4 The National Competition Policy Agreements

National Competition Policy (NCP) is the outcome of agreements between the Commonwealth and all State and Territory governments. It was intended to advance, on a national basis, a range of competition reforms considered capable of delivering significant public benefits.

4.1 Introduction

Since the mid-1980s, all governments have concertedly pursued microeconomic reforms to improve the performance of their economies and the welfare of their citizens. Initially, major Commonwealth Government reforms centred on measures to make the economy more outward oriented — for example, floating the dollar, deregulating financial markets and reducing barriers to trade. More recently, governments at all levels have implemented a raft of microeconomic reforms aimed at improving the performance of government businesses, providing better welfare services and reducing rigidities in labour markets.

The need to improve the performance of government businesses enterprises (GBEs), in particular, became increasingly evident following reviews undertaken during the 1980s. These reviews showed that, in many instances, excessive capital investment and over-manning added considerably to costs and that the goods and services produced by these businesses frequently did not meet the standards sought by users. A recurring theme in many such reviews was that prices frequently did not reflect the cost of supply. Some examples of these problems include:

> What might be termed the 'Robin Hood' principle would seem to be rampant within the public sector in New South Wales. This has led to a system of pricing which charges one group excessively in order to subsidise another group. (New South Wales Commission of Audit 1988, p. 38)

> … the quality of service is a major concern for users, particularly in the small freight and general freight areas. (State Rail Authority of New South Wales, cited in IAC 1989, p. 17)

> … we have been trying to operate a modern transport system with horse-and-buggy work practices. These work practices must be wiped out in the interest of the person who ultimately pays all our wages — the customer. (V/Line 1986, p. 3)

Excessive Ministerial intervention was also identified as a factor underlying poor performance.

> In many instances, Ministerial direction or intervention has not only weakened management responsibility and accountability, but has directly impaired the [State Rail Authority's] ability to operate on a commercial and cost effective basis, with the result being poor financial and operational performance. (New South Wales Commission of Audit 1988, p. 32)

There have long been concerns that the exercise of monopoly power can have a regressive impact on the community. For example, Creedy and Dixon (1998) examined the relationship between the burden of monopoly and differences in income levels between Australian households. They found that:

> The welfare loss associated with monopoly power is found to be higher for low-income households (such as households that depend on government pensions and benefits for their practical source of income) compared with high-income households. (Creedy and Dixon 1998, p. 1)

In response to ongoing evidence of inefficiencies in service delivery associated with GBEs, governments began to introduce reforms in many of these areas more than a decade ago.

Reform was seen by governments as important for a range of reasons including:

- to address the poor performance, which imposes a dead-weight 'tax' on users and the economy generally — GBEs are significant suppliers of inputs to the rest of the economy and there are often few (if any) other suppliers;
- to ensure that resources are directed to areas of greatest need — there is always an alternative use for scarce public funds (eg funding of rail authorities versus funding for hospitals and schools); and
- to promote better investment decisions — governments are increasingly concerned with achieving a satisfactory return on the substantial public funds invested in the assets of government businesses.

Initially, State and Territory governments embarked on their respective reform agendas separately. However, in 1992, in an attempt to address problems which can arise from a fragmented State-by-State approach to reform (such as the different gauges and standards in Australia's rail system), the Council of Australian Governments (CoAG) commissioned an independent committee of inquiry into a national competition policy (Hilmer 1993).

In response to the Hilmer Committee's report, the Commonwealth and all State and Territory governments agreed, in April 1995, on the need for a more coordinated and systematic approach to reform. NCP therefore represents the realisation of a

joint desire to deliver the benefits of competition through a national approach to competition policy reform.

Underlying NCP is the notion that *managed*, rather than untrammelled, competition can create incentives for improved economic performance. That is, the aim of NCP is not only to facilitate effective competition to promote economic efficiency, but also to accommodate situations where competition does not have that effect, or where it conflicts with social objectives. Accordingly, NCP includes provisions which endorse restrictions on competition where such arrangements can be shown to be in the 'public interest'.

For many people, the pursuit of improved economic efficiency through effective competition is a rather abstract notion. It may not be immediately apparent why efficiency is important or how it relates to people's lives. In answering such questions, it is useful to recall what the 'architects' of NCP, and the Commonwealth Government, had to say:

> Over the last decade or so, there has been a growing recognition, not only in Australia but around the world, of the role that competition plays in meeting these challenges. Competition provides the spur for businesses to improve their performance, develop new products and respond to changing circumstances. Competition offers the promise of lower prices and improved choice for consumers and greater efficiency, higher economic growth and increased employment opportunities for the economy as a whole. (Hilmer 1993, p. 1)

In introducing legislation to implement NCP, the Commonwealth Government stated its view that:

> Implementing this policy is the most important single development in micro-economic reform in recent years. Ultimately, the ability of the economy to grow, to provide jobs and an improved standard of living, depends upon how well the productive potential of the economy is employed and enhanced. … The payoff … for ordinary Australians is very real. It paves the way for cheaper prices, more growth and more jobs.
>
> The new integrated and complete approach to national competition policy, which balances economic efficiency and broader elements of the public interest, will give Australia one of the most sophisticated competition policies in the world. … The reward will be an economy that provides more opportunities to satisfy the aspirations of all Australians. (Commonwealth of Australia 1995, pp. 2434–9)

The National Competition Policy intergovernmental agreements

The NCP framework consists of three intergovernmental agreements. These are:

- The *Competition Principles Agreement* (CPA), which sets out principles for:
  - prices oversight of certain government businesses;

- putting government businesses on a 'competitively neutral' basis with private sector competitors;
- reform of government monopolies;
- reviews of legislation which restrict competition;
- allowing businesses (third parties) to gain access to some 'essential' infrastructure facilities; and
- application of the CPA to local governments.

- The *Conduct Code Agreement*, which establishes the basis for extending the competitive conduct rules of the *Trade Practices Act 1974* (TPA) to all businesses and professions in Australia.
- The *Implementation Agreement*, which specifies a program of financial grants by the Commonwealth to State and Territory governments — so-called competition payments — contingent on implementation of the agreed reforms (including earlier CoAG reform commitments in gas, electricity, water and rail transport).

These agreements are discussed, in turn, below (refer sections 4.2–4.4).

In addition to the three intergovernmental agreements, the *Competition Policy Reform Act 1995* established two institutions — the Australian Competition and Consumer Commission (ACCC) and the National Competition Council (NCC). The ACCC is involved principally with enforcement of the TPA. The NCC has the key role of monitoring and advising the Commonwealth Government on the progress of NCP reforms.

4.2 Competition Principles Agreement

The CPA sets out agreed principles for a number of reforms. It also details 'public interest' matters to be taken into consideration when assessing the costs and benefits of particular courses of action.

Prices oversight of government business enterprises

Prices oversight of GBEs is the responsibility of the relevant Commonwealth, State or Territory jurisdiction. The CPA outlines principles for each jurisdiction to establish independent prices oversight bodies where they did not already exist. Alternatively, a State or Territory can seek to have its GBEs subject to prices surveillance by the ACCC under the *Prices Surveillance Act 1983.* A jurisdiction also may agree to its GBEs being subject to prices oversight by another jurisdiction.

If an enterprise is not subject to independent prices oversight and its pricing has a significant impact on trade or commerce, the Commonwealth Government can declare that business be subject to the Prices Surveillance Act.

Apart from Western Australia and the Northern Territory, all jurisdictions have established independent prices oversight bodies — the Commonwealth (ACCC), New South Wales (Independent Pricing and Regulatory Tribunal), Victoria (Office of the Regulator-General), Queensland (Queensland Competition Authority), South Australia (prices surveillance mechanism under the *Government Business Enterprises (Competition) Act 1996*), Tasmania (Government Prices Oversight Commission) and the ACT (Independent Pricing and Regulatory Commission).

Competitive neutrality

Competitive neutrality (CN) seeks to ensure that government businesses do not enjoy any net competitive advantage over private sector competitors simply by virtue of their public ownership. The CPA identifies measures with which government businesses are intended to comply under CN — such as corporatisation, allowance for relevant government taxes and charges, and exposure to those regulations applying to competing private sector businesses.

Each jurisdiction is free to determine its own agenda for the implementation of CN principles, and its application is required only to the extent that the benefits from implementation outweigh the costs. Importantly, the CPA is neutral with respect to the nature and form of ownership of government businesses.

All jurisdictions have published CN policy statements and established mechanisms to handle complaints relating to non-compliance with CN principles. The impact of CN principles on local governments is discussed in chapter 8.

Structural reform of public monopolies

The CPA outlines principles for the reform of public monopolies. Specifically, the jurisdictions agreed that, prior to introducing competition to a sector supplied by a public monopoly, responsibility for industry regulation would be removed from the monopolist to prevent it enjoying any regulatory advantage over its rivals, and reviews would be undertaken to ascertain, among other matters:

- the commercial objectives of the business;
- the merits of separating natural monopoly elements from competitive elements;
- how best to meet community service obligations; and

- the financial relationships between the owner and the public monopoly.

Each government is free to determine its agenda for reform. The impact on country Australia of the structural reform of public monopolies is discussed in chapter 6.

Legislation review

Under the CPA, each party agreed to review and, where appropriate, reform by the year 2000, all legislation which restricts competition. The guiding principle is that legislation should not restrict competition unless it can be demonstrated that the:

- benefits of the restriction to the community as a whole outweigh the costs; and
- objectives of the legislation can only be achieved by restricting competition.

As both criteria must be satisfied, NCP places the onus on those seeking to retain legislative restrictions on competition to prove the wider community benefit.

Legislation reviews seek to: clarify the objectives of the legislation; identify the nature of the restriction on competition; analyse the likely effect of the restriction on competition and on the economy generally; assess and balance the costs and benefits of the restriction; and consider alternative means for achieving the objective (including non-legislative approaches).

The NCC, in its role of monitoring legislative reviews to ensure that they conform with agreed processes, seeks to be satisfied that review processes are transparent, review panels are independent and that recommendations are acted upon by the relevant government. It claims that it does not judge the outcomes of independent reviews, but that governments can fall foul of the process if they fail to provide a supporting 'public interest' case if they opt to retain restrictions on competition contrary to the recommendations of a review. For example, the NCC recommended that the New South Wales Government should have $10 million deducted from its competition payments for failing to justify its initial decision not to implement some recommendations of its review of rice regulation. It has also recommended a suspension of 25 per cent of Queensland's 1999-2000 competition payments due to concerns about progress with water reform (discussed further in section 4.4).

All jurisdictions have published timetables for reviews of anti-competitive legislation. Some 1800 pieces of legislation across all jurisdictions are scheduled for review by the end of the year 2000. Of these, 1100 were scheduled for completion by the end of 1998 for inclusion in the second tranche assessment. Around half of the latter group have been completed and approximately 400 are still

under way. Governments have announced their responses in 370 cases (NCC 1999b, vol. 1). Progress, as at the end of March 1999, is shown in table 4.1

If a national review is considered appropriate by one or more parties, the jurisdiction proposing the review may request that it be conducted by the NCC. Included are reviews of legislation supporting agricultural cooperatives and statutory marketing authorities (refer chapter 7).

Table 4.1 **Progress of legislative reviews by jurisdiction[a]**

	Reviews scheduled	*Reviews completed, reform implemented*	*Reviews completed, not yet implemented*	*Reviews underway*	*Reviews not yet commenced*
Commonwealth	67	27	13	17	10
New South Wales	143	44	16	65	18
Victoria	121	57	19	20	25
Queensland	68	26	5	24	13
Western Australia	164	43	49	47	25
South Australia	121	28	13	73	7
Tasmania	186	95	18	47	26
ACT	161	36	20	43	62
Northern Territory	85	17	9	55	4
All jurisdictions	1116	373	162	391	190

a Progress of reviews scheduled up to the end of 1998, at 31 March 1999.

Source: NCC (1999b, vol. 1, p. 88).

Access to significant infrastructure facilities

Access to certain key infrastructure facilities is important for competition in related markets. For example, a new (or potential) electricity generator needs to be able to have access to the electricity grid (and thus its customers) if it is to compete with existing generators. In many cases, public utilities have operated as both monopoly infrastructure owners and service providers. For example, railway lines and rail freight services have typically been owned and operated by government businesses.

In some cases, structural separation of an infrastructure facility from a service may not be possible, or an integrated monopoly service provider may have little incentive to provide a competitor with access on reasonable terms. In such cases, regulated access to the facility may be appropriate.

Under the CPA, all governments agreed:

- that the Commonwealth Government would establish a national access regime for facilities of national significance – Part IIIA of the TPA establishes such a framework;
- that the national regime not cover a service provided by an infrastructure facility already covered by an 'effective' State or Territory regime (unless difficulties arise from the facility being situated in more than one jurisdiction or from its influence outside the jurisdiction); and
- on principles which State and Territory access regimes should incorporate to be deemed 'effective'.

Access is relevant mainly to the energy, communications and transport industries. It may also arise in other sectors, such as irrigation infrastructure. Access issues raised by participants are canvassed in chapter 9.

Application of competition principles to local government

All jurisdictions agreed that the principles set out in the CPA should apply to local governments, even though local governments were not signatories to the agreement. The State and Territory Governments agreed that, in relation to implementing reforms for competitive neutrality, reform of public monopolies and legislation reviews, they would consult with local government and publish a statement specifying the application of the principles to local government activities and functions. All States and Territories with local governments have published these statements.

The impact of the competitive neutrality reforms on local governments is canvassed in chapter 8. That chapter also assesses competitive tendering and contracting issues — reforms which are not part of NCP, but are of particular concern to many local governments.

The 'public interest' test — clause 1(3) of the CPA

In many areas, NCP requires a critical re-examination of what may be established practice. The participating governments agreed that competition is not an end in itself and that it is not always sensible to promote competition. For instance, when introducing the *Competition Policy Reform Act 1995,* the Government stated:

> … this Government is not interested in reform or competition for its own sake. The package recognises that economic efficiency is one element of a broader public policy context which also includes social considerations. Explicit recognition is given to those broader elements of the public interest … (Commonwealth of Australia 1995)

The CPA endorses restrictions on competition if such arrangements can be shown to be in the 'public interest'. The term 'public interest' is not mentioned in clause 1(3), but is used here to distinguish this test from the 'public benefit' test applied by the ACCC. Clause 1(3) adopts a broad approach to the 'public interest' by setting out factors to be taken into account in weighing the costs and benefits of various reforms. These require that assessments consider more than economic benefits and costs. For example, social, environmental, equity and regional factors can be taken into account.

The factors in clause 1(3) are:

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

This list is not exhaustive and no explicit weighting is attached to these matters.

These listed matters are relevant when conducting legislation reviews, in assessing the merits of applying competitive neutrality to government businesses and when reforming public monopolies. In addition, apart from clause 1(3) of the CPA, there are several other ways in which governments can address the 'public interest' under NCP. These include:

- consideration by the NCC of applications for access to infrastructure services (see previous section on 'Access to significant infrastructure facilities');
- authorisation of anti-competitive conduct, which can be sought from the ACCC on the ground that there is a net public benefit (see the following section); and
- statutory exemptions for certain conduct, which can be provided under sections 51(2) and 51(3) of the TPA (described and discussed in chapter 7).

Issues associated with the *practical operation* of the 'public interest' provisions are discussed in chapter 11.

Review of the Competition Principles Agreement

The CPA, of 11 April 1995, includes two important review clauses. Clause 15 provides that once the CPA has operated for five years, the parties (that is, CoAG) will review its operation and terms. Clause 11 provides for the parties to review the need for, and the operation of, the NCC (which was established in November 1995) after it has been in existence for five years. These reviews will therefore commence sometime after early-April 2000.

4.3 Conduct Code Agreement

Under the Conduct Code Agreement, all governments agreed to extend the operation of the competitive conduct rules contained in Part IV of the TPA to *all* businesses. Part IV prohibits (persons from engaging in) a range of anti-competitive practices (table 4.2).

Table 4.2 **Prohibited trade practices**

Part IV of the Trade Practices Act prohibits:	*Which means that under the Act:*
Anti-competitive agreements, such as price fixing, market sharing and primary and secondary boycotts (ss 45–45D)	It is illegal for: • producers to control prices and to divide a market so that they do not compete against each other (if it substantially lessens competition); • competitors to agree not to acquire (or supply) goods and services from (to) a particular person.
Misuse of market power (s. 46)	A firm with a substantial degree of market power cannot use that power to: • eliminate or substantially damage a competitor; • prevent the entry of a person into any market; or • deter a person from engaging in competitive conduct in any market.
Exclusive dealing (s. 47)	It is illegal to supply goods or services under conditions where the purchaser: • limits the acquisition of goods or services from a competitor of the supplier; and • will not resupply, or will resupply only to a limited extent, goods or services to a particular person or place.
Resale price maintenance (ss 48, 96–100)	It is illegal for a supplier, manufacturer or wholesaler to specify a minimum price below which goods and services may not be resold or advertised.
Mergers likely to lessen substantially competition in a substantial market (s. 50)	The merger of two firms is prohibited if it is likely to substantially lessen competition — this applies to mergers between competitors and between suppliers and customers.

Source: Derived from ACCC (1998).

Previously, constitutional limitations prevented the application of these provisions to unincorporated businesses (eg sole traders, partnerships and the professions). Moreover, in the past, many State and Territory government businesses had 'Shield of the Crown' immunity from the TPA. These Constitutional limitations have been overcome by each State and Territory government enacting legislation which relates to the conduct of persons as distinct from corporations (Steinwall, sub. 159, p. 2).

The extension of the competitive conduct rules to all businesses has implications for country Australia, particularly for agricultural activities. The ACCC (1998, p. 3) states that 'If you are a rural producer or supplier, or a manufacturer or processor of primary products, then … the Act applies to you'.

ACCC and 'public benefit' testing

While the TPA prohibits a range of anti-competitive conduct, the ACCC has the power to 'authorise' such conduct for limited periods where a net benefit to the public results. To determine whether anti-competitive conduct should be authorised, the ACCC applies a 'public benefit' test. There is no standard test — each case is assessed with regard to the particular facts of the case in question. The Australian Competition Tribunal has described a public benefit as:

> … anything of value to the community generally, any contribution to the aims pursued by the society including as one of its principal elements … the achievement of the economic goals of efficiency and progress … (ACCC 1997b, p. 37)

Box 4.1 lists the factors which have been assessed as providing a public benefit — it represents a distillation of the factors underlying authorisation decisions by the ACCC (and the former Trade Practices Commission), the Australian Competition Tribunal (and the former Trade Practices Tribunal) and the courts. As with clause 1(3) of the CPA, the list is not exhaustive.

Examples of how the ACCC undertakes such assessments are provided in chapter 7, which examines the impact of NCP on statutory marketing arrangements.

Review of the Conduct Code Agreement

Section 10 of the Agreement provides that its operation and terms be reviewed once it has operated for five years.

Box 4.1 **Factors taken into account as 'public benefits'**

Factors which have been assessed by the ACCC as providing 'public benefits' include:

- business efficiency, especially if it results in improved international competitiveness;
- industry rationalisation resulting in more efficient allocation of resources;
- expansion of employment in efficient industries or employment growth in regions;
- industry cost savings resulting in lower prices at all levels in the supply chain;
- promotion of competition in industry;
- promotion of equitable dealings in the market;
- growth in export markets and development of import replacement activities;
- steps to protect the environment;
- economic development, for example, development of natural resources through encouraging exploration, research and capital investment;
- assistance to small business, for example, guidance on costing or pricing or marketing initiatives which promote competitiveness;
- improvement in the quality and safety of goods and services; and
- supply of better information to consumers and business.

Source: ACCC (1995, p. 20).

4.4 Agreement to Implement the National Competition Policy and Related Reforms

The 'Implementation Agreement' specifies a program of financial grants from the Commonwealth to State and Territory governments contingent on implementation of the agreed reforms, including reform commitments in gas, electricity, water and road transport. The reform programs for these industries were agreed to at earlier meetings of the CoAG and brought within the NCP framework in 1995 (see below).

Competition payments

In recognition of the benefits to flow from the reforms, and that the Commonwealth stands to gain increased tax revenue, NCP provides for the disbursement of around $16 billion in incentive payments to the States and Territories. This *estimated* figure is shown in table 4.3 which has been drawn from the 'Implementation Agreement'.

Table 4.3 **Estimated National Competition Policy payments**

Millions of dollars

Year	*Per capita State govt*[a]	*Per capita local govt*[a,b]	*Per capita total*[a]	*Competition payments*	*State and local govt: total payments*
1997-98	194	14	209	219	428
1998-99	392	29	420	226	646
1999-00	604	44	647	465	1 113
2000-01	829	60	890	479	1 369
2001-02	1 070	78	1 148	739	1 888
2002-03	1 327	97	1 423	761	2 184
2003-04	1 600	117	1 716	783	2 499
2004-05	1 890	138	2 028	806	2 833
2005-06	2 198	160	2 359	829	3 188
Total	**10 104**	**736**	**10 840**	**5 307**	**16 147**

[a] Estimated annual cost of maintaining the real per capita guarantee of the Financial Assistance Grants (FAG) pool. It assumes population growth of 1.1 per cent from 1997-98 onwards. [b] Reflects existing links between pools (local government benefits from the link between the State and local government FAG pools).

Source: NCC (1998b).

Initially it was agreed that competition grants would be split into two components:

- maintenance of the real value of Financial Assistance Grants (FAG) — the Commonwealth Government agreed to maintain a real per capita guarantee for the FAG pool on a rolling three year basis (at a cost of around $2.4 billion by 2005-06); and
- 'competition payments' — which form a separate pool and are distributed to the States and Territory governments on a per capita basis.

The data presented in table 4.3 are estimates (incorporating expected population growth and price movements) made at the time the agreement was signed. For example, it is based on the indexed value of annual competition payments in *1994-95 prices* of $200 million from 1997-98, $400 million from 1999-2000 and $600 million from 2001-02.

The good and services tax and Commonwealth-State financial relations

The introduction of a goods and services tax (GST) from 1 July 2000 has implications for Commonwealth–State financial arrangements. The Commonwealth and the States and Territories have signed an 'Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations' (June 1999). It provides that FAGs will cease on 1 July 2000. Instead, the Commonwealth will provide all of the revenue from the GST to the States and Territories for their use for any purpose —

these GST revenue grants will be distributed in accordance with horizontal fiscal equalisation (see chapter 12).

In terms of NCP, the new arrangements mean that the provision for guaranteed per capita increases in the FAG pool will no longer operate. However, the agreement guarantees that the budgetary position of each State and Territory will be no worse off during a transitional period to 2003. The NCP competition payments will remain as described above.

Implementation and payments — the three tranches

Implementation of the NCP program is split into three tranches. At the end of each tranche — in July of 1997, 1999 and 2001 — the Commonwealth makes the competition grants available to the States and Territories if they are viewed as having made satisfactory progress with the reforms. Assessments are undertaken by the NCC, which monitors each jurisdiction's progress and makes recommendations to the Commonwealth Treasurer. The Commonwealth Government, not the NCC, decides the amounts of competition grants actually paid.

For the first tranche, each jurisdiction agreed to give effect to the intergovernmental agreements and to meet deadlines set down for legislation review and competitive neutrality. Each jurisdiction also agreed to implement relevant CoAG agreements on electricity arrangements, a framework for free and fair trade in gas, and to observe road transport reforms. Conditions for payments of the second tranche include the first tranche requirements, plus the agreed implementation of CoAG agreements on the framework for the efficient and sustainable reform of the Australian water industry. Third tranche payments are based upon the continued observance of the conditions for the first two tranches.

The first tranche

Following the 1997 assessment, the NCC recommended that a supplementary assessment against first tranche commitments be undertaken in 1998 as an alternative to its recommending financial deductions for unsatisfactory performance. The Treasurer accepted this and partial payments were made for 1997-98. In the 1998 supplementary assessment, the NCC recommended that all States and Territories, other than New South Wales, receive all outstanding first tranche payments.

The NCC recommended that $10 million be deducted from New South Wales' payment unless domestic rice marketing arrangements were reformed by the end of January 1999 (as recommended by an independent review group). Subsequently, the

Commonwealth Treasurer established a working group to examine options for ensuring a single desk for rice export, while allowing for domestic market deregulation. In April 1999, the Treasurer sought agreement from the New South Wales Premier to deregulate domestic rice marketing in line with the working group's preferred model. The Premier gave in-principle agreement, thereby ensuring receipt of all of New South Wales' first tranche competition payments. The NCC will monitor progress and consider the outcome in its third tranche assessment of progress (NCC 1999b).

The second tranche

The NCC has recommended that all States and Territories, with the exception of Queensland, receive full payment of the first part of the second tranche payments due in 1999-2000. Second tranche NCP payments due in 2000-2001 are subject to a supplementary assessment of identified outstanding second tranche issues.

The NCC recommended that 25 per cent of Queensland's second tranche 1999-2000 competition payments be suspended until 31 December 1999, at which time it will make a final recommendation.[1] The NCC had concerns with Queensland's approach to water reform — in particular a decision to proceed with the St George Off Stream Storage facility which the NCC considered was, on the available independent analysis, neither economically viable nor ecologically sustainable (see chapter 5).

National Competition Policy-related infrastructure reforms

The NCP reform package incorporates earlier commitments agreed to by the CoAG for specific reforms affecting electricity, gas, water and road transport infrastructure. These are outlined briefly below and described in detail in the following chapter.

Electricity

In 1993, the Commonwealth, New South Wales, Victoria, Queensland, South Australia and the ACT agreed to form a competitive interstate electricity market. The principles underlying the reforms are that:

- generators should compete for the right to supply;

[1] The maximum payment available to Queensland for 1999-2000 is $119 million (comprising a competition payment of $81.4 million and a per capita growth in the FAG pool of $37.6 million). The amount of the suspension is based on 25 per cent of six months worth of the $119 million — around $15 million.

- there should be open access to the grid; and
- customers should be free to choose who supplies their electricity.

Gas

In February 1994, CoAG sought to develop a nationally integrated and competitive gas industry. The reforms involve:

- removing barriers to free trade;
- establishing a framework for access to gas transmission pipelines;
- reforming gas franchise arrangements;
- corporatising government-owned utilities; and
- separating transmission from distribution activities.

Water

In 1994, CoAG agreed to a framework for the efficient and sustainable reform of the water industry. It includes:

- water prices based on the quantity of water used, the full cost of providing that water and the removal of cross-subsidies;
- water 'entitlements', including reservation of water for the environment and separation of water rights from land titles;
- the ability to buy and sell water entitlements; and
- investment decisions linked to economic viability and ecological sustainability.

Road

In October 1992, Australian Transport Ministers agreed to a national approach for road transport to improve efficiency and safety, and reduce the costs of regulation. The Ministers agreed to reforms including uniform heavy vehicle charges, vehicle operation reforms (eg roadworthiness, mass and loading) and a national heavy vehicle registration scheme and driver licensing scheme.

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In the following chapters, details of the NCP reforms are presented together with an assessment of their economic and social effects on country Australia and the community as a whole.