop proceedings, August 1999

Policy issues relating to structural adjustment are central to the debate on the future direction of microeconomic policy in Australia. In recognition of the importance of these issues and as a way of further developing its thinking in this area, five leading policy analysts — Fred Argy, Malcolm Gray, Wolfgang Kasper, Elizabeth Savage and Cliff Walsh — were commissioned by the Commission to prepare papers for a workshop held in May 1999.

The workshop was organised around two main themes.

- The first, *Evaluating policy changes — the economic and social dimensions*, explored issues such as: how adjustment and distributional issues should be dealt with in the process of evaluating specific policy changes; the relevant decision criteria for evaluating policies; and the extent to which governments should trade off efficiency gains from reform against equity, regional development or other considerations.
- The second, *Delivering effective adjustment assistance*, examined issues including the case for selective adjustment and compensatory assistance, the role of different transitional arrangements and the packaging of reforms.

Around 50 participants attended the workshop including academics, senior government officials, consultants and representatives from social and business groups and the union movement.

Policy implications of the ageing of Australia's population

Conference proceedings, August 1999

The Productivity Commission and the Melbourne Institute of Applied Economic and Social Research jointly convened a conference on the policy implications of the ageing of Australia's population. The conference, which was held on 18–19 March 1999, drew together researchers, policy makers and practitioners from different fields. The conference proceedings were launched by the Governor of Victoria in August 1999.

The main message in the proceedings was that the ageing of Australia's population poses a number of policy challenges for governments, but that these should be manageable and need not constitute a crisis.

Australians are living longer and having fewer children. The proportion of the population over the age of 65 will increase from 12 per cent to around 20 per cent over the next 30 years. This will increase the pressure on government expenditure, especially in the areas of pensions and health and aged care.

The conference was convened and structured around a series of themes including:

- the effects of ageing on public policy, economic growth and government revenue;
- the demographic dimensions of ageing;
- the provision of long-term care and housing arrangements; and
- the consequences of ageing for health and family service expenditures.

1998 Industry Economics Conference

Conference proceedings, September 1999

The Australian National University and the Productivity Commission organised the 7th Industry Economics Conference which was held on 6–7 July 1998. The theme of the conference was *Privatisation, Regulation and Reform*. The invited and contributed papers presented at the conference that were not subject to copyright were published in the proceedings released in September 1999.

The proceedings contain 14 theoretical and applied papers falling under the broad headings of privatisation and regulation, industry economics and theory, financial crises and banking, and industry structure and policy in Australia.

1999 Industry Economics Conference

Conference proceedings, October 1999

In October 1999, the Productivity Commission and Monash University released the proceedings of the 8th Industry Economics Conference held in Melbourne on 12–13 July 1999. The theme of the conference was *Regulation, Competition and Industry Structure*.

The proceedings contain 16 theoretical and applied papers that provide an overview of recent developments in Australian industry regulation, examine East Asian industry structures in the light of the recent crisis and investigate the influence of regulation on Australia's telecommunications and rail industries.

Staff research papers

Note: The views expressed in staff research papers do not necessarily reflect the views of the Productivity Commission.

Multilateral liberalisation of services trade

Philippa Dee and Kevin Hanslow, March 2000

The paper compared the gains from eliminating barriers to trade in services with those from eliminating the post-Uruguay barriers remaining in the traditional areas of agriculture and manufacturing. It made use of the first of a comprehensive new set of estimates of barriers to services trade that were summarised in the Commission's *Trade & Assistance Review 1998-99*.

The paper projected that the world as a whole would be better off by more than US\$260 billion annually as a result of eliminating all post-Uruguay trade barriers. About US\$50 billion of this would come from agricultural liberalisation, US\$80 billion from liberalisation of manufactures and US\$130 billion from liberalising services trade. Australia was projected to gain US\$2 billion from global liberalisation of agriculture and manufacturing and US\$2 billion from global liberalisation of services trade, for an overall gain of about US\$4 billion a year.

The paper also noted that, because the structure of trade barriers in the services area is relatively complex, there is a real question as to the best way to approach partial (as opposed to full) liberalisation in that sector. The best strategy may be to negotiate gradual reductions in all types of services trade barriers simultaneously.

Productivity and the structure of employment

Paula Barnes, Rick Johnson, Anthony Kulys and Scott Hook, July 1999

The paper examined the structure of employment defined by industry, skill, age, part-time and casual employment status, and the distribution of earnings. Employment patterns and changes in employment profiles were examined for differences between high productivity growth industry sectors and low productivity growth industry sectors.

The main findings of the paper were that:

- productivity growth does not appear to be associated with a fall in employment at the aggregate level and can contribute to employment growth;

-
- generally speaking, demographic and social factors are more powerful than productivity growth in affecting most of the dimensions of the structure of employment examined; and
 - a limited number of correlations was found between productivity growth and some of the individual employment characteristics examined.

The role of training and innovation in workplace performance

Patrick Laplagne and Leonie Bensted, December 1999

The paper used workplace-level data from the Australian Workplace Industrial Relations Survey to examine the extent to which the use of training and/or innovation in a workplace increases the likelihood that it has higher labour productivity than its competitors, and experiences high labour productivity growth.

Among other results, the paper found that:

- training and innovation are more prevalent in workplaces experiencing strong labour productivity growth;
- introducing innovation in isolation can promote labour productivity growth, although its returns are increased by the presence of training. Conversely, the evidence suggests that training has been of significant benefit to labour productivity growth only when combined with innovation; and
- if workplaces are disaggregated based on their efficiency, training emerges as an effective strategy for less efficient workplaces to ‘catch up’ with competitors. Innovation, on the other hand, appears to promote labour productivity growth among both technically efficient and inefficient workplaces.

Update of productivity estimates — 1998-99

December 1999

In 1998 the Australian Bureau of Statistics (ABS) introduced a new methodology for measuring capital inputs to be used in its calculations of Australia’s productivity trends. The ABS published initial ‘experimental’ capital measures in 1998 (with reference to years up to 1997-98) and revised measures in 1999 (up to 1998-99).

The Commission’s update (released on its website) provided revisions to the productivity and related estimates, based on the initial ABS experimental measures, that had been presented in earlier Commission publications.

The main effect of the ABS revisions was to raise the rate of growth in capital input. Consequently, the long-term average rate of (multifactor) productivity growth was revised downwards from 1.4 per cent a year (1964-65 to 1997-98) to 1.0 per cent a year (1964-65 to 1998-99). Nevertheless, the revised estimates showed that the underlying rate of productivity growth surged to a record high in the 1990s.

The Commission has also published its own productivity estimates for industry sectors, based on ABS data. The ABS revisions also affected these estimates, raising the estimated rate of productivity growth for some sectors (particularly Communication services) and lowering it for others (such as Finance and insurance and Cultural and recreational services).

Research memorandum

The structure of the FTAP model

Kevin Hanslow, Tien Phamduc and George Verikios, December 1999

The FTAP model is a comparative static, computable general equilibrium model of the world economy that includes a treatment of foreign direct investment on a bilateral basis. The FTAP model was developed in stages from the GTAP model, with the addition of the structure necessary to support the analysis of services liberalisation. A major component of this liberalisation is the removal of barriers to foreign direct investment in the tertiary sector. This research memorandum, available on the Commission's website, documents the equations of the FTAP model and is intended to provide self-contained documentation for the FTAP equation system.

Staff working papers

Staff working papers are available on request, but are not for quotation without the permission of the authors. The views expressed in staff working papers do not necessarily reflect the views of the Productivity Commission.

An index number framework to evaluate microeconomic reforms

John Salerian and Andrew Coleman, March 2000

Table E.1 Speeches and presentations by the Chairman, Commissioners and staff, 1999-2000

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Gary Banks, Chairman:		
Thomson Playford Corporate Forum, Adelaide	Adjustment issues in economic reform	July 1999
CEDA/The Age: Outlook Australia Forum, Melbourne	Strategies for driving Australia's growth	July 1999
PC/Melbourne Institute: Launch of on the conference volume, <i>Policy Implications of the Ageing of Australia's Population</i> , Melbourne	Introduction	Aug 1999
Joint Committee of Public Accounts and Audit: Inquiry into corporate governance & accountability arrangements for Commonwealth government business enterprises, Canberra (Chairman, Michael Woods and staff)	The Commission's work on government business enterprises	Sept 1999
Melbourne Institute: Public Economics Forum, Canberra	Introductory remarks on the conference volume, <i>Policy Implications of the Ageing of Australia's Population</i>	Sept 1999
Council of Australasian Auditor Generals, Melbourne	The Review of Commonwealth/State Service Provision	Oct 1999
Housing CEOs meeting, Brisbane	The Review of Commonwealth/State Service Provision	Oct 1999
Senate Select Committee on Information Technologies: Inquiry into online gambling, Canberra (Chairman and staff)	PC inquiry on Australia's gambling industries — internet gambling	Feb 2000
Gaming and Casinos Convention, Surfers Paradise	The Commission's gambling report	Feb 2000
OECD Business and Industry Policy Forum: Structural Factors Driving Industrial Growth, Paris	Discussant	Feb 2000
World Trade Organization Seminar, Geneva	Trade liberalisation as a domestic issue: The role of Australia's Productivity Commission	March 2000
Economic Society of Australia, ACT Branch Meeting, Canberra	Information policy on gambling: the PC inquiry	May 2000
Australian Institute of Criminology: 3 rd National Conference on Gambling, Sydney	Keynote address on the PC gambling report: retrospect and prospect	May 2000
Centre for Independent Studies Consilium, Katoomba	Issues in higher education policy	May 2000
Australian College of Education: National Symposium on Schooling Resourcing, Canberra	Discussant	June 2000
PC/ANU Conference: Achieving Better Regulation of Services, Canberra	Regulating gambling: a 'market friendly' approach to the social impacts	June 2000

Commissioners:

Aviation 1999 Conference, Sydney (Richard Snape)	Review of aviation reform	July 1999
8 th Industry Economics Conference, Melbourne (Neil Byron)	International liner shipping: a preliminary assessment of Part X of the Trade Practices Act	July 1999
ILO Sub-regional Workshop for National Employers' Organisations of China, Mongolia and Vietnam, Singapore (Judith Sloan)	The lobbying functions of an employers' organisation	July 1999
Airports and Aviation Outlook Conference, Melbourne (Richard Snape)	Australian aviation outlook: setting the scene	Aug 1999
Greenwood Kendalls & the Centre for the Legal and Economic Study of Institutions, Brisbane (Judith Sloan)	National competition policy with particular reference to rural and regional Australia	Aug 1999
Department of Environment and Heritage: Roundtable on trade and the environment, Canberra (Neil Byron and staff)	Trade and environment: synergies and trade-offs	Aug 1999
National Environment Law Association 18 th Annual Conference, Sydney (Neil Byron)	Sound economic management requires sound environmental management	Sept 1999
Monash University: Australian Health Care System Seminar, Melbourne (Helen Owens)	The Commission's Private Health Insurance Inquiry	Sept 1999
Centre for Economic Policy Research/ Economics Society: Economic Policy Development Seminar, Canberra (Richard Snape)	The role of the Productivity Commission	Sept 1999
IPAA Conference: Sustainable Economic Growth For Regional Australia, Mudjimba, (John Cosgrove)	National competition policy and rural and regional Australia	Sept 1999
Australian APEC Study Centre: 4 th Conference on International Trade Education and Research — The WTO Millennium Round, Melbourne (Neil Byron)	Trade and international competitiveness: issues for the WTO 2000 Round	Sept 1999
New Zealand Business Roundtable: 1999 Sir Ronald Trotter Lecture, Wellington (Judith Sloan)	Ideas about labour markets: the last 100 years and the 21 st Century	Sept 1999
Australian and International Pilots Association Conference, Sydney (Richard Snape)	PC's report on international aviation	Sept 1999

(Continued next page)

Table E.1 (Continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
University of Newcastle: 1999 ANZRSAI Annual Conference, Newcastle (John Cosgrove)	Impacts of national competition policy on regional Australia	Sept 1999
Economic Society of Australia, Victoria Branch: 28 th Conference of Economists, Melbourne (Neil Byron)	Green accounting: where to next?	Sept 1999
Melbourne University: Student Lectures, Melbourne (Neil Byron)	Economic models of deforestation	Oct 1999
	Valuing the environment	Oct 1999
Bureau of Resource Sciences, Canberra (Neil Byron)	How to improve the implementation of environmental policies and promotion of ESD	Oct 1999
Economic Society of Australia, NSW Branch Meeting, Sydney (Richard Snape)	PC's draft report on broadcasting	Oct 1999
Communications Law Centre, University of New South Wales, Sydney (Richard Snape)	PC's draft report on broadcasting	Nov 1999
Australasian Railway Association: AusRail 1999, Sydney (Helen Owens)	PC's report on progress in rail reform	Nov 1999
1999 Australian Liner Shipping Conference, Melbourne (Neil Byron)	PC's inquiry on international liner cargo shipping	Nov 1999
Liberty Fund Conference, Adelaide (Judith Sloan)	The meaning of freedom	Nov 1999
NHMRC: Research Outcomes Workshop, Canberra (Helen Owens)	Better health is the only true measure of the value of research?	Nov 1999
1 st International Congress on Integrating Sustainable Development into Environmental Health Practice, Brisbane (Neil Byron)	ESD and environment health	Nov 1999
Land and Water Resources R&D Corporation: Scanning Think Tank, Canberra (Neil Byron)	Critique of LWRRDC previous research strategy and proposals for 2000-2010	March 2000
Business Council of Australia: Population Policy Symposium, Adelaide (Judith Sloan)	Discussant	March 2000
La Trobe University: Social Science and Health Policy Seminar, Melbourne (Helen Owens)	Instability (or otherwise) of private health insurance	March 2000

Key Centre for Women's Health, University of Melbourne: Masters Course Seminar, Melbourne (Helen Owens)	The cost-quality trade-off in health care — fact or fiction?	April 2000
Wimmera Catchment Authority: Land Stewardship Workshop, Avoca (Neil Byron)	ESD and land management — institutions for conservation	April 2000
CSIRO: Ecosystems Services Symposium, Canberra (Neil Byron)	Economic value of ecosystem services	April 2000
Australia-Japan Research Centre seminar, Canberra (Richard Snape)	Where to in the World Trade Organization?	April 2000
HR Nicholls Society: Beating the Bush Blues — Creating Jobs in Country Australia, Albury (Judith Sloan)	The impact of national competition policy on rural and regional Australia	May 2000
Canadian Minister for International Trade and High Commissioner: Trade Policy Roundtable, Canberra (Richard Snape)	Contribution to the Roundtable	May 2000
Senate Environment, Communications, IT & the Arts Legislation Committee, Canberra (Richard Snape, Stuart Simson & staff)	PC's broadcasting report	May 2000
House of Representatives Standing Committee on Communications, Transport and the Arts, Canberra (Richard Snape & staff)	PC's broadcasting report	June 2000
11 th NBER East Asia Seminar, Seoul (Richard Snape)	Regulating service trade: matching policies to objectives	June 2000
PC/ANU Conference: Achieving Better Regulation of Services, Canberra (Neil Byron & staff)	Principles for regulating the professions	June 2000
PC/ANU Conference: Achieving Better Regulation of Services, Canberra (Richard Snape)	Discussant on approaches to improving regulation	June 2000
Union Internationale d'Architects Executive Council briefing, Sydney (Neil Byron)	PC's inquiry on the regulation of architects	June 2000
3 rd Annual Conference on Global Economic Analysis, Melbourne (Richard Snape)	The role of GTAP-type modelling in policy formulation	June 2000

(Continued next page)

Table E.1 (Continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Staff:		
8 th Industry Economics Conference, Melbourne (Chris Sayers)	Telecommunications industry: price benchmarking evidence on competition	July 1999
8 th Industry Economics Conference, Melbourne (Herb Plunkett)	Impact of competition policy reform on rural and regional Australia	July 1999
8 th Industry Economics Conference, Melbourne (Keith Trace)	Rail privatisation: lessons from the United Kingdom	July 1999
Western Australian Treasury: Purchasing outputs workshop, Perth (Simon Corden)	Performance indicators	July 1999
Western Australian Ministry of Premier and Cabinet: Seminar, Perth (Simon Corden)	Developing and reporting comparative performance indicators	July 1999
Social Policy Research Centre: National Social Policy Conference, Sydney (Scott Hook)	Impact of enterprise bargaining on wage dispersion in Australia 1988–96	July 1999
APEC Seminar on Good Regulatory Practices 1999, Rotarua New Zealand (Robyn Sheen)	Good regulatory practice — looking for outcomes	Aug 1999
Centre for Strategic Economic Studies: Melbourne (Graeme Woodbridge)	Causes of increasing earning inequality in Australia	Aug 1999
Department of Defence: Defence and Industry Study Course Seminar, Adelaide, (Ian Monday)	The Productivity Commission and microeconomic reform in Australia	Aug 1999
La Trobe University 4 th Year Public Policy Course, Melbourne (Jeff Hole)	Recent developments in utility regulation and discussion of current issues	Aug 1999
2 nd Annual Emissions Trading Forum, Sydney (Don Gunasekera)	Greenhouse gas abatement and structural change: exploring the policy issues	Aug 1999
Economic Society of Australia, New South Wales Branch seminar, Sydney (Dean Parham)	Australia's productivity performance	Sept 1999
Melbourne Institute Business Economics Forum, Melbourne, (Graeme Woodbridge)	Policy implications of the ageing population	Sept 1999
Pacific Economic Cooperation Council: Productivity Growth and Industrial Structure in the Pacific Region, Osaka (Dean Parham)	Australia's productivity performance	Sept 1999
University of South Australia: Road Funding, Pricing and Taxation Seminar, Adelaide (Chris Sayers)	Australian road investment, charging and financing policy	Sept 1999
28 th Conference on Economists, Melbourne (Ross Wilson)	Measuring the costs and benefits of gambling	Sept 1999

28 th Conference on Economists, Melbourne (George Verikios)	Modelling the effects of implementing the Uruguay Round	Sept 1999
28 th Conference on Economists, Melbourne (Kaleeswaran Kalirajan)	The price impact of restrictions on banking services	Sept 1999
28 th Conference on Economists, Melbourne (Philippa Dee)	Multilateral liberalisation of services trade	Sept 1999
University of Melbourne Department of Economics: Business Applications Lecture Series, Melbourne (Lynne Williams)	How to write large reports: A Productivity Commission perspective	Oct 1999
1 st ACER National Business Education and Research Conference, Perth (Lynne Williams)	Finding mutual benefits through research	Oct 1999
Senate Select Committee on the Socio-Economic Consequences of the National Competition Policy, Melbourne (Robert Kerr & Herb Plunkett)	PC's report on the impact of national competition policy on rural and regional Australia	Nov 1999
US Coalition of Services Industries Research and Education Foundation: World Services Congress 1999, Atlanta (Philippa Dee)	Multilateral liberalisation of services trade	Nov 1999
IIR Competition Policy Conference, Sydney (Herb Plunkett)	Assessing the impacts of national competition policy on the rural sector	Nov 1999
1999 Australian Liner Shipping Conference, Sydney (Keith Trace)	The globalisation of container shipping: implications for Australia	Nov 1999
ANU Seminars for Economists, Canberra (Philippa Dee)	Issues in the application of CGC models to services trade liberalisation	Nov 1999
Water Services Association of Australia: Member's Forum, Perth (Herb Plunkett)	PC work relevant to Association members	Nov 1999
Australasian Economics and Maritime History Conference, Sydney (Keith Trace)	Containerisation and competition in liner shipping markets	Dec 1999
Melbourne Institute: Welfare Review Seminar, Melbourne (Lynne Williams)	Discussant on welfare incentive issues	Jan 2000
Centre for Corporate Affairs: 2000 Politics and Public Policy Review, Canberra (Robert Kerr)	Policy issues and priorities for the Commission	Feb 2000
Electricity Supply Association of Australia: Conference on Economic Regulation: Theory and Practice, Sydney (John Salerian)	Productivity and profitability: measuring the linkages	Feb 2000
Presentation to the Philippines Study Tour on Policy Development for Effective Local Governance, Canberra (Herb Plunkett)	Government assistance to business and application of NCP to local government	Feb 2000

(continued next page)

Table E.1 (Continued)

<i>Organisation/event</i>	<i>Topic</i>	<i>Date</i>
Northern Territory Chief Minister's Department seminar, Darwin (Robyn Sheen and Ilias Mastoris)	Report on Government Services 2000	March 2000
Nordic Energy Research Program: Multiregional modelling of environment and energy markets, Helsinki (Kevin Hanslow)	The structure of the FTAP model	March 2000
Australian Early Childhood Association: National Children's Services Forum, Canberra (Stewart Plain)	Competitive neutrality and its application to child-care services	March 2000
Queensland Premier's Department seminar, Brisbane (Robyn Sheen and Ilias Mastoris)	Report on Government Services 2000	March 2000
Victoria University of Technology, Workplace Studies Centre: A showcase of recent research into gambling, Melbourne (Ralph Lattimore)	Economic and social impacts of gambling in Australia	March 2000
ANU Postgraduate Diploma In Public Policy seminar, Canberra (Herb Plunkett)	Impact of national competition policy on rural and regional Australia	March 2000
Water Services Association of Australia, Sydney (Chris Sayers)	Arrangements for setting water quality standards	March 2000
New South Wales Premier's Department seminar, Sydney (Robyn Sheen and Ilias Mastoris)	Report on Government Services 2000	March 2000
NSW Auditor-General seminar, Sydney (Robyn Sheen and Ilias Mastoris)	Report on Government Services 2000	March 2000
Sydney University Honours Student seminar, Sydney (Lisa Gropp)	The Productivity Commission	April 2000
Western Australia Gaming Authority: Casino and Gaming Regulators Conference 2000, Perth (Ralph Lattimore)	PC's gambling report: regulatory model and consumer protection	April 2000
Australian Institute of Health and Welfare, Canberra (Robyn Sheen)	Report on Government Services 2000	April 2000
South Australian Department of Treasury & Finance and Department of the Premier & Cabinet, Adelaide (Robyn Sheen & Ilias Mastoris)	Report on Government Services 2000	April 2000
ANU Centre for Continuing Education, Canberra (Lynne Williams)	The environmental performance of commercial buildings	April 2000
National forum of child care associations, Canberra (Stewart Plain)	The application of competitive neutrality to day-care services	May 2000
Economic Society of Australia Victoria Branch seminar, Melbourne (Chris Sayers)	Drinking water standards: de facto standards and quasi-regulation	June 2000
11 th International Conference on Gambling and Risk Taking, Las Vegas (Ralph Lattimore)	Impacts of legal gambling and the prevalence of problem gambling in Australia	June 2000

Melbourne Institute: Monday Workshop, Melbourne (Patrick Laplagne)	Changing earnings distribution in Australia: The role of technical change	June 2000
11 th NBER East Asia Seminar, Seoul (Philippa Dee)	Measuring the cost of barriers to services trade	June 2000
PC/ANU Conference: Achieving Better Regulation of Services, Canberra (Paul Coghlan)	The principles of good regulation	June 2000
PC/ANU Conference: Achieving Better Regulation of Services, Canberra (Geraldine Gentle)	Air services: Regulating with bilateral agreements	June 2000
PC/ANU Conference: Achieving Better Regulation of Services, Canberra (Philippa Dee)	Modelling the liberalisation of services	June 2000
3 rd Annual Conference on Global Economic Analysis, Melbourne (Kevin Hanslow)	A general welfare decomposition for CGE models	June 2000
3 rd Annual Conference on Global Economic Analysis, Melbourne (Xiao-Guang Zhang)	The structure of the FTAP model	June 2000
	Sectoral impacts of liberalising trade in services	June 2000

F Publications

This appendix provides a list of Commission reports, papers and submissions to other review bodies completed in 1999-2000. It also lists staff research papers and staff working papers, the views of which do not necessarily reflect those of the Commission. The Commission has a comprehensive website providing public access to nearly all its publications.

Government-commissioned projects

Inquiries — draft reports and position papers

Draft reports and position papers can be obtained from the Commission during the course of an inquiry and from the Commission's website.

- Australia's Gambling Industries, Inquiry Draft Report (19 July 1999)
- Broadcasting, Inquiry Draft Report (22 October 1999)
- Review of Legislation Regulating the Architectural Profession, Inquiry Draft Report (2 May 2000)
- Review of Australia's General Tariff Arrangements, Inquiry Draft Report (25 May 2000)

Inquiries — final reports

Copies of final reports can be obtained from Government Info Shops upon release by the Government and from the Commission's website thereafter. Publications marked with an asterisk (*) are also available on compact disc from the Commission.

- *Progress in Rail Reform*, Inquiry Report No. 6 (5 August 1999)
- *International Telecommunications Market Regulation*, Inquiry Report No. 7 (23 August 1999)
- *Impact of Competition Policy Reforms on Rural and Regional Australia*, Inquiry Report No. 8 (8 September 1999)
- *International Liner Cargo Shipping: A Review of Part X of the Trade Practices Act 1974*, Inquiry Report No. 9 (15 September 1999)

-
- *Australia's Gambling Industries*, Inquiry Report No. 10 (26 November 1999)*
 - *Broadcasting*, Inquiry Report No. 11 (3 March 2000)

Case studies on work arrangements

Copies can be obtained from Government Info Shops and from the Commission's website.

- *Work Arrangements on Large Capital City Building Projects* (August 1999)

Other commissioned projects

Copies of commissioned research studies can be obtained from Government Info Shops upon release by the Government and from the Commission's website thereafter.

- *The Environmental Performance of Commercial Buildings* (November 1999)

Performance reporting

Steering Committee for the Review of Commonwealth/State Service Provision

The Commission acts as the Secretariat for the COAG Steering Committee. Except where indicated, copies of these publications are available from Government Info Shops and from the Commission's website. Publications marked with an asterisk (*) and many previous Secretariat reports are also available on compact disc from Government Info Shops.

- *Linking Inputs and Outputs: Activity Measurement by Police Services*, Steering Committee Research Paper (October 1999)
- *Payroll Tax in the Costing of Government Services*, Steering Committee Research Paper (October 1999)
- *Using Consumer Views in Performance Indicators for Children's Services*, Consultancy Report (February 2000)
- *Report on Government Services 2000, Volume 1: Education, Health* (February 2000) *
- *Report on Government Services 2000, Volume 2: Justice, Emergency Management* (February 2000) *
- *Report on Government Services 2000, Volume 3: Community Services, Housing* (February 2000) *

Other performance reporting and benchmarking

Copies of reports can be obtained from Government Info Shops and from the Commission's website.

- *International Benchmarking of Telecommunications Prices and Price Changes* (December 1999)
- *Arrangements for Setting Drinking Water Standards* (April 2000)

Competitive neutrality complaints

Copies of reports are available from the Commonwealth Competitive Neutrality Complaints Office and from the Commission's website.

- *Australian Institute of Sport Swim School* (20 October 1999)
- *National Rail Corporation* (18 January 2000)
- *ABC Production Facilities* (18 February 2000)
- *Customs Treatment of Australia Post* (23 June 2000)

Supporting research and annual reporting

Copies of most reports can be obtained from Government Info Shops and from the Commission's website. Requests for copies of submissions made by the Commission to other review bodies should be directed to the Commission. Submissions can also be accessed from the Commission's website. Staff Working Papers are available only on request from the authors.

Annual reports

- *Annual Report 1998-99* (October 1999)
- *Trade & Assistance Review 1998-99* (November 1999)
- *Regulation and Its Review 1998-99* (November 1999)

Inquiry report supplements

- *An Assessment of the Performance of Australian Railways, 1990 to 1998*, Supplement to Inquiry Report No. 6 (November 1999)
- *Modelling the Regional Impacts of National Competition Policy Reforms*, Supplement to Inquiry Report No. 8 (September 1999)

-
- *Modelling the Effects of Removing General Tariffs — Supplement to the inquiry draft report on the Review of Australia's General Tariff Arrangements* (May 2000)

Commission research papers

- *Microeconomic Reforms and Australian Productivity: Exploring the Links* (November 1999)
- *Regulation of the Taxi Industry* (November 1999)
- *Private Hospitals in Australia* (December 1999)

Submissions to other review bodies

- *Productivity Commission Submission to the NCC's Review of the Western Australian Rail Access Regime* (October 1999)
- *Productivity Commission Submission to the National Review of Pharmacy* (November 1999)
- *Productivity Commission Submission to the Review of the Export Market Development Grants Scheme* (February 2000)
- *Productivity Commission Submission to the Interim Report of the Reference Group on Welfare Reform* (May 2000)

Conference/workshop proceedings

- *Structural Adjustment — Exploring the Policy Issues*, Workshop proceedings (August 1999)
- *Policy Implications of the Ageing of Australia's Population*, Conference proceedings (August 1999)
- *1998 Industry Economics Conference*, Conference proceedings (September 1999)
- *1999 Industry Economics Conference*, Conference proceedings (October 1999)

Staff research papers

- *Multilateral Liberalisation of Services Trade*, Philippa Dee and Kevin Hanslow (March 2000)
- *Productivity and the Structure of Employment*, Paula Barnes, Rick Johnson, Anthony Kulys and Scott Hook (July 1999)

-
- *The Role of Training and Innovation in Workplace Performance*, Patrick Laplagne and Leonie Bensted (December 1999)

Research memorandum

- *The Structure of the FTAP Model*, Kevin Hanslow, Tien Phamduc and George Verikios (December 1999, available from the Commission's website).

Staff working papers

- *An Index Number Framework to Evaluate Microeconomic Reforms*, John Salerian and Andrew Coleman (March 2000)

Other publications

Copies of these publications are available from the Commission and its website.

- *The Productivity Commission's Research Program 1999-2000* (July 1999)
- *Digest of Current Research Projects* (July 1999 and February 2000)
- *pc update*, a quarterly information sheet on Productivity Commission activities, covers key events on the work program, major activities and publications released (Issue 6, September 1999; Issue 7, December 1999; Issue 8, March/April 2000; and Issue 9, June/July 2000)
- *The Asian Financial Crisis*, Address to the Productivity Commission by Professor Anne O. Krueger (December 1999)
- *Update of productivity estimates — 1998-99* (December 1999)

G Financial statements

This appendix presents the audited financial statements for the Productivity Commission for 1999-2000. The statements have been prepared on an accrual accounting basis.

Contents	<i>page</i>
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Operating statement	188
Balance sheet	189
Statement of cash flows	190
Schedule of commitments	191
Schedule of contingencies	191
Notes to the financial statements	192



Statement by the Chairman

Certification

In my opinion, the attached financial statements give a true and fair view of the matters required by Schedule 2 to the Finance Minister's Orders made under section 63 of the *Financial Management and Accountability Act 1997*.

Gary Banks
Chairman

8 SEPTEMBER 2000

Productivity Commission
OPERATING STATEMENT

for the year ended 30 June 2000

	Note	1999-00 \$'000	1998-99 \$'000
Operating revenues			
Revenues from Government	3A	21,662	17,034
Sales of goods and services	3B	121	113
Net gains from sale of assets	3C	–	1
Other	3B	425	–
Resources received free of charge	3A	<u>36</u>	<u>66</u>
Total operating revenues		<u>22,244</u>	<u>17,214</u>
Operating expenses			
Employees	4A	15,554	15,990
Suppliers	4B	4,971	5,175
Depreciation and amortisation	4C	766	709
Write-down of assets	4D	131	28
Net loss on sale of assets		<u>29</u>	<u>–</u>
Total operating expenses		<u>21,451</u>	<u>21,902</u>
Operating surplus (deficit)		<u>793</u>	<u>(4,688)</u>
Accumulated surpluses (deficits) at beginning of reporting period		(2,362)	2,326
Accumulated surpluses (deficits) at end of reporting period		<u>(1,569)</u>	<u>(2,362)</u>

The above Statement should be read in conjunction with the accompanying notes.

Productivity Commission
BALANCE SHEET
<i>as at 30 June 2000</i>

	Note	1999-00 \$'000	1998-99 \$'000
ASSETS			
Financial assets			
Cash		228	22
Investments		1,500	–
Receivables	5	<u>1,709</u>	<u>1,686</u>
Total financial assets		<u>3,437</u>	<u>1,708</u>
Non-financial assets			
Infrastructure, plant and equipment	6	2,088	2,721
Intangibles	6	260	346
Other		<u>169</u>	<u>131</u>
Total non-financial assets		<u>2,517</u>	<u>3,198</u>
Total Assets		<u>5,954</u>	<u>4,906</u>
LIABILITIES			
Debt			
Other		<u>40</u>	<u>50</u>
Total debt		<u>40</u>	<u>50</u>
Provisions and payables			
Employees	7A	5,356	5,383
Suppliers	7B	<u>345</u>	<u>177</u>
Total provisions and payables		<u>5,701</u>	<u>5,560</u>
Total liabilities		<u>5,741</u>	<u>5,610</u>
EQUITY			
Capital	8	1,686	1,562
Reserves	8	96	96
Accumulated surpluses (deficits)	8	<u>(1,569)</u>	<u>(2,362)</u>
Total equity		<u>213</u>	<u>(704)</u>
Total Liabilities and Equity		<u>5,954</u>	<u>4,906</u>
Current liabilities		3,124	2,947
Non-current liabilities		2,617	2,613
Current assets		3,606	1,839
Non-current assets		2,348	3,067

The above Statement should be read in conjunction with the accompanying notes.

Productivity Commission
STATEMENT OF CASH FLOWS

for the year ended 30 June 2000

	Note	1999-00 \$'000	1998-99 \$'000
OPERATING ACTIVITIES			
Cash received			
Appropriations for outputs		21,662	21,553
Sales of goods and services		121	90
Other		<u>425</u>	<u>—</u>
Total cash received		<u>22,208</u>	<u>21,643</u>
Cash used			
Employees		15,554	15,935
Suppliers		<u>4,741</u>	<u>5,333</u>
Total cash used		<u>20,295</u>	<u>21,268</u>
Net cash from operating activities	9	<u>1,913</u>	<u>375</u>
INVESTING ACTIVITIES			
Cash received			
Proceeds from sales of property, plant and equipment		<u>13</u>	<u>12</u>
Total cash received		<u>13</u>	<u>12</u>
Cash Used			
Investments		1,500	—
Purchase of property, plant and equipment		<u>220</u>	<u>387</u>
Total cash used		<u>1,720</u>	<u>387</u>
Net cash from investing activities		<u>(1,707)</u>	<u>(375)</u>
Net increase (decrease) in cash held		206	—
Cash at the beginning of the reporting period		<u>22</u>	<u>22</u>
Cash at the end of the reporting period		<u>228</u>	<u>22</u>

The above Statement should be read in conjunction with the accompanying notes.

Productivity Commission
SCHEDULE OF COMMITMENTS
<i>as at 30 June 2000</i>

	Note	1999-00 \$'000	1998-99 \$'000
COMMITMENTS			
Operating leases		7,923	9,351
Other commitments		<u>404</u>	<u>1,108</u>
Total commitments		<u>8,327</u>	<u>10,459</u>
BY MATURITY			
All commitments			
One year or less		1,670	2,147
From one to two years		1,646	1,668
From two to five years		4,873	4,887
Over five years		<u>138</u>	<u>1,757</u>
Total commitments		<u>8,327</u>	<u>10,459</u>
Operating Lease Commitments			
One year or less		1,571	1,522
From one to five years		6,214	6,142
Over five years		<u>138</u>	<u>1,687</u>
Total operating lease commitments		<u>7,923</u>	<u>9,351</u>

The above Statement should be read in conjunction with the accompanying notes.

Productivity Commission
SCHEDULE OF CONTINGENCIES
<i>as at 30 June 2000</i>

	Note	1999-00 \$'000	1998-99 \$'000
CONTINGENT LOSSES		—	—
CONTINGENT GAINS		—	—
Net contingencies		—	—

The above Statement should be read in conjunction with the accompanying notes.

Productivity Commission

Notes to and forming part of the Financial Statements for the Year Ended 30 June 2000

Note	Description
1	Objectives of the Productivity Commission
2	Summary of Significant Accounting Policies
3	Operating Revenues
4	Operating Expenses
5	Financial Assets
6	Non-financial Assets
7	Provisions and Payables
8	Equity
9	Cash Flow Reconciliation
10	Appropriations
11	Reporting by Outcome
12	Remuneration of Executives
13	Contingencies
14	Act of Grace Payments and Waivers
15	Average Staffing
16	Financial Instruments

Note 1 Objectives of the Productivity Commission

The Productivity Commission is the Commonwealth Government's principal review and advisory body on microeconomic policy and regulation.

The Government's outcome objective for the Productivity Commission is:

Well-informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective.

Note 2 Summary of Significant Accounting Policies

2.1 Basis of Accounting

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997*.

The statements have been prepared in accordance with:

- *Requirements for the Preparation of Financial Statements of Commonwealth Agencies and Authorities* made by the Minister for Finance and Administration in August 1999 (Schedule 2 to the Financial Management and Accountability (FMA) Orders).
- Australian Accounting Standards;
- other authoritative pronouncements of the Australian Accounting Standards Boards; and
- the Consensus Views of the Urgent Issues Group.

The statements have been prepared having regard to:

- Statements of Accounting Concepts; and
- the Explanatory Notes to Schedule 2 issued by the Department of Finance and Administration.

The financial statements have been prepared on an accrual basis, and are in accordance with historical cost convention, except for certain assets which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The continued existence of the Commission in its present form, and with its present outputs, is dependent on Government policy and on continuing appropriations by Parliament for the Commission's outputs.

2.2 Changes in Accounting Policy

There were no changes in accounting policy in 1999-2000. However the presentation of the financial statements has been changed in accordance with the best practice guide issued by the Australian National Audit Office.

2.3 Agency and Administered items

Commission assets, liabilities, revenues and expenses are those items that are controlled by the Commission. They include:

- computers, plant and equipment used in providing goods and services;
- liabilities for employee entitlements;
- revenues from appropriations or independent sources; and
- employee, supplier and depreciation expenses incurred in producing agency outputs.

The Commission had no administered items in 1999-2000. Administered items are those items which are controlled by the Government and managed or oversighted by an agency on behalf of the Government. These items include benefit payments and taxes, fees and fines.

2.4 Reporting by Outcomes

A comparison of Budget and Actual figures by outcome specified in the Appropriation Acts relevant to the Commission is presented in Note 11.

2.5 Revenues from Government

Revenues from government are revenues relating to the outputs of the Commission.

Policies for accounting for revenue from government follow. Amounts and other details are provided in Note 3.

Appropriations

From 1 July 1999, the Commonwealth budget has been prepared under an accruals framework.

Appropriations to the Commission for its outputs are recognised as revenue to the extent that the Commission has received or has an unequivocal entitlement to receive the appropriation.

Appropriations to the Commission in relation to equity injections or unspent appropriations carried over from the 1998-99 year (in accordance with Department of Finance and Administration Estimates Memorandum 1999/27) are recognised as equity.

Resources received free of charge

Services received free of charge are recognised in the Operating Statement as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

2.6 Other Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised on the basis of the interest rates applicable to the financial assets. Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

2.7 Employee Entitlements

Salaries and wages, and leave

Liabilities for employee entitlements are accumulated as a result of employees rendering services up to the reporting date. These benefits include salaries and wages, annual leave and long service leave.

Liabilities arising in respect of entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts. The non-current portion of the long service entitlement is recognised and measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Separation and redundancy

No provision has been made for separation and redundancy payments as the Commission has not formally identified any positions as excess to requirements at 30 June 2000.

Superannuation

Staff of the Commission employed under the Public Service Act, contribute to the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. Employer contributions amounting to \$1,870,764 (1998-99: \$1,808,529) in relation to these schemes have been expensed in these financial statements.

No liability is shown for superannuation in the Balance Sheet as the employer contributions fully extinguish the accruing liability which is assumed by the Commonwealth.

2.8 Leases

Lease incentives taking the form of 'free' leasehold improvements and rent holidays are recognised as liabilities. These liabilities are reduced by allocating lease payments between rental expense and reduction of the liability.

2.9 Cash

Cash includes notes and coins held and any deposits held at call with a bank or financial institution.

2.10 Financial instruments

Accounting policies for financial instruments are stated at Note 16.

2.11 Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

2.12 Property, plant and equipment

Asset recognition threshold

Purchases of property, plant and equipment are recognised initially at cost in the Balance Sheet, except for purchases costing less than \$2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Revaluations

Schedule 2 to the Financial and Management Accountability (FMA) Orders requires that buildings, infrastructure, plant and equipment be revalued progressively in accordance with the 'deprival' method of valuation in successive three-year cycles.

The Commission has implemented the requirements of Schedule 2 as follows:

- plant and equipment was revalued initially at 30 June 1998; and
- the remaining assets (leasehold improvements) were revalued at 30 June 1999.

The financial effect of the move to progressive revaluations is that the carrying amounts of assets will reflect current values and that depreciation charges will reflect the current cost of the service potential consumed in each period. This has been estimated by calculating the written down replacement cost (see Note 6).

Assets in each class acquired after the commencement of a progressive revaluation cycle are not captured by the progressive revaluation then in progress.

All valuations are undertaken independently of the Commission.

Depreciation and Amortisation

Depreciable property plant and equipment assets are written-down to their estimated residual values over their estimated useful lives to the Commission using, in all cases, the straight-line method of depreciation. Leasehold improvements are amortised on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation and amortisation rates applying to each class of depreciable asset are based on the following useful lives:

	1999-2000	1998-99
Leasehold improvements	Lease term	Lease term
Plant and equipment	3 to 10 years	3 to 10 years
Intangibles (Computer Software)	5 years	5 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 6B.

2.13 Taxation

The Commission is exempt from all forms of taxation except fringe benefits tax and the goods and services tax.

2.14 Insurance

The Commonwealth's insurable risk managed fund, called 'Comcover', commenced operations in 1998-99. The Commission has insured with the fund for risks other than workers compensation, which is dealt with via continuing arrangements with Comcare.

2.15 Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

Comparatives are not presented in Note 11 dealing with the Reporting by Outcome, due to 1999-2000 being the first year of the implementation of accrual budgeting.

2.16 Rounding

Amounts have been rounded to the nearest \$1,000 except in relation to the following:

- remuneration of executives; and
- remuneration of auditors.

Note 3 Operating Revenues

Note 3A – Revenues from Government

	1999-00 (\$'000)	1998-99 (\$'000)
Appropriations for outputs	21,662	17,034
Resources received free of charge – Auditor-General	36	35
Resources received free of charge – Other	–	31
Total	<u>21,698</u>	<u>17,100</u>

The Auditor-General provides financial statement services free of charge to the Commission. The fair value of the services was \$35,700 (1998-1999 \$35,000).

The following resources received free of charge are not recognised, as the costs cannot be measured reliably:

- Australian Archives – Storage and disposal facilities.

Note 3B – Sales of Goods and Services/Other Revenue

	1999-00 (\$'000)	1998-99 (\$'000)
Goods and Services	121	113
Other	425	–
Total	<u>546</u>	<u>113</u>

'Other' represents amounts previously held in trust accounts by the Department of Finance and Administration on behalf of the Commission which were transferred in 1999-2000 to the Commission's bank account and have been recognised as revenue in these financial statements. These amounts represent recoveries from Comcare of compensation payments made to employees in previous years and charged as operating expenses at that time.

Note 3C – Net gains from sales of assets

	1999-00 (\$'000)	1998-99 (\$'000)
Non-financial assets		
Infrastructure, plant and equipment	—	<u>1</u>
Total	—	<u>1</u>

Note 4 Operating Expenses

Note 4A – Employee Expenses

	1999-00 (\$'000)	1998-99 (\$'000)
Remuneration (for services provided)	15,311	15,383
Separation and redundancy	<u>243</u>	<u>607</u>
Total	<u>15,554</u>	<u>15,990</u>

Note 4B – Suppliers Expenses

	1999-00 (\$'000)	1998-99 (\$'000)
Supply of goods and services	3,538	3,746
Operating lease rentals	<u>1,433</u>	<u>1,429</u>
Total	<u>4,971</u>	<u>5,175</u>

Note 4C – Depreciation and Amortisation

	1999-00 (\$'000)	1998-99 (\$'000)
Depreciation of infrastructure, plant & equip.	676	619
Depreciation of intangibles	<u>90</u>	<u>90</u>
Total	<u>766</u>	<u>709</u>

Note 4D – Write-down of assets

	1999-00 (\$'000)	1998-99 (\$'000)
Non-financial assets		
Plant & equipment – write-down	<u>131</u>	<u>28</u>
Total	<u>131</u>	<u>28</u>

Note 5 Financial Assets

Receivables

	1999-00 (\$'000)	1998-99 (\$'000)
Appropriations carried over	1,686	1,562
Other Receivables	23	124
Less: Provision for doubtful debts	<u>–</u>	<u>–</u>
Total	<u>1,709</u>	<u>1,686</u>
Receivables (gross) which are overdue are aged as follows:		
Not Overdue	1,709	1,686
Overdue by:		
Less than 30 days	–	–
30 to 60 days	–	–
60 to 90 days	<u>–</u>	<u>–</u>
	<u>1,709</u>	<u>1,686</u>

Note 6 Non-financial Assets

Infrastructure, Plant and Equipment, and Intangibles

Table A Summary of fixed assets

	1999-00	1998-99
	(\$'000)	(\$'000)
Leasehold Improvements		
Leasehold at cost	9	–
Accumulated amortisation	<u>–</u>	<u>–</u>
	<u>9</u>	<u>–</u>
Leasehold improvements – 1998-1999 valuation	3,198	3,594
Accumulated amortisation	<u>2,023</u>	<u>1,887</u>
	<u>1,175</u>	<u>1,707</u>
Total Leasehold Improvements	<u>1,184</u>	<u>1,707</u>
Plant and Equipment		
Plant and equipment at cost	207	–
Accumulated depreciation	<u>20</u>	<u>–</u>
	<u>187</u>	<u>–</u>
Plant and equipment – 1998-1999 valuation	1,894	2,007
Accumulated depreciation	<u>1,177</u>	<u>993</u>
	<u>717</u>	<u>1,014</u>
Total Plant and Equipment	<u>904</u>	<u>1,014</u>
Total Infrastructure, Plant and Equipment	<u>2,088</u>	<u>2,721</u>
Intangibles		
Intangibles at cost	471	466
Accumulated amortisation	<u>211</u>	<u>120</u>
Total Intangibles	<u>260</u>	<u>346</u>
Total Infrastructure, Plant and Equipment, and Intangibles	<u>2,348</u>	<u>3,067</u>

In accordance with Note 2.12, assets purchased since the revaluations carried out in 1998 and 1999, are shown at cost and have been disclosed separately from those recorded at valuation in the table above.

Table B Analysis of Property, Plant, Equipment and Intangibles.
Movement summary 1999-2000 for fixed assets irrespective of valuation

Item	Leasehold improvements (\$'000)	Plant and equipment (\$'000)	Total infrastructure, plant and equipment (\$'000)	Intangibles (\$'000)	Total (\$'000)
Gross value					
As at 1 July 1999	3,594	2,007	5,601	466	6,067
Additions	9	206	215	5	220
Disposals	(396)	(113)	(509)	-	(509)
As at 30 June 2000	<u>3,207</u>	<u>2,100</u>	<u>5,307</u>	<u>471</u>	<u>5,778</u>
Accumulated depreciation/amortisation					
As at 1 July 1999	1,887	992	2,879	121	3,000
Charge for additions	-	20	20	1	21
Charge for assets held 1 July 1999	401	255	656	89	745
Disposals	(265)	(71)	(336)	-	(336)
As at 30 June 2000	<u>2,023</u>	<u>1,196</u>	<u>3,219</u>	<u>211</u>	<u>3,430</u>
Net book value as at 30 June 2000	<u>1,184</u>	<u>904</u>	<u>2,088</u>	<u>260</u>	<u>2,348</u>
Net book value as at 1 July 1999	1,707	1,014	2,721	346	3,067

Leasehold improvements were revalued as at 30 June 1999 in accordance with progressive revaluation policy stated at Note 2.12 and was completed by Mr W Philpott CPV, an employee of the Australian Valuation Office, a body independent to the Commission. Plant and equipment was revalued at 30 June 1998. The 'deprival method of valuation' was adopted as the basis of valuation, which was estimated by calculating the written down replacement cost.

Table C Summary of valuation adjustments as at 30 June 2000

	1999-00 (\$'000)	1998-99 (\$'000)
Valuation		
Cost adjustment	-	305
Depreciation adjustment	-	(236)
Net increment (decrement) on revaluation	-	<u>69</u>

Note 7 Provisions and Payables

Note 7A – Liabilities to employees

	1999-00	1998-99
	(\$'000)	(\$'000)
Salaries and wages	384	258
Annual leave	1,854	1,887
Long service leave	3,117	3,113
Superannuation	–	39
Staff redundancies	–	50
Other	<u>1</u>	<u>36</u>
	<u>5,356</u>	<u>5,383</u>

Note 7B – Suppliers

	1999-00	1998-99
	(\$'000)	(\$'000)
Trade creditors	<u>345</u>	<u>177</u>
	<u>345</u>	<u>177</u>

Note 8 Equity

	Equity Appropriation (\$'000)	Revaluation Reserve (\$'000)	Accumulated Deficit (\$'000)	Total Equity (\$'000)
Opening balance 1 July	1,562	96	(2,362)	(704)
Movement	<u>124</u>	<u>–</u>	<u>793</u>	<u>917</u>
Closing balance 30 June	<u>1,686</u>	<u>96</u>	<u>(1,569)</u>	<u>213</u>

Equity appropriations carried over from the 1998-99 year (see Note 2.5) and recognised as equity have accrued interest during the year. Subsequent to year end the total amount has been appropriated to the Commission as a capital appropriation in the 2000-01 Budget.

Note 9 Cash Flow Reconciliation

	1999-00 (\$'000)	1998-99 (\$'000)
Reconciliation of operating surplus to net cash provided by operating activities:		
Operating surplus (deficit)	<u>793</u>	<u>(4,688)</u>
Depreciation/Amortisation	766	709
Loss (profit) on sale of non-current assets	29	(1)
Write down of assets	131	28
Decrease (increase) in receivables	(23)	2,744
Decrease (increase) in prepayments	(38)	26
Increase (decrease) in employee liabilities	(27)	53
Increase (decrease) in suppliers liability	168	(48)
Increase (decrease) in other liabilities	(10)	(10)
Increase in Equity	<u>124</u>	<u>1,562</u>
Net cash provided (used) by operating activities	<u>1,913</u>	<u>375</u>

Note 10 Appropriations

Annual appropriations for outputs

	1999-00 (\$'000)
Balance available at 1 July	–
Add: Appropriation Act No 1 – s6 – basic appropriations (budget)	21,662
Add: FMA Act – s31 appropriations	<u>559</u>
Total appropriations available for year	22,221
Cash Outflows	<u>20,515</u>
Balance of appropriations held for future cash outputs at 30 June	<u>1,706</u>

Note 11 Reporting by Outcome

Note 11A – Reporting by Outcome for 1999-2000

	Budget	Actual
	(\$'000)	(\$'000)
Net Cost to Budget Outcome (Operating result before revenue from government)	21,662	20,869
Total assets deployed as at 30 June 2000	4,752	5,954
Net assets deployed as at 30 June 2000	(331)	213

Note 11B – Reporting by Outcome by funding source for 1999-2000

	Expenses against Revenue from Government (\$'000)	Expenses against Revenue from other sources (\$'000)	Total expenses against outputs (\$'000)	Total Appropriations (\$'000)
Actual	(1)	(1)	21,451	21,662
Budget	(1)	(1)	22,090	21,662

(1) It is not possible to identify expenses incurred against specific funding sources in all cases.

With the introduction of accrual budgeting in 1999-2000 the Commission is required to report its outcome by funding source and expenses incurred in the format of the Portfolio Budget Statements. As indicated in Note 1, the Commission has one outcome only.

Note 12 Remuneration of Executives

The amounts of total remuneration received/receivable by Holders of Public Office and Senior Executive Service staff, where such amounts exceed \$100,000 during the year, are shown in the table.

Total remuneration includes salary, superannuation, performance pay, accrued leave and other package components such as executive vehicles.

	1999-00	1998-99
	No.	No.
Total remuneration		
\$100,000 to \$110,000	1	1
\$110,000 to \$120,000	3	1
\$120,000 to \$130,000	4	5
\$130,000 to \$140,000	8	5
\$140,000 to \$150,000	1	4
\$150,000 to \$160,000	1	–
\$160,000 to \$170,000	1	2
\$170,000 to \$180,000	–	2
\$180,000 to \$190,000	4	1
\$190,000 to \$200,000	1	1
\$210,000 to \$220,000	–	1
\$220,000 to \$230,000	1	–
	25	23
Aggregate amount of total remuneration of executives shown above	\$3,670,209	\$3,352,888
Aggregate amount of performance pay during the year to executives shown above	\$208,526 ¹	\$156,477 ¹
Aggregate amount of redundancy payments during the year to executives	–	\$208,781 ²

¹ Included in total remuneration

² Excluded from aggregate total remuneration above and represents the redundancy component of packages paid

Note 13 Contingencies

To the best of its knowledge, the Commission was not exposed to any unrecognised liabilities that would have any material effect on the financial statements.

Note 14 Act of Grace Payments and Waivers

Note 14A – Act of grace payments

No act of grace payments were made during the reporting period.

Note 14B – Waiver of rights to payment of moneys

No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997*.

Note 15 Average Staffing

The average staffing level is in respect of all employees of the Commission, including Holders of Public Office.

	1999-00	1998-99
	No	No
Average staffing level	202	203

Further information on staffing levels is provided in Appendix A of the Annual Report.

Note 16 Financial Instruments

Note 16A – Terms, conditions and accounting policies

Financial Instrument	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of underlying instrument (including significant terms & conditions affecting amount, timing and certainty of cash flows)
Financial Assets	Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash	Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.	The Commission maintains its bank accounts with the Reserve Bank of Australia at call. Monies in the Commission's bank accounts are swept into the Official Public Account nightly and interest is earned on the daily balance at rates based on money market call rates. Rates have averaged 4.5% for the year. Interest is paid quarterly.
Investments	Investments are recognised at the nominal amounts. Interest is credited to revenue as it accrues.	The Commission invests funds with the Reserve Bank of Australia and interest is earned on the investment. Rates averaged 5.9% for the year. Interest is paid on maturity.
Receivables for goods and services	These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	All receivables are with entities external to the Commission. Credit terms are net 30 days. (1998-1999: 30 days).
Financial Liabilities	Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Lease incentives	The lease incentive is recognised as a liability on receipt of the incentive. The amount of liability is reduced on a straight-line over the life of the lease by allocating lease payments between rental expense and the reduction of the liability.	The Commission received a fitout incentive on entering a property operating lease in September 1996. Lease payments are made monthly.
Trade creditors	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	All creditors are entities that are not part of the Commonwealth legal entity. Settlement is usually made net 30 days.

Note 16B – Interest rate risk

Financial Instrument	Notes	Floating Interest Rate 1999-00 (\$'000)	Fixed Interest Rate 1999-00 (\$'000)	Non-Interest Bearing 1999-00 (\$'000)	Total 1999-00 (\$'000)	Weighted Average Effective Interest Rate 1999-00 (%)
Financial Assets						
Cash at Bank		228	–	–	228	4.5
Term Deposit		–	1,500	–	1,500	5.9
Receivables	5	–	–	1,709	1,709	N/A
Total Financial Assets		<u>228</u>	<u>1,500</u>	<u>1,709</u>	<u>3,437</u>	
Total Assets					<u>5,954</u>	
Financial Liabilities						
Suppliers		–	–	345	345	N/A
Total Financial Liabilities				<u>345</u>	<u>345</u>	
Total Liabilities					<u>5,741</u>	

The Commission did not have any interest-bearing financial assets or liabilities in 1998-99.

Note 16C – Net fair values of financial assets and liabilities

The net fair values of cash and non-interest-bearing financial assets, lease incentive liability and trade creditors equate to their carrying amounts.

Note 16D – Credit risk exposures

The Commission's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Balance Sheet.

The Commission has no significant exposures to credit risk.

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