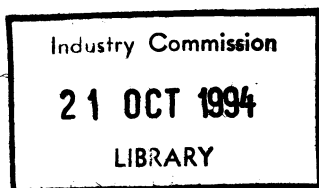




INDUSTRY COMMISSION

ANNUAL REPORT 1993-94



Australian Government Publishing Service
Canberra

© Commonwealth of Australia 1994

ISSN 1035-5243

This work is copyright. Apart from any use as permitted under the Copyright Act 1968, no part may be reproduced by any process without prior written permission from the Australian Government Publishing Service. Requests and inquiries concerning reproduction rights should be directed to the Manager, Commonwealth Information Services, Australian Government Publishing Service, GPO Box 84, Canberra ACT 2601.

Produced by the Australian Government Publishing Service



INDUSTRY COMMISSION

21 September 1994

The Honourable George Gear, MP
Assistant Treasurer
Parliament House
CANBERRA ACT 2600

Dear Minister

We submit to you the Industry Commission's Annual Report for 1993-94. The report is prepared and submitted in accordance with section 45 of the *Industry Commission Act 1989* and subsections 25(6) and 25(7) of the *Public Service Act 1992*.

Yours sincerely

W I Scales AO
Chairperson

G R Banks
Executive Commissioner

R G Mauldon
Commissioner

M L Parker
Commissioner

K J Horton-Stephens
Commissioner

T J Hundloe
Commissioner

J R Rae
Commissioner

H J Owens
Commissioner



Chairperson and Commissioners

Standing — Max Parker, Keith Horton-Stephens, Jeffrey Rae, Tor Hundloe, Nicholas Gruen, Roger Mauldon
Seated — Gary Banks, Bill Scales, Helen Owens

Companion publications

The Commission will also be releasing the following publications at around the same time as this Annual Report.

The Performance of Australian Industry, 1993–94

This publication covers much of the industry performance review that has been included in previous Annual Reports. Major subject headings are:

- contributions to economic performance
- Australia's comparative economic performance
- the importance of trade to the Australian economy
- labour markets.

Compendium of Reports, 1993–94

This publication contains the overviews, findings and recommendations for each Industry Commission inquiry completed during 1993–94. It also reproduces the chapters from this Annual Report.

Contents

Abbreviations *xiii*

Acknowledgement *xvi*

Preface *xvii*

Chapter 1 Review of developments 1

Chapter 2 Federalism and Australia's economic performance 17

Chapter 3 Operations of the Commission 33

Appendices

Federalism and Australia's economic performance

A Federalism and national infrastructure development 55

B Efficiency and equity in State and Territory taxation and Australia's
 economic performance 63

C Effects of specific purpose payments on State budget flexibility 93

Governments and the reform process

D Developments in GBE reform 117

E Developments in selected industries 131

F Progress on microeconomic reform 151

Regulation review

G Developments in business regulation and its review 213

Assistance review

H Implications of completion of the Uruguay Round 235

I Export assistance 245

J	Commonwealth budgetary outlays to industry	259
K	Anti-dumping activity	279
L	Assistance to agriculture and manufacturing	291

Corporate review

M	Administrative matters	329
N	Financial statements	361
O	Inquiry activity and reports of the Commission	389

Report reference

	List of references	419
	Index	433

Boxes

1.1	Key outcomes of the Uruguay Round	3
1.2	National competition policy reforms	7
1.3	Progress in workplace reform — examples from Commission inquiries	9
1.4	<i>Working Nation</i> changes to social security payments	12
1.5	The Government's industry policy principles	14
2.1	Key federal reform issues from Commission inquiries — inconsistent and overlapping regulation	18
2.2	Key federal reform issues from Commission inquiries — State taxation	19
2.3	Key federal reform issues from Commission inquiries — physical and social infrastructure provision	20
3.1	Social issues and the inquiry program	36
3.2	Environmental issues and the inquiry program	38
3.3	The IC forward inquiry program	39
3.4	Industry Commission at a glance	45
B1	Distortions arising from differences in State franchise fees	80
B2	Stamp duties identified by the NSW Tax Task Force	83
B3	Selective inducements for location of firms	89
C1	Examples of SPP conditions	99
D1	Chronology of reviews and developments in GBE reform	126
E1	Water pricing reforms	145
H1	Important features of the Uruguay round	236
H2	Non-tariff barrier agreements	241
J1	Methodology for estimating budgetary outlays	260
L1	Methodology for measuring assistance	292
L2	<i>Working Nation</i> initiatives to assist small and medium enterprises	307
M1	Inquiry process — an illustration	344

Tables

2.1	Government outlays and sources of revenue, 1993–94	28
B1	Revenue sources by government, 1992–93	64
B2	State and Territory taxes, fees and fines as a proportion of total revenue from taxes, fees and fines, 1992–93	65
B3	Effective incidence of State taxes	66
B4	Estimated tax expenditures in New South Wales, 1986–87	68
B5	Costs of collecting taxes as a percentage of revenue	69
B6	Payroll tax rates and revenue by State, 1992–93	71
B7	State land tax rates, 1991	77
B8	Franchise taxes, 1992–93	79
B9	Gambling and motor vehicle taxes, 1992–93	84
B10	Effects of NSW Tax Task Force proposals	86
C1	Estimated payments to the States, 1994–95	94
C2	SPPs ‘to’ the States, 1993–94	95
C3	SPPs with matching conditions, 1993–94	97
C4	Grant impact on State budgets and cost to the Commonwealth	101
G1	Selected Commonwealth primary business legislation, 1993–94	215
G2	Commonwealth subordinate legislation, 1983–84 to 1992–93	218
H1	Impact on Australia’s economy of completion of the Uruguay Round	239
H2	Impact of Uruguay Round on global income/welfare	240
I1	Commonwealth export facilitation and assistance, 1991–92 to 1994–95	247
I2	Creation of TCF import credits, 1991–92 and 1992–93	251
J1	Commonwealth budgetary outlays to primary production, 1989–90 to 1994–95	268
J2	Commonwealth budgetary outlays to the manufacturing sector, 1989–90 to 1994–95	272
J3	Commonwealth budgetary outlays to the mining and energy sector, 1989–90 to 1994–95	276
J4	Commonwealth budgetary outlays to selected service industries, 1989–90 to 1994–95	277
K1	Anti-dumping and countervailing activity, 1989–90 to 1993–94	283
K2	Anti-dumping and countervailing cases, complaints formally initiated by industry, 1989–90 to 1993–94	284

K3	Goods subject to anti-dumping duties as a proportion of imports, and average duties imposed, 1991–92 to 1993–94	286
K4	Initiations of anti-dumping and countervailing cases by country, 1989–90 to 1993–94	289
L1	Assistance to agriculture by form, 1988–89 to 1992–93	312
L2	Price distortions and producer transfers for agricultural commodities, 1988–89 to 1992–93	314
L3	Average nominal and effective rates of assistance by agricultural activity and standard deviations for the agricultural sector, 1988–89 to 1992–93	317
L4	Assistance to manufacturing by form, various years 1989–90 to 2000–01	320
L5	Average nominal and effective rates of assistance by manufacturing industry, various years 1990–91 to 2000–01	321
L6	Subsidy equivalents, tax on materials and consumer tax equivalents by manufacturing subdivisions, 1989–90, 1993–94 and 2000–01	325
M1	Staff and financial resources summary, 1993–94	341
M2	Inquiry activity, 1991–92 to 1993–94	342
M3	Total inquiry expenditure, 1993–94	342
M4	Inquiry (non-salary) expenditure, 1993–94	345
M1.1	Chairperson and Commissioners, 30 June 1994	348
M1.2	Part-time Associate Commissioners, 30 June 1994	348
M1.3	Part-time Associate Commissioner appointments completed in 1993–94	348
M1.4	Staffing profile, 30 June 1994	349
M1.5	Senior Executive Service staff by employment status, 30 June 1994	350
M1.6	Staff (other than Senior Executive Service) by employment status, 30 June 1994	350
M1.7	Staff by classification and location, 30 June 1994	351
M1.8	Staff by classification and reason for separation, 1993–94	352
M1.9	Equal employment opportunity target groups, 30 June 1994	354
M1.10	Performance based pay — distribution of ratings and amounts payable, 1993–1994	355
O1	Stage of completion of inquiries and Government responses to Commission reports	390

Figures

3.1	The Commission's 1993–94 inquiry program	34	
C1	Commonwealth payments to the States, 1979–80 to 1994–95		94
C2	Components of State revenue, 1992–93	104	
C3	Budget costs and welfare effects of different forms of grants		113
I1	Exports and export assistance by sector, 1992–93	254	
I2	Composition of manufacturing exports and export assistance, 1992–93	255	
J1	Commonwealth budgetary outlays to industry, 1989–90 to 1994–95	261	
J2	Bounty and subsidy payments, 1973–74 to 1994–95	262	
J3	Primary industry budgetary outlays by objective, 1989–90 to 1994–95	264	
J4	Components of budgetary outlays to manufacturing, 1989–90 to 1994–95	265	
L1	Average effective rates of assistance to agricultural commodities, 1991–92 to 1992–93	300	
L2	Average nominal rates of assistance to agricultural commodities, 1991–92 to 1992–93	301	
L3	Average effective rates of assistance to manufacturing industries, 1989–90 to 1996–97 and 2000–01	303	
L4	Distribution of total manufacturing value of output by nominal rates of assistance, various years 1971–72 to 2000–01	305	
M1	Industry Commission structure, 30 June 1994	332	

Abbreviations

AAT	Administrative Appeals Tribunal
ABA	Australian Broadcasting Authority
ADA	Anti-dumping Authority
AFTA	ASEAN Free Trade Agreement
AGP	Agreement on Government Procurement
AIA	Automotive Industry Authority
AIDAB	Australian International Development Assistance Bureau
AMLC	Australian Meat and Live-stock Corporation
AMLIPC	Australian Meat and Livestock Industry Policy Council
AN	Australian National
ANAO	Australian National Audit Office
APEC	Asia Pacific Economic Cooperation
AQIS	Australian Quarantine Inspection Service
ARMCANZ	Agriculture and Resource Management Council of Australia and New Zealand
ASEAN	Association of South-East Asian Nations
ASIC	Australian Standard Industry Classification
ASTP	Australian System of Trade Preferences
AWRAP	Australian Wool Research and Promotion
BIE	Bureau of Industry Economics
CAA	Civil Aviation Authority
CGC	Commonwealth Grants Commission
COAG	Council of Australian Governments
CSHA	Commonwealth-State Housing Agreement
CSO	Community service obligation
DC	Developing country
DIFF	Development Import Finance Facility
EC	European Community
EEO	Equal employment opportunity
EFIC	Export Finance and Insurance Corporation
EMDG	Export Market Development Grants
EPAC	Economic Planning Advisory Council
EU	European Union
EWMESS	Environmental waste management equipment, systems and services
FAC	Federal Airports Corporation
FAG	Financial assistance grant
FID	Financial institutions duty

fob	free on board
FOGS	Functioning of the GATT System
FOI	Freedom of information
GATT	General Agreement on Tariffs and Trade
GBE	Government business enterprise
GDP	Gross domestic product
GP	Gross product
GPP	General purpose payment
GTE	Government trading enterprise
IASC	International Air Services Commission
IC	Industry Commission
ICS	Import Credit Scheme
IDA	Industry Development Arrangements
IDR	Industry development reference
IRIA	Impediments to regional industry adjustment
MFA	Multifibre Arrangement
NGMC	National Grid Management Council
NIB	National Interest Business
NIES	National Industry Extension Scheme
NIFOB	Non-injurious free on board
NR	National Rail Corporation
NRA	National Registration Authority for Agricultural and Veterinary Chemicals
NRS	National Registration Scheme
NRTC	National Road Transport Commission
NTB	Non-tariff barrier
ODA	Overseas Development Assistance
OECD	Organisation for Economic Cooperation and Development
OH&S	Occupational health and safety
ORR	Office of Regulation Review
PBAC	Pharmaceutical Benefits Advisory Committee
PMV	Passenger motor vehicles
PRT	Payroll tax
PSA	Prices Surveillance Authority
PSLP	Private Sector Linkages Program
RAS	Rural Adjustment Scheme
R&D	Research and Development
R&R	Request and response
SCGTE	Steering Committee on National Performance Monitoring of Government Trading Enterprises
SME	Small and medium enterprise
SPC	Special Premiers' Conference

SPP	Specific purpose payment
TCF	Textiles, clothing and footwear
TCFDA	Textiles, Clothing and Footwear Development Authority
TEXCO	Tariff Export Concession Order
TISP	Tobacco Industry Stabilisation Plan
TPRM	Trade Policy Review Mechanism
TRIM	Trade-Related Investment Measure
TRIP	Trade in Intellectual Property Right
US	United States (of America)
VER	Voluntary export restraint
WTO	World Trade Organisation

Acknowledgement

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

Preface

Australia has emerged from recession with strong economic growth and low inflation. But unacceptably high levels of unemployment remain a major challenge. Microeconomic reforms undertaken over the last decade are lifting productivity and competitiveness, but there are still many opportunities to improve the performance of Australian industry.

The Commission's work program now covers a broad range of issues including the performance of government business enterprises, social services, infrastructure, and business and social regulation. These are areas of significant State and Territory as well as Commonwealth responsibility.

Governments across Australia are seeking to reduce impediments to improved performance throughout the economy. This report reviews recent policy developments, particularly in competition policy, industrial relations and labour market programs. It sets out some suggestions about what more needs to be done.

Increasingly, the Commission is finding through its inquiries and other work with the States and Territories that industry performance is linked with the way in which Australia's federal system of government operates. The development of national markets and networks, and the competitiveness of Australian industry, will be held back unless there is wider understanding of the importance of intergovernmental relations in promoting reform and a willingness to tackle impediments as they emerge. The link between federalism and Australia's international competitiveness is a focus of this report.

Chapter 1

Review of developments

Faster economic growth in Australia must not induce complacency about the substantial reform task ahead. Previous reform efforts are yielding benefits. But if higher growth is to be sustained and Australian industries are to take advantage of expanding and more open world markets, governments must accelerate efforts to remove impediments to better performance across the economy. The policy debate in the past year has rightly moved to competition policy on a national basis and to the need for labour market arrangements that provide the flexibility for firms and employees to adjust to rapidly changing circumstances.

Australia can rise to the challenge of sustaining higher growth and achieving significant reductions in unemployment if it continues to build on the achievements of past structural reforms.

There is growing evidence that tariff reductions and other broad-ranging structural reforms are achieving worthwhile benefits. One sign is the increased trade orientation of the Australian economy. In 1993–94, exports of goods and services in volume terms were around 22 per cent of GDP compared with 14 per cent a decade earlier. Similarly, imports as a share of gross national expenditure grew in volume terms from 15 to 20 per cent. Export volumes have increased at a faster rate than import volumes over the past three years. Net exports have been a key component of recent growth in GDP (IC 1994g).

Benefits are flowing to business, consumers and the economy generally from past reforms of

government business enterprises (GBEs). Real labour productivity in GBEs grew at an average annual rate of 15 per cent in the six years to 1992–93. Improved performance by GBEs is reflected in reduced debt levels and a trebling of dividends to governments (to over \$2 billion a year), while real prices to users have fallen by 10 per cent on average over those six years (SCGTE 1994b).

The imperative for further domestic reform is evident in Australia's continuing structural unemployment. In the last two years the economy has emerged from recession, with strong growth and low inflation. Employment has also grown strongly — by 268 000 in the two years to August 1994. However, unemployment continues to impose high economic and social costs. The trend rate of unemployment peaked at 11.1 per cent in October 1992 and has subsequently fallen only slowly.

There has been a structural worsening of unemployment over past business cycles. Those out of a job for a year or more have risen from below 20 per cent of total unemployment in the 1970s to 31 per cent immediately after the 1982–83 recession and to over 36 per cent now.

While economic growth in Australia has been respectable by OECD standards, our major trading partners in East Asia have outstripped Australia's growth over many years. Australia's rate of unemployment is much higher than that in our major Asian trading partners. It has been above the OECD average for most of the period since the early 1980s and the gap widened in the early 1990s (IC 1994g).

The higher economic growth rates now evident in other countries and a more liberal world trading environment present opportunities for Australian industry. To take advantage of those opportunities, Australia needs to quickly improve its own productivity performance. Increasing productivity will make Australia a more attractive place in which to invest. This is essential for sustaining non-inflationary growth and reducing unemployment.

International policy developments

The major international policy development in 1993–94 was the conclusion of the Uruguay Round of the GATT. The outcomes lay the foundation for a substantial growth in world trade in goods

and services from which Australia can benefit (Box 1.1 and Appendix H). Australia played an active part during the Uruguay Round in arguing for the liberalisation of world trade. The force of that argument was enhanced by previous decisions by Australia to unilaterally reduce its own trade barriers.

The potential gains from the Uruguay Round agreements are substantial. A number of studies have conservatively estimated that implementation of the agreed reductions in protection for agriculture and industrial products alone will increase global output in the longer term by between US\$200–300 billion a year (see for example OECD (1993)).

The Commission's modelling of the long-term benefits from freeing up trade in manufacturing, agriculture and resources conservatively suggests annual gains to Australia in real GDP of \$4.4 billion (in 1992 dollars), equivalent to \$780 for each Australian household. National income is estimated to rise by \$1.2 billion and real exports by 8 per cent (Appendix H). These results substantially underestimate the benefits to Australia because they abstract from the dynamic gains from trade liberalisation.

The gains will only be fully realised if the Uruguay Round reforms are properly implemented and are not negated by less transparent forms of assistance which exploit

Box 1.1

Key outcomes of the Uruguay Round

- extending GATT disciplines to agriculture and services;
- converting non-tariff barriers to (more transparent) tariffs and binding tariff levels;
- reducing tariffs on industrial products by approximately one-third worldwide;
- reducing agricultural assistance and guaranteeing minimum access levels;
- limiting the scope for governments to impose conditions on investment approvals;
- strengthening rules to protect intellectual property;
- developing greater transparency and predictability in dispute settlement, safeguards, anti-dumping and countervailing measures and standards; and
- establishing a formal World Trade Organisation to supersede the GATT.

loopholes in the trade rules. Experience suggests that domestic political pressures for such alternatives will remain strong. The GATT Trade Policy Review Mechanism has been an important initiative during the Uruguay Round to enhance the international surveillance of national policies which affect trade. However, as recognised by GATT member countries, more needs to be done to achieve policy transparency at the national level if protectionist pressures are to be disciplined more effectively within countries.

The Asia Pacific Economic Cooperation (APEC) forum has been given a mandate to broaden and deepen Uruguay Round outcomes (Keating 1994c, p.48). APEC can best help to remove obstacles to regional growth by encouraging outward-looking trade liberalisation.

Australian industries will get the most from the more liberal world trading environment if they are internationally competitive. To achieve this, governments and industries in Australia will need to continue wide-ranging structural reform of the domestic economy. For example, meat processing is a \$6 billion a year industry that stands to grow significantly if Australian

graziers and meat processors can take advantage of the market-opening opportunities that are now emerging. But better management and work practices in the meat processing sector are necessary to maximise Australia's share of export growth against increasingly intense foreign competition from New Zealand and a number of South American countries (IC 1994c).

The commitment of other countries to structural reform of their economies is a continuing challenge to and opportunity for Australia. Reform continues apace in our Asian neighbours and in OECD countries. The OECD (1994a, p.8) has noted that:

In almost every Member country, the process of structural reform has been taken further during the past three years ... This is evidenced not only by the sheer number of actions taken — especially in the areas of labour markets, financial services, environmental protection, deregulation and enhancing competition in non-financial services — but also by the fact that only a small portion of these measures represented steps back from greater reliance on market forces.

It is against this backdrop that domestic policy developments must be assessed.

Domestic policy developments

The past year has seen a number of major policy developments addressing some of the principal reasons why the Australian economy is not performing to its potential. Most notable have been the steps taken towards implementing a national framework for competition policy, changes in industrial relations legislation and the employment and training initiatives announced by the Commonwealth Government in *Working Nation* (Keating 1994b,c).

Competition policy

Increasing the level of competition throughout the economy is a key to higher productivity and growth.

As Australian industries have become more open to international trade, pressures are building to expose other sectors of the economy to greater competition so as to improve their performance. The changes occurring in GBEs, including better pricing practices, are an important part of this broadening of the reform agenda.

Enterprises in the private or public sectors which are sheltered from competition generally face less pressure for management and employees to constrain costs and negotiate worthwhile productivity improvements. Increased competition can help to motivate and underpin improved management and an enterprise focus in bargaining over pay and conditions.

Reforms which increase competition have been pursued by Commonwealth, State and Territory governments. While progress has been variable, key reforms include splitting GBEs into competing units, removing regulatory barriers to entry, making greater use of contracting out through competitive tendering and privatising some business activities and services (Appendices D, E and F).

Governments can achieve more in some areas by acting co-operatively. It was to build on past reform efforts by individual governments that the Independent Committee of Inquiry into a National Competition Policy (Hilmer 1993) was established. The Review took a broad view of competition policy. It proposed extending the Trade Practices Act to GBEs, statutory marketing arrangements and unincorporated

associations, which all have considerable protection from trade practices scrutiny. It also identified many government regulations and interventions that impede the functioning of markets.

The Hilmer Review proposed new policy principles to regulate markets traditionally supplied by governments, particularly where there are natural or mandated monopolies. These principles included reviews of regulatory restrictions to competition on a national level, structural reform of monopolies, the granting of access rights to essential facilities (such as telecommunications networks), limits on monopolistic pricing and ensuring that public and private enterprises compete on neutral terms.

The Review proposed a number of institutional initiatives including the creation of an Australian Competition Commission by merging the Trade Practices Commission and the Prices Surveillance Authority and a National Competition Council to assist in progressing co-operative reforms.

The Hilmer Review represents a watershed in the process of

microeconomic reform in Australia.

The February 1994 meeting of the Council of Australian Governments (COAG) gave in-principle endorsement to the competition policy principles of the Hilmer Review, though many implementational details were left to be resolved. At its August 1994 meeting COAG agreed, in general, to a package of competition policy reforms and transitional arrangements. Following public consultation, it agreed to finalise a legislative package at its February 1995 meeting, with the aim of bringing the new competition policy arrangements into effect on 1 July 1995 (Box 1.2 and Appendix G).

COAG also agreed that all governments should share the benefits to economic growth and revenue from the Hilmer and related reforms to which they have contributed. The Industry Commission is to undertake an assessment of these benefits on the basis of a brief from Heads of Treasury.

Although COAG has met twice to consider how to establish a national competition policy, the

task has yet to be completed. Extensive, possibly unprecedented, co-operation among the different levels of government

will be required so that a successful outcome is reached at the next COAG meeting in February 1995.

Box 1.2

National competition policy reforms

COAG (1994b) has agreed, in general, to a package of reforms:

- the revision of the conduct rules of trade practices legislation and their extension to cover State and local government business enterprises and unincorporated businesses;
- the application by individual jurisdictions of agreed principles on structural reform of public monopolies, competitive neutrality between the public and private sector where they compete, and a program of review of regulations restricting competition;
- the establishment in each jurisdiction of a system to carry out surveillance of prices charged by utilities and other corporations with high levels of monopoly power and a regime to provide access to essential facilities such as electricity grids and rail networks; the agreed approach will provide for participating State/Territory regimes to be taken as being effective if they meet agreed principles; and
- the establishment of the Australian Competition Commission and the National Competition Council to exercise recommendatory powers in relation to access and pricing surveillance issues and advisory powers on matters determined by governments. In relation to its advisory program, the Commonwealth is to ensure that there is no duplication of the Council's work by the Industry Commission.

COAG agreed to the following transitional arrangements:

- phase-in periods for the extension of trade practices law with provisions for States and Territories to provide exemptions, subject to Commonwealth override, for conduct that would otherwise breach competition laws;
- grandfathering contracts entered into by the States and their authorities and by local government under the shield of the Crown and by unincorporated enterprises before 19 August 1994; and
- confirmation that State indentures legislated prior to 19 August 1994, which validly effect exceptions from the Trade Practices Act, will continue to have that same effect.

Industrial relations changes

Better labour market arrangements are a key to higher workplace productivity. During the year the Commonwealth Government changed its industrial relations laws to bring a greater enterprise focus to bargaining over wages and conditions and to review and simplify industrial awards. The States have also been reforming their industrial relations systems (Appendix F).

The Industrial Relations Reform Act introduced *enterprise flexibility agreements* to promote enterprise bargaining in non-union workplaces subject to Federal award coverage, albeit with a provision for unions to challenge the ratification of such agreements before the Australian Industrial Relations Commission. These agreements complement the existing *certified agreements* covering enterprise bargaining between unions and employers. The Act also contains new safety net provisions, including more stringent rules regarding unfair treatment in the termination of employment.

The Commonwealth Government has recognised that the process of award restructuring and simplification has further to go.

Under the Act, the Australian Industrial Relations Commission is to review all Federal awards within three years to remedy any deficiencies such as obsolete and unnecessarily detailed provisions.

Assessing progress

Enterprise bargaining was introduced into the Federal award system in 1991. Initially, agreements spread slowly. However, the number of Federal agreements registered has increased from 1135 (covering 763 000 employees) in September 1993 to around 2400 (covering over 1.3 million employees) in August 1994. Fifty-five per cent of wage and salary earners covered by Federal awards now have formal enterprise agreements.

The spread of agreements in the private sector has gathered pace, with over 40 per cent of private sector employees under Federal awards now covered. Agreements were initially concentrated in the metals sector but there is a continuing spread to other industries and especially to the services industries such as wholesale and retail trades (DIR 1994). The Government's target is that 80 per cent of the workforce under Federal awards be in direct bargains by the end of 1996.

Recent Commission inquiries have encompassed industry sectors where enterprise bargaining has brought genuine reform. But they have also pointed to other sectors where productivity continues to be constrained by poor work and management practices and

restrictive award conditions (Box 1.3).

Impediments to more rapid progress

The extension of enterprise bargaining to the rest of the economy will provide a means to spur productivity growth. The

Box 1.3

Progress in workplace reform — examples from Commission inquiries

In *Petroleum Products* (IC 1994f), the Commission reported that enterprise bargaining has brought a more harmonious and productive environment to the operations of several oil majors. For independent distributors in non-metropolitan areas, however, industry-wide awards currently offer little flexibility in hours of work or working patterns. Enterprise bargaining is progressively opening up access to oil terminals but more rapid progress is required in eliminating those provisions of the Laidely Agreement (on award conditions and delivery areas for tanker drivers) that restrict competition.

The report on *Urban Transport* (IC 1994b) noted that some public transport operators have addressed inefficient management and work practices. For example, Melbourne's trams are being reduced from two- to one-person operation. But inefficient workplace practices remain widespread with little or no action being undertaken to address them. Weak competitive pressures and lack of financial scrutiny have contributed to a situation where awards for public bus drivers are generally less flexible and result in less productive working time per shift than awards for private bus drivers. In South Australia, award conditions for public bus drivers are substantially more restrictive than awards for private drivers in terms of hours of duty, overtime and penalty payments and allowances for signing on and off duty. Work practices restrict the ability of rail operators to make efficient use of staff. For example, rostering limitations require that no electric train driver in Melbourne be allowed to go from a tunnel into daylight more than four times in a shift.

In *Meat Processing* (IC 1994c), the Commission found that the pace of workplace reform has been painfully slow and continues to inhibit growth in this \$6 billion industry. Poor capital utilisation in meat works is, in part, attributable to workplace inflexibilities associated with industrial awards, particularly penalty rates which rise with increased hours of operation and multiple shifts.

quality of management and how it responds to its new responsibilities under enterprise bargaining will be crucial in realising productivity improvements. Success also depends upon goodwill among the negotiating parties. An important element underpinning goodwill is basic safeguards to protect the industrially weak.

Legislation governing enterprise bargaining needs to allow maximum freedom for employees and employers to come up with mutually advantageous ways of increasing productivity.

The spread and quality of enterprise agreements have been inhibited by a number of institutional features. In its inquiry on regional industry adjustment (IC 1993h), the Commission identified three features of the industrial relations framework which still need to be addressed in order to facilitate better labour market practices.

- While the Industrial Relations Reform Act has opened up opportunities for non-unionised workplaces to engage in enterprise bargaining, the powers granted to trade unions to scrutinise and oppose such agreements could constrain new initiatives.

Registered unions that are parties to an award remain the sole bargaining agents for certified agreements regardless of any workplace agreement negotiated directly between employers and their employees. Greater freedom for workers to choose *their* bargaining agent — whether union, staff association or other workplace representation — would facilitate the development of individual workplace practices that better suit employees and employers alike.

- Because enterprise bargaining arrangements are still effectively linked to the centralised award system, the scope for agreed outcomes to reflect the requirements of individual workplaces remains constrained.
- A safety net which establishes common minimum employment standards for all workers — such as minimum rates of pay and leave conditions — can be important to gain workers' commitment to productivity improving reforms. However, there is currently a multiplicity of safety nets — over 5 000 awards specify different minimum wages and

conditions across a range of crafts and occupations. Complex safety net structures incorporating matters beyond basic standards can constrain the ability of workforces to adjust to change.

Working Nation labour market initiatives

Working Nation addressed the need to reduce the social and economic costs of unemployment through “sweeping changes to the Social Security system and landmark new labour market programs” (Keating 1994b, p.3).

The Commonwealth Government is spending an additional \$5.7 billion over the next four years on employment and income support programs, with an emphasis on the long-term unemployed. A central part of its strategy is the Jobs Compact, through which the Government is providing a job placement to those who have been on unemployment benefits for over 18 months. Taking those from the back of the unemployment queue and giving them training and some work experience keeps them in touch with workforce and skill requirements. This can improve both economic efficiency and equity.

While these initiatives can increase the growth potential of the economy, they cannot directly generate new and sustainable employment. That requires faster economic growth. Faster growth in turn requires that impediments to workplace productivity and disincentives to seek and offer employment be removed.

To this end a number of potentially far reaching initiatives were announced in *Working Nation*. The Government has:

- recognised that current award wage settings may not be appropriate for job seekers with low or redundant skills. It has moved to introduce training wages that allow employers to pay less than award wages during training periods in certain circumstances. Importantly, training wages are to be linked to competencies rather than age;
- begun to address the unintended disincentives to work associated with social security benefits so that recipients gain rather than lose financially when undertaking additional work (Box 1.4). At the same time, penalties for failure to accept a job offer, attend an interview or attend a training course will be increased;

- introduced competition in the delivery of employment services to the unemployed;
- recognised the adverse effects on industry of the Training Guarantee Levy and suspended it for two years.

Several implementational details of *Working Nation* were left to be determined. The contribution that its initiatives can make to increasing employment will, in part, depend upon how these details are resolved and labour

Box 1.4

***Working Nation* changes to social security payments**

Social security is an important safety net for those without work. However, there is mounting evidence that, in conjunction with the taxation system, current social security arrangements create disincentives to accept employment — especially for relatively low-skilled recipients eligible for family entitlements. *Working Nation* attached priority to improving work incentives while providing adequate income support. Because of the magnitude of the task, this issue is likely to stay on the policy reform agenda for some time.

From 1 July 1995, the incentive for recipients of social security payments to seek additional income will be improved by lowering the withdrawal rate for benefits from a dollar to 70 cents for each additional dollar earned. However, the income range over which the new rate will operate has been extended. For families with one income earner and the non-working partner in receipt of the parenting allowance, the withdrawal rate will apply to between \$70 and \$378 of additional income per week, compared with the current range of \$95 to \$340.

Under current arrangements, if the working partner increases weekly earnings from \$100 to \$150, the additional \$50 earned is completely offset by an equivalent reduction in benefits. Under the new arrangements, increasing the working partner's earnings from \$100 to \$150 will increase family income by \$11.95 after income tax.

Despite the improvement to incentives, low income families will continue to face very high effective marginal tax rates. In the example above, the family is better off by \$11.95 a week but its effective marginal tax rate is 76 per cent: 70 per cent due to the withdrawal of benefits and 6 per cent due to income tax of 20 per cent applying to the remaining 30 cents per dollar of income earned.

Compared with the situation where both partners are unemployed, a family with one partner earning \$350 a week currently gains \$28.60 after tax and adjustments to social security payments. Under the new scheme, the net gain to the family is \$77.60 (a net increment of \$49). Against the net gain from working has to be offset the costs of attending work including travel, clothing and loss of leisure.

market programs adjusted in the light of experience.

Crucial in this regard is how flexibly the training element is implemented. A new body, the National Employment and Training Taskforce, is to oversee the introduction of the training wage and build employer commitment to offer job places. It is important that the Taskforce recognise the value of the wide variety of on-the-job training.

Monitoring the performance of labour market programs is also important. Past deficiencies in the monitoring of training schemes have precluded meaningful judgments about program effectiveness (IC 1993h).

The success of the *Working Nation* employment initiatives will depend on how firms respond to changing industrial relations arrangements. Firms and their employees need to be able to adjust workplace arrangements quickly in response to rapidly changing circumstances. If they are able to do so, the business investment needed to sustain the creation of new jobs is more likely to be forthcoming. Otherwise, much of the expenditure on job programs may be to no avail.

Industry assistance

In line with the assistance reduction program announced in 1991, assistance to manufacturing declined in 1993–94 to an average effective rate of 10 per cent. Having peaked in 1990–91, assistance to agriculture decreased slightly in 1992–93 (the latest year for which estimates are available), to an average effective rate of 11 per cent. This reflects increased returns from export markets, the counter-cyclical nature of many agricultural assistance programs and phased reductions in tariffs (Appendix L).

The Government announced in *Working Nation* that those tariffs which are being phased down to 5 per cent in 1996 will be maintained at that level thereafter. This means that from 1996 nearly all industries will have tariff rates between zero and 5 per cent. While low by historical standards, these tariffs will continue to impose costs on industry and consumers.

Assistance provided by tariffs of 5 per cent and below will be equivalent to a tax on consumers of about \$1.7 billion in the year 2000–01.

The most notable exceptions to the general tariff phasing program are the passenger motor vehicle (PMV) and the textile, clothing and footwear (TCF) industries. Under current phasing arrangements for PMV and TCF their tariff rates will be 15 per cent and up to 25 per cent respectively in the year 2000–01. These tariffs will impose costs on consumers of about \$2.3 billion — over half of the estimated \$4 billion consumer tax equivalent of total manufacturing assistance at that time. A further public

review of the economy-wide benefits of reducing differential assistance to these sectors therefore assumes considerable importance. The Government announced in *Working Nation* that reviews of these sectors will take place in 1996.

An important development in 1993–94 was the announcement, as part of *Working Nation*, of the principles which will underpin future industry policy (Box 1.5). The strength of these principles lies in their commitments to advance the broader national

Box 1.5

The Government's industry policy principles

The principles which underpin industry policy were summarised in *Working Nation* (Keating 1994c, p.58) as follows:

- the role of government is to provide a business environment in which individual firms can build on their competitive advantages, not to shelter them from competition;
- industry policy should address systemic problems and impediments, recognising that the solutions sometimes require action at the industry-specific level and taking account of the different strengths of, and problems facing, large and small enterprises;
- the Government should be a catalyst for promoting activity that is in the broader national interest but which otherwise would not occur;
- policies in relevant areas, including education and training, industrial relations, trade, business law and taxation, should assist in building industry competitiveness;
- industry and environmental policy should be coordinated to ensure that future growth is ecologically sustainable; and
- industry policy needs to evolve, with wide consultation, to reflect changing circumstances and yet be transparent and predictable.

interest rather than sectional interests; to create an environment for industry development which allows firms to build on their competitive advantages rather than being sheltered from competition; and to develop industry policy in a transparent manner. The test of the principles lies in how they are applied.

New industry assistance expenditures announced in *Working Nation* total \$460 million over four years. Key initiatives are directed to small and medium-sized businesses. These firms are seen as facing particular difficulties.

To the extent that these initiatives overcome market failures, there will be net benefits. However, the additional costs that small and medium-sized enterprises may face in gaining access to finance and markets and in undertaking R&D do not necessarily indicate that markets are failing.

For example, when the Commission reviewed the availability of capital for business generally, it found that higher costs of debt finance for small businesses can reflect the inherently greater risk and the higher loan administration costs of lending to them (IC 1991e).

Business regulation and regulation review

Unnecessary or inappropriate regulation can impose considerable costs on business. It can reduce incentives to develop new products and new markets and thereby reduce economic growth. Winding back unnecessary regulation has been difficult, not least because of poor public understanding of its costs and benefits.

In recognition of this, the Commonwealth Government announced a business regulation reform package in *Working Nation* which "reflects a renewed commitment to regulation review at the Commonwealth level" (Keating 1994c, p.36). This includes:

- better review processes for both new and existing Commonwealth regulation to allow for scrutiny, consultation and analysis of effects before new regulation is enacted;
- a Council of Business Representatives to provide advice on regulation review and reform to the Structural Adjustment and Trade Committee of Cabinet;
- additional resources for the Office of Regulation Review

within the Industry Commission; and

- an electronic register to contain all existing and future Commonwealth delegated legislation.

In adopting these initiatives the Government has accepted the majority of the recommendations of the 1992 report of the Administrative Review Council on rule making by Commonwealth agencies (ARC 1992). One recommendation not adopted was the phased sun-setting of all Commonwealth regulation. Instead, the Government decided that port-folio Ministers are to develop programs of reform of all regulations within their jurisdictions.

These initiatives provide a basis for a more comprehensive assessment of the impact and worth of the vast array of social and economic regulation. Much of this has never been reviewed, nor its impacts properly evaluated (Appendix G).

The task ahead

The welcome increase in economic growth in Australia over the past year must not be allowed to induce complacency about the substantial and ongoing

reform task that lies ahead.

Achieving a coherent framework for competition policy at the next meeting of COAG is particularly important to the reform effort.

Success in the reform task ahead depends crucially on co-operation between governments. But the track record is that reforms involving different governments have been slower to materialise or more likely to be stymied by parochial interests. Institutional arrangements, such as COAG, have evolved to facilitate co-operative approaches and have had notable successes such as the agreement on the mutual recognition of regulation.

We need to build on existing processes and find ways in which Australia's federal system can work better so as to improve the competitiveness of Australian industry. This is the focus of Chapter 2.

Chapter 2

Federalism and Australia's economic performance

Individually, Australian governments have embarked on reforms to improve productivity and the competitiveness of firms. However, the development of national markets and the efficient provision of government services also requires co-operation between governments across Australia. The challenges are not new, nor are attempts to address them. But the imperative for change becomes greater with continuing globalisation of markets and intensifying international competition. The reform process increasingly involves complex questions concerning intergovernmental relations. Hence, a strengthening of co-operation between Australian governments is necessary to improve Australia's economic performance.

Commonwealth, State and Territory governments contribute to reforms in their own right. However, under Australia's federal system, some reforms are possible only through co-operation and co-ordination among governments.

The need for co-operation has long been recognised, and institutional arrangements have evolved to facilitate nationally coherent policies and reforms. The Council of Australian Governments (COAG) is playing a central role in this regard. Deliberations of the Council have shown not only the importance of achieving more rapid progress, but also the difficulties.

The imperatives for reform in areas where the responsibilities of the Commonwealth, State and Territory governments interact and overlap have been reaffirmed through successive Commission inquiries and related research. This chapter draws on that work

Box 2.1

Key federal reform issues from Commission inquiries — inconsistent and overlapping regulation

In *Petroleum Products* (IC 1994f), the Commission found that local council regulation of access by B-double transport vehicles to roads in their jurisdiction has led to an ad hoc approach. Moreover, inspection standards for road transport are not consistent between States and Territories; for example, some States and Territories do not recognise each other's tanker certifications. The Commission concluded that the absence of nationally recognised vehicle standards is an impediment to the efficient operation of interstate road transport.

The Commission's report on *Environmental Waste Management Equipment, Systems and Services* (IC 1993f) found that the environmental waste industry is adversely affected by complex and overlapping regulations between State and Territory governments for approving technologies to address the same environmental problems. The industry's costs are increased by the requirements of a variety of environmental bodies within jurisdictions as well as the requirements of different jurisdictions. Excessively complex and overlapping regulations create uncertainty in the industry which increases the risk to investment in the development and commercialisation of research. It may also encourage industry fragmentation and loss of scale economies because the production of similar products has to meet the particular requirements of different States and Territories.

In its report on *Intrastate Aviation* (IC 1992a), the Commission noted that the licensing arrangements for intrastate aviation in Tasmania restrict the scope for direct competition from interstate operators. Firms operating flights between the mainland and Tasmania can only carry passengers on an intrastate journey in Tasmania if the journey forms part of an interstate trip. A flight operator from Victoria to Launceston via Flinders Is. or King Is. cannot pick up passengers or freight from either stopover for Launceston. Intending passengers are required to prove they are undertaking an interstate trip before commencing their journey on such flights.

In *Mining and Mineral Processing in Australia* (IC 1991a), the Commission noted that mining and minerals processing activities are subject to detailed regulation involving all levels of government. Independent pursuit of their own purposes by each level of government, combined with a penchant for frequent changes in the rules, has resulted in a bewildering mish-mash of regulations. This imposes substantial costs, delays, and uncertainty — particularly when it comes to trying to gain approval for new mining projects — while rarely achieving apparent objectives (or so doing at enormous cost).

to provide information of relevance to the continuing process of reform within the Australian federation.

Federalism and competitiveness

While there are distinct advantages in a federal system of government, industry competitiveness can be affected by the approaches that different governments take to regulation, taxation and public provision of goods and services.

Overlapping regulations between

the Commonwealth and the States and differences in regulatory regimes between the States have impeded improved performance in many Australian industries. They have created uncertainty for investment, unnecessarily increased the costs of industry, restricted the operation of national markets and increased the burden on taxpayers (Box 2.1).

State and Territory taxes have also been found to inhibit industry efficiency. For example, some taxes reduce land-use

Box 2.2

Key federal reform issues from Commission inquiries — State taxation

The Commission report on *Taxation and Financial Policy Impacts on Urban Settlement* (IC 1993b) found that stamp duties on the sale of dwellings tax mobility and reduce the affordability of housing. It also concluded that the various exemptions and concessions in land taxes distort land uses; for example, owner-occupied housing and much rural and government land is exempt.

In *Availability of Capital* (IC 1991e), the Commission noted that stamp duty on loan securities restricts flows of funds and can inhibit the efficient allocation of capital.

The Commission's report on *Petroleum Products* (IC 1994f) noted that different State government tax rates on petrol distort the geographic pattern of fuel production, distribution and sale.

State and Territory taxes on the sale of tobacco products and licence fees to sell tobacco products vary between jurisdictions. Evidence presented to the Commission inquiry on *The Tobacco Growing and Manufacturing Industries* (IC 1994e) suggested that operators transport tobacco products across borders to take advantage of the tax differential between the States and Territories.

Box 2.3

Key federal reform issues from Commission inquiries — physical and social infrastructure provision

The Commission's report on *Workers' Compensation in Australia* (IC 1994a) found that additional costs are incurred by firms because of the lack of national integration of workers' compensation schemes. Staggered and selective reforms by each jurisdiction have contributed to a fragmented and inconsistent system across Australia which can raise compliance costs. Some firms operating in more than one jurisdiction have had to pay full premiums to more than one scheme for the same workers. In the case of interstate commercial drivers, the additional cost has been estimated at \$15 million each year. The Commission also noted the complexities faced by national employers who wish to self-insure. A firm such as BHP with multiple operations across Australia has not been able to take out one self-insurance licence for all its employees. Instead, it must take out separate licences in each jurisdiction where it is permitted to self-insure. The varied rules between schemes are an additional administrative burden on self-insurers operating across State and Territory boundaries which adds to costs and hinders efficiency.

Participants in the inquiry on *Impediments to Regional Industry Adjustment* (IC 1993h) indicated that a lack of co-ordination between Commonwealth, State and local governments regarding roads and railways adds to the costs of infrastructure provision. The Commission found there is scope to improve the co-ordination and integration of infrastructure provision between governments.

The Commission's report on *Energy Generation and Distribution* (IC 1991b) found that State and Territory electricity authorities have largely sought to balance their own generation and loads internally. The lack of an integrated interstate network for electricity transmission precludes efficiency gains from greater economies of scale and competition in supply.

The Commission's report on *Rail Transport* (IC 1991c) found that inadequate integration between State-based rail systems had contributed to higher than necessary costs for users. It identified differences between technical specifications and operating rules and procedures, including differences in maximum dimensions (which govern movements through tunnels, across bridges and beneath overhead wires), braking systems, radio communication systems and power systems for electric trains.

In its report on *Adding Further Value to Australia's Forest Products* (IC 1993e), the Commission concluded that the competitiveness of the forest products industries is closely linked to the performance of governments in providing infrastructure services such as energy, rail, road and port services.

efficiency and labour mobility and impede the best use of capital (Box 2.2 and Appendix B).

Public enterprise inefficiency can increase industry costs, impair competitiveness and/or increase the burden on taxpayers. The Commission's inquiries have demonstrated that improvements in industry competitiveness are closely linked to the performance of different governments in providing energy, transport and communication services through GBEs.

Inadequate integration of physical and social infrastructure across jurisdictions can restrict the further development of national markets and add to the costs of firms (Box 2.3).

Developing integrated infrastructure networks is a key area for intergovernmental co-ordination and co-operation. However, establishing interstate networks among separate State-based systems, such as electricity, rail and water resource management, presents significant problems (Appendix A).

Duplication of services and administration between governments has become a major focus for interjurisdictional reform. Duplication can be wasteful and induce inefficiencies in govern-

ment expenditure and taxation. However, it is an area where data inadequacies and a lack of analysis make it difficult to gauge the impact on economic performance.

Some recent Commission inquiries have found a confusion of objectives in service provision where different governments are involved. Accountability problems frequently inhibit improved performance. In its examination of *Public Housing* (IC 1993g), for example, the Commission pointed to the need for governments to clarify their housing objectives and better delineate their roles. The present shared responsibilities under the Commonwealth-State Housing Agreement provide opportunities for each government involved to escape public scrutiny and accountability and reduce incentives for State governments to provide services at least cost. However, it was not possible for the Commission to quantify the impact of these problems on the costs of public housing.

Duplication of services may not always be wasteful. Competition between governments in efficient service delivery and administration can make an important contribution to innovation and national economic growth.

However, competition in the provision of subsidies to attract firms from other States and Territories can distort locational decisions and result in industry fragmentation and higher costs (IC 1993h).

Progress in federal microeconomic reform

Reducing the impediments to better economic performance which arise from Australia's federal system has become a priority for all governments. A number of the inter-jurisdictional problems identified in Commission inquiries have been, or are currently being, addressed in intergovernmental forums.

The process of inter-jurisdictional reform has been managed largely through COAG and Councils of Commonwealth, State and Territory ministers. These forums have accorded high priority to reducing overlapping and inconsistent government regulation, reducing duplication of services and administration between governments, improving accountability and transparency in service provision, and improving the performance of GBEs.

Regulation

Several national standards and regulatory bodies have been established under Commonwealth-State agreements in recent years to reduce overlapping and inconsistent regulation. They include the Australian Securities Commission, the National Food Authority, the National Road Transport Commission and the National Registration Authority for Agricultural and Veterinary Chemicals. All governments, apart from Western Australia, have agreed to introduce legislation to establish the National Environment Protection Council.

In some cases, the States and Territories have agreed to arrangements to reduce inconsistent regulation between their jurisdictions. For example, they have introduced a uniform system of prudential supervision of permanent building societies and credit unions with the Australian Financial Institutions Commission established as the national supervisory body (Premiers and Chief Ministers 1991). The scheme was implemented by template legislation passed by the Queensland Parliament followed by comple-

mentary legislation by other State and Territory governments.

The Commonwealth, States and Territories agreed to the introduction of a system of mutual recognition of regulation from 1 March 1993. The limited information available at this early stage suggests it has reduced some of the adverse effects of overlapping and inconsistent regulation (Appendix G).

Working Nation (Keating 1994c) announced a series of Commonwealth government measures to reduce the costs of regulation, and most State governments have actively pursued regulation reform. However, much remains to be done in reducing overlapping and inconsistent regulation. For example, in *Meat Processing* (IC 1994c), the Commission noted the progress of State governments in introducing legislation to facilitate quality assurance in meat hygiene in abattoirs, but expressed concern at the potential for disparate systems to evolve throughout the country. It suggested that a more co-ordinated approach between the States in the choice of quality assurance programs and the accompanying standards would benefit both the meat industry and the Australian community.

Shared responsibilities

COAG has agreed on a strategy for reducing duplication between governments and improving accountability. It has acknowledged that, in some areas, a clear allocation of functional responsibility to one level of government may be appropriate. In cases in which shared responsibilities are likely to continue, roles are to be delineated in an attempt to avoid unnecessary overlap and duplication, improve accountability and minimise administrative costs. Some progress has already occurred. For example, road funding responsibilities have been rationalised to confine the Commonwealth responsibility to the national highway system. A number of functional areas have been identified for review, including public housing, child care, health and community services (COAG 1994a).

There is an urgent need for a thorough assessment of the extent of duplication in service provision and administration between governments and its costs to the economy. Until this is done, discussion of the issue will be confounded by a lack of information. The evidence of duplication is often contentious (EPAC 1990). Without compre-

hensive information it is not even possible to assess adequately the priorities which have been established and the progress achieved.

A significant step towards improving accountability and efficiency in service provision has been the agreement to establish the Review of Commonwealth and State Service Provision. The Review has two components: the collection and publication of quantitative performance indicators to allow benchmarking comparisons of efficiency; and an assessment of relevant service provision reforms that are underway or under review by governments (Dawkins 1993a). The Review offers the prospect of improving the focus on outcomes in service delivery, providing data on comparative performance in service delivery and establishing 'best-practice' models to improve efficiency (Chapter 3).

National infrastructure networks

Integration of certain infrastructure networks has been initiated through intergovernmental agreements. For example, there is an agreement to establish an interstate electricity grid and a national framework for trade in

gas across State boundaries. The National Rail Corporation has been established to provide an integrated national rail freight service. COAG has endorsed arrangements for the management of water resources across jurisdictions as part of a strategic framework to achieve an efficient and sustainable water industry. It will build on initiatives such as the Murray-Darling Basin Commission which is attempting to better integrate water catchment management across jurisdictions.

The formation of national infrastructure networks from State-based systems has been considerably delayed as a result of differences in approach between governments, and disagreement over the financial arrangements. Some State governments have been slow to agree to the separation of generation and transmission functions and to settle issues of ownership of electricity transmission assets. Similarly, the ownership and control of railway tracks and related infrastructure by State governments continues to frustrate the development of a national rail freight network. (Issues in developing national networks are discussed in Appendix A.)

GBE reform

GBEs are also at the centre of reform proposals being considered by Commonwealth, State and Territory governments arising from the Hilmer Report into competition policy (Chapter 1 and Appendix G).

The Steering Committee on National Performance Monitoring of Government Trading Enterprises was established by the Special Premiers' Conference in July 1991 to develop a national performance monitoring system for public enterprises. The Steering Committee has published two reports on financial and non-financial performance indicators for major enterprises in each jurisdiction (SCGTE 1993, 1994b).

Reforms by other processes

Reforms are also proceeding through other mechanisms. The annual Premiers' Conference has been the focus of intergovernmental negotiation of financial issues that have a bearing on microeconomic reform. For example, governments have agreed to establish a process for achieving tax uniformity and competitive neutrality between GBEs and firms in the private sector. The States and Territories

will collect tax-equivalent payments directly from their wholly-owned GBEs. The Commonwealth will continue to collect tax from enterprises jointly owned by public and private interests and comprehensively apply income tax and wholesale sales tax to its own trading enterprises (Willis 1994b).

Other reforms have been made. The Australian Loan Council arrangements were revised in July 1993 to allow the States greater freedom and responsibility in managing their borrowings and to enhance the role of financial market scrutiny as a discipline on public sector borrowings. The Commonwealth Grants Commission has revised its fiscal equalisation methodology in an attempt to reduce the effect on government policy decisions.

Further reform issues

Despite the achievements made possible by co-operation between governments, significant impediments to better economic performance remain. Governments must continue to work together to reduce overlapping and inconsistent regulation, to improve accountability in service

provision and to co-ordinate the provision of infrastructure and the development of interstate infrastructure networks.

While the national competition policy proposals are at the forefront of the current reform agenda, the framework for co-operation between governments must address many other issues as well. The Commission's own inquiry program is one source of such issues. Recent or current inquiries relevant to different governments include Workers' compensation, Tobacco, Charitable organisations, and Occupational health and safety.

Co-operative federalism

Economic performance can be enhanced by governments varying the provision of services according to the needs and preferences of people in different regions. In a federation, decisions can be more responsive to local needs and useful innovations may be encouraged by competition between governments. In Australia, much can and has been done to improve economic performance by governments individually enacting reforms.

While some issues can be best dealt with by competition

between governments, others cannot. Where competition detracts from, rather than enhances, community welfare, co-operation between governments is necessary.

In those areas requiring co-operation and co-ordination between governments, COAG has provided a focal point. However, the recent experience on competition policy shows that reforms that already have in-principle agreement within COAG can prove difficult to advance. Substantial delays have occurred in the establishment of the national electricity grid and in clarifying roles and responsibilities of governments in various program areas. Clearly, the co-operative approach can be slow if it requires agreement by all governments; lowest common denominator solutions may prevail; differences between governments may dominate at times; and important issues may remain unaddressed.

The challenge for governments is to make intergovernmental co-operation work better. In addressing this challenge, some fundamental issues need to be resolved. Should it be necessary to achieve unanimous agreement before reforms can proceed? Should there be provision for

those governments which agree on a matter to proceed with implementation, with other governments free to join later? How important is it to accommodate trade-offs in negotiations between governments across major issues? What lessons might be drawn from international experience, for example from the European Union?

Information about the benefits and costs of reforms, and transparency of proposals developed in intergovernmental forums, can also be important to durable reform. They provide the basis for improved public understanding and for the resolution of areas of policy disagreement.

Commonwealth-State relations are complex. It can be difficult to understand how the arrangements work and their impacts on economic activity. These difficulties are compounded by features of Australia's federal system, particularly those pertaining to financial relations between governments.

Competition between governments complements intergovernmental co-operation by establishing 'best-practice' models of reform. Governments will continue to implement reforms within their own juris-

dictions to be emulated or modified by other governments within the federation. For example, casemix funding of public hospitals has been introduced in some jurisdictions following Victoria's lead. The Review of Commonwealth and State Service Provision is intended to assist governments by collating and assessing such service provision reforms.

In some circumstances, the Commonwealth will need to take the lead in national reforms. For example, in *Workers' Compensation in Australia* (IC 1994a), the Commission recommended that the Commonwealth establish a nationally available workers' compensation scheme to minimise cost-shifting between jurisdictions, establish greater regulatory uniformity and provide competition with State-based schemes.

Expenditure and revenue issues

Intergovernmental fiscal arrangements strongly influence the taxation, expenditure and regulatory decisions of governments in federal systems. A degree of revenue concentration in national governments and mechanisms for intergovern-

Table 2.1
Government outlays and sources of revenue, 1993–94

	<i>Own-source revenue</i>		<i>Own-purpose outlays</i>		<i>Ratio</i> (1):(2)
	(1)	(2)	(2)	(1)	
	\$b	% of total	\$b	% of total	
Commonwealth	97.5	74	82.3	54	1.18
State & Territories	29.6	22	63.3	41	0.47
Local government	5.4	4	7.9	5	0.67

Sources: ABS (1993b), Dawkins (1993b)

mental grants are features of most federal systems.

In Australia in 1993–94, the Commonwealth government collected 74 per cent of total public sector revenues but was responsible for 54 per cent of outlays (Table 2.1). Over 40 per cent of State revenue was obtained from the Commonwealth through general and specific purpose payments.

Federal fiscal arrangements influence Australia's economic performance through the way they affect the expenditure and revenue decisions of State governments. Their impact on these decisions has been the subject of long-standing debate and a number of issues still have to be resolved. Do federal fiscal arrangements reduce State budget flexibility? Do they reduce fiscal responsibility? Do they distort State taxes? Do they impede

microeconomic reform? The test of well-designed arrangements is that they should not impede improvements in the efficiency of State and Territory programs and organisations, nor inhibit the introduction of Australia-wide reforms such as a national competition policy.

Expenditure

A feature of the Australian system of intergovernmental grants is the heavy reliance on specific purpose payments (SPPs), which account for over half of Commonwealth payments to the States and Territories (Appendix C). They assist the States and Territories in meeting expenditures for purposes designated by the Commonwealth, subject to the States and Territories meeting certain conditions.

SPPs provide an opportunity for the Commonwealth government to set national priorities. Several State and Territory governments have claimed that reliance upon SPPs limits their budget flexibility and restricts their ability to respond to changing policy imperatives (for example, see New South Wales 1993, Northern Territory 1993, Tasmania 1993). One particular issue under review by COAG is the contribution of SPPs to duplication of administration and confusion of roles between Australian governments.

There is little empirical analysis of the economic impact of the form of SPPs. In making any assessment, it is important to distinguish between payments *through* the States and Territories and payments *to* the States and Territories, and to discern the proportion of payments which have detailed matching conditions (Appendix C).

SPPs with matching funding and maintenance-of-effort requirements by the States and Territories are the ones most likely to limit State and Territory budget flexibility (Appendix C). These conditions may also reduce incentives for State and Territory governments to improve productivity, because they cannot

redirect financial gains to other programs or to reduce deficits.

Possible ways of alleviating the impact of SPPs on State and Territory budget flexibility include reducing the proportion of grants with matching conditions, greater broad-banding of SPPs and increasing the use of general purpose payments (Appendix C).

Another issue is the impact of intergovernmental grants on public sector efficiency and accountability. For example, in its report on *Impediments to Regional Industry Adjustment* (IC 1993h), the Commission noted the potential for extensive Commonwealth payments to the States and Territories to blur the accountability of governments and reduce fiscal responsibility. However, unless the Commonwealth government can see benefits for itself, it may be less likely to raise additional taxes to meet State and Territory demands for funds. SPPs have been one way of structuring intergovernmental grants so that all governments play a role in areas of shared interest.

Again, little information is available on the net impact of these effects. The report of a working party of Common-

wealth, State and Territory Treasury officials (Working Party on Tax Powers 1991) concluded that it is difficult to assess the extent to which current inter-governmental financial arrangements have affected State and Territory fiscal decisions and reduced accountability.

Revenue

To a large extent, the States and Territories have had to rely on a range of narrow, regressive and distortionary taxes (Appendix B). These include stamp duties, franchise fees, motor vehicle taxes and taxes on financial institutions. They add to business costs and especially disadvantage those who most intensively use the services subject to these taxes. Stamp duties constitute some 14 per cent of State and Territory government taxes and charges, despite their undesirable efficiency and equity effects.

The revenue derived from State and Territory taxes tends to exhibit a high degree of volatility with changing economic circumstances. For example, a study by the New South Wales Tax Task Force (1988) demonstrated that there were significant year-to-year variations in the yield of the State's tax system. Such variation

can cause considerable revenue uncertainty for State and Territory budget programs. In the context of microeconomic reform, this raises the issue of whether State and Territory revenue instability is encouraging governments to resort to more distortionary taxes.

Limited tax bases may lead State and Territory governments to rely more on dividends from GBEs than otherwise. The incentive to over-rely on dividends from GBEs as a tax base is strengthened by the monopoly supplier position of many of these enterprises. That said, the recent evidence is that dividend payments generally are not excessive (IC 1993d).

The desire of governments to protect their dividend sources may also limit the scope of GBE reform. Governments may be reluctant to open up public enterprises to competition or private ownership for fear of losing a major revenue source. State and Territory governments have identified this as a factor in their reform programs and requested access to Commonwealth revenue gains from national competition reforms (Premiers and Chief Ministers 1994).

The States do have some degree of control over their revenue base and some scope to reduce their reliance on distortionary taxes. However, they have been reluctant to exploit fully the tax bases available to them and are prone to grant exemptions and concessions. They have also applied broad-based taxes such as payroll and land tax in a discriminatory fashion (Appendix B). In the past, governments chose to exempt many of their own enterprises from taxes and charges. However, the practice is being gradually reversed.

Some changes agreed by the Commonwealth and State governments may reduce the impact of revenue concentration. COAG has agreed that all governments should share in the benefits to economic growth and revenue from national competition policy reforms (COAG 1994b).

Commonwealth GBEs are now subject to State and Territory payroll taxes and the Commonwealth has agreed that the States and Territories can collect tax-equivalent payments from their own GBEs. New taxation arrangements agreed by the Commonwealth, States and Territories are designed to ensure that decisions to privatise GBEs are based on the economic merits

of the case and are not unduly influenced by taxation implications. Although only raising a small amount of revenue, the bank account debits tax was transferred to the States and Territories from 1990–91.

There is scope to reduce the distortionary impact of State and Territory taxes, impediments to GBE reform and incentives to use GBEs as a tax source. There is a need for further analysis of the effects of SPPs on the budget flexibility of State and Territory governments as well as assessment of the extent of duplication between governments and its costs to the economy. The reform process should also have regard to the ways in which revenue concentration and unclear expenditure responsibilities impede better economic performance.

Resolution of these issues will involve some complex questions concerning intergovernmental relations. Strengthening co-operation between Australian governments is nevertheless an essential step in deepening the reform of the Australian economy.

Chapter 3

Operations of the Commission

The Commission continued a broad and challenging program of inquiries during 1993–94. The year also saw a broadening of the Commission's activities into other areas associated with reform. The transition of the Commission's headquarters to Melbourne was a focus for internal management.

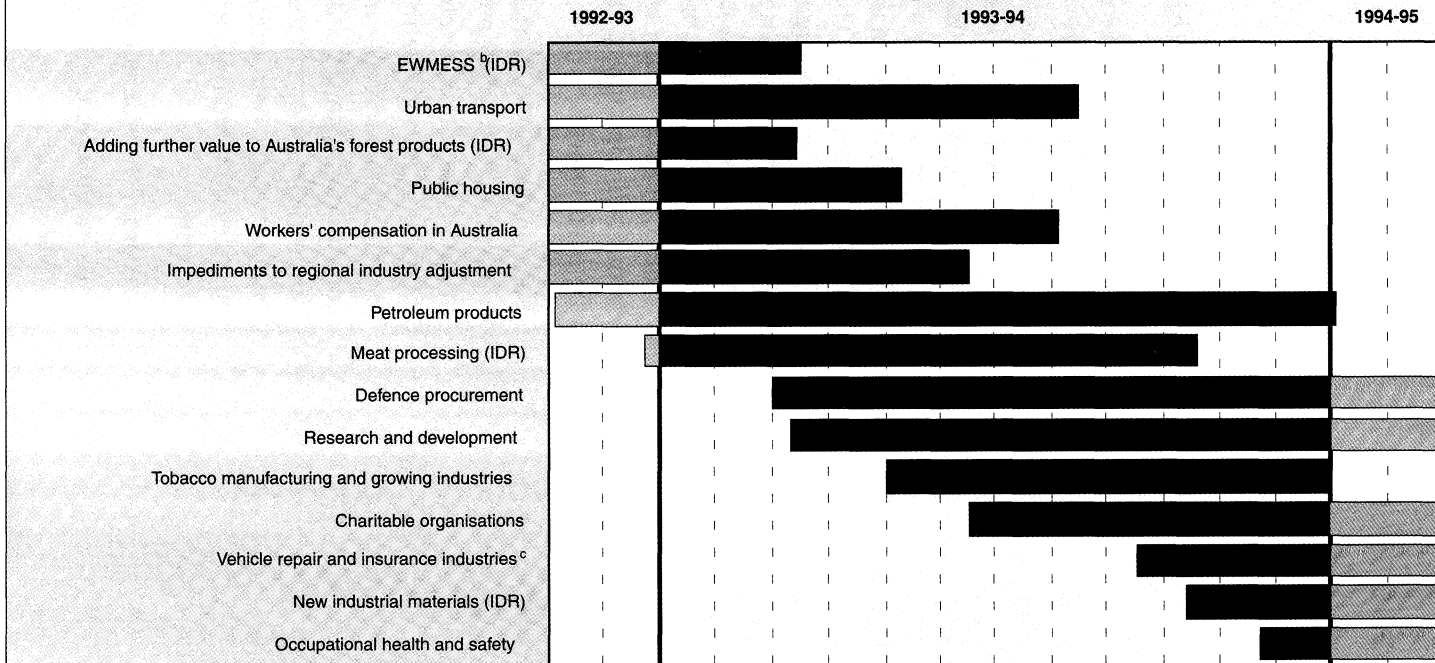
Role of the Commission

The Commonwealth Government established the Industry Commission in 1990 as its review and advisory body on industry matters. It envisaged that the Commission would be a catalyst for structural reform in the Australian economy. The ambit of Commission investigations is wide — encompassing agriculture, mining, manufacturing and services — and covers broad issues that affect many industries, labour and community groups and the environment.

The Commission's principal function is to conduct public inquiries into matters referred to it by the Commonwealth Government (and increasingly in consultation with the States and Territories). In conducting its inquiries, the Commission operates on three fundamental precepts:

- it provides independent advice;
- its inquiries are open and public; and

Figure 3.1
The Commission's 1993-94 inquiry program^a



a An inquiry commences when the terms of reference are received and is completed when the final report is signed.

b Environmental waste management equipment, systems and services.

c Vehicle and recreational marine craft repair and insurance industries.

IDR Industry development reference.

- it approaches industry policy issues from the perspective of the community as a whole — rather than the interests of any particular industry or group (IC 1993d).

The Commission also has a general reporting function. The *Industry Commission Act 1989* requires the Commission to report annually on the performance of Australian industry; and on developments in industry assistance and regulations.

The Government has called on the Commission to participate in broader aspects of structural reform through advice on regulation, performance monitoring and technical inputs to other agencies and inquiries (see below).

As structural reform inevitably broadens to embrace a wider range of issues in social as well as economic fields, the Commission finds that it has a role to play in explaining to a wider cross-section of the community the potential net gains from structural reforms.

As an advisory body, the Commission has no powers to directly alter or implement government policy. Its influence on policy comes through providing information, analysis,

advice and commentary in a transparent way.

Inquiry program

During 1993–94, the Commission completed eight inquiries and commenced another seven (Figure 3.1). The program covered manufacturing (mainly industry development references), as well as a number of complex and far-reaching inquiries in areas of economic infrastructure (Urban transport, Impediments to regional industry adjustment (IRIA), Petroleum products, Research and development), and social infrastructure (Public housing, Workers' compensation and Charitable organisations).

The inquiries completed covered a range of reform and industry policy issues, including:

- competition and pricing reform (Urban transport);
- better targetted social policies (Box 3.1);
- regional adjustment (IRIA, Tobacco);
- intergovernmental relations (Environmental waste management equipment, systems and services (EWMESS), Public housing, IRIA, Workers' compensation);

- regulatory issues (EWMESS, Workers' compensation, Meat processing);
- environmental considerations (Box 3.2); and
- policy co-ordination and accountability (Urban transport, Public housing,

IRIA, Meat processing).

A summary of major findings and recommendations is presented in Appendix O.

The broad nature of the Commission's work is also reflected in the forward inquiry program (Box 3.3).

Box 3.1

Social issues and the inquiry program

The Commission's 1993–94 inquiries covered a number of social issues, either as the major theme or in assessing the effects of recommendations.

Public Housing (IC 1993g) dealt with the important social issue of providing adequate housing for Australians. It highlighted the need for reform in the provision of social infrastructure, and in particular, the ways in which governments can deliver public housing and rental assistance more efficiently and effectively. Areas targetted for reform included the Commonwealth-State Housing Agreement, public provision of housing, and housing for Aboriginal and Torres Strait Islander people. The report's findings confirm that provision of public housing is a cost effective way to meet government housing objectives. But people have a variety of housing needs. In addition to public housing, the appropriate mix of assistance measures is likely to include rent assistance, community (including co-operative) housing, and headleasing — that is, the leasing of a property by a housing authority or community group for on-leasing to a tenant.

Workers' Compensation in Australia (IC 1994a) was another Commission inquiry where the major focus was on improving the efficiency of the provision of social infrastructure. In this instance, attention was given to prevention, compensation, rehabilitation and return to work, interaction with other government programs and superannuation and insurance regulation. The Commission recommended that a nationally agreed compensation package be developed for those suffering work-related injury and illness and the establishment of a nationally available workers' compensation scheme.

The inquiry into *Impediments to Regional Industry Adjustment* (IC 1993h) addressed the pervasive pressures for change on the regions of Australia. Labour adjustment issues were a particular focus of the report. The Commission stressed the importance of the social security system as a safety net for the unemployed. However, it identified the interaction of the social security and taxation systems as having adverse consequences for regional labour adjustment.

Government decisions

Final responsibility for accepting, modifying or rejecting Industry Commission recommendations and implementing policy lies with the Commonwealth, State and Territory governments, as appropriate. Commonwealth

Government responses to recent Commission reports are presented in Appendix O.

During 1993–94, the Commonwealth Government introduced new procedures for handling Commission reports. A target of eight weeks has been set for the

Box 3.1 (continued)

The *Meat Processing* inquiry (IC 1994c) found that the industry has been disadvantaged by a poor industrial relations climate and a poor occupational health and safety (OH&S) record. The industry has one of the worst records for OH&S claims and the annual cost of claims has been estimated at up to \$300 million. There has been a gradual decline in the number of injuries reported since 1990. However, the costs of workers' compensation have not shown a corresponding decline, mainly due to the long-term nature of many of the claims. A common theme among companies which have reduced their workers' compensation costs was a commitment to OH&S from management level. The impact of improved management and administrative procedures was found to be greater than increased investment in technology.

Urban Transport (IC 1994b) found that there is a need for better targeting of social policies to those who are judged to be disadvantaged in their access to transport services. Specifically, the incremental costs of this form of assistance should be funded directly by taxpayers from general revenue, rather than from other transport users. Among the more important reforms recommended by the Commission for people with disabilities are the opening up of the taxi industry (resulting in lower fares) and the development of community and scheduled public transport services that should flow from reduced regulation in these areas.

The tobacco industry is in decline in Australia. The majority of production is now concentrated in the Mareeba-Dimbulah (Queensland) and Myrtleford (Victoria) regions. In *The Tobacco Manufacturing and Growing Industries* (IC 1994e), the Commission found that this industry concentration in small localised areas adds to the adjustment pressure on growers and their communities. This is particularly so if there are no other industries capable of offsetting the increase in unemployment and reduction in income from tobacco growing. This regional dimension of the adjustment task requires, and is receiving, immediate attention.

period between receipt of an IC report and its public release. The Government issues a statement with the report release, outlining acceptance or otherwise of findings and recommendations and procedures for follow-up action or consideration.

Many of the Commission's inquiries involve matters of State and Territory responsibility. Some recommendations can be left to individual governments to consider, while others requiring a co-operative intergovernmental approach are often referred to a

Box 3.2

Environmental issues and the inquiry program

In *Environmental Waste Management Equipment, Systems and Services* (IC 1993f) the Commission found that government environmental policy instruments and enforcement procedures, while targetted at the achievement of environmental objectives, also have significant repercussions on demand for waste management, equipment, systems and services. Government can meet environmental objectives more efficiently by continuing to rationalise government agencies responsible for environmental functions; continuing to rationalise governmental environmental controls to reduce the complexity and overlaps which currently exist; placing greater reliance on outcome-oriented regulations; using economic instruments where practical; and paying more attention to effective monitoring and enforcement.

In *Urban Transport* (IC 1994b) the Commission found that both private and public transport have the scope to reduce the environmental impacts associated with travel. Emission standards for new motor vehicles are helping to ameliorate air pollution in Australian cities and should continue to do so. A system of emission testing of motor vehicles, with penalties for 'dirty' vehicles, should be introduced in the larger cities with the most severe air quality problems. Environmental quality will be enhanced by giving higher priority to pedestrians and cyclists in transport planning. Road user charges will promote car pooling, help reduce unnecessary travel and encourage more travel by public transport.

In *Adding Further Value to Australia's Forest Products* (IC 1993e), the Commission found that export controls on logs and woodchips restrict export market development opportunities. Perhaps more importantly, they also undermine the viability of other wood-processing activities by reducing the cost savings available from integrated logging and processing operations. Some perceive the export controls as a means of pursuing environmental objectives. However, environmental objectives are more efficiently addressed by measures which impinge on all logging operations (eg codes of logging practice), not just logging operations associated with the production of logs and woodchips destined for export markets.

forum such as a Ministerial Council for consideration. For example, some outstanding matters relating to the forestry inquiry have been referred to the Australian Forestry Council. Similarly, workers' compensation issues are being considered by the Labour Ministers' Council and the Council of Australian Governments (Appendix O).

General reporting and research

As indicated above, the Commission's non-inquiry functions include general reporting, regulation review, performance monitoring, technical research support and inputs to inquiries by other bodies.

Box 3.3

The IC forward inquiry program

Each year, the Government announces a forward inquiry program to signal future areas for review and to give the Commission and interested parties advance warning and opportunity for planning and preparation.

The Assistant Treasurer announced the 1993–1995 program in December 1993. The inquiries on the forward list that have not already commenced are as follows. Industry development references (IDRs) are separately identified.

- Private sector involvement in infrastructure
- Contracting out in public sector agencies
- Computer hardware and software (IDR)
- Sustainable land management
- Strategies for improving Australian business management
- Telecommunications systems, equipment and services
- Rail reform
- Tourism accommodation and training (IDR)
- Impediments to local industry supplying goods & services to the resources industry
- Transformation of metals (IDR)
- Biotechnology (IDR)
- Medical and scientific equipment (IDR)
- Uniquely Australian products (IDR)
- Packaging and printing industries
- Implications for firms locating offshore
- Pharmaceutical industry (IDR)
- Ecotourism (IDR)

General reporting

The annual report is the Commission's main vehicle for assessing policy matters affecting microeconomic performance and for publishing the results of much of its research.

The Commission has statutory obligations to report on regulation (Appendix G) and assistance (Appendices H to L).

Another statutory obligation is to report annually on the performance of Australian industry. The Commission will be releasing a separate report on the performance of Australian industry (IC 1994g).

From time to time, the Commission also releases information and discussion papers related to industry policy and structural reform issues. In 1993–94, it published an information paper on improving the efficiency of government business enterprises (IC 1994d). A paper on developments in regulation and its review was also published by the Office of Regulation Review (1993).

Regulation review

The Office of Regulation Review (ORR), within the Industry Commission, undertakes many of

the Commission's regulatory review functions.

During 1993–94, the ORR provided advice to the Structural Adjustment and Trade Committee of Cabinet on major regulatory matters, assisted in the analysis of regulatory conditions in those sectors under review in the Commission's inquiry program, and published an overview of trends in Commonwealth and national regulation.

The ORR also contributed to the development of:

- national guidelines for regulatory standard setting and assessment for consideration at the August 1994 COAG meeting; and
- a checklist of regulation assessment factors, soon to be published by the OECD.

In its *Working Nation* policy statement (Keating 1994c), the Commonwealth Government announced a package of measures to address business regulation, some of which involve the ORR (Chapter 1 and Appendix G).

Performance monitoring — GTEs

The Commission provides the secretariat and undertakes some of the research for the Steering

Committee on National Performance Monitoring of Government Trading Enterprises. The Steering Committee was established at the July 1991 Special Premiers' Conference to develop and implement comprehensive performance monitoring of government trading enterprises (GTEs).

Typically, GTEs operate in sectors where there is little competition in either output or input markets. Therefore, an information base providing an appropriate set of performance indicators is a useful tool for promoting 'yardstick competition' to improve efficiency.

The Steering Committee released its second report in July 1994 (SCGTE 1994b). Better comparability of data across GTEs was achieved through definitional improvements to some indicators. The performance of 56 GTEs from 1987-88 to 1992-93 was reported, concentrating on a range of financial and non-financial indicators measuring efficiency, effectiveness and service quality.

The secretariat prepared a publication on the estimation and interpretation of total factor productivity. This was released by the Steering Committee in 1992 (SCGTE 1992). The

Steering Committee also addressed definitional, costing and funding issues in relation to community service obligations in a report released in April 1994 (SCGTE 1994a).

Refinements to performance monitoring are expected to focus on indicators based on asset values and improving the consistency of industry-specific technical indicators.

Performance monitoring — government service provision

The July 1993 Premiers' Conference established a Steering Committee for the Review of Commonwealth and State Service Provision. The Commonwealth, each State and Territory, and local government are represented on the Committee. As with the GTE performance monitoring, the Steering Committee is chaired by the Chairperson of the Industry Commission and the Commission provides the secretariat and a research capability.

The Review has two objectives:

- to publish an agreed set of national performance indicators on the efficiency and effectiveness of service provision programs; and

- to identify and analyse service provision reforms by Commonwealth and State governments.

The Review will span all government services. Initial work has commenced in the areas of schools, vocational training, hospitals, community services, public housing, police, courts and corrective services.

Design of the indicators to be used in each area is being determined by a specialist working group that includes relevant departmental representatives from each jurisdiction. The working groups met during 1993–94 to discuss appropriate measures of performance and establish a work program for completing their initial reports. The Steering Committee will review these reports before submitting them to Heads of Government for consideration. The Steering Committee aims to publish its first report in late 1995.

Technical research support

Modelling

During the year, the Commission made use of three general equilibrium models in its research and inquiry work.

- ORANI continues to be an important element of the

Commission's efforts. It has the capacity to analyse the economy-wide impacts of microeconomic change. This model was used to analyse the effects of altering the taxation arrangements for petroleum products, and of making changes to the composition and sources of Australia's defence procurement.

- The Commission used Monash-MR, a multi-sectoral, multi-regional model of each State and Territory economy in Australia. It was employed to help examine regional impacts of several defence procurement initiatives.
- Salter, a multi-sectoral, multi-country model of world trade, was used to assess the likely impact of international economic developments on the Australian economy.

The Commission is enhancing ORANI to incorporate several features of research and development activity for use in the Commission's inquiry into research and development.

The Commonwealth Government (through the Commission) supports the development of computable economy-wide models by the IMPACT Project Research Centre and the Centre of Policy Studies at Monash

University. The Monash model will be a significant further development of the ORANI framework. It is designed to capture the evolution of the economy over time and the effect of economic decisions on the environment.

The Commission's modelling capability will be drawn upon in assessing the benefits to economic growth and revenue from Hilmer and related reforms for the next COAG meeting (Chapter 1).

Assistance evaluation

The Commission continued to monitor and measure assistance to the manufacturing and agricultural sectors. Estimates are presented in Appendix L. This work has been complemented by assessments of assistance to exports (Appendix I), budgetary outlays to industry (Appendix J), and anti-dumping activity (Appendix K).

Several Commission inquiries during 1993–94 called on assistance evaluation techniques (Petroleum products, Defence procurement and Tobacco).

The Commission has also provided technical assistance to the following agencies:

- the Development Allowance Authority on assistance

measures relevant to investment projects;

- the Department of Foreign Affairs and Trade for input to the GATT Trade Policy Review Mechanism report on Australia; and
- the OECD for its project on Indicators of Government Assistance.

Other inquiries

During 1993–94, the Commission made submissions to the following inquiries:

- the Joint Committee of Public Accounts inquiry into the Commercialisation of public sector operations;
- the Joint Committee of Public Accounts inquiry into Research and development (on environmental issues);
- the Senate Select Committee on Certain aspects of foreign ownership decisions in relation to the print media; and
- the National Transport Reform Task Force.

The Government requested the Commission's Chairperson, Bill Scales to head an independent committee of inquiry into the Wine grape and wine industry. The committee will draw on secretariat support from IC staff

and, as necessary, other Commonwealth agencies. It is required to report to the Government by 30 June 1995.

Corporate perspectives

Box 3.4 provides a snapshot of the Commission and its operations during 1993–94. Appendices M and N have the details.

The year saw a shift in the balance of the Commission's operations between Canberra and Melbourne. The focus of management has been on strategies for maintaining quality and output while handling transitional staffing issues.

The Commission also maintained its commitment to corporate and government objectives in such areas as social justice and equity; and internal and external scrutiny.

Managing the move to Melbourne

Last year's *Annual Report* (IC 1993d) outlined the Government's decision to relocate about two-thirds of the Commission's staff from Canberra to Melbourne. In 1993–94, the Commission's main concern was to ensure that the output and quality of the

Commission's work was not compromised during the transition. It did this mainly by focussing on staffing matters — building up numbers in the new Melbourne head office, whilst adjusting to a smaller Canberra office, and providing new recruits with training and support.

All staff were encouraged to consider relocation to Melbourne. Support measures included familiarisation visits, Melbourne information sessions and access to independent assistance in decision-making.

Melbourne head office

The Commission moved from its temporary office to its permanent accommodation in central Melbourne in December 1993.

As at 30 June 1993, the Melbourne office comprised 40 people mainly undertaking inquiry work. Twelve months later, numbers had grown to 120 undertaking inquiry, research and corporate support activities. Of the 120 staff, 91 were newly recruited, the balance relocating from Canberra.

A range of measures was employed to handle the influx of new staff, including extensive training and development programs, secondments of staff

from other organisations, use of consultants and significant interaction between members of the two offices.

The target staffing level of around 155 for the Melbourne office should be attained during the 1994–95 financial year.

Box 3.4

Industry Commission at a glance

Inquiries	1992–93	1993–94
References received	8	7 ^a
Industry visits	360	660
Inquiry participants (submissions received)	890	1 494
Public hearings (sitting days)	96	145
Reports completed	7	8
Structure^b	30 June 1993	30 June 1994
Commissioners	8 (3)	8 (4)
Associate Commissioners ^c	6	8
Senior Executive Service (operative)	18 (3)	16 (7)
Other staff (operative)	212 (37)	220 (107)
Inoperative staff ^d	37 (0)	40 (6)
Expenditure	1992–93	1993–94
	(\$m)	(\$m)
Salaries and allowances		
Holders of Public Office ^e	0.7	1.0
Senior Executive Service	1.4	1.4
Other staff	7.8	8.4
Administrative expenses		
Inquiry (non-salary) expenditure	1.0	1.7
Other	2.8	2.7
Property operating expenditure	2.0	1.7
Melbourne relocation costs	2.5	7.5
External economy-wide modelling projects	0.3	0.6
Total expenditure	18.5	24.9

a Does not include the Commission's input to the Committee of inquiry into the Wine grape and wine industry.

b Numbers in brackets refer to the Melbourne Office.

c Includes one full-time Associate Commissioner.

d On authorised leave for more than 12 weeks.

e Commissioners plus Associate Commissioners.

Canberra office

Canberra staff numbers declined from 227 at the start of the 1993–94 financial year to 156 at the end. The reduction comprised staff who elected to transfer to Melbourne, those who obtained positions elsewhere, and those who retired.

The Canberra staff target of around 80 should be reached by around the end of 1995.

The movement of staff since 13 May 1992 (the announcement date of the relocation) has been as follows:

- 65 have been absorbed into the permanent Canberra office structure;
- 29 have transferred to Melbourne;
- 86 have found positions elsewhere, retired or resigned; and
- 16 have taken voluntary redundancy packages.

As at 30 June 1994, 58 staff not placed in the Canberra office were still to be relocated, redeployed or retired. Staff who decided not to relocate are being given every possible assistance to find alternative employment.

Social justice and equity

The Commission promotes the Government's social justice and equity goals through broad consultation and by encouraging community participation in its public inquiry processes. In this way, all concerned have the opportunity to influence the Commission's policy advice to government.

Broad community consultation and participation also helps to bolster the Commission's assessment of the social consequences of its policy recommendations.

The Commission finalised its equal employment opportunity (EEO) plan for the 1993–96 period. EEO awareness was formalised in selection criteria for staff positions at the Commission. There were no significant changes in representation of EEO groups in Commission staffing compared to the previous year.

Internal and external scrutiny

Internal scrutiny

The relocation of corporate services to Melbourne made it timely to review the provision of these services, particularly in view of the need to operate in a two-office structure.

One outcome of the review was that several internal user groups were established to help identify the types and standards of services required in the two offices. In addition, a number of corporate services are to be benchmarked against external (best practice) organisations to engender a culture of continuous improvement.

A consultancy was let early in 1994 to review the effectiveness of the Commission's external communications and, in particular, how well it communicates the results of its inquiries and research work to interested parties and the community generally. The recommendations are currently being implemented.

External scrutiny

Transparency — making information and advice available for public scrutiny in a visible and comprehensible way — is a cornerstone of Commission inquiries. While the inquiries themselves bring some transparency to government policy making, transparency in the Commission's own procedures help to ensure that the Commission takes into account all relevant information and views, and its reasoning is sound and clear.

The Commission makes a draft report available for public scrutiny and comment before finalising its report on individual inquiries. Material submitted to the Commission is available to the public, as are transcripts of public hearings and other forums.

Other management issues

The Commission places considerable emphasis on occupational health and safety (OH&S). It has an internal OH&S committee responsible for raising awareness about safety in the workplace. An OH&S audit is to be undertaken for both the Canberra and Melbourne offices. The Commission's insurance premium for workers' compensation of 0.79 per cent of wages and salaries compares with the average premium of 1.4 per cent for the group in which the Commission is classified.

During the year, the Commission's Consultative Council, which brings together management, staff and union representatives, met four times. The Council is the formal expression of industrial democracy within the Commission.

Performance of the Commission

Because it is a review and advisory body, the Commission has few objective output or outcome indicators upon which to assess its inquiry performance (Appendix M). For example, failure to accept Commission recommendations in the short term may reflect political priorities, rather than necessarily the appropriateness of the Commission's advice. Often advice may not bear fruit for a number of years.

Appendix O provides some information on Commission inquiry outputs and outcomes. It contains summaries of the findings and recommendations from Commission reports and Government responses to those reports.

As outlined above, there has been increasing demand for the Commission's involvement in non-inquiry areas such as regulation review, the provision of technical support to other agencies and the provision of secretariat support to governments in performance monitoring. But again, it is difficult to measure the impact of these other areas of Commission work on reform outcomes.

During 1993–94, the Commission sought to achieve better outcomes from its work by improving inquiry procedures, and extending contacts with other agencies and ensuring that its role and messages are more widely understood.

Inquiry procedures

Public participation in Commission inquiries helps to ensure that all relevant views and interests are taken into account in formulating advice to governments. It gives everyone the opportunity to have their say.

The Commission has been seeking to promote greater and more effective participation through a range of formal and informal means. The aim is to enhance the quality of information and advice made available to government and the community generally. Box 3.4 gives a brief indication of the growing engagement in Commission inquiries (see also Appendix M).

Public hearings have been supplemented by other formats including workshops (Urban transport, Research and development, Charitable organisations, Meat processing), public forums (Meat processing) and roundtables (Research and development) that allow exchange of

views on particular issues and among key parties. Public hearings have been held as far as is appropriate in all State and Territory capitals and regional centres (eg Public housing, Impediments to regional industry adjustment and Tobacco).

Several Commission inquiries have attracted great interest from broad cross-sections of the community. For example, over 1600 individuals and organisations registered as interested parties in the Charitable organisations inquiry and some 450 pre-draft report submissions were received from peak groups, 'grass-roots' organisations (large and small), government agencies and individuals.

The Commission consults with all parties known to have a direct interest in an inquiry, including producers, users and government administrators. International bases for comparison have been established through overseas visits (EWMESS, Urban Transport, Defence procurement, Research and development, and Charitable organisations).

While these procedures have taken more time and resources, they help to enhance the quality of the Commission's output.

Communications and liaison

The Commission has taken steps to ensure that its role, processes and the outcomes of its inquiries and research are more widely known and understood. This is especially important as the inquiries move into new areas in which interested parties may have less familiarity with the Commission's role and approach.

The Commission consults and liaises extensively with a wide range of groups and individuals in the context of its inquiries and research projects. For example, State and Territory governments, other key stakeholders and the media have been briefed on the content of draft reports. Contacts of a more general nature are outlined below.

States and Territories

Over the past few years, the Commission has made efforts to enhance both the nature and extent of contact with the States and Territories. With many of the Commission's inquiries increasingly focussed on State issues, the Commission has promoted improved communication with individual governments, principally through regular rounds of consultation with Premiers, Chief Ministers and senior departmental officials.

Workshops, bringing together State and Territory officials and IC Commissioners and staff, were held in December 1993 and June 1994 to discuss procedural and other issues of mutual interest.

Commonwealth agencies

The Commission sought to improve the co-ordination of its work with other agencies. At the Commonwealth level, regular contact is maintained with Treasury (on IC matters), Department of Finance, Department of Industry, Science and Technology, Department of Foreign Affairs and Trade, research bureaux (Australian Bureau of Agricultural and Resource Economics, Bureau of Industry Economics, and Bureau of Transport and Communication Economics) and other agencies (Economic Planning and Advisory Council, Trade Practices Commission and Prices Surveillance Authority). The principal purpose is to foster mutual awareness of respective activities and help avoid any unnecessary duplication.

The Commission has also taken steps to better co-ordinate and develop its information requirements with the Australian Bureau of Statistics.

Parliament

In addition to formal submissions referred to above, the Commission has briefed the Joint Committee of Public Accounts on the nature of its performance monitoring of service providers.

The Chairperson has also addressed the Labor Caucus Economics Committee and has briefed individual parliamentarians when requested.

Other

The Commission maintains contacts with many overseas agencies. During the year, the Commission provided information to the OECD and the International Monetary Fund as part of their policy reviews of Australia. The Commission received delegations from several countries with an interest in transparency institutions and structural reform (including Norway, France, People's Republic of China, South Africa and Pakistan). The Commission also promoted contact and co-operation with overseas research institutions.

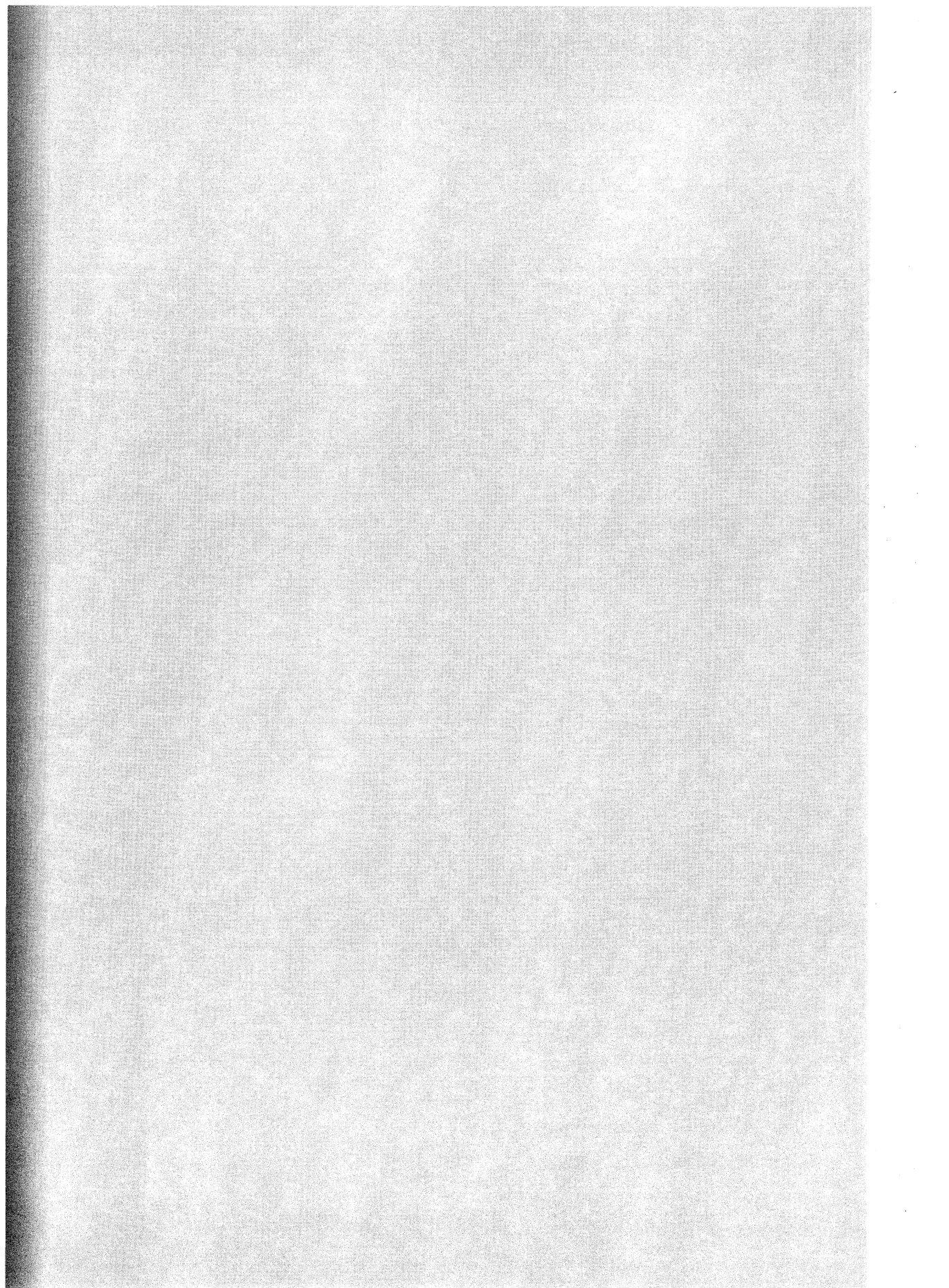
On the domestic front, the Commission attempted to promote broader understanding of its role and activities and the importance to the community of

improving Australia's micro-economic performance. Activities included speeches, conferences, and consultations involving business, unions and community groups.

During 1993–94, the Commission commenced production of two regular publications — the *Compendium of Reports* and the *IC Bulletin* to inform a wider audience and provide ready access to the range of the Commission's work.

Federalism and Australia's economic performance

- A Federalism and national infrastructure development
- B Efficiency and equity in State and Territory taxation and Australia's economic performance
- C Effects of specific purpose payments on State budget flexibility



Appendix A

Federalism and national infrastructure development

The federal structure of government can be a barrier to the development of integrated infrastructure networks. Intergovernmental agreements have helped to integrate State and Territory systems and create broader networks in the electricity, gas, rail freight, and water industries. This appendix outlines some of the main issues and problems which arise in making the transition from separate State infrastructure systems to national or interstate networks. It examines the problems of co-ordination between jurisdictions that arise in attempts to improve Australia's productivity by establishing national infrastructure networks. It illustrates these issues and problems with particular reference to the electricity supply industry.

Australia's economic infrastructure involves both national and regional networks. Postal, telecommunications, and air services operate on national networks, whereas at least historically, electricity, gas, and rail have run on separate regional — usually State-based — networks.

National networks in areas such as postal services were established early in Australia's development because of the obvious interstate network requirements. Other networks developed on separate State lines for geographical and technical reasons (eg loss of energy in transmitting electricity over long distances) and parochial reasons (eg maintaining State control over interstate rail movements).

With the growth of national and international markets, national networks have become increasingly important to facilitate the efficient production and distribution of goods and services between States and regions and to reduce the costs of Australian firms.

Whatever the historical reasons for the development of separate networks, the process of integrating them into interstate and national networks is fraught with difficulty, requiring a high degree of co-ordination and co-operation between different governments.

This appendix reviews the main issues in formation of interstate infrastructure networks. It does so with particular reference to the formation of a national electricity grid. The focus, however, is on the issues to be resolved through co-operation between jurisdictions. It does not attempt a comprehensive review of progress in establishing the national electricity grid.

Problems in developing national infrastructure

Where it is considered appropriate to form an interstate or national network, a number of intergovernmental issues must be addressed:

- narrow regional perspectives;
- ensuring that governments introduce compatible reforms in their jurisdictions;
- gaining agreement between governments over the property rights to an interstate or national network;
- establishing the operating environment to allow the benefits of integration to flow; and
- transition arrangements (where necessary) to allow appropriate experience to develop and arrangements to be put into place.

Overcoming narrow regional perspectives

Overcoming the tendency of governments to focus on their own interests at the expense of broader concerns is central to the reform process. There is a tendency for individual governments to focus on the direct cost associated with reform, such as loss of revenue or lower employment in their instrumentalities, without taking into account the nationwide benefits that flow from reform and even indirect benefits that may accrue in their jurisdictions.

Competition between States within national infrastructure networks creates the opportunity for supply to be sourced from lowest cost producers, resulting in an increase in production and employment in some States and a decrease in others. Finding some way of dealing with separate State interests is fundamental to establishing truly national networks.

In the case of the formation of the interstate electricity grid, some States have been concerned that in a competitive electricity market, they would lose market share and hence revenue. For example, it has been claimed that the South Australian electricity supply industry could not compete with NSW and Victoria in a deregulated environment. The South Australian Government is currently

reviewing its electricity supply industry with a view to structural reform consistent with the national model.

Compatible reforms

The development of national networks necessitates compatible reforms across jurisdictions on a number of matters, varying from administrative reform (including corporatisation) to major structural reform and privatisation. Compatible structural reform is a major challenge. The potential benefits of national networks may be reduced if governments cannot agree on the extent of vertical separation. Structural reform — vertically separating infrastructure systems into competitive and natural monopoly elements — can facilitate greater competition and improvements in efficiency.

In most infrastructure industries, the owner of the network is also the provider of the service. For example, most railways own the track as well as operate the trains and, historically, electricity generators have owned the transmission and distribution networks. The case for separate management of network and services rests primarily on the proposition that the provision of services is less of a natural monopoly than the provision of the basic network, so that separation holds the promise of introducing or expanding competition.

The more important competition is to the efficiency of a national network, the more vital it is that the network is separated from service provision. In the electricity industry, where a high level of competition in generation and (less so) distribution is beneficial, there is great emphasis on vertically separating transmission from generation and distribution. However, in the rail industry, where introducing competition is initially less important than streamlining the network, vertical separation has not been a priority.

Electricity

The separation of generation, transmission, and distribution functions in electricity has been a contentious issue. In NSW, after initial resistance from Pacific Power, the government established a transmission company in July 1994 as a subsidiary to Pacific Power and a wholly independent transmission organisation is expected to be established in early 1995. There will be a review of the structure of NSW generation prior to July 1995.

The Victorian Government has moved faster in reform, with generation, transmission, and distribution vertically separated in October 1993. A competitive market will apply in Victoria from October 1994, with five distribution organisations, a grid company, a wholesale market company, and a generation holding company under which individual generators will act

independently. Under a pooling arrangement, distribution retailers and large customers will be given the opportunity to purchase electricity direct from a competitive generation market.

In Queensland, the generation sector is to be separated from transmission and distribution in early 1995. The transmission and distribution functions are to rest with legally separate subsidiaries. It is intended that there will be scope for competition in generation, including from new entrants, subject only to technical licensing requirements.

Reviews of the State electricity industries in both Tasmania and South Australia are now under way with a view to structural reform consistent with the national model (COAG 1994b, pp.4–8)

Defining network property rights

A major issue in developing interstate networks is whether essential network assets should be owned and/or controlled by a separate national or interstate body. Under the State-based electricity and rail networks, each State owned and controlled a significant amount of infrastructure. They can be reluctant to hand over ownership or responsibility to a national body. For example, the formation of a national rail network incurred problems relating to the transfer of assets and responsibility from the State authorities to the National Rail Corporation (NR). In particular, there has been some reluctance to provide clear control of the track to the NR. Also, there is a possibility of the NR having to lease track rather than being granted title and having to pay stamp duty and other government charges on assets transferred or subject to long-term lease.

In the case of the planned national electricity grid, questions have been raised as to whether national ownership is necessary for the attainment of a competitive market. The States argue that they should retain ownership of the grid, and cooperatively manage it. However, the Commonwealth has argued that this arrangement would constrain competition, as conflicts of interest would arise (NGMC, 1993e, p.24). COAG decided at its June 1993 meeting that the Multiple Network Corporation structural option would be taken. This is where the grid is owned by State or regionally-based government corporations (COAG 1993, p.2)

Establishing the operating environment

Even if all the pre-conditions for establishing a national network have been fulfilled, there is still a need to ensure that the operating environment is compatible between jurisdictions.

The development of effective competition is central to the operation of a national network. For effective competition to prevail, agreement on access arrangements, pricing, and appropriate regulations must be reached.

- Access and pricing arrangements

For it to be effective, there must be non-discriminatory access to the network at appropriate prices. If the access price is too high, it acts as a barrier to entry, reducing the scope for effective competition. If the access price is too low, an artificially high level of new entrants will be subsidised by the incumbent firms.

Under the draft NGMC protocol, all generators of 30MW and greater will be able to negotiate access to the network to contract directly with customers and/or use other trading mechanisms. Customers of at least 10MW demand (ie distributors and large industrial users) will be able to trade directly with generators, and enter into arrangements where the cost of transmission can be separately identified from the cost of electricity. Thus, both generators and customers may gain access to the major utility networks directly or through their local distribution networks, depending on the most economic arrangement (NGMC 1992, p.1).

Under the proposed NGMC pricing arrangements, an attempt is made to ensure that network prices are determined according to a common method throughout the national electricity market. However, in view of the complexity of calculating the value of network services used by individual householders and small customers, COAG has noted that distribution system pricing could be calculated using a greater degree of averaging than that required for larger consumers (COAG 1994b, p.7).

- Regulatory arrangements

An important function of regulation is to ensure that all market participants compete on a fair basis. For effective competition to prevail, new private entrants must be able to compete on a fair basis with the existing State authorities. Regulation is needed to ensure that effective competition is not constrained by monopoly elements, to facilitate non-discriminatory access, and to make sure that all parties can access the grid on equal terms.

There has been extensive debate about the appropriate regulation of the natural monopoly elements as an industry moves to national networks. State-based regulatory authorities have been operating under different arrangements and procedures. A national network requires a national or co-ordinated regulatory regime.

Electricity

A national system of regulation is required to ensure effective competition, while not disrupting the operation of the national grid. At its February 1994 meeting, COAG approved a regulatory package which is consistent with the Hilmer Report recommendations. It has three components:

- a national regulator for market conduct;
- a code of conduct with national regulatory oversight for network connection and access, network pricing, and market rules and operation; and
- State regulation for three areas — franchise customer pricing, environment, and safety.

COAG agreed that the code of conduct should be authorised by the Trade Practices Commission, unless the general regulation proves to be unsuccessful, in which case an industry-specific regulator would be used (COAG 1994a, pp.8–10).

The essence of this approach is for the specific regulations to be handled through industry codes of conduct, subject to the oversight of a national general regulator with an economy-wide perspective. Economic regulation, covering anti-competitive behaviour, would be handled directly by the national regulator (NGMC 1993d, p.35).

The NGMC (1993d, p.3) saw several advantages in this approach:

- it is light handed;
- it achieves consistency in the application of regulation both within the industry and with other industries in the economy;
- it is cheaper than industry-specific regulation;
- it retains a central role for the electricity industry to determine technical requirements and industry standards;
- it provides for an independent oversight of the industry with respect to monopoly pricing and market behaviour; and
- it retains State control of local policy issues.

The NGMC (1993d, pp.43–44) acknowledged that this approach may have some disadvantages:

- general regulation is susceptible to resources being diverted to other tasks, resulting in less knowledgeable operation; and
- general regulation may not respond quickly to changing needs, as it is not as close to the industry as industry-specific regulation would be.

Transition arrangements

The role of transition arrangements is to provide some certainty and opportunities for learning as the national network evolves. They aim to give network participants the experience necessary to compete effectively in a national network.

In the case of the electricity supply industry, the NGMC (1993a, p.16) stated:

The purpose of the transition process is to allow participants a reasonable opportunity to implement new structures and systems, obtain productivity improvements and acquire the necessary skills for viability in a competitive market.

The transition arrangements to apply until the start of a fully competitive electricity market by no later than 1 July 1999 are being developed by senior officials. They are to report to COAG by the end of 1994 on the timing and maturity profile of vesting contracts between generators and distributors over the transition period, taking into account State financial/budgetary impacts and the reduction in the customer market thresholds (COAG 1994b, p.8).

Appendix B

Efficiency and equity in State and Territory taxation and Australia's economic performance

Assessment of the impact of federalism on competitiveness leads inevitably to questions about finance. This appendix addresses the proposition that federalism, as practised in Australia, has left the States with a narrow, inefficient and distortionary tax base. To the extent that the proposition is well founded, Australia's competitiveness may be unnecessarily impaired.

Primarily as a result of the Constitution, High Court rulings on the division of taxing powers and the States surrendering to the Commonwealth their power to levy corporate and personal income taxes in 1942, the States have limited access to broad-based taxes. This has resulted in a pronounced fiscal imbalance between the Commonwealth and the States exemplified in the surplus of Commonwealth revenue with respect to its direct expenditure needs and the consequent deficiency of own-source revenue available to the States for their expenditures.

The States are induced to seek revenue in a manner that departs from the idealised view that taxes should be efficient, equitable and minimise administration and compliance costs. Owing to their narrowness, State taxes are higher and therefore more distortionary than would be the case if taxes with similar revenue capacity applied on a wider base. State taxes are often imposed on business inputs and can involve significant costs for firms.

A snapshot of the States' tax bases

The Commonwealth collected about 75 per cent of tax revenues by all governments but accounted for only half of government direct expenditure in 1992–93. State governments collected about 20 per cent of tax revenues but were responsible for 45 per cent of expenditures. If all revenues are included, vertical fiscal imbalance is not quite so marked — State governments collected about 26 per cent of total revenue. Nevertheless, the imbalance in Australia is far more pronounced than in other federations, being akin more to unitary nations (Walsh and Thomson 1992).

Revenue sources for each tier of government are shown in Table B1 which also highlights a separation of taxes used by each sphere of government¹.

The dominance of the Commonwealth's tax raising arises from:

- its ability to levy personal and corporate income taxes — a power it acquired in 1942 as a 'temporary' war-time measure when the States surrendered the power to levy such taxes in exchange for reimbursement grants from the Commonwealth (Smith 1992); and

Table B1
Revenue sources by government, 1992–93 (per cent)

	<i>Commonwealth</i>	<i>State</i>	<i>Local</i>
Personal income tax	47	—	—
Company income tax	15	—	—
Excises	10	—	—
Sales tax	9	—	—
Customs duties	3	—	—
Payroll tax	1 ^a	9	—
Stamp duties ^b	—	8	—
Motor vehicle taxes	—	4	—
Franchise taxes	—	5	—
Municipal rates	—	—	56
Other	5	12	4
Total taxes, fees and fines	90	38	60
Other own sources ^c	10	21	13
Total	100	59	73
Payments from Commonwealth ^d	na	41	6
Payments from State	na	na	21
Total revenue	100	100	100

a Includes fringe benefits tax.

b Includes financial institutions duties.

c Includes net operating surplus of public trading enterprises.

d Payments from the Commonwealth to States for passing on to local government recorded under 'local'.

Source: ABS Cat. nos 5506.0 and 5512.0 and Willis and Beazley (1994)

¹ This separation is more apparent than real. State franchise taxes apply to those engaged in the sale of certain goods subject to Commonwealth excises.

Table B2

State and Territory taxes, fees and fines as a proportion of total revenue from taxes, fees and fines, 1992–93 (per cent)

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>NT</i>	<i>ACT^a</i>	<i>Total^a</i>
Payroll	25.0	25.1	19.3	25.1	22.2	23.5	25.3	22.3	24.0
Franchise	13.9	13.1	11.2	16.3	18.7	18.4	28.6	14.4	14.1
Stamp duty	13.6	13.1	16.9	14.4	11.8	9.8	14.8	18.1	13.9
Vehicles	10.7	9.7	16.9	11.5	12.6	11.6	9.9	13.9	11.6
Gambling	9.0	9.3	13.6	6.5	7.7	7.7	7.1	9.9	9.4
Property ^b	7.2	10.9	9.1	7.3	4.5	7.7	–	6.9	8.2
FID	7.1	6.3	2.1	6.8	8.0	6.1	6.0	5.7	6.1
Insurance	6.9	5.4	3.1	4.3	7.2	3.9	2.7	2.5	5.6
Other	6.6	7.1	7.8	7.8	7.3	11.3	5.6	6.3	7.1
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total (\$m)	9 305	6 487	3 381	2 010	1 755	561	182	403	24 083

a Shares exclude municipal rates.

b Taxes on immovable property.

Source: Commission estimates derived from ABS Cat. no 5506.0

- High Court interpretations of the Commonwealth's power over excises which have prevented the States levying broad-based taxes on the production and sale of goods. An exception is business franchise licences². The scope for States to extend these fees is uncertain in light of the High Court's decision in December 1993 that the ACT Government's franchise tax on the sale of X-rated videos was invalid.

The contribution to State revenue of various taxes is shown in Table B2.

Payroll tax is the largest revenue raiser for the States followed by franchise fees and stamp duties. Underlying these aggregate categories are numerous taxes making a minor contribution to total revenue.

Criteria for assessing State taxes

Within a Federal framework characterised by vertical fiscal imbalance, the efficiency and the revenue raising potential of State taxes are important — and they do not necessarily complement each other. There is a consensus in the public finance literature that a tax system should be equitable, efficient and

² Franchise licence fees are effectively sales taxes but have only been implemented on goods already subject to federal excises. As such, they are not broadly based.

simple. From a revenue perspective, a tax base also should be buoyant so that revenues rise in line with economic growth. Apart from payroll tax, the States have limited access to broad-based growth taxes that provide revenue stability and buoyancy. A lack of buoyancy increases pressure to adopt more narrowly-based and inefficient taxes.

Equity

There are two broad components to equity. *Horizontal* equity ensures that those with identical taxable capacity pay identical taxes and *vertical* equity ensures that taxpayers with differing abilities to pay face appropriately different tax liabilities. It is often said that the suite of State taxes, is on the whole, regressive and inequitable. In examining the regressiveness or otherwise of any tax, the issue of who finally bears that tax is crucial. Unlike the legal incidence of a tax, which refers to who is obliged to pay, the effective incidence relates to who bears the tax after 'shifting'. Collins (1987) states:

... take the payroll tax, whose legal incidence in Australia is upon the employer of labour. The tax may be *backward shifted* on to labour (by paying wages or salaries lower than would have been the case in the absence of tax), *forward shifted* to purchasers of the firm's output (by charging prices higher than those without the tax) or *not shifted* at all (reducing profits, share values and, probably dividends).

Economic theory distinguishes between progressive and regressive taxes. Where taxes are progressive, the proportion of a person's income paid in tax rises with their income. Where they are regressive, the converse is the case. Tax paid as a proportion of income rises with income (Rosen 1992, p.278). At the point where taxes as a proportion of income remain constant — and so neither rise nor fall

Table B3
Effective incidence of State taxes

<i>Tax</i>	<i>NSW</i>	<i>Victoria</i>
Payroll tax	Proportional	Mildly regressive
Franchise taxes	Mildly regressive	Regressive
Motor taxes	Regressive	Regressive
Contracts, conveyances	Mildly regressive	Regressive
Other stamp duties	Regressive	Regressive
Gambling taxes	Uncertain	Progressive
Land tax	Mildly regressive	Mildly regressive
All State taxes	Regressive	Regressive

Source: Kerr (1993, p.73) — from NSW Tax Task Force (1988) and Nieuwenhuysen (1983)

with income — the tax is sometimes called ‘proportional’.

Apart from these definitional issues, the estimation of tax incidence is fraught with problems of measurement, and therefore any such estimates should be treated with caution. Table B3 provides some estimates of incidence from two State tax reports.

It appears that the States do not, overall, have access to, or choose not to use, particularly progressive taxes. However, gambling, payroll and land taxes perform reasonably well in terms of their distributional effects.

Importantly, equity is appropriately considered after accounting for all Commonwealth and State taxes (direct and indirect). Attainment of equity for an individual State tax may be less important where it is overlaid, or even swamped, by an essentially progressive Commonwealth tax regime. Brennan (1977) argues that the States should concentrate on horizontal equity and leave vertical equity to the Commonwealth. Therefore examining taxes in isolation from the entire tax regime can be misleading.

Efficiency

In an ideal world, taxes would not affect relative prices between goods, or production and consumption decisions unless this was a specific objective³. Moreover, under an efficient tax system, decisions about resource allocation would be based on relative rates of return that are not unduly distorted. Broad-based and uniform-rate taxes with minimal concessions reduce both the potential for resource misallocation and the incentive for people to alter their behaviour to minimise tax.

In reality, State taxes are substantially narrowed through a multiplicity of concessions, exemptions, thresholds and rates causing distortions in resource use and perverse equity results. Examples are as follows:

- Thresholds increase the complexity of the tax system and costs of administration. Narrow bases and/or disparate rates encourage people to arrange their affairs in ways they would not otherwise. These include grouping operations to attract payroll tax thresholds and landowners establishing that their land is held by a number of owners. Such behaviour increases monitoring and enforcement costs.
- Revenue forgone through erosion of the tax base leads to higher rates on the narrower base. This exacerbates any adverse efficiency effects of taxes. Reliance on taxes with high compliance costs, such as the many small taxes on financial transactions, is increased.

³ To the extent that some taxes, such as those applying to tobacco and alcohol, are aimed at correcting for adverse spillover effects, altering behaviour is the goal.

Table B4
Estimated tax expenditures in New South Wales, 1986–87

<i>Type of tax</i>	<i>Tax revenue</i>	<i>Tax expenditure</i>	<i>Potential tax revenue</i>	<i>Revenue as proportion of potential</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>%</i>
Payroll	1 724	479	2 203	78
Stamp duty	1 307	97	1 404	93
Land	346	1 886	2 232	16
Franchise taxes	382	108	490	78
Liquor & gambling	760	75	835	91
Total	4 519	2 645	7 164	63

Source: Derived from NSW Tax Task Force (1988)

- Exclusion from land taxes of owner-occupied housing produces a bias against commercial activities and renters.

From a revenue perspective, exemptions⁴ — known as tax expenditures (ie revenue forgone) — reduce a State's ability to raise revenue. Table B4 indicates revenue forgone from exemptions, but does not account for the effect on revenues of concessional or multiple rates.

The NSW Tax Task Force (1988) costed tax expenditures in that State at around \$2.6 billion — around 63 per cent of total potential revenue was collected. It is apparent that franchise, payroll and especially land taxes, which potentially have broad bases, have been circumscribed.

Administration and compliance costs

Administrative costs are borne by governments collecting taxes. For the Australian Taxation Office in 1990 these were about 1.2 per cent for personal income tax and 0.5 per cent for wholesale sales tax (Working Party on Tax Powers 1991). On that basis, Western Australia and New South Wales compare reasonably well (Table B5).

A Victorian inquiry (Nieuwenhuysen 1983) suggested that collection costs of less than 2 per cent indicated reasonable efficiency whereas costs exceeding 5 per cent called for cost reduction or abolition. The NSW Tax Task Force (1988),

⁴ Some exemptions include: payroll tax (small businesses); land taxes (farmers); franchise taxes (off-road use of diesel fuel); and gambling (bookmaker turnover).

Table B5
Costs of collecting taxes as a percentage of revenue^a

	<i>Western Australia 1989-90</i>	<i>New South Wales 1986-87</i>
Payroll tax	0.42	0.24
Franchise taxes – tobacco	0.09	0.31 ^b
– petrol	0.06	
Stamp duties	0.81	0.75
FID	0.13	
Gambling taxes	0.20	0.6 – 12.7 ^c
Land tax	3.73	2.59
Other	1.77	
Overall	0.73	

a For example, in NSW it cost \$7.52 to collect \$1 000 stamp duty revenue.

b Average for all franchise fees.

c Poker machines, 0.6; TAB, 1.2; State lotteries, 12.7.

Source: Kerr (1993) and New South Wales Tax Task Force (1988)

however, said that some taxes that suit particular circumstances, such as wealth redistribution, can involve higher costs.

Compliance costs are imposed on those required to meet the tax legislation. These are high for some State taxes. Kerr (1993) reports that bank submissions to the Western Australian Government claimed that the costs of collecting stamp duty on cheques are up to 110 per cent of the duty collected⁵. Pope et al (1993) estimated that the compliance costs of payroll tax, as a proportion of revenue collected, were around 3.6 per cent in 1989-90. Comparable estimates are 8 to 11 per cent for personal income tax, for taxpayers, plus 1.4 per cent for employers under PAYE); 11 to 24 per cent for company tax and 11 per cent for Fringe Benefits Tax. Kerr (1993, p.74), in assessing these data, suspects that “the compliance costs for most of the State taxes lie between 3.6 per cent for payroll tax and 110 per cent for stamp duty on cheques”.

Major State taxes

There is clearly scope to improve the revenue raising capacity of State taxes. But it is not apparent that State revenues can be boosted by more *efficient* taxes. Moreover, there are questions about State tax competition. For example, tax

⁵ Western Australian Government Working Group on the Reform of the Stamp Act and its Administration.

avoidance is encouraged by differential rates within and across State jurisdictions. The NSW Tax Task Force (1988) identified factors contributing to evasion and avoidance as: limited resources for collecting authorities; inadequate legislation; and poor interstate harmonisation. Addressing these concerns requires a closer look at individual State taxes.

Payroll tax (PRT)

PRT is a tax on the employment of labour with the legal incidence falling on the employer. It is the major own-source revenue for the States and it has growth potential. It is therefore the most important tax in the States' armoury, but attracts ongoing debate about its effects. Brennan (1990, p.94) for example, argues that:

The States don't *need* a new broad-based revenue instrument: they already have one in the payroll tax, and that tax could well be made to do much more revenue-raising work.

PRT rates, thresholds and revenues are shown in Table B6. While New South Wales and Tasmania levy equal rates of PRT, when exemptions and thresholds are accounted for, their effective rates of tax are quite different.

Most textbook examinations of PRT postulate a perfectly inelastic supply of labour with the tax shifting the demand curve inwards so that the price paid by employers remains unchanged and the wage received by workers falls by the amount of the tax. A perfectly elastic supply curve gives the opposite result (Rosen 1992). So, not much can be said about incidence in the absence of information about elasticities and market imperfections. Musgrave and Musgrave (1976, p.412) note that:

Markets need not operate in a competitive fashion and real world responses may differ ... If payroll taxes are increased, unions may accept an increase in the employer contribution without demanding a wage increase, but they will hardly agree to a reduction in their wage rate in order to offset an increase in the employer contribution. Firms, in turn, will not absorb the increase in their contribution in reduced profits, but will make it an occasion to raise prices.

The PRT may be shifted forward onto consumers. However, others accept that, in practice, PRT is shifted backward, but that the brunt is borne by lower wages rather than a reduced level of employment.

Reece (1990) believes that the view that PRT is a tax on employment is a myth perpetuated by self-interested businessmen. He argues that the supply of labour is little affected by wage rates, hence the effective incidence of the tax falls mainly on workers' wages. Nevertheless, according to Reece, the tax is neutral because workers do not withdraw their labour and production is not greatly affected — the only (minor) distortion occurs between people's work and leisure choices. If labour supply is more responsive to wage rates, workers at the

Table B6
Payroll tax rates and revenue by State, 1992–93

State	Rate	Tax free threshold	Revenue	Effective tax rate on payroll of:	
				\$1m	\$10 m
	%	\$' 000	\$m	%	%
New South Wales	7.0	500	2 444	3.5	6.7
Victoria	7.0	515	1 710	3.4	6.6
Queensland ^a	5.0	600	817	2.3	5.0
South Australia	6.1	438	497	3.3	5.8
Western Australia ^b	3.95–6.0	322	537	3.3	6.0
Tasmania ^c	7.0	565	137	5.1	7.0
Northern Territory ^d	5.0 or 6.0	400	75	na	na
ACT	7.0	500	91	na	na

a Queensland provides a deduction of \$1 for every \$3 of payroll expenditure over \$0.6m and less than \$2.4m.

b WA has a progressive tax, ranging from 3.95% for payrolls up to \$1.4m, to 6% for payrolls in excess of \$2.9m; and a deduction of \$1 for every \$3 of payroll expenditure over \$322 500 and less than \$1.4m.

c Tasmania offers a deduction of \$2 for every \$3 of payroll expenditure over \$565 000 and less than \$1.4m.

d NT provides a deduction of \$2 for every \$3 of payroll expenditure over \$400 000 and less than \$1m.

Source: IC (1993h)

margin, faced with lower wages, may choose leisure to work, adversely affecting production and employment.⁶

EPAC (1985) summarises the perceived deficiencies of PRT as:

- its application to payrolls rather than company income bears no natural relationship to capacity to pay;
- it discriminates against labour intensive industries and employment;
- it is inflationary; and
- it detracts from competitiveness.

EPAC (1985, p.7) points out that some of these concerns can equally be levelled at alternatives:

⁶ The NSW Tax Task Force (1988) and Nieuwenhuysen (1983) take the view that labour supply is not highly responsive to changes in real wage rates.

Superficially, sales taxes pay no regard to capacity to pay and are subject to mark-up pricing; income taxes fall on labour incomes and, under fairly general incidence assumptions, discriminate against labour intensive industries and detract from the competitiveness of Australian industries.

The EPAC study finds that PRT impacts detrimentally on the competitiveness of the traded goods sector because, to the extent that it is not passed on to employers and consumers, it increases the price at which Australian producers can compete against those overseas. This was said to also arise if PRT was replaced by increases in company or personal income tax. However, it notes that any cost disadvantage from PRT would be small because the overall burden is light and many companies are exempt. In terms of inflationary effects, EPAC (p.13) finds that changes to PRT would have a one-off effect. It concludes that “the economic consequences of a PRT may not be as severe as is widely believed”.

Chapman and Vincent (1986) have reservations about the EPAC study, because it did not account for individual industry burdens of PRT. They estimate that for many industries, PRT accounts for nearly 5 per cent of labour costs, whereas a number of other industries averaged zero.

Chapman and Vincent conclude that the largest *direct* effects on employment from PRT would be in industries with little market power over the product and where there is a large female and secondary labour force. These activities will have a maximum downward shifting of the labour demand curve confronting an elastic labour supply curve. On the other hand, male-employee dominated industries endowed with significant market power would probably show the direct effects of PRT confined to wages rather than employment, *if wages are market determined* (p.131).

If labour markets are not clearing because of minimum wage constraints, even in the absence of PRT, then all of the direct effects of the tax will be on employment, with wages as a cost being reduced by the amount of the tax when it is removed and wages as a rate of pay left unchanged.

The importance of revenue neutrality to PRT reform

Chapman and Vincent (1987) provide an inter-industry analysis of the effects of removing PRT by estimating the share of labour costs attributable to PRT for 110 industries and simulating its removal using the ORANI model. The major assumptions include: alternative taxes or government expenditure cuts ensure no change in the public sector borrowing requirement; the balance of trade does not change; and pre-tax wage rates do not change.

The results indicate that, if the alternative tax is an *income tax surcharge*⁷, significant employment gains are likely, often in industries where the direct effects on labour costs of PRT are modest. The employment gains were in the vicinity of 175 000 extra jobs concentrated in the traded sectors. This arises from an improvement in international competitiveness — a 2.5 per cent cost reduction for firms employing labour. The employment gains are smaller under the reduced government expenditure scenario. The importance of revenue neutrality is highlighted (p.169).

The key to replacement of PRT is the preservation of the reduction in the costs of employing labour which its abolition entails, while finding an efficient revenue raising alternative. The existing set of consumption taxes do not present such an alternative because of their narrow base and their capacity to raise prices, especially if the price effects are indexed into money wages.

Rather than an income tax surcharge, Freebairn (1993) examines the abolition of PRT accompanied by the introduction of a broad-based goods and services tax. He restates the proposition that in the long run, a comprehensive-base consumption tax with a single rate has similar economic effects to an equal-revenue comprehensive-base labour income tax with a single rate⁸. Exploring the sensitivity of the taxes to different assumptions about who bears them, Freebairn finds that swapping such a consumption tax for PRT would have little effect on the distribution of the tax burden or on the short-run level of employment.

This is not necessarily at odds with Chapman and Vincent, but suggests that replacing PRT with a broad-based tax on goods and services would have a different employment impact to an income tax surcharge. Others would disagree — the Working Party on Tax Powers (1991) noted that some (unspecified) OECD studies suggest that the economic impact of PRT is broadly similar to PAYE income tax (p.20).

Kerr (1993, p.86) considers an increase in PRT, but also in a revenue-neutral context:

...if we were to conduct a revenue-neutral, differential tax incidence analysis of a rise in the rate of PRT, offset by cuts in the sorts of taxes that are likely to be substitute revenue sources for State Governments, we could well find that the disemployment effects of PRT expansion are zero.

Clearly, most commentators stress the importance of *revenue neutrality*, implicitly acknowledging that raising (reducing) PRT in isolation from offsetting

7 At the time this study was done, the States had a simple mechanism by which they could implement income tax surcharges (so-called Fraser Federalism Mark II) which was repealed in 1989. Thus, removal of PRT offset by income tax increases must be seen in the sense of the Commonwealth making room for State income taxes. Alternatively, PRT abolition could be offset by compensating increases in Commonwealth-State grants (hardly a remedy for vertical fiscal imbalance).

8 Samuelson (1961), Head (1985) and Bascand (1989).

measures could have disemployment (increased employment) effects. Under a revenue-neutral scenario, PRT appears to perform reasonably well compared with other alternatives which either exacerbate VFI or would cause the States to use more inefficient taxes. The BIE (1985, p.14) summed up its view on PRT as:

Alternative sources of such revenue which meet the growth criterion are taxes on personal incomes and consumption, broadly defined so as to allow minimal exemptions. However, it is by no means clear whether these taxes as currently implemented would be superior to payroll taxes in reducing distortions in the consumption, employment or investment decisions of individuals or firms.

It is necessary to be somewhat equivocal about the impact of existing PRT. In isolation, many see PRT as a tax falling, albeit perhaps not wholly, on wages. But, if labour market rigidities quarantine wages and competitive pressures dictate that firms cannot pass forward the impost, PRT could directly impact on employment. Even if PRT does not directly affect employment, Chapman and Vincent suggest that its removal, funded by an income tax surcharge, would boost competitiveness in the traded goods sector leading to increased employment. This contrasts with the EPAC/BIE view that the competitiveness effects of PRT are minor.

An appropriate emphasis therefore may be to improve the current arrangements. As exemptions, thresholds and multiple rates distort resource use, there may be merit in extending PRT coverage, perhaps in conjunction with rate reductions.

According to the NSW Tax Task Force (1988), around \$480 million in PRT was forgone through PRT exemptions in 1986–87. Freebairn et al (1989), claim that almost 80 per cent of this was attributable to exemptions for small business. They propose that, on a revenue-neutral basis, inclusion of all exempt payrolls (eliminating exemptions for small businesses, non-profit organisations and government instrumentalities) and all income (including fringe benefits) would allow basic PRT rates to be reduced from between 5 and 6 per cent on the current base to perhaps as low as 3 per cent on the broad base. This would make PRT, broadly based, uniformly applied to all components of the base and simple to administer. They advocate a single rate (p.253).

We cannot support the threshold exemption being retained. It adds to the complexity and administrative cost of assessing payroll tax liability; it necessarily requires a higher tax rate to be imposed to raise a given quantity of revenue; it is wide open to abuse from companies which engage in grouping operations to attract the threshold in order to reduce their overall payroll tax liabilities; and it distorts decisions with associated deadweight welfare losses.

Of course, widening the base (removing distortions between exempt and non-exempt companies) and lowering the rate (to offset adverse impacts) needs to be considered against any direct or indirect competitiveness and employment effects that might be felt by currently exempt firms.

Increasing the *rate*, could adversely impact on employment unless offset by removal or reductions in other taxes. This means that increasing PRT to boost State revenues (a revenue-positive context) carries the danger of unemployment effects, perhaps more so in existing and currently exempt firms with secondary labour force attributes.

Land tax

Land tax is levied on the price land would bring if sold, assuming that improvements had not been made. Most States have a progressive structure and a general threshold (Table B7). New South Wales has a proportional rate structure with a threshold making the tax progressive in its impact. The ACT imposes land tax on a proportional basis without a threshold, whereas land tax is not imposed in the Northern Territory.

Taxes on land (immovable property) raised about \$2 billion for the States in 1992–93. A Victorian land tax review found that a further \$211 million could have been raised in 1990 if exemptions, other than for Crown land, were removed (Fordham 1991). A South Australian review found that a further \$50 million could have been raised by removing the exemption of land used for primary production and \$11 million from removing the exemption of principal place of residence (Hill 1990). For New South Wales, some \$1.9 billion in land tax was forgone in 1986–87 — over half of which was attributable to the general exemption on owner-occupied housing (NSW Tax Task Force 1988).

Land taxes in their purest form are less distorting than other taxes because they have relatively little impact on allocative decisions. Unlike labour or physical capital, the amount of land is not influenced by taxation. Nevertheless, while land taxes are generally allocatively efficient, there are some problems: it is a discriminatory tax on wealth compared with other forms of holding wealth; it is a cash flow tax applied to accrued wealth; maintaining and updating land valuations can be difficult; and there can be high collection costs.

The efficiency (and revenue) consequences of land tax are compromised by extensive exemptions and the application of a progressive rate structure. As land taxes are not imposed uniformly on all land, even within particular jurisdictions, decisions about land uses can be significantly affected.

Following its inquiry into Urban settlement, the Commission reported that progressive rates can divert landholders' efforts into establishing a fiction that their land is held by a number of owners (IC 1993b). For example, Hill (1990, p.59) found that "it is a relatively straightforward matter to avoid the progressive land tax scale by splitting ownership between a number of entities with common shareholdings".

Progressive taxes on land are often seen as equitable because apparently wealthy people are taxed proportionally more. But, those with small landholdings are not necessarily poor as they can hold wealth in other forms. Fordham (1991) stressed the need to move to a simplified single rate structure.

The major exemptions from land tax include the principal residence except for Tasmania and Victoria, rural and government land and land valued below the general threshold. However, in Victoria the general exemption threshold is such that most owner-occupiers do not pay land tax. Other exemptions include land owned by charitable, religious and, in some States, sporting and educational associations if used for those purposes.

With the exception of the ACT, where there is no general exemption, most homeowners face a zero land tax burden but not so renters. As land used for other purposes is taxed, the exemption on owner-occupied housing encourages the use of land for housing. Hill (1990, p.74) found:

... the exemption of owner-occupied houses from land tax has the effect of distorting economic choices between home ownership and other uses of land, resulting in a tax-induced allocation of resources to residential development in preference to other income-producing uses of land.

Land tax, therefore, primarily falls on industrial and commercial properties with values over the general threshold (deductible for Commonwealth income tax). The Victorian Government informed the Commission in its inquiry into Urban settlement (IC 1993b, p.279) that:

... the burden of land tax falls largely on the corporate sector; for example, households accounted for only 16 per cent of total assessed land tax in 1989 although they comprised some 74 per cent of the total number of land taxpayers.

Exemptions are often so extensive that it is possible to arrange land holdings so that they are covered by a number of exemptions. For example, the NSW Tax Task Force (1988, p.250) found that:

Under present policies, Pitt street farmers can obtain exemption from land tax for their valuable owner-occupied home in Sydney, exemption for their primary production activities undertaken for tax shelter purposes and the basic exemption of \$125 000 on other taxable land that they own.

It recommended that the general exemption be removed and that the distinction between the treatment of land for owner-occupation and rental dwellings be eliminated but with an exemption for the first \$500 000 of land value — in effect, most residential dwellings. It also recommended inclusion of all land used for primary production above a threshold of \$1 million. The expected revenue effects of such changes would be small, owing to the extension of the exemption to rental dwellings.

Table B7
State land tax rates^a, 1991

<i>State</i>	<i>Threshold Land tax payable</i>	
	<i>'000</i>	<i>\$</i>
NSW	\$160	\$100 + 1.5% of the excess over \$160 000.
Victoria	\$180	\$60 + 0.15% of excess over \$180 000 for land valued \$180 000–\$469 999. \$32 445 + 3.0% of excess over \$2.6m for land more than \$2.6m.
Queensland	\$160 ^b	19 rates varying from 0.2% for land valued up to \$3 999 to 1.8% for land valued at \$1 500 000 or more.
South Australia	\$80	\$0.35 for every \$100 or fractional part of \$100 of the excess over \$80 000 for land valued \$80 001–\$300 000, up to \$11 270 + \$2.30 for every \$100 or fractional part of \$100 of the excess over \$1m for land valued \$1m or more.
Western Australia	\$5	Nine rates ranging from \$12.50 + 0.35% of the excess over \$5000 for land valued \$5 001–\$9 999, up to \$1940 + 2% of the excess over \$150 000 for land valued \$150 000 or more.
Tasmania	\$1	Three rates; general, principal residence, and rural land. For land valued between \$1 001–\$14 999 the rate is \$25. For the general rate there are eight rates, ranging from \$25 + 0.75% of the excess over \$15 000, for land valued \$15 000–\$39 999 up to \$8 962.50 + 2.5% of the excess over \$500 000 for land valued \$500 000 or more. For the principal residence the top rate is \$170 for land valued \$65 000 or more. For rural land the top rate is \$645 for land valued \$250 000 or more.
ACT	–	Flat rate of 1%.

a Table is not comprehensive.

b Other than companies and trusts.

Source: IC (1993b)

However, the (rejected) proposals still provide different effective tax rates for different uses. More neutral treatment would require the removal of land tax exemptions. Such action could provide for a lower rate (over the wider base). Freebairn et al (1989 p.256) argue that:

The cash flow problems that might be faced by asset-rich but income poor land owners (for example, pensioners and, from time to time, farmers) with removal of all exemptions could be overcome either by allowing deferral of payments ... or specific income-related concessions. The total exclusion of all owner occupiers and non-corporate farmers is an inefficient way of addressing these problems.

However, Kerr (1993) cautions that expansion of land tax revenue through base broadening or increasing rates would adversely affect local government's revenue base and worsen VFI for this tier of government. The Working Party on Tax Powers (1991) also raised this and the international competitiveness of agricultural industries as concerns.

The NSW Tax Task Force (1988) and Fordham (1991) also raised the issue of (lagged) valuation bases. The latter noted that, owing to costs involved, valuations have been conducted at substantial intervals. In some cases, revaluations following property booms have produced large increase in valuations and hence rates. Associated taxpayer dissatisfaction has provided the impetus for regular land tax reviews⁹.

Franchise fees and taxes

Franchise taxes on the sale of tobacco, liquor and fuel raised around \$3.4 billion in 1992–93 (Table B8). They are essentially licence fees imposed on wholesalers (sometimes retailers). To avoid Constitutional problems, fees are calculated as a fixed charge plus a percentage of sales volume in a previous period.

On efficiency grounds, taxes on such goods should at least cover the social costs of their consumption (such as external taxpayer funded health costs from alcohol and tobacco use). However, it is not always feasible to calculate these social costs and 'internalise' them through price incentives (taxes) alone. For example, regulatory instruments such as location-based smoking bans have been implemented to mitigate the social costs of passive smoking.

Commodities targeted for franchise taxation have been those where the demand is price inelastic. After a tax-induced price rise, demand falls less than proportionately to the price increase. The tax therefore results in increased revenue.

⁹ State governments have tried to minimise these lags (refer IC 1993b). Western Australia froze taxes at 1991–92 levels for the following year. South Australia aimed for zero growth in land tax receipts in 1991–92 and to the CPI for Adelaide in the following two years. Queensland is to reduce the time lag between valuation and assessment from 15 months to six months. In Victoria the lag was to be reduced from 3.5 to 1.5 years in 1993 and New South Wales is to adopt annual valuations.

Table B8
Franchise taxes, 1992–93 (\$ million)

<i>Franchise taxes</i>	<i>Revenue</i>
Gas franchise taxes	15
Petroleum products franchise taxes	1 174
Tobacco franchise taxes	1 575
Liquor franchise taxes	630
Total State and Territory governments	3 394

Source: ABS Cat. no 5506.0

Setting taxes above the level required to equate social costs and benefits is therefore possible to raise additional revenue. However, the boundary between these two goals is often blurred. For example, Collins (1993) reports that econometric studies for these products indicates scope for further revenue increases and that this could be justified by reference to the social costs of alcohol and tobacco on the community. If social costs are already fully accounted for, then this constitutes an excuse rather than a justification for increased taxes. Nevertheless, there is a case for setting taxes in excess of social costs because high rates of tax on price-inelastic goods allows revenue to be raised with relatively small changes in people's behaviour, thereby meeting an efficiency criterion of revenue raising.

A Commission inquiry into the Tobacco growing and manufacturing industries reported (IC 1994e) that tobacco products are the most highly taxed goods on Australian markets. It found that taxation has been an effective revenue raising instrument but that consumers do not necessarily reduce consumption by large amounts in response to price rises. The report noted that the ad valorem rate of tax varies between the States even though the majority of governments agreed to adopt uniform rates at the Special Premiers' Conference in 1992. Inquiry participants submitted that there had been some cross-border trade in tobacco products in order to exploit the differential tax rates. This is currently an issue with differences in fuel taxes between States.

Except for Queensland, all States levy franchise fees on petrol and diesel although they are applied in different ways and levels. The Commission's report into *Petroleum Products* (IC 1994f) noted that the interface between each State market is a friction-point for distribution and consumption. Of concern was the potential for the State taxes to distort consumption around State borders and curtail interstate wholesale trade (Box B1).

The Commission reported that, in New South Wales, Victoria, South Australia and the ACT, wholesalers can be exempt from franchise fees if the fuel is to be

sold interstate. If this system is consistently applied in all States, restrictions on interstate trade are minimised. In its absence, franchise fees levied on petrol and diesel might be subject to challenge in the High Court on the grounds of a breach in the Constitutional requirement for free interstate trade.

The NSW Tax Task Force (1988) recommended the abolition of the exemption from franchise fees of diesel fuel for off-road use. It added that the revenue gain from removal of the exemption be used to reduce the effective rate of tax on petroleum products in general — another example of base widening accompanied by rate reductions.

While this approach accords with notions of taxation neutrality, there may be cases where differential rates are warranted. For example, the Commission recently proposed in its report on *Urban Transport* (IC 1994b) that State governments consider differentiating fuel franchise fees between major urban areas and the rest of the State.

The rationale for locationally varied franchise fees is based on an external cost argument. Put simply, fuel prices can legitimately be used to reflect environmental costs such as pollution. However, in remote regions, where the

Box B1

Distortions arising from differences in State franchise fees

The Commission examined State franchise fees in its Petroleum products inquiry (IC 1994f). Tax rates on petrol vary from zero in Queensland to 9.11 cents per litre in South Australia. Similarly, rates on diesel vary from zero in Queensland to 10.35 cents per litre in Victoria. These differences can distort consumption around State borders. For example, according to BP, the fuel tanks on interstate trucks provide a potential range of around 4 000 kilometres, making the diesel market mobile.

BP explained that this can promote cross border deliveries, revenue avoidance, migration of interstate trucking business, increased uncertainty and risk to investment decisions and the viability of independent businesses. Mobil said that the 'Better Roads' levy in Victorian franchise fees further distorted the diesel market. It argued that fuel historically sold in Victoria is being shifted to New South Wales altering investment returns in refining and distribution operations in those States. The New South Wales Government has attempted to overcome the effect of differences with Queensland by developing nine 'buffer zones' with adjusted tax rates. This increases administration costs.

These are examples of problems with lack of harmonisation of taxes across State jurisdictions. However, the Commission found that it is not clear whether the benefits of uniformity would outweigh the costs if rates in some States were to increase. Harmonisation issues are discussed below.

extent of local pollution may be low, the additional impost imposes constraints on the behaviour of motorists. Since local pollution is less of a problem in non-urban regions, this should be accounted for in the environmental cost component of fuel prices.

The NSW Tax Task Force raised the possibility of extending the coverage of franchise fees. Believing that a broad-based retail tax would be unconstitutional, the Task Force proposed a 1 per cent franchise fee on all retail sales of goods and services and the licensing of enterprises providing professional and other services. It estimated that this could raise an extra \$185 million for New South Wales. The Nieuwenhuysen (1983) review also favoured the extension of the franchise fee base to include hotel and motel accommodation, entertainment and other consumer services.

However, attempts to widen the scope of franchise fees would, in all likelihood, be subject to challenge under s.90 of the Constitution and, judging from the Capital Duplicators (X-rated video) case in the ACT, there is a strong possibility that the High Court would uphold such a challenge.

The NSW Tax Task Force pointed out that the States could increase revenue from existing franchise fees if the Commonwealth 'made room' by abolishing excise duties on the same products. In 1990–91, these products attracted substantial Commonwealth excise (\$2.4 billion from tobacco and alcohol and \$6.6 billion from petroleum products). The States in total raised about \$2.4 billion from these products in that year.

That different tax systems seek revenue from the same base indicates that the system is inefficient. The Working Party on Tax Powers (1991, p.92) stated, that:

It does seem that efficiency and accountability would be greatly enhanced by one level of government assuming responsibility for this area of taxation.

From a revenue perspective, current franchise fees are effective instruments, owing to the lack of responsiveness of demand for the products to price changes. Given that governments must raise revenue and taxes on price-inelastic goods tend to have lesser deadweight losses, they can be sustained on efficiency grounds. However, taxes on such goods are not without cost. For example, fuel price increases feed through to the competitiveness of intensive users.

Taxes on financial transactions

Taxes on financial transactions generally are narrowly based (Box B2) and often involve high compliance costs. The NSW Tax Task Force found that some duties have 'absurdly high' compliance costs — stamp duty on cheques cost more to collect than they raise in revenue. Some, like the financial institutions duty (FID), although levied at a low rate on a relatively wide base, can induce

distortions owing to their inability to cope with sophisticated financial transactions. Freebairn et al (1989, p.258) state that:

The array of taxes on financial institutions and on legal and financial instruments represent the most acute case of poorly integrated, variable rate taxes in the State taxation systems.

The NSW Tax Task Force (1988, p.123) indicated that financial taxes represented an area where tax expenditures can provide net benefits.

... [regarding] the exemption from FID of social security payments credited directly to a bank account, it is glaringly obvious that the economic benefits to the community far exceed the revenue forgone. In addition, to the cost savings in not having to print and mail cheques, there is also the saving in not having to handle the problems of lost and stolen cheques, the costs of investigating and prosecuting thefts and related costs.

In recent times, additional broader-based taxes on financial transactions have been introduced. For example, FID was introduced into Victoria and New South Wales in 1982 (later in other States) at a low rate to all credits to an account of a financial institution. The FID replaced several stamp duties such as duties on instalment loan instruments, bills of exchange, promissory notes and transfers of mortgage.

The extensive use of narrowly-based stamp duties is likewise difficult to sustain on efficiency grounds. Charges (stamp duties) on legal documents and financial transactions have highly variable rates of duty with tens of different duty bases across the States. Over time, financial and legal agreements and transactions have become more complex and the stamp duty system has had difficulty in keeping pace with such innovations.

The bulk of State revenues from these sources derive from stamp duties on conveyances. The Commission has found that stamp duty on conveyances, by significantly increasing housing transaction costs (over \$5 000 on a \$150 000 house in Victoria), are an impediment to the mobility of labour. It recommended less emphasis on their use with the revenue shortfall possibly funded through increases in land taxes (IC 1993b,h).

The array of taxes on financial institutions and legal instruments is poorly integrated, inefficient and inequitable. Taxes often apply to secured, but not unsecured, borrowings and some forms of credit are excluded altogether. And, effective tax rates can vary considerably according to the complexity of transactions. Freebairn et al (1989, p.258) note that:

Where financial transactions are concerned 'a dollar isn't always a dollar' for taxation purposes: the more rapidly it turns over, the higher the effective tax rate implied by a given nominal rate of duty per transaction.

Box B2

Stamp duties identified by the NSW Tax Task Force

The NSW Tax Task Force (1988, p.258–271) assessed a range of stamp duties in its report. The following listing highlights their narrowness and extent: Cheque duty; loan security duty; Agreement or Memorandum of Agreement; Award (whether under hand or under seal); Bill of Lading; Charter policy; Companies (memorandum and Articles of Association); Duplicate or counterpart of an agreement for the hire of a motion picture film; Guarantee; Lease or promise or agreement for lease or hire of an electricity, gas or water meter, motion picture film, or lease from the Crown; Letter of allotment and letter of renunciation; Letter of power of attorney; Hiring arrangement duty; Contracts and conveyances duty; Futures contracts; and Financial institutions duty.

The NSW Tax Task Force sought the abolition of around a dozen or so financial imposts, including stamp duties on cheques, memorandums of agreement, bills of lading, and charter policy, loan security duties and the hiring arrangement duty to name a few. It called for retention of FID plus the introduction of a financial accommodations tax (FAT) to replace all other stamp duties except those on contracts and conveyances (the latter two raise significant revenue). The proposed FAT tax was to have been levied, in addition to loans, on bill facilities, provision of credit and all forms of direct financial accommodation (secured and unsecured). This tax would ensure that all forms of financial accommodation rather than simply traditional loans were taxed.

Freebairn et al (1989, p.259) support this approach:

... an integrated, broad based approach to the taxation of financial accommodations, with uniform low tax rates, is preferred to the current maze of forms of duties.

On efficiency criteria, there is little scope to further exploit such charges to boost State revenues. On the contrary, there are compelling reasons to reduce reliance on taxing a number of financial transactions.

Other taxes

Other significant taxes include those on gambling and on motor vehicles. There appears to be a view that gambling taxes are a fair target and do not do much harm. For example, the NSW Task Force (1988, p.286) raised:

... the balance to be struck between taxes which have a substantial impact on business and economic development and those which have a relatively small impact... taxes on gambling have a relatively small impact.

In line with its terms of reference, that taxes facilitate the State's development, the NSW Tax Task Force argued that gambling taxes should be increased through higher rates and base widening. It also called for less revenue hypothecation to particular expenditures which somewhat counters a justification for gambling taxes on external cost grounds. It and Nieuwenhuysen (1983) called for new forms of gambling to be introduced.

The importance of motor vehicle taxes to State revenues ranges from 17 per cent of total tax revenue in the Northern Territory to about 30 per cent in Queensland. Revenue for 1992–93 is shown in Table B9. The NSW Tax Task Force approached motor vehicle taxes (registration fees, stamp duty on the transfer of motor vehicles, fuel taxes, charges for drivers' licences, taxi licences, bus permit licences and charges for special number plates), from the standpoint that it is intuitively right that taxes on motor vehicles should provide a large part of road funding.

It considered road building and damage but did not raise environmental taxes. In 1986–87, motor vehicle taxes raised around \$900m and spending on roads and traffic management was around \$1 billion in NSW. Of the \$2.8 billion collected by all States and Territories in 1992–93, revenue sources included: \$1.8 billion from vehicle registration fees and taxes; \$750 million from stamp duty on vehicle registration; \$201 million from drivers' licences; and \$78 million from road transport maintenance taxes.

It is not clear that the current suite of taxes is appropriate on efficiency grounds. There does not appear to be any direct correlation between, say, vehicle registration and road use. The Commission's report on *Urban Transport* (IC 1994b) put the view that where practical it is beneficial to tax road *use* rather than

Table B9
Gambling and motor vehicle taxes, 1992–93 (\$ million)

<i>State</i>	<i>Gambling taxes</i>	<i>Motor vehicle taxes</i>
New South Wales	834	1 000
Victoria	601	631
Queensland	459	570
South Australia	136	222
Western Australia	59	231
Tasmania	43	65
Northern Territory	13	18
ACT	40	56

vehicles per se. An appropriate way to tax road use (including congestion costs) would be through tolls and other charges that shift the burden toward those who impose the greatest costs. User charges could be offset by reductions in fuel taxes, which in themselves, are more appropriate than vehicle registrations as a means to pay for road use.

While current motor vehicle taxes may come close to covering road funding, the tax mix may be quite inefficient. There is no guarantee that those using the roads are paying and vice versa.

Scope for reform

This survey of the major State taxes indicates that, contrary to the 'efficient, equitable and simple' model with low and uniform rates, the States' tax base is characterised by disparate rate taxes exacerbated by exemptions and concessions. There are also several narrowly defined taxes that cannot keep pace with economic and technological change (financial taxes) and the system provides incentives for tax avoidance and evasion. There is also an overlap of Commonwealth and State tax bases.

This section outlines three broad areas of possible reform. The potential to raise further revenue from the States' existing tax base, without adversely affecting efficiency, is assessed. This is followed by an examination of issues germane to the question of tax harmonisation and interstate tax competition. Finally, the scope to introduce new taxes that do not require significant reassignment of taxes between spheres of government or constitutional amendment are visited briefly.

Further exploitation of the existing tax base

The inability of the States to access broad-based taxes on goods, services and income has left them with a relatively constrained tax base. But, the States' tax base problems are to some extent self-induced. Two examples are as follows:

- The use of tax concessions, thresholds and multiple rates and a failure to fully exploit the existing tax base has circumscribed potential revenue. As Collins (1993, p.175) notes, "State governments have been far too willing to narrow tax bases by the introduction of tax concessions to sectional interests".
- They have been unwilling to implement broader taxes (like a tax on financial accommodations). Collins (p.174) points out that "State governments have been both unwilling to implement rational improvements and willing to undermine the integrity of the tax system".

These criticisms imply that tax revenue could be increased. In theory at least it would be *possible* to increase tax revenues, for example, by abolishing land tax exemptions and concessions, extending the coverage of PRT and raising and extending the coverage of business franchise fees.

Table B10
Effects of NSW Tax Task Force proposals^a
(\$ million)

<i>Proposed change</i>	<i>Revenue effect</i>
PRT base widening	64
PRT rate reduction	-159
Total PRT changes	-95
Land tax	33
Stamp duty	-110
Business franchises	61
Gambling tax	112
Motor vehicle tax	-16
Tax enforcement	15
Net change in revenue	0

a 1987–88 values.
Source: NSW Tax Task Force (1988, p.317)

However, while it may be possible to increase revenues from the existing tax base, it may not be desirable, from an efficiency perspective to do so. The NSW Tax Task Force review, for example, sought to improve the efficiency of the New South Wales tax base rather than increasing revenue to address vertical fiscal imbalance. Table B10 highlights how additional revenue from some taxes could offset the abolition of nuisance taxes such as stamp duties and the lowering of rates on others.

Efficiency concerns therefore temper enthusiasm to address vertical fiscal imbalance through further exploitation of States' existing tax bases. Collins (1993, p.177) argues that:

In reality, most of any revenue increases resulting from improvements in existing taxes would need to be devoted to funding the replacement of stamp duties and some other taxes. Very little would be left over for reducing the degree of VFI... Elimination of VFI would involve a doubling of State revenues.

On balance, there is considerable scope to improve the efficiency of State taxes but only limited 'feasible' scope to increase own-source revenues to the extent

necessary to mitigate vertical fiscal imbalance through efficient low rate, broad-based taxes.

Tax harmonisation

Some attribute problems with State taxes to ‘destructive’ interstate competition and an unwillingness on the part of the States to cooperate with each other on issues such as tax base definition (see the example in Box B1). Collins (1990, p.177) argues that:

The States very clearly have the scope for some revenue increases by broadening the bases of existing taxes, particularly if this process is undertaken by the States on a cooperative basis so that it does not provide greater opportunities through tax base mobility, for interstate tax competition.

Two examples encapsulate the perceived problem.

- When Queensland abolished death duties in the late 1970s, it initially created a temporary tax advantage resulting in significant migration of other tax bases to it. This advantage was neutralised when all of the other States fell into line and stopped using this form of tax.
- The NSW Tax Task Force (1988) would have liked to have recommended a higher financial institutions duty (FID) rate but recognised that “an increase in the FID rate on a unilateral basis may not be feasible having regard to the mobility of the tax base in that money and money transactions may quite simply be moved to, or take place in, a non-FID or low-FID jurisdiction”. It also gave in-principle support to reintroducing progressive death duties, but was unable to recommend this, owing to the difficulties of unilateral action in this policy area.

Advocates of tax harmonisation claim to have little objection to interstate competition on tax *rates*, but concerns about competition on tax bases. Indeed, the first is viewed as constructive competition, the latter destructive. The Working Party on Tax Powers (1991, p.88) stated that:

Differential rates between various tax jurisdictions can be a sign of healthy tax competition but extending that competition to differences in the tax base — and this is particularly the case for income and corporate taxes — runs the risk of raising considerable costs to taxpayers and tax administrators.

Collins (1990, p.27) suggests that interstate tax harmonisation should be achieved through identical tax bases and that “harmonisation of rates is nowhere near as important except that the rates should be positive and not excessively disparate”. The NSW Tax Task Force recommended the establishment of an interstate tax commission to identify areas of lack of harmonisation and promote harmonisation mechanisms through, for example, model legislation.

The view that rates should be positive and not excessively disparate could be construed as a desire to also limit competition on rates. Applying this to, say, Queensland's absence of fuel franchise, would suggest that it have:

- a positive rate — not a zero or excessively disparate rate; and
- a similar base — so that any exemptions (currently all uses of petrol in Queensland) would need to be in line with the other States.

This suggests tax standardisation and it is not apparent that such action would provide net benefits. Variety and choice in State expenditure and taxation regimes may be seen as a benefit of federal systems — that is, the notion of competitive federalism. For example, Fletcher (1993, p.8) notes that:

... state and territory governments, challenge each other for regional economic benefits, either through competing to influence commonwealth decisions or attempting to organise the tax base to 'secure' their own regional objectives against erosion by other states...

Proponents of competitive federalism argue that, if a particular State wishes to establish a pro-business, low tax environment substantially different from other States to attract industry, it should be allowed to do so — provided it bears fully the consequences (Kasper 1993).

The Commission looked at the issue of tax competition in its report on *Impediments To Regional Industry Adjustment* (IC 1993h). It found that competition among States for mobile capital on the basis of their tax regimes can make an important contribution to national economic growth. However, it cautioned that some *selective* measures used by States have parallels in the strategic trade literature which could, domestically, lead to 'neighbour beggaring' and net losses. The Commission found that while States are aware of the potential for negative-sum games within their own borders they often regard interstate firms as fair game (Box B3).

While there is a downside to strategic measures that selectively target interstate firms, more general tax competition could promote beneficial best practice tax models. On the other hand, perfectly harmonised State tax systems might encourage revenue concerns over efficiency. For example, harmonised tax bases could lead to the States agreeing on a range of concessions and exemptions with all of the adverse efficiency implications that they entail.

Nevertheless, from a revenue perspective there may be merit in Collins' (1990, p.26) view that:

Any State tax reform will inevitably be competitive in effect if that reform has been effectively designed to lead to improved tax performance... If there is to be no change in competitive positions there can be no tax reform.

In that sense, some sort of 'harmonisation' could be useful — for example, States competing mainly in areas where the tax base has relatively low interstate (and international) mobility. The complex nature of this issue suggests a need for a

Box B3**Selective inducements for location of firms**

In its report on *Impediments to Regional Industry Adjustment*, (IC 1993h), the Commission noted that many States have offered *general* payroll tax concessions for firms establishing in non-metropolitan areas. However, in recent years most have abandoned this approach. In New South Wales, the Country Industries (Payroll Tax Rebate) Scheme — which provided PRT concessions for firms establishing in non-metropolitan areas — is being phased out. It is to be replaced by a Regional Business Development Scheme which may grant payroll tax concessions on a discretionary basis. South Australia and Victoria have replaced PRT concession schemes with more targeted approaches. For example, South Australia provides tax holidays to firms establishing in 'enterprise zones', and the 'Investing in Country Victoria' package includes grants to offset payroll and land tax for firms that relocate or establish in Victoria.

detailed evaluation of the costs and benefits of pursuing a limited tax harmonisation strategy.

New taxes

With the exception of death duties (which have been used by the States and the Commonwealth in the past), all of the other taxes discussed in this section raise questions about tax re-assignment — consequently, they are mentioned only briefly. Income taxation is not discussed below but was a major feature of the Working Party on Tax Powers (1991) report. Indeed, the Working Party (which included Commonwealth and State government officials) inclined towards giving States access to a personal income tax surcharge.

Death and gift duties

In 1976–77, the States raised about \$250 million and the Commonwealth \$88 million from death and gift duties. The Working Party found that in 1990–91 dollar terms this would amount to \$738 million and \$258 million respectively and that substantially higher collections could be raised now owing to the real increase in wealth since the 1970s. These duties were abolished in all States following action by Queensland in the late 1970s.

Tax on financial intermediaries

A new tax on financial intermediaries was discussed above. The Working Party considered the replacement of FID and debit taxes with a higher-yielding tax on the assets or liabilities of financial intermediaries. It pointed to difficulties in defining the location of assets and other practical problems.

Broad-based tax on services

The Working Party considered a broad-based tax on services, but noted difficulties in determining the base; high collection and compliance costs; and problems with dual taxation should the Commonwealth continue to tax goods at the wholesale level, while States taxed services at the retail level. Complex compensation issues also come to the fore.

Broad-based tax on goods and services

Many of the problems with a broad based services tax could be overcome with a State tax on goods and services provided the Commonwealth abandoned its wholesale sales tax. The Working Party considered that this option would probably require constitutional amendment.

Wholesale sales tax and petroleum resource rent taxation

The Working Party found that allowing States access to five percentage points of the wholesale sales tax would transfer some \$2.5 billion. This would also probably require constitutional amendment. Similarly, the States could take over the Commonwealth's petroleum resources rent tax. As both tiers of government tax this resource, a rationalisation of this overlap would improve the efficiency of the taxation system.

These options would boost State revenues and help redress fiscal imbalance. However, there would be a need to assess the competitiveness and efficiency implications of such changes.

Summing up

The reform options available range from moderate changes to States' existing taxes through to a sweeping reassignment of taxes between tiers of government. The question of reassignment is beyond the scope of this appendix, but involves two broad areas. One is that the Commonwealth withdraw from certain fields to make room for the States (excises, for example), the other implies constitutional amendment (broader taxes on consumption). While the more radical options are certainly pertinent to the question of vertical fiscal imbalance, the Commission has given primacy to the efficiency and competitiveness implications of State taxes. Of course, the issues are not easily separated.

There is scope to improve the efficiency of the States' current suite of taxes. Filling in the 'holes' that most have opened in their tax bases in tandem with lower and flatter taxes on the broader base would improve competitiveness and overall taxation efficiency. However, some taxes should be reduced and in other cases abolished altogether (for example, narrowly-based stamp duties) so that, on

balance, the scope to boost revenues from the existing tax base without adversely affecting efficiency may be limited.

The restricted scope for States to raise own-source revenues has encouraged an array of narrowly-based and distortionary taxes. Moreover, their limited tax base may lead State and Territory governments to rely more on dividends from their government business enterprises (GBEs) than otherwise. The incentive to use dividends from GBEs as a tax base is strengthened by the monopoly supplier position of many of these enterprises.

Appendix C

Effects of specific purpose payments on State budget flexibility

This appendix addresses perceived effects of specific purpose payments (SPPs) on public sector performance. The fiscal impact of SPPs on the States is not well understood. There are problems with determining their precise effects on States' budget flexibility and mixed views about the extent to which fiscal equalisation through the operations of the Commonwealth Grants Commission overrides SPPs. The increasing share of SPPs in total grants to the States is clouded by classification changes and the often-cited estimate that 'tied grants' represent over half of total grants to the States can mask as much as it reveals.

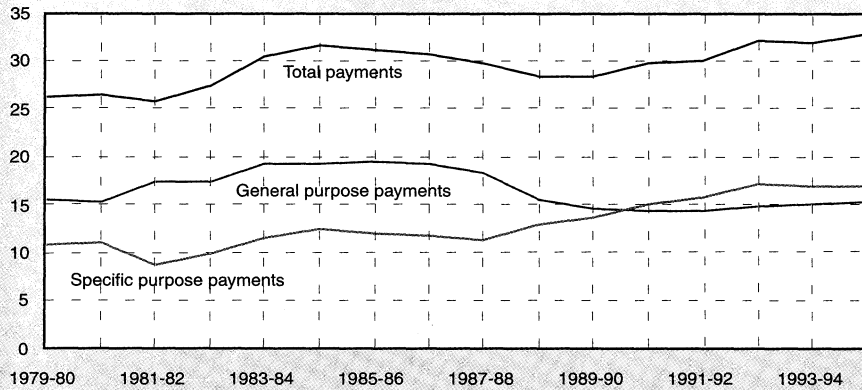
The Australian Constitution provides that "the Parliament may grant financial assistance to any State on such terms and conditions as the Parliament sees fit". In fact, Commonwealth grants are the major revenue source for the States. There are generally no conditions to be met for receipt of general purpose payments (GPPs)¹. For specific purpose payments (SPPs), however, funds are subject to conditions. In recent years, the relative share of SPPs has increased (Figure C1).

A State perspective (eg DeLacy 1993) is that growth in SPPs is principally due to the Commonwealth's intention to influence policy and service outcomes in areas that are primarily State responsibilities. Combined with a decrease in GPPs and increases in SPPs, often with matching conditions, the effect is said to be an erosion of State fiscal flexibility.

A counter-argument put in the Commonwealth's 1994-95 budget papers (Willis 1994a), is that SPPs are a means of effecting national policy objectives. It is further argued that SPPs enable community demands for minimum national standards in programs like health and education to be met and that they facilitate the optimal provision of services. Nevertheless, it is recognised that "the

¹ GPPs include the general revenue grants and general purpose capital grants shown in Table C1. General revenue grants are also called financial assistance grants (FAGs). On occasion, a small proportion of GPPs can include 'earmarked' funds — for example, identified road grants (untied in January 1994).

Figure C1
Commonwealth payments to the States, 1979-80 to 1994-95^a (\$ billion)



a Estimated for 1993-94 and 1994-95. Real payments, using GDP deflator.

Source: Commonwealth budget papers (various), ABS Cat. nos 5204.0 and 5206.0

benefits from conditions attached to SPPs have to be weighed up against concerns that they limit State budgetary flexibility” (Willis 1994a, p.32).

Apart from issues of sovereignty, SPPs directly impinge on State activities that are areas of reform in their own right. Services financed by SPPs, such as

Table C1
Estimated payments to the States, 1994-95^a (\$ million)

General revenue grants	14 998
General purpose capital	260
Specific purpose	
– current	14 366
– capital	2 677
– total	17 043
Total net payments^b	30 524

a Estimate.

b After repayments by States/local authorities of around \$2 billion.

Source: Willis (1994a)

roads, education and health, feed directly into competitiveness. Other issues related to SPPs which require discussion include transparency, duplication and overlap of services, and reduced accountability by each tier of government for service provision.

Composition of SPPs

In 1994–95, (net) grants to the States and Territories will be of the order of \$30.5 billion (Table C1). SPPs will amount to about \$17 billion or 52.8 per cent of total gross payments to the States. They can be split into SPPs *to* the States which constitute direct payments, and SPPs *through* the States — for example, higher education payments and local government grants which the States pass on to relevant bodies.

In 1993–94 SPPs *to* the States amounted to \$10.6 billion (Table C2), which represented about 20 per cent of State government revenues (Willis, 1994a).

Payments *through* State governments accounted for around \$6.2 billion or 38 per cent of total SPPs in that year. The bulk of funds went to higher education (\$3.1 billion) and non-government schools (\$1.5 billion).

Table C2
SPPs 'to' the States, 1993–94

<i>Category</i>	<i>\$m</i>	<i>per cent</i>
Education	1 759.3	16.5
Health	5 174.5	48.8
Culture and recreation	31.9	0.3
Social security	623.4	5.9
Housing and community amenities	1 108.5	10.4
Labour and employment	49.7	0.5
Transport	1 060.3	10.0
General public services	130.1	1.2
Industry assistance and development	160.5	1.5
Not allocated to Function	517.0	4.9
Total	10 615.2	100.00

Source: CSRS (1994)

The first SPPs were made in 1923 for the provision of roads. There were few others prior to the 1940s except for ad hoc grants for industry assistance, employment creation and railway projects. From 1942 they increased², especially in the 1970s, owing to Commonwealth involvement in financing health and education. A more recent trend is evident in Figure C1.

Characteristics and types of SPPs

Many SPPs are subject to conditions to ensure that national policy objectives, or those agreed between the Commonwealth and the States, are met. Conditions vary across programs, as does the degree of Commonwealth involvement. For many SPPs, a general statement of the purposes for which funds can be used is the only condition (for example, TAFE funding and the Rural Adjustment Scheme).

Others are more prescriptive, requiring that the payment be expended for a specified purpose. For example, the Home and Community Care program specifies the services that can be provided and the groups that can be targeted. Other SPPs can specify detailed conditions on expenditure including project approval, matching arrangements and information requirements.

Not all conditions relate to the use of the attached funds. For example, rather than prescribing program expenditures, a condition of hospital funding grants is that States must provide free public hospital treatment to Medicare patients.

Another type of condition is where the Commonwealth requires that State contributions be maintained in nominal or real terms. An example of 'maintenance of effort' was the Australian Bicentennial Roads Program which required the States to maintain the average real expenditure on roads that occurred in the five years prior to the program's commencement. Table C3 lists all of the SPPs with matching conditions that applied in 1993–94.

Important points to note about matching conditions are:

- they are not always on a dollar-for-dollar basis;
- arrangements can vary between States;
- in the past, some SPPs have been in the form of loans rather than non-refundable grants;
- State and local governments can undertake additional expenditure;
- matching arrangements may be varied following the developmental stages of a program;

2 The first Commonwealth-State Housing Agreement was negotiated in 1945–46.

Table C3
SPPs with matching conditions, 1993-94^a

<i>Program</i>	<i>Amount</i>	<i>Proportion of total^b</i>
	<i>\$m</i>	<i>%</i>
State Contribution to Higher Education ^c	-43.7	-0.41
Technical and Further Education	298.6	2.81
Medical Speciality Centres	2.7	0.03
Nurse Education	23.9	0.22
High Cost Drugs	64.5	0.61
Aged Care Assessment	33.5	0.32
Home and Community Care	368.4	3.47
Youth Health Services	2.4	0.02
Other Health Care Access	39.4	0.37
Funds to Combat Aids	30.1	0.28
Drug Education Campaigns	19.5	0.18
Blood Transfusion	48.1	0.45
Asbestos Removal Assistance	1.7	0.02
Disability Services	256.8	2.42
Extension of Fringe Benefits	146.1	1.38
Children's Services	36.8	0.35
Mortgage and Rent Relief	31.2	0.29
Supported Accommodation Assistance	108.7	1.02
Refugee — Minors — Supervision and Support	0.4	0.00
CSHA Block Assistance	831.3	7.83
Entry Level Training	36.9	0.35
Employment Training — Aboriginals	11.3	0.11
Legal Aid	129.3	1.22
Cape York Land Use Study	0.8	0.01
National Landcare Program	55.6	0.52
Exotic Disease Eradication	0.2	0.00
Rural Adjustment Scheme	53.2	0.50
Sugar Industry Infrastructure	8.0	0.08
Coal Industry Superannuation	2.6	0.02
Electricity Grid Infrastructure	1.0	0.01
Bovine Brucellosis and Tuberculosis	14.0	0.13
WA Steel	0.3	0.00
Enterprise Development Program	13.7	0.13
Multi Function Polis	1.7	0.02
Sinking Fund on State Debt	30.9	0.29
Debt Redemption Assistance	86.0	0.81

Table C3 (continued)

<i>Program</i>	<i>Amount</i>	<i>Proportion of total^b</i>
	<i>\$m</i>	<i>%</i>
Natural Disaster Relief	70.0	0.66
Total matching SPPs 'to' the States	2 815.29	26.5

- a Commonwealth contribution. Matching conditions vary across payment categories.
- b Share of total SPPs 'to' the States.
- c Following assumption of full funding responsibility for higher education by the Commonwealth in 1974, States have been required to contribute to higher education superannuation in respect of costs imposed by State schemes in excess of those under the Commonwealth scheme.

Source: CSRS (1994)

- Commonwealth and State contributions may vary as expenditure requirements change for programs (eg natural disaster relief); and
- Commonwealth and State contributions to a specific program are pooled and allocated according to a single set of objectives (eg the Rural Adjustment Scheme).

Box C1 provides examples of conditions on SPPs.

Commonwealth objectives versus State budget flexibility

Groenewegen (1984) argues that there may be, in the interests of policy co-ordination or correcting for 'spillover effects' (see below), a case for the Commonwealth to finance and *direct* expenditures. SPPs are one instrument for achieving this end.

Grewal (1975) has suggested a 'selective fiscal equalisation' rationale for SPPs based on a view that services such as education, housing, health, and interstate highways, produce spillover (external) benefits in the national interest. Thus, the Commonwealth is entitled to guarantee certain minimum levels of performance in respect of these services. James (1992, p.57) cites reasons why the Commonwealth might provide SPPs. They are said to:

- encourage States to undertake expenditure in areas where there may be 'spillover effects' into other jurisdictions, for example, highways or dams. According to Break (1980), States are likely to only (rationally) supply programs to the point at which their own marginal benefits equate with

Box C1**Examples of SPP conditions**

Home and Community Care: The Commonwealth meets an average of 60 per cent of total matched funds nationally, matching funds from each State according to an agreed ratio. Agreements provide for the Commonwealth and States to index, by up to 20 per cent, expenditure in respect of the previous year.

Commonwealth-State Housing Agreement (CSHA): The States match Commonwealth grants on a dollar-for-dollar basis. At least half of the States' matching funds are to be budget funded with the balance met from credits based on the value of home loans provided through home purchase assistance programs.

Supported Accommodation Assistance Program: States are required to maintain real funding through an indexation formula and to match Commonwealth grants on a dollar-for-dollar basis.

Youth Health Services: Commonwealth grants are to be matched on a dollar-for-dollar basis. Agreements allow for variations in each State's expenditure to reflect their budgetary circumstances.

Bovine Brucellosis and Tuberculosis Eradication: The Industry Trust Fund provides 50 per cent of funds, the States 30 per cent, with the Commonwealth contributing the remaining 20 per cent.

Enterprise Development Program: Agreements do not oblige the States to contribute particular funds to the program. However, the Agreements' objectives are, inter alia, to provide the framework for joint provision and funding of extension programs. It is understood that the States will try to match Commonwealth contributions.

Joint Schools Program: Conditions on expenditure vary between program elements, government and non-government organisations, and other persons and organisations eligible for funding, in accordance with agreements struck between relevant parties. Program elements define specific purposes for use of funds.

Pensioner Housing Grants (part of CSHA): Funds are to be paid into a Rental Capital Account and use of funds is limited to prescribed purposes. Program guidelines are subject to joint determination by the Commonwealth and States.

National Drug Strategy: Commonwealth funds are only available for new or expanded services or activities and its agreement is required to change the purpose of projects or transfer funds between areas.

Disability services: Payments are conditional on States enacting legislation complementary to the Commonwealth Disability Services Act.

Source: CSRS (1994)

their marginal costs, which would be below the national social optimum level;

- encourage innovation or experimentation with new or existing programs — often referred to as ‘seed money’ grants;
- impose national priorities in areas in which the Commonwealth has no direct constitutional authority. By directing resources into particular areas, the presumption is that the Commonwealth is better able to decide what expenditures are in the best interests of the national community; and
- provide additional budget support to the States to assist them to meet their responsibilities. This can take the form of cost-sharing arrangements, such as those used to meet hospital running costs.

On the other hand, SPPs, especially in conjunction with restricted State taxing powers, might reduce State budget flexibility. They have been criticised by the Bureau of Transport Economics (1984) because they: distort State and local government expenditure; interfere with State and local government autonomy; cause inflexibility in State and local budgetary processes; limit incentives for State and local governments to raise revenue locally and spend it wisely; and encourage duplication of administrative effort.

SPPs with matching conditions have also been questioned on the grounds that they reduce incentives for the States to pursue efficiency, because productivity gains cannot be directed to other expenditure priorities or used to reduce budget deficits (Willis 1994a).

Other arguments for giving greater emphasis to general rather than specific purpose payments include the view that, as States are closer to local populations, they are better placed to reflect community preferences than a distant Canberra bureaucracy. Proponents of competitive federalism argue that different standards of State services, rather than centrally-imposed uniformity of services, allow citizens to vote with their feet. States also view Commonwealth involvement in how they should spend their own funds as a breach of sovereignty.

Importantly, if SPPs result in duplication of services or excessive administration, resources that could better be used delivering services, or allocated to other services, may be wasted.

The public finance literature enables these rationales and criticisms to be examined within a fiscal efficiency perspective. A brief assessment of the impact of various forms of grant, based on indifference curve analysis, is presented in the Annex to this appendix³. The analysis assesses inter-

³ See also, for example, Wilde (1968 and 1971), Manion and Stevens (1974), Starkie (1984) and Noon (1991).

Table C4
Grant impact on State budgets and cost to the Commonwealth^a

<i>Grant type</i>	<i>Interference to State budget flexibility</i>	<i>Cost to the Commonwealth</i>
GPP	1	4
Untied SPP	2	3
SPP with matching conditions	3	2
SPP with maintenance of effort	4	1

a A '1' ranking indicates lowest and a '4' indicates highest.

governmental grants in terms of their cost to the grantor (Commonwealth) and their impact on grantee preferences (State budget flexibility). The objectives of transferring funds to the States with minimal interference to their budgetary flexibility and of minimising budgetary cost to the Commonwealth to achieve a given outcome are ranked in Table C4.

The public finance literature highlights an inverse relationship between cost to the Commonwealth and State budget flexibility. The more stringent the conditions, the smaller the grant needed to attain a given outcome but the more adverse the impact on State budget flexibility. From a fiscal efficiency perspective, the literature indicates that:

- GPPs are a mechanism for providing unconditional transfers to the States;
- the influence of SPPs on State activities depends on the attached conditions;
- where the Commonwealth seeks to stimulate a State activity at least cost, or wants a State to maintain or increase effort on that activity, maintenance of effort requirements should be used;
- spillovers to other jurisdictions are best accounted for with matching grants, with the Commonwealth's share of costs equal to the benefits going interstate. While State welfare will be less than under an equal-sized GPP, a matching restriction is necessary to ensure that expenditure is on the targetted activity; and
- if the Commonwealth introduces a new program into a State, it may be necessary to tie the grant to that purpose. As a non-matching SPP will not leak into expenditure on other goods, it is cost effective. Matching conditions will entice a State to contribute to the Commonwealth's preferred activity.

However, the analysis primarily considers 'monetary' matching requirements. The literature largely abstracts from administrative provisions relating to the use of funds although these can also affect State budget preferences. As Walsh and Thomson (1992, p.7) state:

... often complex agreements and arrangements exist which constrain the uses of funds or (as in the case of health grants) contain provision for penalties where States fail to meet some target objective (proportion of public-ward bed-days in the health case) ... implicit conditions may be attached to what appear to be otherwise largely unconditional transfers.

Stiglitz (1988) has also argued that grant substitution can be stopped even in the absence of financial conditions because Federal administrators can withdraw a grant being used to replace revenue from State taxes.

The potential for SPPs to affect State budget flexibility

The view that growth in SPPs intrudes into State affairs needs to be considered in the light of classification changes. One factor affecting the share of SPPs has been changes in health funding.

From 1975–76 to 1980–81, Commonwealth assistance for health was provided through SPPs. In 1981–82, these were replaced by a component of GPPs (identified health grants) for all States except South Australia and Tasmania. These latter States joined following the introduction of Medicare in 1984. New SPPs were introduced to account for the costs of implementing Medicare (Medicare compensation grants). From July 1988, identified health grants and Medicare compensation grants were combined into SPPs (hospital funding grants). In 1993–94, these were replaced by Medicare base grants and Other Medicare payments.

Further reasons for the increased share of SPPs include (Willis 1994a): generous escalation arrangements, based on population growth and price movements, for SPPs relative to GPPs; and changes to GPPs reflecting Commonwealth policy decisions — including a reduction of around \$600 million to offset State own-source revenue gains from the transfer of taxing powers (for example, the Commonwealth allowed the States to subject its business enterprises to payroll tax). In addition, the transfer in 1989–90 of housing advances, provided as part of general purpose capital assistance, into grants under the Commonwealth-State Housing Agreement shifted nearly \$320 million from GPPs to SPPs.

SPPs in 1994–95 are expected to rise by only 2 per cent, in part reflecting the reclassification of National Training Authority payments from an SPP to a Commonwealth own-purpose outlay and the untying of road grants.

The impact of classification changes can be illustrated by the hospital funding grant SPP which amounted to over \$3.5 billion in 1993–94. Had, for example,

this entire amount been provided as GPPs, the relative share of SPPs in that year would have been around 42 per cent, rather than over 52 per cent. Of course, this example does not take into account any changes to conditions that may result from shifting funds across grant types. Even so, an accurate reflection of changes in the relative shares of SPPs can only be gauged by taking account of classification changes.

Much of the concern about SPPs derives from statistics which show their dominance in total payments to the States. Even abstracting from classification changes, these statistics can mask as much as they reveal.

Payments to the States for 1993–94 amounted to around \$31.6 billion (gross), comprising: general revenue grants, \$14.89 billion (47 per cent); and SPPs, \$16.71 billion (nearly 53 per cent). These ratios are often cited as evidence of Commonwealth incursion into State affairs.

During the Commission's inquiry into Impediments to regional adjustment (IC 1993h), the New South Wales Government said:

... the increasing share of specific purpose payments substantially reduces States' fiscal flexibility and exacerbates the adverse impacts of vertical fiscal imbalance.

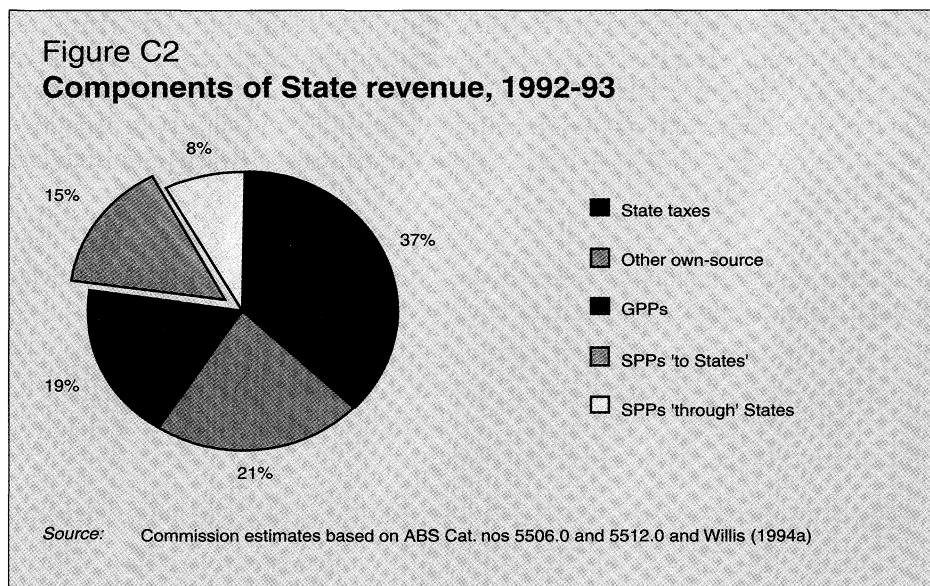
Similarly, the Northern Territory Government commented:

Tied grant funding reduces the ability of a State government to prioritise its activities ... the more funds that are provided via tied grants the less discretion State governments have to meet their own perceived needs.

However, as the then Commonwealth Treasurer (Dawkins 1992, p.73) observed, payments *through* the States do not affect States' budget flexibility. In 1993–94, they amounted to \$6.26 billion, whereas \$10.45 billion was provided by SPPs *to* the States (33 per cent of total payments to the States).

Of the SPPs *to* the States, 37 out of the 79 had matching conditions (Table C3) equating to \$2.8 billion or about 27 per cent of SPPs *to* the States. This is a significant increase over 1990–91, when they accounted for \$1.73 billion or 18 per cent of total SPPs *to* the States. These SPPs are most likely to affect States' budget flexibility. In 1993–94, SPPs with matching conditions were less than 9 per cent of total (gross) payments to the States — up from about 6 per cent in 1990–91.

Intergovernmental grants are put in the context of total State revenues in Figure C2. Grants were the dominant revenue source for the States in 1992–93, followed by State taxes, and other own-sources. On the basis that revenue equals expenditure (that is, abstracting from borrowings or deficit reduction), SPPs *to* the States, including those with matching requirements, represented about 15 per cent of State outlays in that year. This suggests significant potential for the type of grant substitution discussed in the literature (see Annex to this appendix). For example, if expenditure specified by some SPPs would



have been undertaken by the States in any event, then those SPPs merely supplant that expenditure and liberate States' own-source funds for use in other areas.

It is likely that SPPs with matching conditions as a proportion of total SPPs *to* the States in 1992-93 represented less than 4 per cent of State outlays⁴. Even if all of these SPPs involved 'dollar-for-dollar' matching, the impact on State outlays appear not to be great.

However, untied SPPs may also influence State budget flexibility if the grant exceeds the total desired spending by the State on the specific good or service, or if a State is unable to substitute the grant for its own expenditure due, for example, to a maintenance of effort requirement. Moreover, as Walsh and Thomson (1992, p.7-8) note, conditions apart from 'matching' are becoming more important.

... there has been an increased incidence of the establishment of mechanisms by which the Commonwealth can exert joint planning influence on outlays funded with its assistance (CSHA, and the arrangements for vocational education and training, for example) — and, in one case (higher education) the joint Commonwealth-State planning arrangements have been associated with a complete takeover by the Commonwealth of funding and the introduction of direct negotiations with individual (nominally State-controlled) institutions. For another, so called new 'untied' grants have come with requirements of bilateral negotiations about the purposes for which

⁴ Based on the assumption that SPPs with matching requirements in 1992-93 were around a quarter of the value of total SPPs *to* the States (the same level as 1993-94) — a reasonable assumption given that the ratio is not volatile from year to year.

they will be used (the Building Better Cities program, for example) and proposals have been made for untying of existing grants (eg schools) conditional on performance criteria being met (ie converting them into so-called 'FAGs with tags').

Thus, while analysis of the impact of SPPs on States' budget flexibility should focus on matching conditions, an examination of Commonwealth-State agreements is also warranted, although, in a number of cases, these may be more relevant to questions of sovereignty than budget flexibility and performance.

SPPs and the influence of fiscal equalisation

While the public finance literature shows that some SPPs can constrain a State's expenditure options, there is a view that this effect is largely mitigated in Australia by the operations of the Commonwealth Grants Commission (CGC).

The CGC makes assessments which form the basis of financial assistance grants (FAGs) distributed to the States according to the principle of fiscal equalisation. Four methods of dealing with SPPs are identified in CGC reports on issues in fiscal equalisation (CGC 1990, vol.2, pp.136–140). These are summarised by Willis (1994a, p.36):

- Inclusion: used for SPPs considered to meet in part the CGC's assessment of State expenditure needs. It assumes that funding through SPPs is no different in effect from the provision of general revenue assistance.
- Absorption: a variant of inclusion. SPPs are added to the pool of FAGs and the CGC's recommended per capita relativities are determined with regard to the combined pool in that year. Unquarantined Hospital Funding Grants are treated in this manner.
- Deduction: used where the SPP is considered to finance expenditure in addition to that which the States would otherwise have undertaken or where the SPP is distributed in accordance with the CGC's assessment of State needs. Only the State-funded portion of expenditure is included in the CGC's assessments.
- Exclusion: used for SPPs which are directed to areas in which the Commonwealth has largely accepted financial responsibility — most SPPs *through* the States — or which are outside the scope of the CGC's assessment. All expenditure is excluded from the assessment.

About three-quarters of SPPs *to* the States are treated under the inclusion or absorption method, thereby directly affecting the distribution of FAGs. The Commonwealth Treasurer (Willis 1994a, p.36) has noted that "concerns have been expressed that this may in some instances result in the Commonwealth's policy objectives with respect to SPPs being overridden".

Indeed, the CGC (1990, vol.2, p.157) has itself observed that, to achieve fiscal equalisation, “the inclusion method is appropriate and the overriding of the actual distribution of SPPs is a necessary outcome”. An illustrative example, based on a two-State model, contained in that report shows what happens if one State does not attract an SPP. There are two outcomes:

- the State rejecting the SPP receives an increased proportion of FAG funds, but overall the total amount received by both States is reduced by the amount of the rejected SPP; and
- if the Commonwealth increases the total pool by the amount of the rejected SPP, the State rejecting the SPP receives the full amount as additional FAG.

The CGC (1990, vol.2, p.159) noted that:

... if the inclusion method is used for a matching payment and the State chooses not to make the effort to attract such a payment, that State will ... receive its assistance as general revenue assistance and will have greater freedom to determine its expenditure priorities.

Nevertheless, while a State rejecting an SPP treated under the inclusion method could be compensated by a correspondingly larger share of general revenues, it would take five years to become fully effective (owing to the CGC’s five year averaging in its assessments).

The Commonwealth attempts to balance the seemingly conflicting objectives of SPPs and the overriding effect of fiscal equalisation. It has, on occasion, instructed that certain SPPs be treated in a different way from usual. For example, assistance provided under the South Australian Assistance Package is excluded from the CGC’s assessments to ensure that the benefit is not clawed back through lower FAGs. The Commonwealth Treasurer (Willis 1994a, p.36) points out that:

It is not necessarily the case ... that because an SPP may be overridden in a financial sense the Commonwealth’s policy objectives will be overridden. ... The objective of an SPP may be achieved by the fulfilment of the related conditions which the Commonwealth has agreed with the State receiving the payment.

Similarly, the CGC (1990, vol.1, p.93) states:

We accept that through the use of the inclusion method there is an overriding effect in an overall financial sense. However, we do not believe that there is an overriding effect in the sense of countering the objectives of individual SPPs...

That fiscal equalisation can override the effect of SPPs in a ‘financial’ sense may be an implicit acknowledgment that the inclusion method makes SPPs ‘fungible’. That is, the funds attached to an SPP displace States’ own-source funds which may have been earmarked for similar purposes, and these can then be used for other purposes.

Indeed, Noon (1991, p.23) argues that “even matching tied grants effectively become fungible within State budgets”, and that they can only be said to affect States’ broad budgetary choices where States are forced to provide services above that which they would have freely chosen; and where matching grants result in a level of service provision above the CGC assessment standard.

Noon derived ratios of State discretionary expenditure⁵ on health, education and industry assistance for 1988–89 relative to SPPs provided for those purposes. Where State spending on a program is markedly greater than ‘required’ by SPPs, this would suggest that State budgets are not forcibly altered. In all but one case, the discretionary expenditure ratio is 2:1 or greater. Noon concludes that there is no evidence that a States’ expenditure would fall below “the levels demanded by the community” if funding was via unconditional grants. Further analysis of 1988–89 State net expenditure indicated that (p.29):

... Queensland spends only \$462 and \$590 per capita respectively on education and health, whereas Victoria chose to spend \$714 and \$647 per capita on these items. Both policy areas are covered by a plethora of SPPs. They have not hampered Queensland in any discernible way from offering below-average levels of services. This emphasises that the breadth and format of SPPs do not impede States from offering divergent policy menus. The policy over-riding nature of the Commonwealth Grants Commission’s fiscal equalisation procedures at the aggregate level is confirmed...

While the analysis is useful, it may be too broad to unequivocally judge the impact of SPPs on State budget flexibility. It is possible that *within* a category such as health, tightly defined SPPs with matching conditions will affect State budget preferences. Such an impact would not be picked up in a large aggregated health category. Moreover, even if matching SPPs did not influence a State’s total expenditure on health, they may change funding priorities within the broad health category.

A more revealing test would be to examine discretionary expenditure by States in (sub)programs directly related to SPPs, including those with matching conditions. Noon (1991, p.31) implicitly acknowledges this:

... there may be particular programs where the level of discretionary expenditure in some states beyond that funded through the relevant SPP is quite minimal. If so, the SPP may be justified if it can be shown that the value of that grant is the minimum necessary for ensuring that the service is provided at the level the community demands. Otherwise, there is no economic rationale for tied funding.

5 Derived by adding program expenditure from own-source revenue, FAGs and SPPs without matching conditions expressed as a ratio of SPPs without matching conditions. Matching SPPs were excluded on the belief that they are fungible and because “a more intensive focus on the issue of whether States’ budgetary choices are being constrained can be accomplished by concentrating on SPPs without matching conditions.” Noon argues that the importance of matching SPPs is small.

The issue of fungibility and the effect of SPPs on State budgets requires further work. If it were found that some SPPs forcibly alter State expenditures, in principle, such programs should continue only where the Commonwealth knows better than the States how much of a given service is demanded (interjurisdictional spillovers) and can provide greater community benefit through SPPs than would arise under general revenue funding. And national policy objectives (universal health cover, standard national railway gauge), where funds need to be tied to a particular purpose, would need to be assessed using similar criteria.

If, on the other hand, SPPs were found to be fungible, this would raise the question of why have them, especially if real costs are attached to SPPs arising from complex administrative requirements and larger bureaucracies associated with their administration.

Administration costs and duplication of services

In its 1990 review, the CGC argued that a gain in administrative simplicity and considerable savings by the Commonwealth and the States would result from absorbing into the pool of general revenue funds, all SPPs treated by the inclusion approach. It added that such a decision would not alter the eventual distribution of the pool.

The CGC sought estimates of the administrative costs of a selected sample of SPPs (with a total value of \$4.9 billion) to the States in 1988–89. The States suggested that the average annual cost to them of the SPPs was about \$27 million. The annual cost to the Commonwealth was estimated to be around \$21 million. These estimates are, at best, indicative. The CGC noted (1990, vol.1, p.95) that “since it would take an intensive investigation to derive an accurate costing of these arrangements, the results must be highly qualified”. In comparison, the costs associated with general revenue assistance were estimated to be around \$2 million for the States and \$2.5 million for the Commonwealth.

The usefulness of such comparisons is further limited, because the costs of changing the arrangements are not known. For example, States may have to pick up greater monitoring and accountability procedures. It is also possible that, in some cases, centralised monitoring and accountability captures economies of scale.

Areas most commonly cited as involving duplication of Commonwealth and State services tend to be those affected by SPPs (education; vocational education and training; health and aged care; housing, community services and roads, for example). However, there is a paucity of quantitative information on this. While shared responsibility need not result in duplication, such areas warrant scrutiny.

Transparency and accountability

SPPs are subject to standard accountability requirements of the Commonwealth. Remittance of audit or acquittal statements is usually required for SPPs that specify funds are to be used for a particular purpose. Nevertheless, the Australian National Audit Office (Auditor-General 1990), in reviewing programs funded by SPPs, found that 12 per cent of the programs did not have clear objectives and that over 50 per cent did not have performance indicators set by the Commonwealth.

A further ANAO report (Auditor General 1993, p.2), which reviewed several government programs, found that:

The current diversity of agreements having similar intent, in our view, is not in the best interests of efficient administration. This presents opportunities for both standardisation and adoption of best practices to ensure that there is an appropriate mix of accountability and protection of the Commonwealth's interests, without jeopardising the need for flexibility in agreements, where such flexibility helps to achieve clear program objectives.

The report made a number of recommendations:

- agreements for SPPs should be formalised in writing and precisely specify purposes, objectives and the roles and responsibilities of each tier of government;
- financial responsibilities of each jurisdiction, the timing and method of funding and details for adjusting funding and matching conditions (formulas and price indexes) should be clearly specified in agreements;
- mandatory conditions attached to SPPs should be in the agreements — administrative guidelines (which should themselves be reviewed regularly) should not be used for these purposes;
- the Commonwealth should adopt prudent cash management practices and incentives should be put in place to encourage States to achieve greater efficiency; and
- all agreements for SPPs should contain mechanisms for developing performance measures and specify penalties for non-compliance.

The 1993 ANAO report also sought improved auditing of programs and raised difficulties encountered by ANAO in conducting joint audits with State Auditors-General. This was said to result in a lack of accountability, program efficiency and effectiveness monitoring.

During its inquiry into Public housing (IC 1993g), the Commission found that shared Commonwealth-State responsibilities under the CSHA provided opportunities for each level of government to avoid accountability. It found a lack of clear program objectives to assess how well funds are used and unclear

lines of responsibility contributing to confusion and poor and duplicated services.

There may be vested interests in maintaining SPPs, apart from any mutually advantageous relationships between Commonwealth and State administering departments. For example, even if SPPs were fungible, State line departments may perceive them as being in their interests because they provide a minimum baseline level of funding which provides certainty for program continuity.

Where to now?

This appendix has examined some of the major issues that emerge in the context of SPPs and intergovernmental relations. It is apparent that SPPs, as currently classified, have increased and now constitute a dominant proportion of intergovernmental grants.

However, there are areas where information is lacking. Classification changes have muddied the waters regarding the importance of SPPs over time — although it is known that SPPs with matching conditions have increased. But, the extent to which non-matching conditions affect State budget flexibility (rather than sovereignty) is unclear. Similarly, the Australian system of fiscal equalisation obscures an ‘Australian interpretation’ of the theory of intergovernmental grants.

Moreover, the effect of SPPs on accountability, duplication of services, administration costs and shifting of responsibility is incompletely understood. For example, SPPs are expensive to administer, but how expensive is not known. Despite these shortcomings, there is impetus for reform in various intergovernmental forums including Ministerial Councils, Special Premiers’ Conferences (SPCs), and the Council of Australian Government (COAG).

The 1990 SPC agreed, for example, to the goal of reducing the incidence of SPPs so as to provide the States with greater budget flexibility. A Working Group was set up to review matching arrangements. While the abandonment of the SPC process meant that this work did not see the light of day, the issue continues to reappear. COAG has recently established a working group on Commonwealth and State Roles and Responsibilities which, among other things, is examining SPPs with a view to reducing their incidence. This was to have been discussed at the August 1994 COAG meeting, but was postponed until the February 1995 meeting.

There are several options for reform of SPPs, and many involve ‘no regrets’ approaches — that is, reforms that can be sustained in their own right, regardless of uncertainties about the full impact of SPPs.

SPPs currently subject to the inclusion method by the CGC constitute one area where reform might be achieved quite readily. For programs where the Commonwealth is seeking to establish minimum national standards, or to introduce programs into States, more complex issues arise. Various broad-brush reforms are canvassed below.

Absorption into FAGs

There are three possible approaches within this option.

- Absorption with no conditions: States would be responsible for the program area and the Commonwealth would cease to have any role in the use of funds.
- Absorption with some general conditions to meet Commonwealth policy interests: While feasible, this option raises questions about intergovernmental relations. FAGs are supposed to provide unconditional assistance, although current practice involves some conditions on funds of major policy importance.
- Absorption with States entering into bilateral contracts or agreements. This may be appropriate where the Commonwealth has a legitimate policy interest necessitating more detailed conditions.

Broad-banding

Broad-banding would involve combining SPPs in similar functional areas — for example, capital and recurrent funding for particular programs. Approaches include broad-banding with conditions that reflect the broad program purpose and allow States greater flexibility within these areas; or broad-banding with reduced conditions.

Retention of existing structure with reduced conditions

Where the Commonwealth has an ongoing policy interest, it may be possible for it to take on full financial and administrative responsibility. For example, the 1994–95 Budget noted the reclassification of payments relating to the Australian National Training Authority from an SPP to Commonwealth own-purpose outlays.

Another consideration would be to examine the use of outcome-oriented performance measures for SPPs rather than specifying expenditures. Indeed, some Commonwealth-State agreements and bilateral negotiations such as the Building Better Cities Program and ‘FAGs with tags’, may provide more flexibility than traditional SPPs. Specifying performance outcomes has advantages over setting State input (expenditure) requirements to qualify for Commonwealth assistance.

The 1994–95 Commonwealth Budget (Willis 1994a, p.32) stated that:

In some areas of shared responsibility the use of outcome measures would allow the Commonwealth's broader policy interests to be satisfied while providing the States with greater medium term flexibility in the management of their budgets.

However, this aim is subject to the caveat that:

... expenditure is often used as a proxy for a performance indicator because of the difficulty inherent in reaching agreement on an output or outcome indicator ...

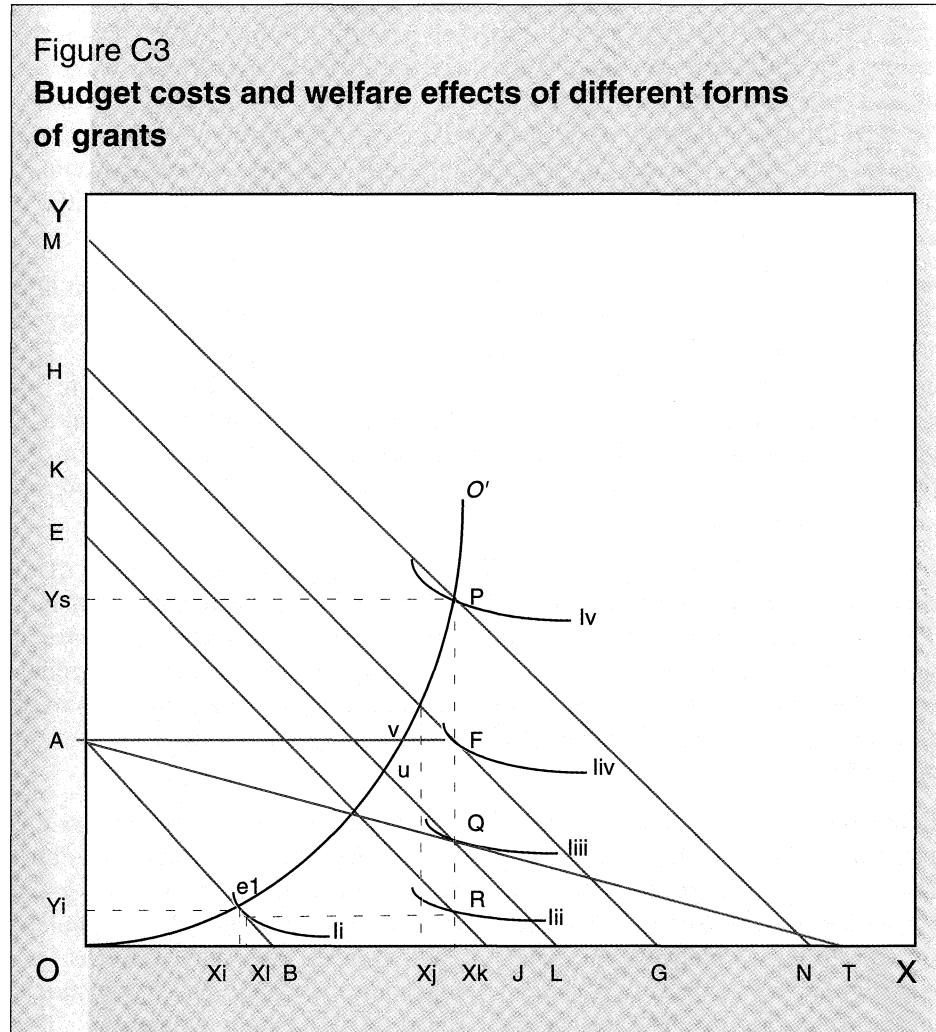
Following the removal of explicit matching conditions, continuity of service levels could be specified by maintenance of effort arrangements. The type of maintenance of effort appropriate to a particular program where matching conditions are reduced or removed will depend on the individual program.

Options for defining maintenance of effort arrangements include: agreement based on real or nominal expenditure on specified activities or on a broader program area; a commitment to maintain levels of expenditure in a broader area; or program outcomes in terms of continued delivery of a minimum level of services (as distinct from expenditure).

Determining the most appropriate form of action would require a thorough case-by-case analysis of programs and their objectives.

Annex

Illustrative analysis of different forms of grants



Various types of intergovernmental grants are examined below using indifference curve analysis. Units of a specific good (X) provided by the government are shown on the horizontal axis and all other goods (Y) are represented on the vertical axis. The local community can expend all its resources on the specific good or on other goods, subject to the budget line AB which indicates combinations of the goods. The indifference curves Ii to Iv show the community's preferences for the two goods and OO' is the income

consumption curve associated with the initial price relativities (Starkie 1984, pp.27–29). Initial equilibrium is at e_1 where the community consumes OY_i units of other goods and OX_i units of the specific good.

In this example, the Commonwealth wants to stimulate expenditure on good X from OX_i to OX_k . Budget cost is measured in terms of other goods (Y) on the vertical axis and AB represents the pre-grant budget line. A GPP will move the budget line to MN and the size of the grant will be AM — much of it leaking into expenditure on other goods. State welfare (which increases as indifference curves I_i to I_v move away from 0) is maximised (I_v) as there are no restrictions on how the grant is spent. Desired expenditure on X is achieved without restricting Y (OY_s).

An untied SPP will extend beyond (to the right of) the income consumption line (OO') if OX_k is to be achieved. The budget line is AFG. With the preferences shown, the State spends none of its resources on X, choosing to locate at F. The cost of the grant is AH. This grant is less costly than a GPP owing to its targeting and, once extended beyond the income consumption line (point V), there is no further possibility of the grant replacing local expenditure on X. State welfare is lower (I_{iv} as opposed to I_v) because the State's expenditure on Y is restricted to OA.

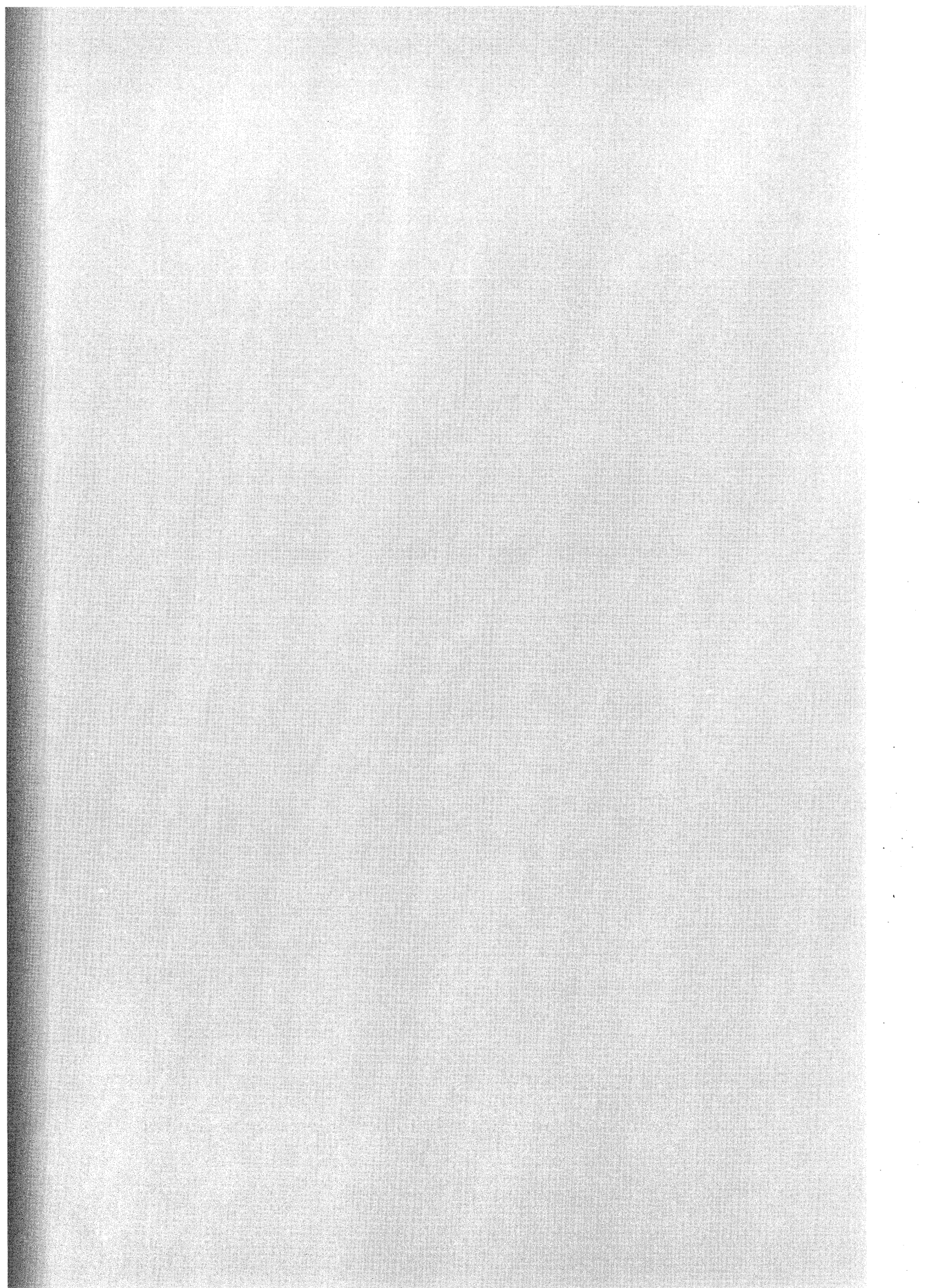
The Commonwealth would need to offer a matching ratio equal to OT/OB to achieve total expenditure OX_k on good X. The cost is AK which is less than a GPP or a conditional non-matching grant. The matching ratio reduces prospects for grant substitution as it makes it more expensive for the State to reduce expenditure on X in favour of Y, as the cost of an extra unit of Y in terms of X has risen. State welfare is lower (I_{iii}) than that associated with a GPP or an untied SPP.

Maintenance of effort requirements can further reduce a grant's cost to the Commonwealth. A State may be required to maintain or increase expenditure effort on a specific good. With the former, there is no possibility of grant substitution by the State. With the latter, the State is required to stimulate expenditure on X to receive the grant. A requirement to increase effort is less expensive for the Commonwealth than maintenance of effort. The figure shows that the State must spend OXL on X before receiving a lump sum grant. The grant's cost is AE which is cheaper than other methods.

Maintenance of effort requirements, if devised correctly, provide the Commonwealth with the cheapest method of achieving a target. With other grants, funds can leak into expenditure on other goods. But the restraint placed on State expenditure on Y affects State welfare more adversely than any of the other grants mentioned (I_{ii}). In this case, the State must reduce expenditure on Y below the pre-grant level to receive the grant.

Governments and the reform process

- D Developments in GBE reform
- E Developments in selected industries
- F Progress on microeconomic reform



Appendix D

Developments in GBE reform

Governments throughout Australia have continued to reform their government business enterprises (GBEs) to be more accountable, produce a better return on the resources invested and provide a more efficient service to the community. This appendix reviews general developments in GBE reform in the past year. It also outlines some of the main issues which are being considered at the forefront of GBE reform across Australia.

GBEs not only provide key inputs into industry; they represent a significant sector of the economy in their own right. In 1992–93, GBEs accounted for 8 per cent of the total wage bill, 13 per cent of national gross operating surplus, 10 per cent of gross domestic product, and 13 per cent of gross fixed capital expenditure¹.

Governments have been active in reforming their GBEs over the past decade (Box D1). The approach, depth and timing of reform has differed between Commonwealth, State and Territory governments. But, generally speaking, the momentum has been building.

General developments in GBE reform are reviewed in this appendix while reforms to particular GBEs are detailed in Appendices A, E and F.

The pressures for reform have come from greater stringency in government finances and from private firms seeking more efficient and effective infrastructure services. Governments require better performance from their GBEs to reduce their subsidy requirement and exposure to debt. The reforms are paying off, with, in many cases, lower costs, improved productivity, improved returns on investment and lower prices to users (SCGTE 1994b).

As FitzGerald (1993, p.33) stated in his report on national savings:

The PTE [public trading enterprise] sector has traditionally been an absorber of national saving. However, recent initiatives, including the sale of some enterprises, are reducing the extent of this draining such that the sector is now approaching balance.

¹ Commission estimates based on ABS data.

Developments within individual jurisdictions

Improving the performance of GBEs involves two fundamental tasks:

- to ensure that the goods and services provided by these enterprises are produced in the most cost-effective manner for the community; and,
- to ensure that the prices charged for these goods and services reflect their costs of supply and, where governments require GBEs to deviate from these prices, this is fully costed, identified and funded (from general revenue).

This involves putting the operations of enterprises on a more commercial footing and establishing incentives to maintain a commercial focus. Governments have three broad approaches to reforming GBEs:

- administrative changes to the operation and management of enterprises, including clear accountability, backed by a system of rewards and sanctions;
- implementing measures to promote competitive pressures; and
- transferring ownership to the private sector.

Commonwealth

The Department of Finance released a discussion paper in August 1993, *A Policy Framework for Commercialisation* (1993b). This paper provided an overall policy framework for the commercialisation of Commonwealth agencies including GBEs. The Department of Finance is to release a final, more detailed set of guidelines.

The Prices Surveillance Authority (PSA) released two discussion papers, *Pricing Guidelines for Efficiency and Fairness* (1994b) and *Price Capping: Design and Implementation Issues* (1994a) in March and June 1994 respectively. These papers outline issues concerning price control, many of which are relevant to GBE pricing.

In *Price Capping: Design and Implementation Issues*, two major issues canvassed concerned the formal approaches to prices surveillance, cost-based pricing and price capping.

The Commonwealth Government has introduced umbrella legislation into Parliament, in the form of the Commonwealth Authorities and Companies Bill². This Act will be an additional requirement for Commonwealth GBEs which are subject to the Corporations Law. The Bill is directed at governing GBE

2 Umbrella legislation is commercialisation or corporatisation legislation designed to apply to a wide range of GBEs rather than particular enterprises.

operations and generally improving their accountability. The overview provides a guide to the scope of this legislation:

This Act regulates certain aspects of the financial affairs of Commonwealth authorities. In particular, it has detailed rules about reporting and accountability. This Act also deals with other matters relating to Commonwealth authorities, such as banking and investment and conduct of executive officers (Australian Parliament 1994, p.1).

Unlike the majority of State umbrella legislation, this Bill is not a vehicle for wide-ranging structural reform, the Commonwealth Government preferring specific legislation to reform individual GBEs.

In June 1993 the relevant Commonwealth Ministers³ directed GBEs within their responsibilities to follow new guidelines, *Accountability and Ministerial Oversight Arrangements for Commonwealth Government Business Enterprises*. The guidelines stated that Ministers were to set a clear mandate and objective for each GBE, that the Boards of GBEs should contain a balance of people with business expertise that will enhance the performance of the GBE, and GBEs should also regularly benchmark themselves against world best practice (Department of Finance 1993a).

New South Wales

The New South Wales Government continues to build on a GBE reform program which has been implemented over several years.

As part of this program, four policy statements were issued in 1994: *A Tax Equivalent Regime (TER) for NSW Government Trading Enterprises* (NSW Government 1994a), *A Social Program Policy for NSW Government Trading Enterprises* (NSW Government 1994b), *A Capital Structure Policy for NSW Government Trading Enterprises* (NSW Government 1994c), and *Guarantee Fees for Commercial Sector Agency Debt* (NSW Government 1994d).

The TER Policy requires that GBEs pay Commonwealth tax-equivalent payments to the NSW Government to implement one of the key principles of the GBE reform framework, namely, competitive neutrality. For most NSW GBEs already in the Government's dividend regime, the TER will be introduced in full from the commencement of the 1994–94 financial year. There will be 13 GBEs paying tax equivalents in 1994–95.

The Social Program Policy aims to improve both the delivery of community service obligations (CSOs) and GBE performance through the identification and explicit funding of CSOs. Implementation of the policy will result in the

³ The relevant Commonwealth Minister refers to the Minister who has portfolio responsibility for the GBE.

effective separation of commercial and non-commercial activities of GBEs, with CSOs being formally contracted between the GBE and the relevant portfolio Minister. The policy provides for GBEs to identify and cost CSOs, which will then be funded through the budget. Thus CSOs would come under the same scrutiny as the budget more generally. It also raises the possibility that identified CSOs may no longer be provided by a GBE if a more efficient method of delivery is available.

The Capital Structure Policy is a key component of the financial policy framework for NSW GBEs and complements the *Financial Distribution Policy* published in August 1992. The policy is aimed at establishing commercially-based target capital structures (mix of debt and equity) for GBEs.

The statement on guarantee fees outlines a policy which has been implemented in New South Wales for some time. GBEs are charged an explicit fee on their debt based on the differences between their credit rating and that of the NSW Government.

In October 1993, the Government Pricing Tribunal of New South Wales released its first Annual Report (GPTNSW 1993). The Tribunal sets prices in a variety of industries including water, electricity and public transport⁴. GBEs cannot exceed the maximum price set by the Tribunal but may, with the Treasurer's approval, set prices at a lower level. In addition to these determinations, the Premier may refer a pricing decision to the Tribunal which then makes recommendations to the relevant Minister to act upon (Parliament of New South Wales 1992).

The Pricing Tribunal stated that through its price determinations, which explicitly attempt to reduce cross-subsidies, cross subsidisation in 1993–94 has been reduced by \$160 million (GPTNSW 1993, p.5).

Victoria

The Victorian Government has been implementing an extensive program of GBE reform involving corporatisation, structural reform and privatisation. These reforms have been focussed mainly on the electricity, gas and water industries. The Government has also announced its preferred approach for the future reform of port authorities.

In April 1994, the Victorian Treasurer (Stockdale 1994a) released an economic statement which, in part, outlines past and future GBE reforms in Victoria. The economic statement addressed general issues such as regulation and CSOs as

⁴ The Government Pricing Tribunal makes price determinations which cannot be exceeded. In addition, the Tribunal makes price recommendations which the Minister then acts upon.

well as proposed directions for industry specific reform. In the economic statement the Victorian Treasurer also outlined new commercial guidelines that were to be adopted for the payment of dividends in light of an Independent Commission of Audit report which had commented unfavourably on high dividend payouts made by some Victorian GBEs.

The Treasurer also announced the establishment of a general economic regulatory body, the Office of the Regulator-General, to (p.3–7):

- safeguard open and fair competition in competitive markets; and
- simulate competitive market outcomes in non-competitive markets.

The initial role of the Office will be to regulate the electricity, gas and water industries. It commenced operations on 1 July 1994.

In the 1994–95 Victorian budget (Stockdale 1994b) the Treasurer outlined the major objectives of GBE reform and recent developments in Victorian GBE reform, many of which had been proposed in the *Autumn Economic Statement*. The objectives of GBE reform as outlined by the Treasurer is to place GBEs on a more commercial footing closely aligned to the environment facing private sector enterprises (p.8–1):

- more effective use of the community's resources using competition to achieve ongoing efficiency gains within public sector businesses;
- maximisation of customer choice aimed at putting power back in the hands of consumers; and
- the use of the proceeds of privatisation to reduce Victoria's debt burden.

Major GBEs are now subject to income and capital gains tax-equivalent payments. The coverage of these tax-equivalent arrangements will be widened in a manner consistent with the agreements made at the March 1994 Premiers' Conference (see below).

In August 1994, the Victorian Government announced their CSO policy (Office of State Owned Enterprises 1994). This CSO policy aims to identify and make accountable social and community programs undertaken by GBEs. The policy addresses key areas of concern in CSOs, that is, defining, costing, funding, monitoring, external consulting and implementing CSOs.

Queensland

The Queensland Government is continuing an extensive program of corporatisation of its GBEs, following the release of the Government's policy guidelines for corporatisation. The Queensland Government released a policy paper *Recording and Valuation of Non-current Physical Assets in the Queensland Public Sector* (Queensland Treasury 1994) in August 1994 in

support of its corporatisation policy. The new policy specifies that assets of all Queensland GBEs should be valued on a deprival-cost basis. Details of particular GBE reforms are provided in Appendices E and F.

South Australia

In April 1994, the South Australian Commission of Audit released a report into the South Australian public sector, *Charting the Way Forward*. This document has set up a comprehensive agenda for reform of the public sector in South Australia, including GBEs. A series of reforms were recommended, including the possible privatisation of many of the State's GBEs, subjecting GBEs to increased accountability and competition and separating the government's role as both owner and regulator⁵.

The Commission of Audit specifically recommended:

- the establishment of an independent pricing tribunal, similar to that established in New South Wales, to ensure efficient pricing by government-owned monopolies;
- that non-commercial directives (CSOs) should be costed and made explicit; and
- South Australia's umbrella legislation—the *Public Corporations Act 1993*—should be amended to appear similar in nature to either the Queensland or Victorian umbrella legislation, so that it can become a catalyst for further reform including corporatisation of the State's GBEs.

Key recommendations concerning GBE reform included (South Australian Commission of Audit 1994, p.340):

Recommendation 8.2

The government should implement a microeconomic reform program for government businesses. This should include a review of the government's role in and the structure of all its business operations, nomination of those which should ultimately be sold and a complete review of the operations and efficiency of all remaining government businesses. Special reviews of the role, structure, operations and efficiency of each major government business should be provided for in legislation, on at least a seven year cycle.

A three tier reform program was recommended (p.354):

⁵ The Commission of Audit recommended that subjecting a GBE to competition could possibly include subjecting them to the *Trade Practices Act 1974*.

Recommendations 8.7

For all government businesses that remain in government ownership, the government should implement a comprehensive three tiered commercial framework. At a minimum government businesses should be commercialised (tier one), with the preference being for full corporatisation (tier two). For those government businesses to be corporatised and sold (tier three), the government should consider incorporation and full compliance with Commonwealth laws.

The key elements of the commercial framework recommended in tier one include (p.354):

- a commercial objective for government businesses;
- clear and non conflicting roles for key stakeholders;
- clear accountability backed by effective sanctions;
- a commercial financial framework; and
- a system of external performance scrutiny.

In its response to the report, the South Australian Government has announced it will take a case-by-case approach to the question of which government enterprises (whether in statutory corporation form or not) would be sold, incorporated as a company under the corporations law or otherwise dealt with to improve the efficiency of their operations. A key element of its reform program will be the establishment of a commercial framework for the operation of government businesses (Baker 1994). It will include rate of return targets, identification and funding of CSOs, performance monitoring, the payment of dividends and review of capital structures of enterprises.

Western Australia

In February 1993, the Western Australian Government announced an Independent Commission to Review Public Sector Finances (McCarrey Commission). The McCarrey Commission submitted its report, *Agenda for Reform*, in two volumes in June and August of 1993. It contains several recommendations concerning the operation of GBEs in Western Australia.

The McCarrey Commission set out a model of corporatisation which incorporated: clear and non-conflicting objectives; managerial autonomy, authority and responsibility; performance monitoring; rewards and sanctions; and competitive neutrality. The report criticised the pace of corporatisation reform in Western Australia. Other recommendations contained within the report included:

- the establishment of an independent GBE pricing tribunal;
- subjecting GBEs to tax-equivalent payments;

- subjecting GBEs to a dividend policy;
- the establishment of a State Enterprise Council (containing a majority of private sector members) to provide advice to Government on the transitional process; and
- the establishment of a sub-committee of Cabinet, chaired by the Premier, to oversee the implementation of reform.

The performance of individual Western Australian GBEs was also assessed by the Commission and recommendations made on how to improve individual GBE performance. The Commission recommended the privatisation of several GBEs. Some of these have since been privatised (Appendix F).

As recommended by the Commission, a Cabinet sub-committee on public sector reform was established to oversee implementation of the Commission's recommendations.

The Western Australian Government has announced its intention to introduce more efficient commercial practices into the operations of its major trading enterprises (Court 1994). A program for the corporatisation of a number of major GBEs has been set in place. Several enterprises were privatised during 1993–94, and competitive tendering and contracting have been promoted as means of improving the efficiency of services provided by the public sector.

Tasmania

Following a review of the *State Authorities Financial Management Act 1990*, the Tasmanian Government will introduce new umbrella legislation for its GBEs. The new legislation will be based on principles that have been widely used to corporatise GBEs throughout Australia. These principles include clear and non-conflicting commercial objectives, reduction in the day-to-day ministerial involvement in GBE operations, performance monitoring and provisions made for competitive neutrality. Those principles have already been applied to the newly corporatised Printing Authority of Tasmania and Forestry Tasmania (Appendix F).

Interjurisdictional developments

GBE reform is not just driven by individual governments. Many general and industry-specific reforms require the co-operation of different governments. General developments in intergovernmental co-operation on GBE reform are outlined in this section.

Council of Australian Governments

The ongoing reform of industries dominated by GBEs has remained a feature of the agenda of COAG. The Council has agreed that the establishment of an effective national competition and legal framework, encompassing GBEs, is crucial to underpin enhanced economic performance (Appendix G). It has continued to co-ordinate national reform efforts in the electricity, gas and water industries (Appendices A and E). In February 1994, it added the maritime sector to this agenda (COAG 1994a).

Steering Committee on National Performance Monitoring of Government Trading Enterprises

In April 1994, the Steering Committee on National Performance Monitoring of Government Trading Enterprises (SCGTE) released a paper on CSOs. Defining, costing and funding of CSOs continues to be a major issue in the GBE reform debate. The SCGTE (1994a, p.xi) definition of a CSO is:

A Community Service Obligation arises when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, and which the government does not require other businesses in the public or private sectors to generally undertake, or which it would only do commercially at higher prices.

The paper reviews different methods of measuring the cost of CSOs. It concludes that the avoidable cost approach will usually be the preferred method. The paper suggests a case-by-case approach to measuring the cost of CSOs.

The paper considered five different methods of funding CSOs including cross-subsidies between different users, explicit levies on users, direct cash transfers to consumers and acceptance of lower rates of return on capital. They all involve different trade-offs between efficiency and other objectives. An advantage of direct funding of CSOs from government budgets is that it provides greater transparency of the provision of these services.

As part of the corporatisation process and general reform of GBEs, increased emphasis has been placed on performance monitoring. Performance monitoring has been used to allow yardstick competition, by benchmarking performance of GBEs between jurisdictions and even internationally. The SCGTE is producing an annual study of performance indicators for a sample of GBEs. In conjunction with this work, the SCGTE is also looking at related issues such as valuing assets and calculating indicators such as economic rates of return.

Box D1

Chronology of reviews and developments in GBE reform^a*Commonwealth*

- 1983 Guidelines for the form and standard of financial statements of Commonwealth undertakings (accounting guidelines)
- 1986 Statutory Authorities and Government Business Enterprises, Proposed Policy Guidelines (discussion paper)
- 1987 Policy Guidelines for Commonwealth Statutory Authorities and Government Business Enterprises (information paper)
- 1993 Accountability and Ministerial Oversight Arrangements for Commonwealth Government Business Enterprises (administrative guidelines)
- 1993 A Policy Framework for Commercialisation (discussion paper)
- 1994 Commonwealth Authorities and Companies Bill (umbrella legislation)

New South Wales

- 1988 Focus on Reform: Report on the State's Finances (Commission of Audit report)
- 1988 A Policy Framework for Improving the Performance of Government Trading Enterprises (Steering Committee on Government Trading Enterprises report)
- 1989 State Owned Corporations Act (umbrella legislation)
- 1992 Government Pricing Tribunal Act (establishment of pricing reform body)

Victoria

- 1983 Public Authorities (Dividend) Act (required GBEs to pay dividends)
- 1986 Public Authority Policy and Rate of Return Reporting (information paper)
- 1991 Corporatisation of GBEs (discussion paper)
- 1992 The Reform of Victoria's Public Authorities — A Discussion Document (discussion paper)
- 1992 Restoring Victoria's Finances: A Beginning, Treasurer's Statement on Victoria's Financial Management Strategy (policy statement)
- 1992 State Owned Enterprises Act (umbrella legislation)
- 1993 Electricity Industry Act (electricity reform legislation)
- 1994 Autumn Economic Statement (policy statement)

Queensland

- 1981 Co-ordinating and Review Committee Report (stocktake of Queensland GBEs)
- 1983 Report on Queensland Statutory Authorities (accountability of GBE review)

Box D1 (continued)

- 1987 Public Sector Review (administrative reform document)
- 1990 Green Paper on Government Owned Enterprises (green paper)
- 1992 Corporatisation in Queensland: Policy Guidelines (white paper)
- 1993 Government Owned Corporations Act (umbrella legislation)

South Australia

- 1992 South Australian Budget (principles of commercialisation)
- 1993 Public Corporations Act (umbrella legislation)
- 1994 Charting the Way Forward, Improving Public Sector Performance (Commission of Audit report)

Western Australia

- 1990 Progress and Priorities — An Overview of the WA Government's Approach to Microeconomic Reform (policy statement)
- 1991 Reform and Renewal — A Policy Discussion Paper on the Corporatisation of Government Trading Enterprises (discussion paper)
- 1992 The WA Advantage (policy statement)
- 1993 Agenda for Reform (McCarrey Commission) (Independent Commission to Review Public Sector Finances report)

Tasmania

- 1990 State Authorities Financial Management Act (umbrella legislation)
- 1992 Tasmania in the Nineties (Independent Commission to Review Tasmania's Public Sector Finances report)

Australian Capital Territory

- 1990 Territory Owned Corporations Act (umbrella legislation)

a The complete references for material in this box are listed on pp.431-432.

Premiers' Conference

The Premiers' Conference is another mechanism for interjurisdictional reform. To enhance the competitive neutrality of GBEs and reach a situation of tax uniformity throughout the jurisdictions, the Premiers' Conference has agreed to a series of reforms.

The Premiers' Conference of 25 March 1994 (Willis 1994b) agreed to establish a process for achieving tax uniformity and competitive neutrality between activities undertaken by GBEs and the private sector. Under this agreement, the States will collect tax-equivalent payments directly from their own wholly-owned GBEs; while the Commonwealth will continue to collect tax from privatised State GBEs and will comprehensively apply income tax and

wholesale tax to its own GBEs. The tax-equivalent regimes are to be established by the States on a uniform basis within three years and are to match the Commonwealth taxation system.

In addition, compensation will be provided on a case-by-case basis by the Commonwealth to ensure that the arrangements do not result in advantage or disadvantage to the other party. Tax compensation will continue to be provided by the Commonwealth for State GBEs which are partially privatised or are jointly owned with the Commonwealth and for those banks or insurance offices where privatisation commenced before 1 July 1995. Tax compensation will be provided by the Commonwealth in relation to wholesale sales tax where a State GBE is fully privatised. In addition, the Commonwealth has agreed to consider income tax compensation on a case-by-case basis for fully privatised GBEs.

The agreement clarifies the taxation arrangements applying to GBEs and transfers some taxing powers over GBEs to the States. Some tax compensation will be provided to the States for wholesale taxes forgone as a result of full or partial privatisation and for income tax losses for partially privatised GBEs and those jointly owned with the Commonwealth.

Issues in GBE reform

The scope and pace of GBE reform has varied between jurisdictions, leaving a marked difference in the main issues of GBE reform being addressed by individual governments. In some jurisdictions, for instance, corporatisation is a priority issue while, for others, the focus is on privatisation issues. In considering many issues in the implementation of GBE reform, governments are able to draw upon the proposals and experience of other governments. In other cases, governments find themselves embarking on relatively new ground with less previous experience or applied analysis to guide their reforms. Such issues can be considered to be at the forefront of GBE reform in Australia.

At the national level there is the move to introduce a competition policy framework as envisaged in the Hilmer report. Reforms in this area can be classified as:

- extension of the Trade Practices Act to cover public utilities;
- structural reform of public monopolies;
- regulation of monopoly pricing by GBEs;
- competitive neutrality policy and principles; and
- access to services provided by means of essential facilities (network access).

Such reforms raise many network issues. Through vertical separation (separating the competitive elements of GBEs from the natural monopoly elements) governments throughout Australia are creating intrastate and now interstate markets. Non-discriminatory access to networks is a particular concern as the owner of the network has an incentive to exploit potential users by raising prices above the cost of supply and restricting access. Responses to be considered by governments include regulation of access conditions, common carrier provisions and access pricing regulation. The creation of interstate networks raises additional challenges — co-operation between governments, control over assets, and establishing the operating environment (Appendix A).

Issues in the reform process are not, however, restricted to the ideas in the Hilmer report. The identification, costing and funding of CSOs is a fundamental issue in GBE reform. With GBEs subject to increased commercial focus and new competitive environments, CSOs become integral to achieving competitive neutrality and reducing internal cross-subsidisation that exists in GBE pricing structures. A major difficulty is accurately costing CSOs in a range of different market circumstances (SCGTE 1994a).

This reduction in cross-subsidisation is part of the larger issue of efficient pricing of the goods and services supplied by GBEs. Introducing efficient pricing policies is a complex matter. There are several aspects to be considered and GBE reform programs are still grappling with them.

Pricing policies are moving towards structures which reflect the variations of supplying different users. Cost of supply may vary between end-use (for example, domestic or commercial), time of use (peak or off-peak), location and according to whether there is excess or full capacity. Information systems within enterprises need to be adequate to identify the cost of supplying different market segments. In addition, valuing assets on a consistent basis is an issue in assisting GBEs to correctly identify appropriate costs.

Pricing policies may be enforced by price regulation, but this may not be sufficient to encourage GBEs to adopt cost-minimising behaviour. Incentive regulation schemes to reduce costs can be used to encourage such behaviour by incorporating bonuses or rewards for regulated firms which reduce costs and raise productivity.

For governments devising regulatory bodies, an issue is whether the bodies should be 'light handed' or 'heavy handed' and whether they should be industry-based or general regulatory agencies.

Some governments are reviewing the effectiveness of arrangements to enhance the accountability of GBEs. This involves assessment of the general relationship between enterprises and government, procedures for reporting to

government, performance monitoring and rewards and sanctions for GBE management. The difficulty for many governments is that, as they increase GBE autonomy, they have less direct control over a GBE's performance.

Privatisation is a major issue in GBE reform. Governments are faced with judgments as to whether privatisation will contribute to greater competition and efficiency. Privatisation will not necessarily lead to increased competition and efficiency on its own. An important pre-condition is that the GBE is first placed in a competitive environment before being privatised. There may be some conflict for governments in maximising their return by selling a GBE as a monopolist and allowing competition in the market.

Many State governments have been raising the issue of compensation payments. Their claim for compensation arises from the fact that privatisation would not only see State governments lose revenue from GBEs' dividend and tax-equivalent payments, but would also see the Commonwealth gain tax revenue from any newly privatised GBEs. This claim and whether it impedes what would otherwise be worthwhile privatisation is of current debate.

A related issue is the timing of privatisation. Aspects such as revaluing assets, removing government administrative functions and eliminating artificial barriers to entry need to be addressed before a privatisation can take place successfully.

Appendix E

Developments in selected industries

Most governments have initiated reform programs in recent years for major infrastructure industries. This appendix reports on developments in 1993–94.

As part of its annual reporting on industry performance, the Commission has for a number of years reported on developments in the major infrastructure industries. The areas reported on this year are:

- aviation
- broadcasting
- energy supply and distribution
- mail, courier and parcel services
- rail
- road transport
- telecommunications
- water resources and waste water disposal
- the waterfront and shipping.

Aviation

The major focus of reform in Australia's aviation services in the 1990s has been on increasing the scope for the competitive supply of services — interstate, intrastate and international. The approach has been to remove or free up economic regulations which constrain entry and the integration of the domestic and international aviation sectors. Reform processes at the Commonwealth, State and Territory levels have been documented in previous annual reports of the Commission. The principal developments in 1993–94 concern the provision of aviation infrastructure services by the Federal Airports Corporation (FAC) and the Civil Aviation Authority (CAA).

The Prices Surveillance Authority (PSA 1994c) reported in June 1994 that average domestic air fares on interstate routes had fallen 25.4 per cent in real terms since deregulation, while the number of passengers carried had increased by 1.21 million or 59.5 per cent. Although full-fare economy rates have remained stable since deregulation, the range of discount fares has increased.

The PSA also released some preliminary figures comparing Australian full-fare economy air fares with those for comparable trips in other countries. Australian air fares were less expensive in the majority of cases.

In *Working Nation* (Keating 1994c), the Commonwealth Government announced its decision to privatise the FAC and that it had a preference to sell airports owned by the FAC individually. The Minister for Transport has also foreshadowed major changes to the operations of the CAA.

In other developments:

- the new CAA charging regime operating from 1 July 1994 will see costs to users reduced by \$56 million a year in real terms. The reduction in charges will see a decrease in flying costs for jets on routes such as Sydney-Melbourne and Singapore-Sydney; and
- as required by the Government, the CAA released its Industry Development Plan for 1993-94. The plan extends the CAA's tasks beyond its primary role of effective and efficient safety regulation and the provision of world class aviation traffic services.

Intrastate air services continue to be subject to extensive economic regulation in Tasmania. They are no longer regulated in Victoria, South Australia and the Territories and New South Wales is to deregulate in 1996, once existing licences expire. Queensland has minimal regulation. The Western Australian Department of Transport is undertaking a review of the relatively small non-jet intrastate network and its possible deregulation. The Department has taken public submissions and is to report to its Minister in September 1994.

The International Air Services Commission (IASC) was established in 1992 to independently allocate air service rights to Australian carriers within the constraints of the bilateral arrangements which govern international air services. In its deliberations, the IASC is required to take account of the extent to which proposals contribute to the development of a competitive environment for the provision of international air services. Ansett Australia commenced operations into the Indonesian island of Bali in September 1993 (IASC 1993). Early indications are that this has led to an increase in the total travel market to Bali from Australia.

Broadcasting

Changes in the regulatory framework for broadcasting services in Australia have taken place against broader reforms in the management of the radiofrequency spectrum that is used for electronic communication.

A market-based approach to spectrum management has been introduced for those areas subject to high commercial demand. The aim is to encourage the

use of spectrum-efficient technology, permit efficient and transparent charging for use of the spectrum and improve the responsiveness of spectrum use to changing needs. The Spectrum Management Agency is the independent Commonwealth statutory agency responsible for managing the radiofrequency spectrum and the reforms. As part of the reform program announced in 1992, the Industry Commission is scheduled to conduct a review in 1995 (DTC 1992).

The spectrum management reforms did not encompass the broadcasting service bands used for AM and FM radio and VHF and UHF television. The regulatory framework for broadcasting services has also been liberalised. However, prescriptive controls apply in the areas of Australian content and ownership and control, and industry development obligations apply to satellite licensees.

The regulatory framework for broadcasting services

On 5 October 1992, a new regulatory framework for broadcasting came into operation with the *Broadcasting Services Act 1992*. The Act provides the basis for moving to a simpler licensing regime, releasing more of the spectrum for broadcasting use, price-based allocation of licences, a measure of self regulation of program standards by broadcasters, and a less legalistic approach for the industry regulator, the Australian Broadcasting Authority (ABA). According to the ABA (1993, p.7):

The Act expounds a system of regulatory control which is now in accordance with the degree of influence of the service provided.

Mirroring the new Act, the ABA's main functions are in the areas of planning, licensing, and program standards and codes. It is required to consult widely in each activity. In the 1994–95 Budget the Government (Willis and Beazley 1994, p.3.135) stated that:

Reflecting the more liberal regulatory regime under the *Broadcasting Services Act 1992* and the consequent reduction in the need for regulatory intervention, funding for the ABA is expected to decline significantly in real terms.

The licensing function of the ABA has been substantially modified compared with that of the Tribunal it replaced. Commercial broadcasting services, community broadcasting services and subscription television broadcasting services (pay TV) require individual licences. Other broadcasting services such as radio and television narrowcast services, which have limited audiences or limited coverage, are provided under class licences. Class licences allow any operator to enter the market and provide a service, so long as the operator has access to a delivery capacity and abides by conditions relevant to the particular category of class licence.

Automatic inquiries into granting and renewing broadcasting licences are no longer required and reporting requirements related to ownership and control have been greatly relaxed.

Under the former system, program standards were determined by the Tribunal. These are now being replaced by industry developed codes of practice (covering, for example, the portrayal of violence) which are registered with the Authority when it is satisfied the codes provide appropriate community safeguards. The ABA sets compulsory standards for Australian content on commercial television and children's television programming on commercial and community television.

New commercial broadcasting licences for radio or television are to be allocated using price-based mechanisms, rather than administratively as occurred previously. The ABA has also used a price-based system to allocate a number of vacant AM radio channels for short-term use by narrowcasters.

Pay television

Part 7 of the Broadcasting Services Act ended the moratorium on pay-television services in Australia. It provides for allocation by tender of two four-channel satellite subscription licences (A and B), and provision of a two-channel licence (C) to a subsidiary of the Australian Broadcasting Corporation. Services are required to be transmitted using digital technology on the Optus satellite. In contrast to a main thrust elsewhere in the Act, this Part is not technology neutral. It identifies satellite broadcasting as the Government's preferred delivery technology and prevents microwave services being established until satellite services commence under Licence A, Licence B or Licence C, or until 31 December 1994. The Act imposes no such restriction on the delivery of pay TV via cable or optic fibre.

Licences A and B were allocated for \$194 million for the two licences, plus \$5 million forfeited deposit. In May 1994, the licensees set a common digital broadcast standard as required under the Act. Broadcasting of pay TV is expected to begin in early 1995. Auctions for 190 microwave licences will be held in 13 areas around Australia in the second half of 1994. On the cable front, the ABA has allocated 193 cable licences to 11 applicants. Telecom has announced a \$700 million roll out of coaxial cable and optic fibre to homes and has begun pilot broadcasts of pay TV in Sydney.

The Act requires each predominantly drama pay-TV service to allocate 10 per cent of program expenditure for that service each year to new Australian drama programs; requires industry development plans as a licence condition for satellite licences; sets foreign ownership restrictions; and prohibits advertising on pay TV until 1997. More recently, regulations have been introduced to prevent pay-TV operators 'syphoning' from free-to-air television major Australian and overseas sporting events considered to be of national or cultural significance.

Energy supply and distribution

Central to the reform of the electricity supply industry is the establishment of a national electricity grid. Recent developments relating to the grid and in State electricity supply industries are reported in Appendix A.

Major developments in the gas industry in the past year have included the COAG agreement on a regulatory framework for gas pipelines, and the corporatisation and separation of GBEs. The Commonwealth sold its only gas infrastructure asset, the Sydney-Moomba gas pipeline, to East Australia Pipeline Ltd in June 1994.

The Commonwealth Government announced the development of a national regulatory framework for interstate gas pipeline operators in June 1993 but, in February 1994, deferred its Interstate Gas Pipelines Bill 1993. The Bill was designed to promote competition through facilitating free and fair trade in natural gas, including arrangements for third-party access to pipelines, on a national basis. The decision to defer the Bill reflects the agreement reached by COAG in February 1994, to implement free and fair trade in gas, within and between jurisdictions, by 1 July 1996. COAG members will now be expected to introduce their own gas market reforms by 1 July 1996.

COAG also decided that no further exclusive franchises would be issued and that plans to implement more competitive franchise arrangements be developed by 1 July 1996. COAG further agreed that arrangements for the gas industry need to be settled within the next two years, even though they will not take full effect for several years. This timetable is compatible with the scheduled introduction of the national electricity market in 1995.

In other developments, the South Australian Government approved the sale of 160 petajoules of ethane gas to ICI Sydney over the next 10 years. Interstate sales of ethane gas from South Australia have required Ministerial approval.

The Gas and Fuel Corporation of Victoria (GFCV) has been a vertically integrated monopoly across production, transmission, and distribution. The Victorian Government has announced that the initial phase of its gas reform program involves: disaggregating the GFCV into separate transmission and distribution businesses; and establishing a regulatory framework covering open access to pipelines and regulation of tariffs, to be administered by the Office of the Regulator-General.

In Western Australia, various reports have recommended the separation of the gas and electricity businesses and two new corporate entities are to be established to replace the State Energy Commission of Western Australia from 1 January 1995.

The Sydney-Moomba gas pipeline was sold on 30 June 1994 to a consortium of Australian, Malaysian, and Canadian interests. AGL took a 51 per cent shareholding, while the Canadian-based Novacorp International acquired 25 per cent and Malaysia's Petronas took the remaining equity. The Commonwealth Government had originally planned to sell the pipeline in 1989. However, due to AGL's first right of refusal on majority ownership, granted at the time of the Commonwealth's nationalisation of the project in the 1970s, the sale had been stalled by legal proceedings.

Mail, courier and parcel services

On 15 November 1993, the Government announced a series of reforms to introduce further competition for Australia Post (Beddall 1993). A feature of Australia Post's monopoly had been that no other organisation was permitted to carry addressed letters unless it charged a minimum of \$4.50 per letter — ten times the standard letter rate of 45 cents.

The Government announced that:

- the price threshold at which competition is to be allowed would be cut from \$4.50 to \$1.80 per letter, effective from July 1994;
- competitors would be permitted to carry heavy letters of more than 250g (previously 500g) at any price;
- the carriage of mail by a contractor within and between different parts of an organisation would be permitted (previously only an employee could do so);
- the carriage of mail within a document exchange network would be permitted (previously the legality of doing so was uncertain);
- businesses would no longer be required to lodge bulk mail at their nearest post office and would be able to negotiate commercial rates with Australia Post when they lodge at designated mail centres closer to the locations for final delivery; and
- outgoing international mail would be deregulated; incoming mail would be partly deregulated, but private sector international operators would be obliged to lodge mail into the Australia Post system for domestic delivery.

These reforms were to take effect from 1 July 1994, but the enabling legislation was not introduced into Parliament until 30 June 1994. The reforms are not now expected to take effect until late 1994, at the earliest. A review of the changes is to commence in July 1996 and be concluded before June 1997 (Beddall 1993).

In February 1994, the Federal Minister for Communications and the Arts announced the acceptance of a recommendation, made by an ALP Caucus

Committee, on postal services to rural and remote communities (Lee and Woods 1994). The Committee referred to a potential conflict for Australia Post in obtaining a satisfactory financial result and in fulfilling its community service obligations. It recommended that, once in the term of a government, the House of Representatives Transport, Communications and Infrastructure Committee review Australia Post's discharge of its community service obligations. The first such review is to take place in 1995.

In August 1994, Australia Post announced that the standard letter rate of 45 cents has been fixed until at least the beginning of 1997 (Lee 1994e). This price freeze implies that by 1997, the real price of posting a standard letter will be about 12 per cent lower than when Australia Post was corporatised in 1989.

Rail

Rail reform during 1993–94 has been characterised by gradual and piecemeal adjustments to infrastructure and capital utilisation and the continuing establishment of the National Rail Corporation (NR). Adjustments to infrastructure and capitalisation follow in part from the *One Nation* (Keating 1992) rail infrastructure package worth some \$454 million, which aimed to build on the NR initiative through a targeted capital investment program. By 30 June 1994, nearly all of the money had been committed to infrastructure initiatives or the provision of new services including:

- standardisation of the Melbourne to Adelaide rail line. Conversion of the 775 kilometre broad gauge track between Melbourne and Adelaide is scheduled to be completed by mid-1995 and will result in a national standard-gauge network connecting Brisbane, Sydney, Melbourne, Adelaide, Perth, and Alice Springs;
- upgrading of Melbourne and Brisbane freight terminals, and a new freight terminal at Enfield in Sydney; and
- Seatrain services, RoadRailer services, and double-stacking services, with the associated infrastructure developments (such as the strengthening of bridges and raising height clearances).

The majority of the *One Nation* approved projects are directly managed by NR. Established in February 1993, NR is responsible for the marketing and managing of all interstate rail freight with the exception of eastbound interstate freight from Perth. However, NR is negotiating with Westrail to take over this traffic. NR is now responsible for marketing, terminals (except in Western Australia), deployment and maintenance of wagons, crewing of trains in the Melbourne-Adelaide corridor and progressively in the Sydney-Melbourne corridor.

A major issue of rail reform in 1993–94 was the control of rail infrastructure by NR. The Shareholders' Agreement which established NR provides for the functions and infrastructure — such as track, signalling, structures and associated services — to be transferred from rail authorities during the period 1 February 1993 to 31 January 1996. NR is undertaking a due-diligence process before determining which assets it will nominate for transfer to it.

The National Transport Planning Task Force is reviewing infrastructure issues for all land-based freight transport and is due to report in 1994. NR is currently sharing tracks with the various rail authorities. Under this arrangement, the management and maintenance of infrastructure is still the responsibility of the individual State rail systems and the Commonwealth-owned Australian National (AN).

NR's enterprise agreement with the ACTU and rail unions (there are now only two rail unions compared with 30 previously) has reduced job classifications from more than 2 000 to nine. Since November 1993, NR drivers have been driving interstate trains, and the Melbourne to Adelaide train has only one change of crew (four changes were previously undertaken). Because of new work agreements, NR has been able to achieve productivity improvements at its freight terminals. For example, the number of containers handled weekly at NR's Dynon Container terminal increased from 300 to 800 between May 1993 and May 1994 even though the workforce was reduced from 70 to 41.

Reliability is an important factor in maintaining and developing a strong customer base. NR conceded that its trains became less reliable between June and December in 1993 but attributed this to the poorly maintained locomotives it inherited.

AN is responsible for rail services in Tasmania and non-metropolitan Adelaide and continued the significant process of rationalisation that has been underway for some years. AN staffing was reduced by more than 12 per cent during the year. The Commonwealth is reviewing the future of AN in the light of the establishment of NR.

In Victoria, the Public Transport Corporation (PTC) is seeking to reduce deficit funding and bring itself into line with international best practice. Victoria was one of the least efficient providers of rail services but has made substantial progress under its Public Transport Reform Strategy. Like most other States, Victoria has rationalised its services, contracted out some non-core functions, and made structural changes to operations. Work practice reforms are expected to achieve savings of \$245 million a year, mainly by the reduction of over-staffing. PTC staff were reduced by 20 to 25 per cent in 1993–94. As part of the reform process, some country passenger trains will be privately operated and buses will replace some country rail services.

Queensland Rail is rationalising its services (especially country passenger services), upgrading and replacing rolling stock, and improving infrastructure. With strong growth in the Queensland mining industry, Queensland Rail is planning to spend nearly \$1 billion to meet this demand. An Export Coal Credit Scheme is allowing owners of mines to accumulate credits on their exports railings between 1992–93 and 1994–95. These credits can be used until 2001–02 to receive rebates of up to \$1.00 per tonne against export railings from new mines or mine expansions. Importantly, rail freight rates are now based on commercial pricing agreements — that is, they do not include an undisclosed coal royalty.

Queensland Rail has identified several corporate priorities for 1994–95 including: workplace reform, customer service, and information and capital investment management. Queensland Rail is to be corporatised on 1 July 1995.

The Western Australian transport market has been deregulated. With open competition from road transport, Westrail's major reform efforts have been to position itself in the more competitive market.

In March 1994, the State Rail Authority of New South Wales received the first consignment of locomotives as part of a \$700 million ReadyPower agreement, under which locomotives will be leased to FreightRail on a per-kilometre-used basis.

Road transport

The National Road Transport Commission (NRTC), is responsible for developing a national approach to the regulation of road transport and charging for heavy vehicles. This involves recommending uniform or consistent road transport regulation to the Ministerial Council for Road Transport for adoption nationally. The reform process has begun to produce benefits through revised operational requirements to improve productivity such as increased heavy vehicle combination length.

However, while the need for reforms in road transport has been recognised, the Commission's inquiry on petroleum products (IC 1994f, p.230) found that the pace of reform remains slow and the efforts of the NTRC to advance reforms warrant greater support from Commonwealth, State and local governments. For its part, the Commonwealth has enacted two pieces of legislation covering charges and vehicle operations. However, the implementation of those reforms is dependent on other jurisdictions.

The approach to reform is for the Commonwealth Government to introduce heavy vehicle legislation in the Australian Capital Territory (ACT) and for the States and the Northern Territory to then introduce complementary legislation,

thereby achieving legislative uniformity. It is proposed that there be six 'modules' covering: heavy vehicle charges; vehicle operation; the transport of dangerous goods by road; vehicle registration; driver licensing; and compliance and enforcement.

Under the Heads of Government Agreement, all States and Territories have agreed to adopt the 'national regulation' in their legislation and for consistent regulation to take effect from July 1995. When all modules are operating in all States and Territories, the parts will be consolidated as the Road Transport Law.

Regulations covering heavy vehicle charges were approved by the Ministerial Council in December 1993 and will come into effect in the ACT from July 1995. Two other sets of regulation have been agreed to by the Council — the Road Transport Reform (Heavy Vehicle Standards) Regulations and the Road Transport Reform (Mass Loading) Regulations.

Although the States and Territories have agreed to adopt national legislation, some have indicated that they will not do so until New South Wales (NSW) and Victoria put in place the necessary legislation. This is creating delays and uncertainty because NSW has linked implementation to funding and operator accreditation reforms. An early resolution of these problems and the introduction of legislation is needed if national regulation is to be in place by June 1995.

Telecommunications

In November 1990, the Minister for Transport and Communications announced a package of reforms to promote network competition in the telecommunications industry. The package included limited carrier licencing arrangements which will apply until 1997. The reform package and associated developments were discussed in the Commission's previous three *Annual Reports*.

Residential and business consumers have benefitted from the reforms. Austel has estimated that reductions in Telecom's prices saved consumers \$300 million in 1992–93 (Lee 1994c). These savings arose from Telecom's obligation to meet a price cap and do not include other savings arising from greater competition in the supply of services exempt from the price cap.

The major development during the past year was the announcement of a review to determine the regulatory regime that will operate after 1997 (Lee 1994d). The industry development arrangements applying to telecommunications equipment have also been modified.

Review of regulatory arrangements

The starting point for the review of the regulatory regime is the Government's commitment to full and open competition after 30 June 1997. The review is therefore about establishing the appropriate regime for the introduction and operation of greater competition. Issues to be considered include:

- the relevance of the current carrier licensing scheme post-1997;
- the types of new carriers that might be licensed;
- inter-connect and equal access arrangements;
- consumer and social issues including universal service, privacy and numbering policy and the future of price regulation, including price caps;
- ongoing industry development arrangements; and
- the development of technology-neutral service regulation and service-neutral technology regulation including the future role of Austel as a specialist industry regulator vis-a-vis the Trade Practices Commission (or its successor body under the Hilmer recommendations).

The review will be conducted within government under the direction of the Minister for Communications and the Arts. A Telecommunications Advisory Panel, consisting of industry and consumer representatives, will be chaired by the Minister and will advise him on issues which arise during the review.

Price discrimination legislation

Telstra (Telecom) offers a number of discount arrangements to business and domestic consumers such as Flexi-Plans and Strategic Partnership Agreements. Some of these arrangements technically involve elements of price discrimination. The Government has introduced legislation to remove doubts over the legality of such agreements under the Telecommunications Act. Under the amendments, discount agreements are allowed so long as they are:

- generally available and not narrowly targetted to select business or residential consumers; or
- if narrowly targetted, based on cost differentials.

The amendments permit the majority of the 2.3 million Telecom Flexi-Plans. The legislation also provides new powers to Austel to ensure that the benefits of competition are passed on to all consumers. Austel will have power to disallow dominant carrier tariffs if, in its opinion, they materially and adversely affect the development of commercially sustainable competition. The Minister (Lee 1994a, p.1937) has noted that:

this test ... is deliberately different from those applicable under the Trade Practices Act. This reflects the still developing nature of competition in telecommunications and the barrier to competition that would otherwise be represented by Telstra's incumbent position.

Service quality monitoring

On 13 April 1994, Austel released a report on Telecom's handling of certain consumer complaints. The report "identified a number of serious shortcomings in Telecom's dealings with small business customers and in the manner in which Telecom had gone about resolving complaints" (Lee 1994b). Telecom substantially agreed with Austel's criticisms and undertook to implement the recommendations. The Government announced new guidelines to cover voice monitoring and/or recording of customer conversations to detect faults.

Industry development arrangements

Two types of industry development arrangements operate specifically in the telecommunications equipment industry: carrier industry plans and industry development arrangements for customer premises equipment.

Carrier industry plans

As part of their licence conditions the three carriers — Optus, Vodafone, and Telecom — are required to submit plans to encourage strategic alliances, exports, research and development and the use of competitive Australian suppliers. The Telecommunications Industry Development Authority (TIDA) reviews the carriers' performance against their plans and reports to the Minister for Industry, Science and Technology and the Minister for Communications and the Arts. Each licensee must make a summary of its plan public. TIDA evaluation reports are not publicly released.

Industry Development Arrangements for customer premises equipment

Under the Industry Development Arrangements (IDAs), approved companies can connect certain customer premises equipment — such as standard telephones — to the telecommunications network. Details of the scheme were provided in IC (1992c). Points are gained for activity in Australian production, research and development, and exports. A specified number of points must be gained for suppliers to continue to have market access. However, since July 1993, companies can be exempted from the points scheme if they join the Partnerships for Developments Program or participate in Fixed Term Arrangements. Exemption requires approval from the Department of Industry, Science and Technology and is handled on a case-by-case basis.

Austel (1994) reports on the performance of exempt and non-exempt suppliers of customer premises equipment. In the last six months of 1993, there were 35 suppliers to the Australian market — 25 suppliers were endorsed under the

scheme and 10 were exempt. Of the \$308.5 million total turnover, endorsed suppliers accounted for \$158.8 million and exempt suppliers \$149.7 million.

Austel compared the performance of exempt suppliers for the second half of 1993 with the first half of 1993, when these suppliers were not exempt, and found that turnover and imports had increased, while exports, R&D and local content levels had declined. It appears that exemption from IDAs has given these suppliers (largely foreign firms) more flexibility in accessing the Australian market, at least in the short term. The cellular mobile telephone market is potentially the most affected as it represents by far the largest part of exempt supplier turnover.

The Government announced, in documentation associated with *Working Nation*, that the IDA scheme will be reviewed in 1994–95.

Water resources and waste water disposal

The Commission reported on water resources and waste water disposal in September 1992 (IC 1992b). In February 1994, the Council of Australian Governments endorsed a “strategic framework for the efficient and sustainable reform of the Australian water industry” (COAG 1994a, p.3). Following its meeting in June 1993, COAG had established a Working Group on Water Resource Policy to report on such a framework having regard to the technical and policy diversity that exists across the States and Territories.

Investment in the water industry in Australia exceeds \$90 billion in replacement cost terms. The Working Group found that reforms are progressing on a number of fronts, but identified:

- charging practices that result in commercial and industrial users paying more than the costs of service provision;
- past investments that were sub-optimal from both an economic and environmental perspective;
- major asset refurbishment needs in rural areas for which adequate provision has not generally been made;
- impediments to water being transferred to higher value uses;
- service delivery inefficiencies; and
- a lack of clear definition in the role and responsibilities of a number of institutions involved in the industry.

The Working Group drew attention to the need for an intensive management effort by all jurisdictions to arrest the widespread degradation affecting the nation’s water resources. COAG agreed to implement the framework proposed by the Working Group over a seven year period embracing:

- pricing reform. This is to be based on the principles of consumption-based pricing and full-cost recovery, the reduction or elimination of cross-subsidies and making subsidies transparent where they continue. Details of specific pricing reforms are in Box E1;
- trading in water allocations or entitlements once the entitlement arrangements have been settled — by no later than 1998;
- allocating water for environmental benefits, such as to maintain the health and viability of river systems and groundwater basins; and
- a range of institutional reforms. These include the adoption of an integrated water catchment approach to water resource management, separating as far as possible the roles of water resource management, standard setting and regulatory enforcement by no later than 1998. The Agriculture and Resource Management Council of Australia and New Zealand (ARMCANZ) in conjunction with the Steering Committee on National Performance Monitoring of Government Trading Enterprises is to further develop comparisons of inter-agency performance.

Other elements of the strategy encompass public consultation and education, research, strategies for handling waste and storm water in urban areas, and water-related taxation issues.

Queensland, South Australia and Tasmania endorsed the pricing principles but have ‘concerns’ on the detail (COAG 1994a).

COAG agreed that the Working Group on Water Resource Policy would coordinate a report to the Council for its first meeting in 1995 on progress in implementing this strategic framework. Progress in implementing the reforms will be reported annually to COAG over the following four years, and again at its first meeting in 2001, by ARMCANZ and Australian and New Zealand Environment and Conservation Council and, where appropriate, the Murray-Darling Basin Ministerial Council and the Ministerial Council for Planning, Housing and Local Government.

Reform programs are being implemented by the States. For example, in New South Wales the reform of non-residential water charges in metropolitan areas has concentrated on reducing the cross-subsidy deriving from the property tax element of those charges. For non-residential properties in Sydney, average bills in 1994–95 will fall by around 26 per cent from their levels in 1992–93. Average non-residential charges in the Hunter region will fall by 30 per cent over the same period (GPTNSW 1994).

In October 1993, the Victorian Government (1993) announced the strategic directions for its water reform program and established an Office of Water Reform. Under legislation passed in the Autumn 1994 session of Parliament, the Melbourne Water Corporation is being disaggregated into five businesses:

Melbourne Parks and Waterways which began operation on 1 July 1994; three regional water, sewerage and drainage businesses which will commence operations on 1 January 1995; and a water headworks business, also to begin operations on 1 January 1995, which will function as the collector, storer and wholesaler of water to Melbourne and will also treat and dispose of sewage. Amendments have been passed allowing the Rural Water Commission to be disaggregated into five regional retail businesses and a headworks business.

The pricing reform strategies for water and sewerage, implemented by the Victorian Government on 1 July 1994, will phase in a user-pays system. Over the next eight years, the variable charge reflecting water usage will be gradually increased and the cost of service provision based on property value will be moderated.

Box E1

Water pricing reforms

COAG (1994a) agreed to adopt, by no later than 1998, charging arrangements for urban water services which comprise an access or connection component, together with an additional component or components to reflect usage where this is cost effective. To assist jurisdictions adopt these pricing arrangements, an expert group will report to COAG at its first meeting in 1995 on asset valuation methods and cost-recovery definitions. COAG also agreed that publicly-owned organisations would aim to earn a real rate of return on the written-down replacement cost of their assets, commensurate with the equity arrangements of their public ownership.

Metropolitan bulk-water suppliers are to charge on a volumetric basis to recover all costs and earn a positive real rate of return on their assets.

For rural water supplies, COAG has agreed that charges and costs should be progressively reviewed so that, by no later than 2001, they will comply with the principle of full-cost recovery, with any subsidies being made transparent. It was also agreed that, wherever practicable, positive real rates of return will be earned on rural water assets by 2001; that future investment will only be undertaken after appraisal indicates that it is economically viable and ecologically sustainable; and that where trading in water could occur across State borders, pricing and asset valuation will be made consistent. Funds are to be set aside for the future refurbishment and/or upgrading of government supplied water infrastructure.

ARMCANZ will consider management arrangements for groundwater by early 1995 and report to COAG.

Waterfront and shipping

In 1989, the Commonwealth Government initiated three-year programs to reform Australia's waterfront and shipping sectors. The program for waterfront reform was formally wound up in November 1992. Over the period of the program, Australia's stevedoring workforce declined from around 8 900 in 1989 to around 3 800 in 1992. The Prices Surveillance Authority (PSA 1994d) estimates that the real price of container terminal services (as measured by movements in unit revenues) fell by 30 per cent between 1989 and 1993. Real prices fell by 2 per cent between 1992 and 1993.

In April 1993, the Government extended its shipping reform program for a further three years. The goals were to reduce Australian crewing levels to an average of 18 by 1993, and to 16.25 by the end of 1995.

While Australian crewing levels are now below the international average, Australian coastal shipping costs are still high by international standards. This is partly because leave arrangements for Australian crews necessitate more crew to keep an Australian vessel operating — the crew-to-berth ratio is around 2.2 on Australian vessels but around 1.7 internationally. Australia's major shipping competitors have access to lower crew costs and lower tax regimes. Despite recent reforms, the Commission (IC 1994f) found that Australian freight costs for petroleum products appear to be at least 35 per cent above international costs for ships of equivalent safety and environmental standards.

The Government's coastal shipping policy requires that cargo transported around the Australian coast be carried on Australian vessels with Australian crews. The 1989 reforms relaxed the coastal voyage permit guidelines: single voyage permits (SVPs) can be issued when there is a one-off unavailability of suitable Australian flag vessels and continuing voyage permits can be issued when there is a lack of suitable Australian shipping for extended periods.

No continuing voyage permits have yet been issued. In 1993–94, 470 SVPs were issued compared to 88 in 1989–90. However, in its *Petroleum Products* report, the Commission found that SVPs were of limited value to operators wanting to plan ahead. The Commission recommended that the Commonwealth Government determine the process and timetable for the withdrawal of cabotage and address safety standards separately.

The Commission (1994f) also nominated the seamen's engagement system as another area in need of reform. At present there is a central register and crew members are assigned to vessels at each port according to a roster. Attendance money is paid to those available but not assigned. The Commission found that this system cannot foster a shared interest between employers and employees; crews have little incentive to ensure that their assigned vessel is competitive; and there is little incentive for shipowners to invest in the training of crew

members. The Commission recommended that shipowners should have the right to employ crew on terms negotiated under an enterprise agreement.

The Government has not yet responded to the Brazil Review of legislation affecting Australia's international liner cargo services. Part X of the Trade Practices Act provides outward liner shipping conferences with limited exemptions from the restrictive trade practices provisions of Part IV of the Act, provided they meet certain obligations such as the inclusion of minimum levels of service in publicly-registered agreements and a requirement to negotiate with a designated shipper body over freight rates and other negotiable shipping arrangements. Inward shipping conferences have the same exemptions without any obligations placed on them. The Panel, whose report was released in January 1994, recommended that this exemption remain in place with a limited extension of obligations to inward services. The Government is expected to consider the report in October 1994.

At its February 1994 meeting, COAG established a Working Group on Micro-economic Reform. One of the Group's tasks was to report to COAG's August meeting on detailed proposals for further reform of Australia's maritime sector. That report was not considered and is now to be discussed by the Australian Transport Council at its meeting in October 1994.

Ports

While much of the waterfront and shipping sector has been undergoing reform on an Australia-wide basis, reform of the services provided by port authorities has been pursued largely State-by-State. The structures, objectives and functions of port authorities differ widely between and within the States and Territories. The Commission (IC 1993c) reported on port authority services and activities in May 1993. Several States have made or foreshadowed changes in areas covered by the report's recommendations.

The NSW Government has announced its intention to corporatise the Sydney/Botany, Hunter and Illawarra ports. The three ports, which now operate as subsidiaries of the Maritime Services Board (MSB), will be autonomous separate State-owned enterprises under the NSW State Owned Corporations Act. The MSB will be dissolved and a new body, the State Marine Authority (SMA) will be created to take over the role of the MSB Waterways Authority. The SMA will oversee regulatory matters, including marine administration, water safety and boat registration and licensing. Marine safety legislation which is currently spread over ten Acts of Parliament, will also become a single Act. For the first time, the commercial functions of NSW ports will be clearly separated from regulatory functions (Armstrong 1994).

In Victoria, work is continuing to contract the scope of port authority activity to core activities. On 10 August 1994, the Minister for Victorian Roads and Ports announced plans to privatise the ports of Melbourne, Geelong, Hastings and Portland. The proposals may be fine-tuned and reviewed following public consultation.

Under the Victorian Government's preferred option, current users of berthing and other facilities in the Port of Melbourne will be given a first right of refusal to purchase those facilities. The Government's preferred option for the ports of Geelong, Hastings and Portland is for each port authority to be sold as a single unit. Assets and activities not required for essential port operations will be separately sold or divested, as will non-port related assets like the World Trade Centre in Melbourne. Victoria also has 14 non-commercial ports and these will be dealt with on a case-by-case basis.

Regulatory functions now being carried out by the port authorities (such as dangerous goods regulation and pollution control) will be transferred to other government instrumentalities and the Office of the Regulator-General will be responsible for maximising market contestability in the ports. Victorian waterways will remain the property of the Victorian Government, and beaches and public parks within any port area will not be sold but will be retained as public assets.

The Ports Corporation of Queensland was established in July 1993 to manage 14 ports which handle around half of Queensland's export trade by volume. On 30 June 1994, the Port of Brisbane Authority, the Gladstone Port Authority and the Ports Corporation of Queensland were 'corporatised' by the Queensland Government. The three bodies are now referred to as Government Owned Corporations, and each will operate under: a Corporation Charter, which is drawn up and approved by Parliament; and a Statement of Corporate Intent, which is drawn up by the share-holding ministers of each corporation. In this case, the share-holding ministers are the Queensland Treasurer and the Queensland Minister for Transport. The Statements, which are still to be drawn up, will include details of community service obligations and performance targets for the corporations.

In July 1994, the South Australian Government announced appointments to a new South Australian Ports Corporation Board as part of its corporatisation process for the South Australian Marine and Harbours Agency. Until then, South Australia was the only State to retain its commercial port operations as a department of state function. Most regulatory functions were transferred to the Department of Transport on 1 July 1994 and the Corporation is expected to manage the States' ports from November 1994.

An April 1993 report by a Working Party on Tasmanian Port Policy has been accepted by the Minister for Transport and Works. The major

recommendations were to commercialise the various port authorities and to transfer regulatory functions to a new body.

ANL

The Commonwealth Government first announced its intention to sell a substantial part of ANL Ltd in the 1991–92 Budget. ANL's activities encompass liner and bulk shipping in the coastal and international trades, land-based transport operations, and ship-management activities. In March 1994, the Government announced that a due-diligence report would be undertaken to determine the company's financial position and value. This report was to form the basis for the Government's consideration of sale options. The expectation was that the sale of ANL would be completed in 1994–95 (Willis and Beazley 1994).

The due-diligence report received by the Government on 20 August 1994 indicated that it would not be practical to attempt to sell ANL and that ANL had a negative value of between \$74.8 million and \$117.8 million. The consultants recommended, in effect, that ANL be liquidated.

The Government, however, did not accept this recommendation and on 22 August 1994 announced the appointment of a new board which has been given six months to "reconstruct the company in a way which minimises losses to the taxpayer and strengthens viable parts of the ANL Group" (Brereton 1994a). In order to ensure ANL continues to trade in an orderly manner, the Government indicated it would guarantee all ANL's existing debts and any further capital it might draw on through its promissory note facility.

Following nationwide industrial action by maritime unions, the Minister for Transport (Brereton 1994b) announced on 13 September 1994 the terms of the agreement that provided the basis for a return to work. The Government will consider exempting from income tax the salary and wage of international seafarers and a range of other fiscal measures. The unions agreed to consider negotiating an industrial package including: further reducing crew size and the crewing factor; passing on the PAYE tax exemption to employers; changing employment arrangements so that costs match those under company employment; and reducing training costs.

Subject to party policy and implementation of the industry reforms, the Government is prepared to establish an open tender process for the sale of ANL. The unions proposed to develop a consortium to acquire a majority interest in ANL. If successful, the Government would retain a minority shareholding, support an employee share ownership plan and guarantee ANL debt on a transitional basis.

As part of the Terms of Agreement, the Government also reaffirmed its commitment:

- that the sale of ANL would be conditional on retention of the Australian flag, Australian crews and Australian award conditions; and
- to support existing cabotage arrangements and the existing single voyage permit system.

Appendix F

Progress on microeconomic reform

Since 1989–90, the Commission's Annual Report has included a list of microeconomic reforms undertaken by Commonwealth, State and Territory governments. This appendix collates the responses from governments on their microeconomic reform progress in 1993–94.

This appendix is intended as a general overview of the scope and depth of recent reforms, with particular emphasis on reforms implemented in 1993–94.

The information for this list is provided by Commonwealth, State and Territory governments in response to a Commission request. The Commission only conducts 'light-handed' checks for consistency (eg whether responses suggest reforms have been implemented, rather than proposed) and balance in description. The Commission does not attempt to verify the nature and extent of the benefits claimed. The information should be viewed in this light.

As in previous years, the material presented has been categorised in the following sections:

- industry-specific reforms (from p.153);
- general reforms (from p.166);
- labour market reforms (from p.171);
- environmental management (from p.185); and
- government business enterprise (GBE) reform (from p.190).

The general impression that can be drawn is that significant reforms are progressing on a wide-ranging front.

Some other general impressions from the categories of reform are:

- Industry-specific reform has seen deregulation and restructuring in many industries such as dairy, tobacco and maize. Reforms have progressed substantially in the services industry sector.
- In the area of general reform, substantial reforms have been introduced to improve the accountability of local government. Many governments have also introduced regulatory reform through re-invigorating regulatory reform units in South Australia and New South Wales.

- The labour market has seen wide-ranging reform, with significant enterprise bargaining across most jurisdictions. Industrial relations reform legislation has been passed in South Australia, Queensland and by the Commonwealth. Significant reform has also been implemented in vocational education and training sector with many jurisdictions attempting to make training courses more responsive to employer needs.
- Environmental management reform has seen many governments consolidate and simplify environmental regulation and legislation.
- Government business enterprise reform has involved significant contracting out. Governments have also undertaken extensive privatisation. In this sector, it appears that the focus is increasingly on competitive and ownership reforms.

Industry-specific reforms

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Primary industry				
Meat	SA	June 1994	Greater industry participation in maintaining meat hygiene standards including the adoption of quality assurance programs by meat works under the <i>Meat Hygiene Act 1994</i> , replacing old style surveillance.	Represents a significant move to industry self-regulation.
	Qld	1 January 1994	Regulation, the public abattoir system and the policy interface with the Government were allocated to separate organisations - the Livestock and Meat Authority of Queensland, the Queensland Abattoir Corporation (QAC) and a Livestock and Meat Industry Policy Council respectively. The QAC is restructuring so as to function on a purely commercial, unsubsidised basis by 7 July 1996.	The removal of subsidies to the Metropolitan Regional Abattoir, one of the QAC's responsibilities, will place the abattoir on a commercial and competitive basis. Public abattoirs pressured to perform.
Dairy	Vic	1993-94	A Code of Practice replaced regulations under the <i>Dairy Industry Act 1992</i> to provide quality assurances in the manufactured milk and market milk sectors.	Specifies standards which must be achieved but is not prescriptive in how businesses achieve them. Further deregulation of milk pricing in the processor to retailer sectors of the industry.
	Tas	1993-94	<i>Dairy Industry Act 1994</i> abolished many restrictive features of the industry. Relatively free entry into value-adding; restrictions on entry to milk vending abolished.	Enabling the private sector to be more competitive, and encouraging new entrants and greater international competitiveness. Abolished fixing of retail prices.

Industry-specific reforms (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Fishing	Qld	June 1993	Rationalised licences required in the buying and selling chain of fish products.	Reduces the costs of operating seafood retail outlets. Eliminates duplication with other agencies responsible for food retailing.
	Joint	1993-94	Tri-state Southern Rock Lobster Management Group established.	Ensures consistent and co-ordinated management of the fishery in Tasmania, South Australia and Victoria.
Sugar	Qld	1994	Pool price differential reduced from 12% to 10% for the 1993 crushing season, to 8% for 1994 and to 6% for the 1995 and 1996 seasons.	Reduces the disincentive effect on new producers entering the industry and will allow a more rapid expansion to be achieved.
Grains	Qld	1 July 1994	New legislation rationalised four statutory bodies into one organisation – GRAINCO.	Industry restructuring, move to freely competitive market, transitional period for statutory powers to cease.
	Qld	1 March 1994	All assets, liabilities, and obligations of the Atherton Tableland Maize Marketing Board vested in the Athmaize Producers' Co-operative Association Ltd.	Total deregulation of the maize industry on the Atherton Tablelands.
Tobacco leaf	Vic	June 1994	Deregulated and restructured tobacco growing into a more commercially responsive and competitive industry by: retiring up to a third of the tobacco quota; repealing leaf marketing legislation; and abolishing the Victorian Tobacco Leaf Marketing Board and transferring assets to a new grower cooperative to market tobacco leaf on behalf of growers.	More efficient link between growers and market demands for the quantity and quality of tobacco leaf, resulting in more efficient production and marketing of Victorian tobacco leaf. Movement of tobacco growing land into other agricultural enterprises is expected, allowing more efficient deployment of capital and labour within the economy.

Melbourne Market Authority	Vic	December 1993	Melbourne Market Authority replaced the Market Trust. Prohibition on establishing competing markets within 50 km of the Melbourne Wholesale Fruit and Vegetable Market abolished.	Market users will benefit from the strong business focus of the new Melbourne Market Authority. Abolition of the 50 km rule will encourage improved resource allocation in the establishment of marketing services.
Forestry	Vic	1994	Trial of contract logging by tender.	Facilitates improved logging industry rationalisation and efficiency by providing three year minimum contracts and greater log volumes per contract.
	Vic	1994	Introduced full cost recovery for forest utilisation roads.	Full cost recovery applied against forest utilisation roading levy, eliminating previous subsidy.
Mining and mineral exploration	Vic	1993-94	Amendments to the <i>Mineral Resources Development Act 1990</i> refined the approvals processes for exploration by removing exploration from the planning requirements of legislation and removing the consent requirement for access to 40% of Victorian Crown land.	Provides access to land for exploration and expenditure approval process, giving Victoria an opportunity to compete for exploration investment.
Non-coal mining	NSW	September 1994	Introduced simplified, non prescriptive mine safety regulations.	Enhanced flexibility provided by the new regulations should encourage site ownership of responsibility for mine safety and improved mine safety performance.
Petroleum	SA	1994	Adopted a system of regulation of petroleum exploration and production based on specifying industry objectives and standards rather than work practices.	Represents a move to less prescriptive regulation, encouraging innovation and efficiency in operations, pursuant to the <i>Petroleum Act 1940</i> .

Industry-specific reforms (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Manufacturing				
Petrochemicals	C'wealth	May 1994	Petrochemical and Polymer Industry Construction Costs Project established as a collaborative effort between Government, industry associations, petrochemical firms and unions.	Identifies ways to reduce construction by improving practices associated with contracts, partnering, workplace reform and procurement. Overall goal is to decrease costs, improve productivity and competitiveness of industry.
Motor vehicles	C'wealth	May 1994	Automotive Industry Authority abolished.	Move from monitoring the performance of industry restructuring to a relationship with industry aimed at improving skills and technology access and removing the impediments to competitiveness associated with market access, regulatory imposts and standards.
Services — transport				
Ports	SA	1993–94	Restructured port pricing policy in the Marine and Harbours Agency to reflect underlying costs.	Navigation service charge reduced by 10% and wharfage charges on containers by 5%, effective from 1 January 1994.
Shipping	C'wealth	May 1994	Extended funding for the Shipping Industry Reform Authority so that it could progress further reform, including crewing reductions and training and employment issues.	Aiming to promote a more flexible and efficient shipping industry, in the context of an increasingly open and competitive Australian trading sector.

Roads	C'wealth	January 1994	Rationalised road funding responsibilities and untied road funding to States. From 1 January 1994, the Commonwealth's funding responsibility is confined to the National Highway System. Rationalising road funding responsibility involves a \$350m a year transfer of funding from special purpose funding for roads to identified general revenue assistance to the States.	Clarifies the respective responsibilities of governments in road funding and improves accountability in the way funds are spent.
	Vic	December 1993	Introduced revised heavy vehicle charges.	More consistent and equitable charging for freight operators.
	Tas	1993-94	Introduced a permit system for certain additional categories of vehicles to operate in Tasmania at fees equal to NRTC fees less current Tasmanian motor tax.	Allows Tasmanian industry access to the same road transport efficiencies as are available in mainland Australia, ahead of the NRTC national system.
Road construction	ACT	1994	Participated in the development of legislation for a National Scheme for Heavy Vehicle Registration Charges.	Allows a single registration regime for heavy vehicles Australia-wide which reflects collective road costs.
	Vic	1993-94	Introduced industry self regulation in the supply of precast components.	Reduced delays and compliance for industry and for VicRoads through direct enforcement.
	Qld	Ongoing	Introduced contracts and restructured QT's District Operations facilitating a substantial move to competition, with a milestone for open competition in December 1995.	Estimated efficiency gains in 1993-94 are in excess of \$80m.
Buses	Vic	April 1994	Implemented a self-regulated bus maintenance system.	Reduced delays and compliance costs for industry and enforcement costs for Vic Roads.
Rail transport	Tas	June 1994	Phase two of the removal of fees paid by road transport operators carrying bulk cargoes in competition with rail. Fees to be eliminated on 30 June 1995.	Reduced the costs for bulk cartage of coal, logs, cement and super phosphate by road.

Industry-specific reforms (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Qld	Ongoing	Finalised review of export coal rail freight and royalty arrangements. Announced higher coal royalties, and reduced rail freight charges based on commercial pricing principles.	Realistic uniform returns to the State through an open and market-responsive royalty system. Removal of distortions to industry caused by the previous differential royalty arrangements and non-commercial rail freight regimes. Real and sustainable efficiency gains in the rail transport of coal, with the gains shared between coal exporters and QR.
Hire vehicles	Qld	Ongoing	Private Vehicle Hire (PVH) licences available on demand and sold at a price reflecting the current market value of licences sold in each district (calculated as the simple average of the last five sales of PVH licences by private sellers); PVH area boundaries to be phased out over time; PVHs to provide services in the rank market (eg airports and hotels); and luxury taxis to quote a fare to customers whilst PVHs to set fares above the level of the equivalent taxi fare.	Improved customer service and safety standards. Removing the restriction on the number of PVH licences will free up the resources that have been tied up in high licence values, as licence values fall over time, thereby improving the efficiency of resource allocation.
	Vic	December 1993	Removed restrictions on some hire vehicle categories.	Increased entry into selected markets, enabling greater competition and improved service delivery for customers.

Services – other

Health	SA	June 1994	Government endorsement of Casemix funding system to commence early July 1994, involving funding allocations based on the level of services provided, while also reflecting fixed costs.	Increased incentive for productivity improvement, producing savings by increasing efficiency while maintaining output. Expected reduction in waiting lists for elective surgery accompanying improved provision of health services.
	ACT	Ongoing	Joint provision of health services with NSW.	Rationalisation of regional health services eliminating duplication and increasing the use of facilities.
	Vic	1993–94	Casemix funding policy of public hospitals further developed to include minor capital works.	Hospitals now receive capital funding linked to the number and type of patients treated under the casemix funding system. Provides a transparent formula thus allowing hospital management the flexibility to purchase equipment without government involvement.
	Vic	1993–94	Implemented needs-based, purchaser-provider funding for mental health services.	Reallocated resources to promote more equitable access to services across geographic areas and needs-groups. Global regional budgets will fund populations rather than specific facilities. Services will be purchased from a hospital or non-government organisation, or provided directly by the Department of Health and Community Services.

Industry-specific reforms (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Tas	July 1994	Privatised the Douglas Parker Rehabilitation Centre – transferred the Centre to Rehabilitation Tasmania.	Commercial operator replaced State Government provision. Projected savings in future capital-replacement overhead costs.
	NSW	Ongoing	Hospital support activities exposed to contracting and market testing in recent years include: cleaning; linen services; catering; grounds and gardens; engineering and maintenance; portorage; transport; inventory and warehousing; and administration and computer information systems.	Contracting and market testing in the provision of Area Health Services has resulted in savings of some \$80m a year over the past four years.
	Tas	May 1994	Privatised the Spencer Nursing Home – transferred 60 nursing beds to the non-government sector (Conform Pty Ltd).	Commercial operator introduced into the market.
	Tas	July 1993	Privatised pathology services - transferred North West public pathology services to Coastal Diagnostic Services.	Reduces cost to government in both capital and recurrent costs. Removes duplication of services in a smaller population, with viability and unit cost advantages.
	Tas	Feb 1994	Privatised the Central Linen Service – transferred the public laundry facility to Top Centre Laundry.	Consolidated operations between public and private sectors. Projected savings in future capital-replacement overhead costs.
Disability services	Vic	1993–94	Implemented output based funding framework for adult support in disability services based on a client's assessed needs.	Client needs are assessed individually, and agency funding is then determined using benchmark unit costs. A more accountable and client focussed framework links the level of agency funding to the needs of the clients and the services provided.

Education	Vic	1993-95	Introduced Schools of the Future program for government schools.	Improved efficiency and effectiveness in delivery of education programs and use of resources because of devolution of responsibility, authority and accountability to school level from education bureaucracy.
	Vic	1994	Contracted out services and functions deemed to be outside the core business of the Directorate of School Education.	Improved efficiency and effectiveness in the provision of a range of services.
Corrective services	Vic	June 1993	<i>Corrections (Management) Act 1993</i> provides for the contracting of corrective services through open tendering.	Injects competition into corrective service provision by enabling services to be contracted to the private sector and establishing privately operated prisons.
	NSW	April 1993	June Correctional Centre, the State's first privately managed correctional facility commenced operations. The facility accommodates up to 600 inmates.	Has lowered cost to government of providing a large new correctional facility and has enabled a number of more costly prisons to be closed or downsized.
Emergency services	NSW	1993-94	The State Emergency Service contracted out a number of functions including: maintenance of property assets, equipment, and computers; printing; vehicle leasing; staff development training; and financial advice.	Estimated savings of \$70 000, allowing purchase of additional rescue equipment for the Volunteer Service.
Water	C'wealth	February 1994	COAG endorsed a strategic framework for the efficient and sustainable reform of the Australian water industry, and agreed to its implementation. A progress report on implementation is to be provided to the first COAG meeting in 1995, with further progress reports to be prepared annually over the following four years.	The framework embraces pricing reform based on the principles of consumption-based pricing and full cost recovery, reducing or eliminating cross subsidies, and making subsidies transparent. It also involves clarifying property rights, allocating water for environmental purposes, trading arrangements for water and institutional reform.

Industry-specific reforms (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Finance	Qld	Ongoing	A national, uniform system of regulation and prudential supervision of non-bank financial institutions (limited to permanent building societies and credit unions at this stage) with a single national co-ordinating and standard-setting body (Australian Financial Institutions Commission) commenced operations on 1 July 1992.	The Scheme has delivered a national, uniform system of regulation and prudential supervision of permanent building societies and credit unions, with all costs of supervision borne by industry.
			The Scheme's legislation is subject to ongoing review. Amendment Acts commenced on 1 July 1993 and 1 July 1994.	The prudential scheme of supervision represents a significant shift in emphasis from the highly prescriptive nature of the previous legislation.
	SA	June 1994	Legislated to support the development of uniform national regulation covering consumer credit together with a code of conduct for the banks.	Develop an open, informed market for finance products with appropriate and uniform national rules to reduce industry compliance costs.
	Vic	October 1993	The <i>Credit (Administration) (Amendment) Act 1993</i> replaced the licensing system for credit providers with a registration system.	Removes entry restrictions to the credit market. Lowers the costs to industry for licensing applications, while retaining high standards of consumer protection.

Legal services	NSW	July 1994	<p><i>Legal Profession Reform Act 1994</i> commenced on 1 July 1994. Removes restrictive practices within the legal profession (eg abolishes provisions that discriminate between solicitors and barristers, barristers allowed to accept work directly from clients without the need for a solicitor's intervention).</p> <p>The complaints system has been reformed to streamline disciplinary procedures and to place an increased emphasis on mediation and an independent Office of Legal Commissioner established to handle complaints against lawyers.</p> <p>The Act introduces a system that promotes full and effective competition and provides greater information to consumers so that they can make informed choices. All lawyers, including barristers, are required to disclose the cost of their services, or an estimate of costs, before providing services.</p>	<p>Purpose of the reforms is to create a more competitive market for legal services balanced with appropriate client protection. Legal costs should fall due to the removal of restrictive work practices that created a costly and often cumbersome legal system. In addition, the full and frank fee agreements between lawyers and clients will increase price competition between lawyers and hence will tend to lower legal costs. A system for ongoing review of the profession's regulation will be implemented.</p>
	Vic	July 1993	<p>Victorian Government Solicitor's Office introduced fee-for-service and competition with the private sector for all legal work undertaken for Departments and outer budget agencies save for constitutional/legislative challenge or in respect of matters of special importance to the State.</p>	<p>Provides a competitive environment for the delivery of cost efficient legal services to the Government. By providing services at equivalent or near equivalent to scale fees, the VGSO is creating a downward pressure on the cost of legal services to the wider community.</p>

Industry-specific reforms (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Housing	NSW	1993–94	Ongoing implementation of major changes to the structure and functions of the Department of Housing include: separating policy and operational functions through establishing a separate Ministry to provide policy advice; establishing semi-autonomous Regional Housing Offices with flatter organisational structures; land banking and land development activities placed on an autonomous commercial footing from July 1993; home lending activities separated from the Department from July 1993 by establishing an independent Home Purchase Assistance Authority; a Production Services Business Unit created to function on a commercial basis selling services to regions, and after two years to function on a fully competitive basis; a small service-oriented Head Office created.	More efficient and accountable delivery of housing programs.
Public housing	Vic	1993–94	Commercialised operations by placing property services on a fee-for-service basis. Housing estate gardening and cleaning services contracted out.	Reduction in costs and improved efficiency. Ability to benchmark costs of services against other similar organisations.
	Vic	1993–94	Identified ownership of assets and introduced market leasing of stock.	Ensures demonstrated return on assets and decisions on stock put within a commercial context.
	Vic	Ongoing	Identification and costing of community service obligations	Improved transparency and accountability.

Real estate	SA	May 1994	Legislated to support both the move from positive to negative licencing of land valuers, and the change in approach from licencing of land agents and conveyancers to registration.	Avoids the expense of positive licencing while offering the same protection to consumers. The more streamlined and efficient process of registration reduces costs and thereby releases resources to allow increased funding of education, enforcement and information provision.
Building	Vic	December 1993	<i>Building Act 1993</i> reformed the building permits process; provides a private sector alternative to the council-based system together with liability reforms.	Promotes efficiency through private sector competition in the building permits system. A fairer deal for insured building professionals by eliminating the deep pocket syndrome for claims for faulty building work.
Trading hours	Qld	16 May 1994	The <i>Trading Hours (Allowable Hours) Amendment Act 1994</i> liberalises trading hours on Monday to Saturday and for tourist areas. The Queensland Industrial Relations Commission remains as the independent tribunal determining trading hours outside those prescribed in the legislation and for tourist areas.	Recognises the link between trading hours and enterprise bargaining; removes the requirement to obtain a permit to operate a fete; and provides protection in the Retail Shop Leases Act to protect the rights of retailers from being forced to trade unreasonable hours and from incurring additional outgoing costs; gives Queensland consumers and tourists greater choice.
Accommodation	Tas	1993-94	The number of individual minimum standards applying to various classes of accommodation has been reduced from seven to four. Some of the requirements applying to operators have been relaxed, particularly for small bed and breakfast operators.	The altered standards will allow operators to be more competitive.

General reforms

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Regulatory reform	Vic	Ongoing	Ongoing program of sunseting regulations at ten-yearly intervals. Replacements must meet 'sunrise' tests including cost/benefit assessment and consideration relative to alternative measures.	A major disincentive to poorly justified regulation. In addition, 15–20% of regulatory proposals are typically amended during the course of the 'sunrise' process. Estimated benefits in the range of several hundred million dollars over the life of the regulations.
	SA	May 1994	Deregulation unit established within the Department of the Premier and Cabinet to review, condense and simplify regulatory controls and to eliminate unnecessary controls, while also providing advice on industry self-regulation.	Acts to reduce the regulatory burden imposed on private enterprise, leaving appropriate and effective regulatory controls in place.
	NSW	1993–94	Established a Regulatory Review Unit directly responsible to the Director-General of the Cabinet Office following an inquiry into Red Tape.	The unit will coordinate future regulatory review and reform to ensure consistency in the Government's approach to regulatory action.
	Qld	Ongoing	The Systemic Review of Business Legislation and Regulations in Queensland requires that business is consulted on each regulatory regime that impacts on it.	The savings arising from the review program include reduced compliance costs and efficiencies through the removal or streamlining of regulations. To date, the preliminary total savings to business have been estimated at \$6.7m; to Government \$28.5m; and to the community, \$230m.
Taxation	C'wealth	May 1994	Reduced the tax rate on Pooled Development Funds, effective from 1 July 1994.	Overcomes market failure in the provision of patient equity capital to small and medium enterprises.

Infrastructure
development

C'wealth	August 1993	Increased tax rate on the life insurance and other similarly taxed business of friendly societies and other registered organisations. Effective from 1 July 1994.	To ensure that these businesses are taxed on the same basis as equivalent businesses undertaken by life insurance companies.
C'wealth	August 1993	Removed exemption from taxation for credit unions, with effect from the 1994–95 income year. Some transitional arrangements for small credit unions.	Ensures that these businesses are taxed on the same basis as equivalent business undertaken by other financial institutions.
Qld	8 June 1994	Abolished stamp duty on debentures issued by financial institutions (whose sole or principal business is the provision of finance to the public) and their related corporations, and the trust deed and security documents underlying such issues.	Will remove a barrier to competition – the traditional fund raising methods of banks, credit unions and building societies do not attract stamp duty.
C'wealth	March 1994	Loan Council agreed on guidelines for the Loan Council classification of public infrastructure projects with private sector involvement. The new guidelines were released publicly after the March 1994 Loan Council meeting.	Aims to remove Loan Council considerations from governments' decisions to involve the private sector in public infrastructure projects and to increase the transparency of the underlying financial arrangements. By counting only government exposures to such projects for Loan Council purposes (risk weighting), and by reducing private sector uncertainty about policy in this area, private sector involvement is likely to be further encouraged where it brings tangible benefits in terms of efficiency and expertise.

General reforms (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Trade	C'wealth	May 1994	Removal of Developing Country preferences from all but the poorest of Australia's trading partners will be phased in along with the schedule of tariff reductions.	Will reduce distortions in market access for importers, while acknowledging the benefits these and other countries receive from Australia's unilateral tariff reform.
Local government	Vic	1994	The <i>Local Government (Competitive Tendering) Act 1994</i> phasing in over three years.	Promotes cost efficiency and accountability. Obliges Councils to define service benefits and ensures that the process and outcomes of decision making are transparent.
	Vic	1993	The <i>Local Government (Miscellaneous Amendments) Act 1993</i> requires Municipal Councils to have a Chief Executive Officer and to appoint all senior officers on performance based contracts. Designated positions requiring specific qualifications for particular senior positions in local government have been abolished.	Several measures to improve efficiency and effectiveness. Removal of barriers to entry in employment has extended the flexibility and skills of staff available to local government. Meets mutual recognition requirements.
	NSW	1993-94	Implemented significant reforms to the operations of local government arising from the <i>Local Government Act 1993</i> . For example, NSW councils produced their first Management Plans and Annual Reports under the new Act. The management plans establish financial, management, reporting and performance targets. Councils report progress against these targets in their Annual Reports.	NSW local governments are adopting more efficient management practices and are more accountable for their performance.
	Tas	Jan 1994	Commencement of the <i>Local Government Act 1993</i> , which provides a comprehensive new framework for Local Government.	Emphasises improved management and community accountability. Requirements for strategic planning and appropriate reporting provisions are included.

	Qld	Ongoing	New administrative structures and arrangements implemented to expedite land and building approval decisions and better utilise resources. Reviews have been completed in six Queensland Local Governments.	Removal of unnecessary requirements such as bonding of development approvals and duplicated checking of applications.
Planning	Tas	Jan 1994	Commencement of the <i>Land Use Planning and Approvals Act 1993</i> .	Implements new streamlined planning and development assessment processes, including time limits, at the local level. Includes a single approvals system, which will enable the integration of a number of separate approvals.
Police	Vic	1993-94	Progressive implementation of policy of charging for provision of necessary Victorian Police services.	Allows Victorian Police to recoup greater portion of cost for services. Reduces demand for police services through more efficient planning of events.
	Vic	July 1993	Contracting out of Victorian Police aircraft function.	Reduces cost of providing this service.
Information technology	SA	1994	Office of Information Technology established to implement IT reforms, including the outsourcing of IT services in both large scale and local processing, and in data network management. Approval also given to issue licences for whole of government IT services and systems, to create standard financial, office, and human resource management systems.	Improves delivery of services to the general public and achieves improved cost effectiveness of government IT services, while also promoting development of the IT industry through the outsourcing of IT services and systems.
	Vic	1993	Established a target of 70% for the outsourcing of all the IT functions of the Victorian Government budget sector.	Forces the definition of services levels and measurement of costs against service levels, leading to a cost competitive environment for the provision of government IT.

General reforms (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Competitive tendering/ contracting out	NSW	1993-94	NSW Government released its 'Contracting and Market Testing Policy' to encourage the adoption of contracting in the public sector and to ensure a consistent and appropriate approach is adopted.	To ensure best value for the taxpayer dollar through the discipline of competition; expand servicing in priority areas; focus organisations more clearly on meeting community needs through clearer specification of outputs and more independent monitoring of results; and greater flexibility to address changes in demand for services and activities.
	WA	November 1993	Instruction circulated to all public sector agencies to identify and pursue opportunities for letting services to competitive tender.	Competitive tendering, in tandem with contracting out, can improve efficiency and effectiveness of public sector provision and provide substantial savings to government.
	Vic	1993-94	Contracted out ancillary functions of the Department of Conservation and Natural Resources.	Outside competition for service contracts will ensure cost effectiveness.
	NSW	1993-94	Department of Minerals Resources contracted out its corporate support services to other government agencies including the Office of Energy.	Achieved cost savings by avoiding unnecessary duplication.
Venture capital	Qld	1994	The Queensland Government's Venture Capital Fund (VCF) wound-up; private sector market-enhancing initiatives developed with conceptual input, support and minor seed funding from Government. Series of Government organised seminars throughout the State, with private sector speakers on sources of VDC and requirements of VDC suppliers.	Focus on market-based, commercially viable private sector solutions to the supply of VDC, with Government adopting a catalytic role to help overcome lack of information and reduce search and transaction costs. Immediate outcomes are increased presence of interstate capital suppliers, development of networks and several VDC deals.

Labour market reforms

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Industrial relations	C'wealth	March 1994	<i>Industrial Relations Reform Act 1993</i> came into effect. Main reforms include: clearer separation of enterprise bargaining stream from awards; enterprise flexibility agreements allowing agreements reached directly between employers and their employees; industrial action permitted during formal bargaining period for single business certified (union) agreements only; secondary boycott provisions modified; the Commission's power to order parties to bargain in good faith; and the introduction of the Industrial Relations Court.	Encourages and facilitates enterprise bargaining, especially at the enterprise level; increases productivity and flexibility at the workplace; promotes the efficient conduct of negotiations; allows a wider range of enterprises access to enterprise bargaining including corporations with few or no union members; and encourages conciliation in the resolution of disputes while maintaining appropriate remedies.
	C'wealth	March 1994	The Act also includes: the strengthening of the award system as a safety-net to underpin enterprise bargaining; the review of awards every three years; and access to minimum entitlements in the areas of wages, equal remuneration for men and women, parental leave and termination of employment.	Encourages awards to become more streamlined and modern, with detailed prescription about the organisation of work increasingly being a matter for agreements, while maintaining a secure, consistent and relevant safety net of awards. Ensures there is an effective benchmark for the 'no disadvantage' test in enterprise bargaining; maintains relativities between awards; ensures access to key minimum entitlements based on international conventions Australia has ratified.

Labour market reforms (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Industrial relations	C'wealth	May 1994	Refocused the Workplace Reform Program to promote the spread of enterprise bargaining in the Federal Industrial Relations system.	Increased co-operation, productivity and flexibility at the workplace. Assists in meeting Government's target of employees to be covered by direct bargains by the end of 1996.
	Qld	30 March 1994	The <i>Industrial Relations Reform Act 1994</i> : provides for minimum entitlements to apply to all employees (award or non-award) in the State, mirroring the Commonwealth legislation; promotes bargaining and facilitates agreements; introduces the new concept of enterprise flexibility agreements; fine-tunes the previous legislation in relation to the amalgamation of industrial organisations; and allows for the authorisation of Commonwealth and State Industrial Inspectors to perform dual functions for either the Commonwealth or the State.	Employers only have to deal with one set of laws and procedures for employees in the same workplace. Minimum entitlements for all employees sets in place the safety net on which enterprise bargaining can progress. Safeguards the working conditions of employees. Encourages workplace bargaining that is directed at increased productivity, continuous improvement in the workplace, best practice and increased work satisfaction and career opportunities through the use of certified agreements and enterprise flexibility agreements. Facilitates the amalgamation of unions where there has been an amalgamation of the counterpart federal organisation. Use of certified agreements and enterprise flexibility agreements for union and non-union employees to enter into agreements at the workplace level.

Enterprise agreements	SA	May 1994	<i>Employee and Industrial Relations Act 1994</i> gives employers and employees freedom of association and encourages workplace agreements and enterprise bargaining, whilst offering a safety net of minimum conditions to employees.	Improved industrial efficiency and flexibility, enterprise agreements encouraged and increased flexibility in awards.
	SA	1993-94	Enterprise agreements established by the Electricity Trust of South Australia (ETSA) at the local level led to a number of further workplace reforms.	Workforce productivity has improved and many restrictive work practices have been discontinued.
	ACT	1994	ACTION (urban transport GBE) established an enterprise agreement.	More flexible work hours. More efficient use of staff.
	WA	December 1993	<i>Workplace Agreement Act 1993</i> introduced a framework for preparing individual and collective employment agreements in tandem with the existing award system.	Provides improved flexibility in the labour market through an enterprise-based bargaining system with the aim of increasing organisational efficiency.
	Qld	August 1993	Approved a policy framework for implementing enterprise bargaining throughout the Queensland public sector.	Offers an opportunity to link wage increases to productivity improvement at the enterprise level through workplace reform and the adoption of best practice.
	Qld	September 1993	Workplace Reform Unit established to encourage and promote widespread acceptance and understanding of enterprise bargaining by the private sector and to facilitate its implementation.	A key initiative in promoting enterprise bargaining and workplace reform to the private sector.
	Qld	June 1994	The Enterprise Development Agreement which covers Regional Harbour Masters, marine pilots and boat crew employed by Queensland Transport, will provide a major boost to productivity in marine operations.	The Enterprise Development Agreement is expected to result in direct benefits to the Government of \$3.8m a year and facilitate overall productivity benefits to the State of over \$113m. Other benefits are a more productive, flexible and motivated workforce with better trained personnel.

Labour market reforms (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	NSW	1993-94	As at June 1994, about 140 000 State public sector employees were covered by enterprise agreements including those in health, education and transport. Negotiations took place with unions on flexible work practices that facilitate the workforce participation of employees with family responsibilities. The extent of enterprise bargaining in the private sector has increased significantly. As at 30 June 1994, there were 664 Agreements covering 63 650 employees compared with 153 Agreements covering 8 754 employees at 30 June 1993.	Aim is to promote a new industrial relations system in NSW which will achieve greater productive efficiency and better levels of industrial harmony within individual enterprises.
	NSW	November 1993 & June 1994	Zoological Parks Board has two enterprise agreements in place, one covering Works and Trades staff at Western Plains Zoo (commenced in November 1993) and one covering Works and Trades staff at Taronga Zoo (commenced in June 1994). Negotiations on agreements to cover other staff are continuing.	Significant cost savings for the Board arising from the breakdown of demarcation barriers and greater work flexibility.
	NSW	March 1994	Enterprise agreement covering the State mail service's 150 staff commenced in March 1994.	Increased labour productivity, reduced labour costs, more efficient organisational structure.
	NSW	1993-94	Department of Water Resources agreed on an enterprise agreement to cover all salaried staff.	More productive workforce.

NSW	November 1993	Enterprise agreement reached with SRA staff and unions at the Xplorer Maintenance Centre for a two year contract to maintain Xplorer and Endeavour diesel rail cars.	Savings of \$960 000 a year. Number of job classifications reduced from 14 to four.
NSW	June 1993 & Feb 1994	State Rail Authority introduced industrial agreements at the Port Waratah and Port Kembla one spot maintenance centres.	Number of job classifications reduced to one and productivity increased by over 600%. Will substantially reduce wagon maintenance costs and increase wagon availability.
NSW	1993-94	Enterprise agreements negotiated for Sydney and Newcastle bus employees and Sydney and Newcastle ferry employees.	Bus employees: reforms relate to customer satisfaction, and staff competencies and development. Ferry employees: reforms relate to an aggregate wage which eliminates overtime payments, allowances and annual leave loadings, career development, benchmarking of repair time and costs.
NSW	1993-94	Public Works reached an enterprise agreement with its construction wages staff.	Eliminates award differences which impede working efficiency; facilitates multi-skilling and improved career path by bringing all tradespersons, labourers, and construction supervisors under a single merit-based classification structure; and provides for the testing of a performance management system.
NSW	June 1994	Pacific Power implemented a Corporate Enterprise Agreement covering all employees.	Improved and flexible working arrangements to increase organisation efficiency.

Labour market reforms (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	NSW	December 1993	Maritime Services Board implemented an enterprise agreement covering all employees except Senior Executive Service officers and First Class Marine Pilots. Consists of a core agreement applied throughout the MSB, with specific operating arrangements for the four MSB subsidiary authorities and corporate divisions.	The agreement: replaced 40 different awards; reduced staffing levels from 1 081 to 700 at 30 June 1994 through early retirements and voluntary redundancies; amalgamated additional payments, disability allowances and annual leave loading into an annualised salary; reclassified over 1 200 salary points into 9 Maritime Officer levels with 79 salary points; improved productivity through job redesign, multi-skilling, and introduced a performance management system; introduced an employee participative management style; significantly reduced sick and accident leave and time lost due to industrial disputes; and includes productivity measures as a basis for further wage progression.
	NSW	Ongoing	Enterprise agreement covering the Property Service Group commenced in mid July 1994. Agreement involves: re-evaluation, re-specification and upgrading of positions; improved opportunities for formal and on-the-job training; and a performance management system.	Enhance the performance of the Property Service Group through ongoing development, attraction and retention of appropriately skilled staff.

	NSW	1993-94	The Ministry of Education and Youth Affairs and the NSW Board of Studies successfully negotiated an enterprise agreement with the NSW Teachers Federation. The agreement covers 80 officers attached to the Board and the Ministry.	During the life of the agreement the parties will negotiate a single classification and salary structure to provide greater flexibility in work organisation, consistency between positions and savings in administration. Efficiencies will be achieved through the introduction of performance management and reviews.
	NSW	June 1994	Introduced a new enterprise agreement for The Environment Protection Authority which builds on achievements of the first enterprise agreement, eg, single classification system, performance management system, and staff development and training.	Will continue to generate productivity gains for the organisation and will be supplemented by new provisions including links to the Corporate Plan, focus on team work and occupational health and safety.
	NSW	Jan/Feb 1994	Department of Health negotiated enterprise agreements for nurses within the framework of a Heads of Agreement with the Nurses' Association.	Improved productivity through: devolution of bargaining power; introduction of performance management; and benchmarking of customer satisfaction service quality and value for money.
Award restructuring	NSW	May 1994	Water Board and its employees' unions have agreed to a new award that covers all employees, both white and blue collar. Features include: one class of employee and a single salary scale; removal of 236 wage classifications; common conditions of employment; rolling of most existing allowances into base rate incomes; and job evaluation and performance management systems spread to all employees.	The reforms have been designed to significantly improve the efficiency of the Board's services, while also creating equal rights and opportunities for employees. The Board's employees will be more mobile and multi-skilled, and will work under arrangements that give the Board far greater flexibility.

Labour market reforms (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	NSW	Ongoing	Implementation of the new local government award initiated by the <i>Local Government Act 1993</i> .	New award has provided a shift to performance-based employment contracts for senior staff, removal of system of statutory certification as a requirement for many local government positions, selection based on merit and EEO, and increased staff training and development. These reforms are significantly improving productivity in local government.
	Tas	1993-94	Award restructuring.	The Department of Industrial Relations, Vocational Education and Training assisted with the restructuring of several Awards during the year, notably the Police, the Ambulance Officers and the TAFE Awards.
Workers' compensation/ OH&S	SA	1993-94	Functions of the Occupational Health and Safety Commission transferred to the Workcover Corporation. <i>Workcover Corporation Act 1994</i> introduced a new structure with expanded, commercial focus.	More efficient delivery of workers' compensation and provision of occupational health safety and welfare in South Australia.
	Vic	May 1994	<i>Accident Compensation (Amendment) Act 1994</i> streamlined procedures and contributed to achieving greater national consistency in workers' compensation.	The reforms position the scheme for full privatisation when it becomes fully funded and stable.
	Vic	1993-94	Prescriptive occupational health and safety regulation removed in favour of outcome and performance based approaches. Operator certification regulations have been simplified and mutual interstate recognition introduced.	Interstate recognition within uniformity guidelines avoids duplication, allowing industry the flexibility to choose the most efficient means for meeting required safety outputs and standards.

Occupational regulation	Vic	1993–1994	Removed registration requirements on over 30 occupations as recommended by the Vocational Education, Employment and Training Working Party on Mutual Recognition.	Allow individuals to practise without requiring a licence additional to their qualifications. Will greatly enhance labour mobility across Australia and reduce costs as artificial barriers to competition are removed.
	Vic	December 1993	Amended regulation governing the time/experience requirement for persons to obtain an endorsement to their registration as a plumber.	Eliminated the impediment to trained and tested trade persons practising their trade owing to the lack of opportunities to secure a further employment after their apprenticeship.
Vocational education and training	C'wealth	May 1994	Established an Australian Student Traineeship Foundation to promote the integration of vocational education into school curriculums (subject to the co-operation of the States).	Encourages industry involvement in school-industry programs to facilitate an efficient transition between school and workplace while giving students skills and training.
	C'wealth	May 1994	Accelerated implementation of the Training Reform Agenda and the Australian Vocational Certificate Training System through enhanced industry involvement in decision making and funding to increase State and Territory co-operation.	Together with revised employer incentives and the training wage, this facilitates an expansion in Entry Level Training places by 50 000 by 1995–96 which will contribute to the development of a workforce with the skills and flexibility required by industry.
	C'wealth	May 1994	Youth Training Initiative to be introduced from January 1995 involving case management, labour market or vocational training places and reformed income support arrangements for unemployed persons under 18.	Provides early intervention to reduce the flow of young unemployed into long-term unemployment by increasing opportunities to gain training and/or work experience.
	C'wealth	May 1994	The Commonwealth, trade unions and business agreed to the introduction of a national training wage for unemployed adults and trainees.	Allows for greater flexibility in wages for entry level trainees and the unskilled, permitting a better matching of labour costs and individual productivity levels, thereby encouraging employment.

Labour market reforms (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	C'wealth	May 1994	Suspended the Training Guarantee Levy for two years from 1 July 1994. The levy will be abolished if there is a continued commitment by business to the creation of additional training places.	Suspended the legislative requirement to account for training expenditure in light of the demonstrated commitment by industry to meeting its training obligations.
	Vic	1993-94	Increased independence for TAFE colleges through legislation to enable employment of own staff; encouragement of commercial activity; and recognition of college independence in the program profile, funding and performance agreement process.	Greater independence and a significant opportunity to achieve workplace reform. Colleges have greater flexibility in responding to needs of industry and individuals and therefore to make more relevant and timely training provision.
	Vic	1993-94	Funding of private providers to deliver public training on a pilot tender basis.	Greater diversity, quality and cost effectiveness of training provision through expansion of the training market.
	Vic	January 1994	Firefighter competency standards have been agreed upon nationally to the Associate Diploma of Fire Management level.	Employees now able to gain a nationally recognised qualification in firefighter competency achieving national portability of qualifications.
	Vic	February-May 1994	Removal of restrictive conditions and practices in teaching service, introduction of local selection arrangements for schools and introduction of a new career structure for school based non teaching staff.	More efficient use of education workforce.

Qld	1993-94	TAFE Queensland is committed to the introduction of competency based courses in training programs for service, manufacturing and resource industries by December 1995. During 1993-94, implementation of Competency Base Training (CBT) was assisted by initiatives such as the publication a procedures manual for Recognition of Prior Learning and the establishment of the State CBT Implementation Centre at Maryborough.	Affords students the opportunity of completing their studies early; provides credentials which are portable across the nation; provides national programs which should allow for efficient delivery and rationalised resources, and ultimately results in increased productivity and savings to government. Approximately 75% of courses are now in the competency-based format.
NSW	1993-94	Introduced legislation to bring existing vocational education and training arrangements more into line with the key vocational training reforms being introduced nationally. The <i>Board of Vocational Education and Training Act 1994</i> complements the Australian National Training Authority Agreement. The Act amends the NSW Industrial and Commercial Training Act to streamline its functions.	The Act is a major step towards the implementation of a better resourced, better coordinated and more responsive training system in NSW.
Tas	1993-94	Developed a new legislative framework for vocational education and training.	Designed to provide a single, comprehensive framework for vocational education and training in Tasmania; provides for the establishment of a State Training Authority; and enables Tasmania's participation in the national vocational education and training system.
Tas	1993-94	Introduced revised accreditation and registration provisions.	Will facilitate better access to accreditation and registration for private providers, thus enabling the expansion of the training market.

Labour market reforms (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Employment services	C'wealth	May 1994	Introduced competition in the delivery of labour market assistance through contracting out case management and job placement services. Competition will be facilitated by the establishment of the Employment Service Regulatory Authority.	Encourages a more efficient job placement market and improved quality of client services by fostering innovation and diversity in job placement services.
	C'wealth	May 1994	Announced the establishment of Employment Assistance Australia (EAA) as a separate cost centre within DEET to conduct the case management and job placement services previously performed by the CES.	The requirement for EAA to compete on the same basis as community and private sector case managers will encourage improved efficiency within the public sector employment service while providing for competitive neutrality.
Long service leave	Tas	May 1994	<i>Long Service Leave (State Employees) Act 1994.</i>	Clarifies entitlements for classes of employees, allows proper human resource management strategies to be pursued and limits accumulation of leave entitlements to manageable levels. These are significant reforms which will result in the reduction of disputes, including investigation and arbitration costs that follow from a more accurate accruals recording process.
Department of the Environment and Land Planning	ACT	1993-94	Introduced extended work hours.	More efficient use of staff.
Emergency management	ACT	1993-94	Restructured work practices and staff numbers.	More flexible staffing arrangements and cost savings.

Roads and building maintenance	ACT	Ongoing	Implementation of new labour practices for road maintenance crews.	Staff reductions, more efficient use of staff, multi-skilling and better management.
Public sector	Vic	1994	Developed new non-executive generic pay structure which collapsed five main and numerous minor classifications (195 pay points) into one main classification (5 pay points) and introduced performance bonuses.	Improved workforce flexibility and work practices promote productivity with resultant efficiency savings. Incentive system gives staff greater motivation.
	Vic	November 1993	The <i>Public Sector Management (Amendment) Act 1993</i> provides the legislative framework for the movement of public service staff to outside bodies.	Introduced significant management reforms by providing for the movement of staff out of the public service through corporatisation, privatisation or contracting out. Makes conditions more comparable to the private sector.
	Vic	August 1993, February 1994	The Public Sector Management Regulations 1993 support the <i>Public Sector Management Act 1992</i> in freeing up public sector employment and establishing an industrial framework consistent with the <i>Employee Relations Act 1992</i> .	Regulations represent a significant streamlining of procedures in grievance review and general personnel management.
Construction industry	Qld	September 1993	The <i>Building and Construction Industry (Portable Long Service Leave) Amendment Act 1993</i> improves compliance with payment of the long service leave levy and reduces costs to industry. A new agency arrangement will also improve collections and client access. Implemented a National Reciprocal Agreement between Queensland, New South Wales, Victoria, South Australia and the Australian Capital Territory for the payment of employee benefits.	The benefits from these reforms include: 20% reduction in the industry levy; an automatic exemption of 10% in relation to the cost of work for owner builders; a dramatic increase in the level of compliance with the levy increased from less than 60% to more than 90%; increase in the number of access locations for levy payers, from 16 in 1993 to about 800 in 1994; and financial returns to employees and employers in the building and construction industry arising from the recognition of interstate service credits.

Labour market reforms (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Electricity supply industry	Qld	27 December 1993	Award restructuring and enterprise bargaining across the Queensland electricity supply industry, with 12 Awards and one Industrial Agreement being consolidated and the number of pay levels reduced from 1087 to 185.	Enterprise bargaining and award restructuring at industry level have provided flexibility in terms of workforce mix. Local level enterprise bargaining agreements focus on continuous improvement and flexibility in hours of work to meet customer requirements.

Environmental management

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Construction industry	NSW	Ongoing	Key initiatives that underpin industrial relations reforms in the industry are: a Code of Practice which defines improved workplace standards; a common industrial relations strategy for major facilities that promote enterprise agreements whereby the enterprise is the individual employer and not the site; agreement between the Government and the Construction Forestry Mining and Energy Union and the Building Workers Industrial Union in March 1994 that recognises the need for continuing and long-lasting reforms in the construction industry, including voluntary unionism.	Improved employer/employee relationships; a more flexible and adaptive workforce; improved occupational health and safety; lower production costs; and improved quality of product.
Environmental management	SA	October 1993	Six Acts integrated and a single integrated approval system established for waste and pollution control under <i>Environment Protection Act 1993</i> .	Reduced costs to firms and increased efficiency in waste and pollution control through simplified approval system.
	Vic	1994	<i>Environmental Protection (General Amendment) Act 1994</i> emphasises co-operative, efficient, and more flexible approaches to environmental protection.	Integrates Environmental Effects Statement and works approval processes. Requires assessment and publication of the financial, social and environmental impacts of environmental protection polices and industrial waste management policies.
	Vic	January 1994	Targetting of Environment Protection Authority works approval and licences to business which pose significant environmental threats.	Removed requirement for over 500 businesses or 24% of existing licensees to hold licences.

Environmental management (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Vic	1993-94	Environmental Protection Authority accredited licences created.	Increased flexibility in determining how to achieve and monitor environmental performance. Cost effective improvement in environmental performance.
	Tas	1994	The Environmental Management and Pollution Control Bill 1994 establishes new environmental management and enforcement tools in Tasmania. Included is the repeal of three separate licensing systems and their consolidation with planning permit approvals.	Significant improvements in the environmental management regime applying in Tasmania.
	Qld	21 July 1994	Environmental Protection Legislation, expected to be proclaimed late in 1994, will replace a number of outmoded pollution control Acts, including the Clean Air, Clean Water and the Noise Abatement Acts.	The EPL will integrate environmental protection law, incorporate environmental constraints into planning and internalise many environmental management costs. It will also streamline licensing procedures, provide incentives for above standard performance and decentralise service delivery. Higher levels of self-regulation, accountability and transparency are features of the new approach. Incorporating environmental constraints into planning (eg through integration of environmental management planning with waste minimisation and control) will reduce cleanup and law enforcement costs. Enterprises will have the option of combining all licences for a site into one licence. Instead of annual renewals, licences will be for the life of a project.

Catchment and land management	Vic	1994	<i>Catchment and Land Protection Act 1994</i> passed.	Establishes a system of integrated management and protection on a whole of catchment basis.
Mining: environmental impact assessment	Qld	December 1994	Introduced reforms to coincide with amendments to the <i>Mineral Resources Act</i> to provide for a consistent, clear and systematic environmental impact assessment process.	Allows more efficient and effective environmental impact assessment; reduces delays and duplication; provides industry and other stakeholders with clarity and certainty about the process, and clear timelines.
Water and Forest NSW Resources	NSW	1993–94	Government has implemented new administrative arrangements to separate policy and regulatory responsibility from operational responsibilities in these areas and to improved accountability. Offices of Forestry and Water with policy responsibility have been created within the Department of Conservation and Land Management. Operational organisations are being placed on a commercial footing, (eg State Forests of NSW, Sydney Water Board).	Ensures that the management of the commercialised organisations are not faced with conflicting commercial social and regulatory objectives.
Water resources	NSW	1993–94	Legislation passed to transfer ownership and operation of a number of the Government's irrigation schemes to irrigators. State-owned irrigation corporations will be formed that will operate at arms length from the government.	Benefits should include: improved commercial and environmental outcomes; reduction of direct subsidies; improved efficiency of water use; irrigator control of water delivery service; and regulatory and commercial functions separated.
	NSW	Ongoing	Use of tradeable property rights for surface and ground water.	More efficient resource allocation: 160 000 megalitres of water were transferred in 1992–93.
	NSW	1993–94	Private company contracted to build, own and operate hydroelectric power stations at five existing dams.	Significant cost savings.

Environmental management (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Environmental planning	NSW	Ongoing	Separated regulation and provision of services by introducing a Department of Water Resources licensing system for the Sydney Water Board and Hunter Water Corporation.	Ensures that the management of the commercialised organisations are not faced with conflicting commercial, social and regulatory objectives.
	NSW	1993-94	Regulatory responsibilities for drinking water quality removed from the Sydney Water Board and placed with the Department of Health.	Separation of regulatory and operational functions is part of the process of corporatising the Water Board.
	NSW	1994-94	Deregulated sub-division controls where land is being sub divided for agricultural purposes. Previous requirement for a minimum lot size of 40 hectares has been removed.	Moved focus of environmental planning control from lot size to actual land use. Should increase the efficiency of land use.
	NSW	1993-94	An Environmental Strategy and Code for Best Practice has been developed for Homebush Bay, site of the 2000 Olympics facilities. Development of the Bay will proceed within the predetermined environmental guidelines.	By establishing environmental standards upfront, the Government has turned around the traditional EIS approach.
	NSW	1993-94	The <i>Environmental Planning and Assessment Act</i> amended to improve its functioning.	Clarifies consultation requirements in the preparation of regional environment plans; provides more certainty to applicants through more specific conditions of consent and in the activities of consent authorities.
	NSW	1993-94	Amended Schedule 3 of the Environmental Planning and Assessment Regulation, the key planning mechanism that governs the environment impact assessment of development projects in NSW. The previous criteria largely focussed on the type and size of a development.	Broadened the criteria for determining when an EIS is required to take into account the sensitivity of the receiving environment, cumulative impacts and performance criteria.

Waste management	NSW	June 1994	A new Waste Management Policy announced including: corporatisation of the NSW Waste Service; introduction of a regional waste management framework and freedom for local councils to form into cost-effective regions to manage the provision of all waste services and facilities; provision for putrescible waste disposal facilities to be provided by private sector operators; and pricing of publicly owned waste facilities to be referred to the NSW Pricing Tribunal.	Creation of a more competitive environment for the provision of waste services. A pricing policy based on user-pays that reflects the true cost of waste disposal is likely to result in reduced quantities of waste, and encourage greater recycling. More efficient use of waste disposal resources (eg landfill).
	NSW	Ongoing	Department of Health decommissioned the majority of incinerators in NSW hospitals. Disposal of waste from Sydney public hospitals has been contracted out.	Competitive tendering has produced savings of approximately \$1m a year and is improving environmental outcomes.
Fisheries management	NSW	May 1994	The <i>Fisheries Management Act 1994</i> introduced a new approach to commercial fisheries management – a system of property rights whereby ‘shares’ on a fishery are issued to commercial fishers. Like shares in a company, the shares can be traded and borrowed against.	The property rights system should improve the economic viability and operational efficiency of the industry; better conserve the fish populations and protect fish habitat; provide quality recreational fishing opportunities; and appropriately share the State’s fisheries resources between users.

Government business enterprise reform

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Administrative				
GBE accountability	C'wealth	July 1993	GBE oversight arrangements strengthened to improve performance through better monitoring and accountability processes, including an enhanced role for the Minister for Finance. Dividend arrangements also formalised, with a benchmark payout ratio of 50 per cent after tax and abnormals.	Ensures commerciality is a central element in GBE operations. The Commonwealth Government has stepped back from day to day intervention in GBE operations while providing clear mandates and objectives including strategic directions, financial targets and dividend policies. Improved autonomy has been balanced by enhanced reporting, accountability and monitoring processes.
Financial distribution policy	NSW	1993-94	Under the financial distribution policy announced in 1992, all NSW GTEs are required to prepare Statements of Financial Performance each year from 1993-94 which specify: the basis of a GTE's asset valuation; an agreed capital structure; a target rate of return on equity and on net operating assets; and a target pre-tax profit distribution.	The policy creates incentives structures which promote more commercial behaviour on the part of GTEs.

Social Program Policy	NSW	July 1994	The Government released 'A Social Program Policy' for NSW Government Trading Enterprises and established a Social Program Policy Unit within the NSW Treasury.	Objectives of the policy are to: provide a framework for the effective separation of commercial and non-commercial activities of GTEs so that management has clear and non-conflicting objectives; subject social expenditures by GTEs to the Budget process thereby making them transparent and enhancing parliamentary accountability; and provide a framework to improve the effectiveness of social program expenditures.
Community service obligations	Vic	May 1994	Government approved community service obligation policy.	Establishes policy for the GBE sector which supports corporatisation reforms.
Tax equivalent regime	NSW	June 1994	The Government released its policy on a tax equivalent regime for NSW GTEs following Commonwealth-State agreement that GTEs should pay Commonwealth taxation equivalent payments under State based tax equivalent regimes.	Exposing GTEs to financial disciplines which are similar to those required of commercial organisations in the private sector constitutes a significant incentive for GTEs to improve their economic efficiency.
Commercialisation/ corporatisation	NSW	1993-94	Commercialisation initiatives for the State Transit Authority include: introduction of performance monitoring arrangements; transparent funding for community service obligations (such as concessional travel) which are provided under contract with the Government, restructuring of the organisation to enhance accountability and debt reduction.	To move progressively towards best practice levels of efficiency.

Government business enterprise reform (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	NSW	1993-94	Ongoing commercialisation of State Forests of NSW, the GBE responsible for management of the State's forests. Achievements in 1993-94: (1) separation of policy and operational responsibilities for forestry. The Department of Conservation and Land Management now has responsibility for policy and State Forests is responsible for operational management; (2) separation of community service obligations (CSOs) from commercial activities; (3) introduction of tax equivalent regime for State Forests from 1 July 1994 and annual payment of a Guarantee Fee on debt.	These reforms will substantially improve the efficiency and productivity of forest management and the forest industry in NSW.
	Tas	1993-94	A review of the State Authorities Financial Management Act, which governs GBEs, was carried out in 1993. A Government Business Enterprises Bill will be introduced into Parliament during late 1994. The new disciplines already apply to the Printing Authority of Tasmania and Forestry Tasmania which are now Statutory Corporations.	Providing clear and non-conflicting commercial objectives for GBEs; establishing Boards chosen for expertise and not as representatives of interest groups; specifying duties and accountabilities of Boards; establishing clear accountability of GBEs to Parliament through Ministerial Charters and an improved corporate planning process that reduces day-to-day ministerial involvement; providing for improved competitive neutrality through an enhanced tax equivalence, dividend and guarantee fee system; and improving performance monitoring procedures.

Electricity	NSW	May 1994	<i>Electricity Commission (Amendment) Act 1994</i> established the network subsidiary within Pacific Power as a separate legal entity.	This highly significant reform represents the first step towards the separation of electricity transmission from generation in NSW which is necessary for developing a National Electricity Grid and a competitive market.
	NSW	May 1994	Endorsed arrangements to effect the accounting separation of each electricity distributors' network operations from their retail supply operations.	Necessary precondition for establishing a competitive electricity market.
	NSW	Ongoing	Commercialisation of metropolitan electricity distributors. From 1993–94, each metropolitan distributor will prepare an annual Statement of Financial Performance.	Brings distributors in line with the Government's Financial Distribution Policy.
	SA	May 1994	Announced restructured electricity tariffs, including reduced cross-subsidies between customer classes and reduced off-peak rates, to appropriately reflect costs of supply.	Improves the competitive position of the GBE and increases allocative efficiency.
	SA	1993–94	Labour productivity (as measured by Gwh/employee) increased significantly through internal restructuring and staff reductions of about 20%.	Costs of electricity production substantially reduced.
	WA	1993–94	Tariff reductions of between 2% and 10% for medium to large size commercial and industrial customers on SECWA's south-west grid using time-of-use tariffs. This move is designed to encourage transfer from 'declining block' tariffs (average price falls as consumption increases) to time-of-use tariffs.	These pricing reforms are designed to encourage more effective use of electricity which will allow SECWA to operate and install generating plant more efficiently. The consequent cost savings will benefit both SECWA's customers and taxpayers in general.
Water	Vic	Ongoing	Continuing amalgamations of non-metropolitan urban water authorities and restructuring of the Rural Water Corporation.	Greater efficiency of operations and financial viability of sector, along with improved effluent quality standards.

Government business enterprise reform (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Vic	Ongoing	Melbourne Water Corporation reducing cross-subsidy and increasing user-pays component of total bill.	More efficient water use as customers are faced with more accurate costs of their consumption.
	WA	1993-94	The remaining metropolitan residential water consumption allowance will be eliminated, meter-based minimum water-based charges for metropolitan non-residential customers will continue to be phased in, further reductions in charges for customers paying more than 1997-98 target meter-based charges.	Changes encourage more economical use of water, while many businesses will continue to benefit from the phase-in of tariffs agreed in 1992-93.
	NSW	1993-94	In 1993-94 the Sydney Water Board replaced the four tier water charging arrangement with a single water price of 65 cents per kilolitre for all water sold. The new price better reflects the long run marginal cost of supplying water, inclusive of the cost of future capacity expansion.	The single water price is intended to better signal to users the cost consequences of current trends in water use and to encourage conservation. The cross-subsidy from the non-residential to residential sector has also been lessened by reducing reliance on property taxes.
Roads	SA	1993-94	Developed strategic management process linking all aspects of Road Transport Authority business to a set of clearly defined corporate goals and objectives directly linked to those of the Government.	Ensure that the focus is on the achievement of goals and objectives. Increased emphasis is thereby placed on outcomes.
Roads Corporations	Vic	November 1993	Restructured to focus on the four core businesses: road safety, road system management and registration and licensing.	Service delivery is focussed on four core businesses providing increased clarity of accountabilities for achieving agreed outcomes and outputs.
	Vic	February 1994	Introduced performance management reporting and improvement.	Greater potential to identify areas of improvement and clear responsibility and accountability for results.

Public transport	Vic	1993-94	Restructured the Public Transport Corporation into business units and agreements with internal service providers.	Staffing has been further redefined to tasks aimed at core business activities with greater productivity from a greatly reduced workforce.
	WA	1993-94	Public transport fares increased by 14.1% on average and continued fare restructuring including: greater use of pre-sold tickets to achieve operating efficiencies; relating fares to distance-based costs; and a peak/off-peak differential in fares which recognises the higher cost of peak operation without discouraging commuter travel.	Fare rise will assist users to make a more appropriate contribution to the total cost of public transport service provision.
Shipping	ACT	Ongoing	Benchmarking ACTION and ACTEW performance.	Assessment of performance against other similar GBEs to identify areas in need of improved performance.
	WA	September 1993	Embarked on a program of cost reductions and expressions of interest called from the private sector to take over all or part of Stateships' operations.	Cost reduction program was implemented to reduce Stateships' operating deficit and thereby facilitate transition to private sector operation.
Ports	Vic	1993-94	The Ports of Melbourne, Geelong and Portland were declared reorganising bodies under the <i>State Owned Enterprise Act 1992</i> . New commercial Boards were appointed and major strategic reviews completed for each port.	Established a competitive market and removed the Government from non-core businesses. Port of Melbourne Authority split into three business units competing with the private sector.
	Vic	1993-94	Commercialisation and structural reform of the Port of Portland.	Reduced charges for services, increased use of contractors and consultants, transfer of non-strategic lands and 30% reduction in workforce.

Government business enterprise reform (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Qld	1 July 1994	The Port of Brisbane Authority, Gladstone Port Authority and Harbours Corporation of Queensland were corporatised on 1 July 1994. The remaining five port authorities in Queensland are scheduled for corporatisation on 1 July 1995.	Clearer objectives, increased public accountability, enhanced quality of information for decision-making, a better match between infrastructure provision and identified demand, and improved utilisation of infrastructure and other resources.
	NSW	1993-94	Maritime Services Board continued to pass on the benefits of increased port efficiency through pricing reforms: wharfage rates for import containers reduced by 33.8% and for export containers by 9.1%; wharfage rates reduced for general import cargo by 11% and 13% for motor vehicles; standardised timber and paper wharfage charges produced a saving of 26% for importers of these products. Ships utility charges and oil inspection fees abolished.	Encourages trade through reduced port costs and increased port efficiency in the Sydney Ports. Pricing reforms have contributed savings of \$13 m to customers of Sydney Ports, and \$6 m for port customer at Port Kembla and Newcastle. Average cost of cargo for customers has reduced from \$1.33 per tonne in 1992-93 to \$1.18 in 1993-94.
Rail	NSW	Ongoing	Separating ownership of network assets from train operation. A Network Access Unit is currently being established to facilitate reform.	Expected to drive efficiencies in network asset management and promote competition among current and potential operators. A key step in realising open access reforms in rail.
Aluminium	Vic	July 1994	Restructured Portland Smelter Unit Trust and Aluvic into a single fully commercial entity.	Will place Aluvic on a more commercial footing.
Coal	Vic	October 1993	Established Energy Brix Australia Corporation as a separate State Business Corporation to produce and market briquettes.	Established a financially viable briquette production business.
	Vic	October 1993	Coal Corporation of Victoria declared a reorganising body under the <i>State Owned Enterprises Act 1992</i> .	First stage of corporatisation process.

State Trustees	Vic	1993–1994	State Trustees Limited declared a State Owned Company under the <i>State Owned Enterprises Act 1992</i> .	Increases operating effectiveness, promotes fiduciary independence of trustee services and facilitates contractual arrangements for the delivery of community service obligations to agreed levels and quality of service.
Transport Accident Commission	Vic	1993–1994	Separated functions associated with protecting consumers and the public interest from TAC's commercial insurance operations.	Aimed at achieving an internally competitive environment which ensure efficient claims management.
Urban Land Authority	Vic	April 1994	The Urban Land Authority was declared a reorganising body under the <i>State Owned Enterprises Act 1992</i> .	Enhanced Urban Land Authority's operations and given it a sharper competitive focus in the lead up to corporatisation.
	Qld	Ongoing	Queensland Rail has been restructured over the last three years and required to operate in a clear commercial manner. QR is scheduled to be corporatised on 1 July 1995.	Labour and asset productivity have improved by over 40% in the three years to 1992–93. Commercialisation of QR's freight group has improved performance by \$100m.
Forestry	Tas	1993–94	Established Forestry Tasmania by corporatising the old Forestry Commission and established the Forest Practices Board to perform regulatory functions.	Will provide a more commercial focus for the management of the State Forests but maintain multiple use, environmental and community service values. Further use will be made of tenders and expressions of interest in allocating Crown wood. Regulatory functions separated from the now corporatised Forestry Tasmania.
Construction	SA	May 1994	Department of Housing and Construction restructured as a new Public Works Authority providing the Government with building policy advice and risk management. Services to other departments will continue only if strategically important to the Government or if competitive with the private sector as outsourcing increases.	Enhanced competition will improve efficiency and productivity in this sector, with flow on effects to the building and construction industry. Efficiency gains to the Government of \$3.8m in 1994–95 rising to \$8m in 1996–97.

Government business enterprise reform (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Competitive				
Ports	SA	1993-94	Container Cranes and Straddle Carriers at the Port of Adelaide Container Terminal sold to the private sector as part of the establishment of a long term operating agreement for the container terminal.	Port Authority costs will be reduced and the debt-to-equity position improved by this reform.
Public transport	SA	May 1994	<i>New Passenger Transport Act</i> took effect from 1 July 1994. Public transport services will be competitively tendered from 1 March 1995, and the level of CSOs will relate to the cost of each contract let.	Introduction of competitive tendering will result in: <ul style="list-style-type: none"> • significant reductions in the cost to Government of maintaining services • improvements in services through enhanced responsiveness to market needs.
	Vic	1993-94	80% of former government bus services in Melbourne contracted to National Bus Company and 20% to a commercial business unit of the Public Transport Corporation.	National Bus Company contract is fare-box based, giving incentive for the operator to obtain extra patronage. No cost to government except concession subsidy, allowing annual savings in excess of \$10m.
	Vic	May 1994	Continuing introduction of driver only suburban and country passenger trains and freight trains.	Reduces operating costs for train services and introduces best practices work arrangements.
	Vic	1993-94	Contracts for automatic fare collection system for metropolitan trains, trams and buses have been signed.	Major change in operating practice which will reduce operating costs for the Public Transport Corporation and boost revenue through reduced fare evasion.
	Vic	1993-94	Benchmarking of rail vehicle maintenance activities against external suppliers.	Significant staff reductions and improved productivity have enabled closure of the Jolimont Workshops.

	Vic	December 1993	Legislative change to clarify the roles of the Department of Transport and Public Transport Corporation and the development of formal annual service agreements.	Establishes a more efficient public transport system with clear lines of accountability and service delivery targets. Costs commercial services separated from costs of providing non-commercial services.
	WA	September 1993	Three year plan announced to open public transport services up to competition, with a new corporatised Transperth tendering for metropolitan bus, train and ferry operations.	Permitting private sector involvement will enable more efficient public transport and productivity improvements and lower operating costs within Transperth.
Contracting out	SA	1994	Outsourcing strategy developed for the Road Transport Authority.	Improved productivity and flexibility through establishing a competitive environment founded on contestability.
	SA	1994	New policy initiative implemented within the Department of Transport whereby routine maintenance is subject to competitive tender.	Ensures cost effective road maintenance. Potential savings of about 20% representing an annual saving of \$15m.
	SA	1994	New capital works to be provided for the Engineering and Water Supply Department through contracting out arrangements. In metropolitan Adelaide the operation, maintenance and extensions to water and sewerage plants and networks as well as logistic support services to be outsourced through competitive tendering program.	The whole-of-life cost of asset provision will be reduced and the outsourcing and restructuring of retained functions will reduce the cost of service delivery and improve overall efficiency. Ongoing savings of \$30m a year expected by 1995-96.
	SA	June 1994	Commitment within the Electricity Trust of South Australia to outsource the testing of electrical products and approvals process.	Introduces competition and separates regulatory and commercial functions.
	SA	June 1994	Moves in the electricity supply industry to outsource meter reading, design and construction, and architectural and engineering services.	Improved efficiency and competitiveness in providing services to both external and internal customers, with business units increasingly exposed to competition.

Government business enterprise reform (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Vic	March 1994	Released guidelines for management buy out options.	Increase operational efficiency of GBE sector through extensive contracting out processes.
	Vic	1993-94	Ancillary administrative and trading activities within the Public Transport Corporation functions contracted out.	Continuing reduction of non-core activities within the PTC, reducing costs and staff requirements.
	NSW	1993-94	The Commercial Service Group has contracted out for a state-wide government telephone and data network, radio network, and electronic date interchange/electronic funds transfer network.	Expected savings of \$280m over the next 10 years for the telephone and data network, \$40m over the next 5 years for the radio network, and \$100 m annually for the EDI/EFT network. Improved productivity performance of NSW government agencies.
	NSW	1993-94	Contracting out of many of State Forests' support activities including office cleaning, maintenance, computer support, training, road and building construction, expert advice, etc. State Forests' own commercial services units, including Nurseries, Aircraft Services, Workshop Services, Fleet Management and Civil Engineers now operate as separate businesses and must compete with external suppliers to gain work from internal purchasers. They may also sell their services to external organisations.	Contracting out is employed when analysis reveals that it is more cost effective.
	NSW	1993-94	Zoologist Parks Board has contracted out a number of non-core business activities including computing support, payroll services, legal services, waste management, pest control, retail and catering services at Taronga Zoo and staff training.	Significant cost savings.

NSW	December 1993	Since December 1993, core business units of the Sydney Water Board have been able to contract out for services provided by the Board's trading arm, Australian Water Technologies. While quotes must be obtained from AWT, business units are under no obligation to engage AWT, except where tenders are generally equal.	Introduction of competitive pressures to service delivery.
NSW	October 1993	State Rail Authority has contracted out revenue collection from and maintenance of its automatic ticketing machines.	Significant labour cost savings and improved revenue collection.
NSW	June 1994	State Rail Authority contracted out warehousing and distribution function within the Sydney Metropolitan and Newcastle areas.	Reduced inventory from \$9m to \$6m.
NSW	1993-94	State Transit Authority tendered its information technology and fuel contract management. The Authority's internal information technology unit won the IT contract ahead of external tenderers, and has been restructured on a strictly commercial basis.	Significant cost savings.
NSW	1993-94	Maritime Services Board contracted out the following functions during 1993-94: legal services; internal audit; maintenance and cleaning of port facilities; garbage removal; courier services; and car park management. Towage services in Newcastle were market tested, with the result that a new towage operator was appointed in March 1994.	Has resulted in cost savings for the MSB as these services are carried out more efficiently. Towage charges at the port of Newcastle have reduced by 10%.

Government business enterprise reform (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	NSW	Ongoing	Waste Service of NSW has contracted out a number of operations including recycling and processing disposal: 79% of the costs incurred in operating the Solid Waste Management System consists of work contracted out to the private sector.	Significant cost savings.
	NSW	1993-94	The Roads and Traffic Authority contracted out the following activities: all construction works on National Highways; a substantial portion of works on State roads; traffic signal construction and maintenance; roadworks material haulage; cleaning and building services; staff training; security; legal services; road conditions data collection and property rental management.	Maintenance cost savings in the Sydney Region are up by 23% as a result of contracting. The savings are being used to fund a backlog of safety and maintenance works. Haulage costs in the Narrabri/Moree area have been reduced by 50% after being contracted out.
	Qld	1993-94	In 1993-94, services contracted out to the private sector included 32% of building fees design, 85% of construction, 50% of maintenance and 53% of cleaning services.	Benefits include, \$24 million saving in capital program cost; \$10 million saving on telecommunication costs and \$1 million saving on capital costs of motor vehicles.
Regulatory Reform	Vic	June 1994	Established the Office of the Regulator-General.	Ensure open and fair competition in competitive markets and simulate competitive market outcomes.
Guarantee Fees	NSW	1994	The release of a paper on guarantee fees outlining a policy which has been underway in New South Wales for some time of charging an explicit fee on GBE debt, based on the differences between their credit rating and that of the NSW Government.	Guarantee Fees will serve to increase competitive neutrality.

Taxation	C'wealth	March 1994	The Premiers' Conference agreement between the Commonwealth, States and Territories provides that the Commonwealth would broaden the income tax and sales tax exemption provisions that relate to State Trading Enterprises and in return States will collect tax equivalent payments directly from their wholly-owned STEs within a period of three years.	The new policy for the taxation of STEs will ensure competitive neutrality of STEs among States and with private sector competitors.
Banking	SA	1994	Corporatised the Bank SA (formerly State Bank of SA) with a view to sale. Sections of the existing bank will be retained as a statutory body.	Ownership reform expected to yield a competitive, privatised financial institution.
Gas	SA	October 1993	Agreement to release ethane from the SA Cooper Basin for ICI's petrochemical plant at Botany Bay in NSW, subject to completion of the necessary commercial arrangements.	Facilitation of free trade in natural gas between the States, based on commercial arrangements.
	Vic	May 1994	GFCV contracted out support services.	Introduces cost savings and allows GFCV to focus on core activities.
Electricity	C'wealth	1993-94	In advance of creating an interstate electricity market on 1 July 1995 (initially including SA, NSW, Victoria and the ACT, and if the linkage is feasible, Tasmania and Queensland), an electricity 'market trial' providing all potential participants with market trading experience, was concluded on 30 June 1994. This trial developed skills, and provided participants with a feel for how the national market will work.	These reforms will move Australia closer to a competitive electricity industry, leading to better, more cost reflective electricity pricing and more efficient resource allocation.

Government business enterprise reform (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Vic	1993-94	The State Electricity Corporation of Victoria was separated into three businesses responsible for generation, transmission and distribution functions.	Reforms will improve performance and accountability of electricity supply in preparation for corporatisation. Further division of generation and distribution businesses will create competition and prepare Victoria for open access under a national grid.
Energy distribution	WA	October 1993	SECWA to be split into two corporate entities: a gas business and an electricity business by January 1995. A competitive framework would be introduced by July 1997 to enable large energy users to contract directly with suppliers.	These decisions are aimed at increasing competition in the energy sector in a bid to improve productivity and lower energy costs in Western Australia.
Tele-communications	C'wealth	October 1993	A third mobile telecommunications carrier Vodafone commenced operations in October 1993 competing with Optus and Telstra in the provision of a digital mobile network.	Encourages the development of greater competition and provide further reductions in price and increases in service quality and efficiency.
		May 1994	The Government announced a review of regulatory and policy issues before full and open competition commences in July 1997.	
Roads Corporation	Vic	1993-94	Larger proportion of road construction and maintenance contracted out to the private sector, greater use of consultants in design and survey, and outsourcing of some functions of the registration and licensing business and certain corporate functions.	Greater competition in markets ensuring effective and efficient service provision.

Water	NSW	1993-94	Negotiated regulatory arrangements to apply to the Hunter Water Corporation for the period 1995-2000 that include: a licence issued by the Department of Water Resources in regard to raw water; an operating licence that specifies standards of service to consumers; a five year price path established with the Government Pricing Tribunal; and a commitment in regard to discharge standards.	Replacement of traditional property based rates with consumption based tariffs is improving allocative efficiency; reducing out-of-doors and peak summer consumption; allowing HWC to postpone expenditure on water storage and distribution on water storage and distribution infrastructure.
	Vic	1994	Process commenced to convert existing water rights to bulk entitlements to allow trading.	Trading of water rights will ensure efficient allocation of resources.
Emergency services	Vic	1993-94	The provision of non-core functions of the Country Fire Authority have been re-established under contract arrangements.	Efficiency gains as workforce provided from external sources under strict contract arrangements.
Ownership				
Privatisation	SA	June 1994	Finalised arrangements to transfer ownership of the State Clothing Corporation to the private sector.	Consistent with policy of outsourcing non-core government services which can be undertaken by the private sector, in order to improve efficiency.
	SA	1993-94	Container Cranes and Straddle Carriers at the Port of Adelaide Container Terminal sold to the private sector.	Port Authority costs will be reduced and the debt-to-equity position improved by this ownership reform.
	SA	February 1994	Established a Steering Committee to prepare for the sale of the gas pipeline systems of the Pipelines Authority of South Australia	Significant ownership reform, expected to improve operational efficiency and financial performance by exposure to the same operating environment as the private sector.
	SA	November 1993	Completed the sale of the State Government majority shareholding in SAGASCO Holdings. Regulation of the utility subsidiary maintained through the <i>Gas Act 1988</i> .	Represents a major ownership reform as control of the enterprise has now been wholly transferred to the private sector.

Government business enterprise reform (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	C'wealth	June 1994	The Moomba-Sydney Pipeline was sold to East-Aust. Pipeline Limited. The sale legislation incorporates a series of provisions to encourage competition in gas transmission. The operations of AGL and the new pipeline company are to be separated through a 'ring fencing' provision. Further provisions ensure open access to the pipeline, with the TPC to arbitrate disputes over third party access. The sale legislation also requires PSA monitoring of the haulage fees charged by the Moomba operator.	The sale facilitates free and fair trade in gas. Many of the innovative competition policy aspects of the sale legislation (such as the access regime) may provide models for competition policy arrangements in the future.
	Vic	March, June 1994	The partial float of Gas and Fuel resources was announced and the technology arm of NGV Australia (part of GFCV) was sold to Transcom International.	Allows GFCV to shed a non-core business activities.
	C'wealth	May 1994	The Government announced the sale of federal airports, subject to the outcome of a scoping study and the ALP conference in September. An ownership neutral regulatory regime for airports will be developed.	Ensures that airport services are delivered efficiently. The regulatory regime will ensure that the purchasers of the airports are not able to abuse any market power arising from the monopoly characteristics of airports.
	Vic	May 1993	Legislative reform to privatise the Totalisator Agency Board and enable the float Tabcorp on the stock exchange.	Provides flexibility for the racing industry and the privatised TAB to maximise their commercial position in an expanding gambling market within the bounds of Government policies and the maintenance of industry probity.

Vic	May 1994	Sale of Vic Computing.	Maximum financial benefit to the Government and its client agencies.
Vic	1993-94	Privatised tailoring department, portable fire appliance business and aspects of communications functions of the Country Fire Authority.	Focus on core activities, 10% reduction in staff.
Vic	1993-94	After a competitive tendering process, the Port of Geelong Authority's ship repair business was transferred to the private sector.	Allows PGA to concentrate on port operations and will provide the private sector with an opportunity to develop the business.
WA	1993-94	The SGIO was privatised through a public float. Expressions of interest were sought for the sale of the commercial operations of State Print and the partial privatisation of GoldCorp.	The various benefits from full or partial privatisation of these agencies include: freeing up capital for alternative public sector requirements; debt retirement; stimulating private sector activity; and facilitating private sector funding and management expertise.
NSW	January 1994	Sale of the Government Cleaning Service which cleaned State schools, police stations, and court buildings. The GCS was sold as five separate businesses, each covering a region of the State. No tenderer could win more than two businesses. The businesses were sold to three major cleaning firms.	Expected savings to the Government of \$250m over five years. The private sector can provide the same service at an estimated cost saving of around 20%.
NSW	August 1993	Maritime Service Board separately sold three small non-core business units: Navigation Aids, Signs; and Waterfront Services.	Shedding of non-core activities previously undertaken by the MSB.
NSW	1993-94	Heads of Agreement for the sale of the Sydney Fish Markets was signed in May 1994 and enabling legislation passed. The Fish Marketing Authority will be dissolved and the Government will withdraw from the marketing of fish from 1 September 1994.	The increased competition between fish sellers and the removal of unnecessary and costly steps in the marketing chain will benefit consumers in the form of lower prices and prospects for better quality fish.

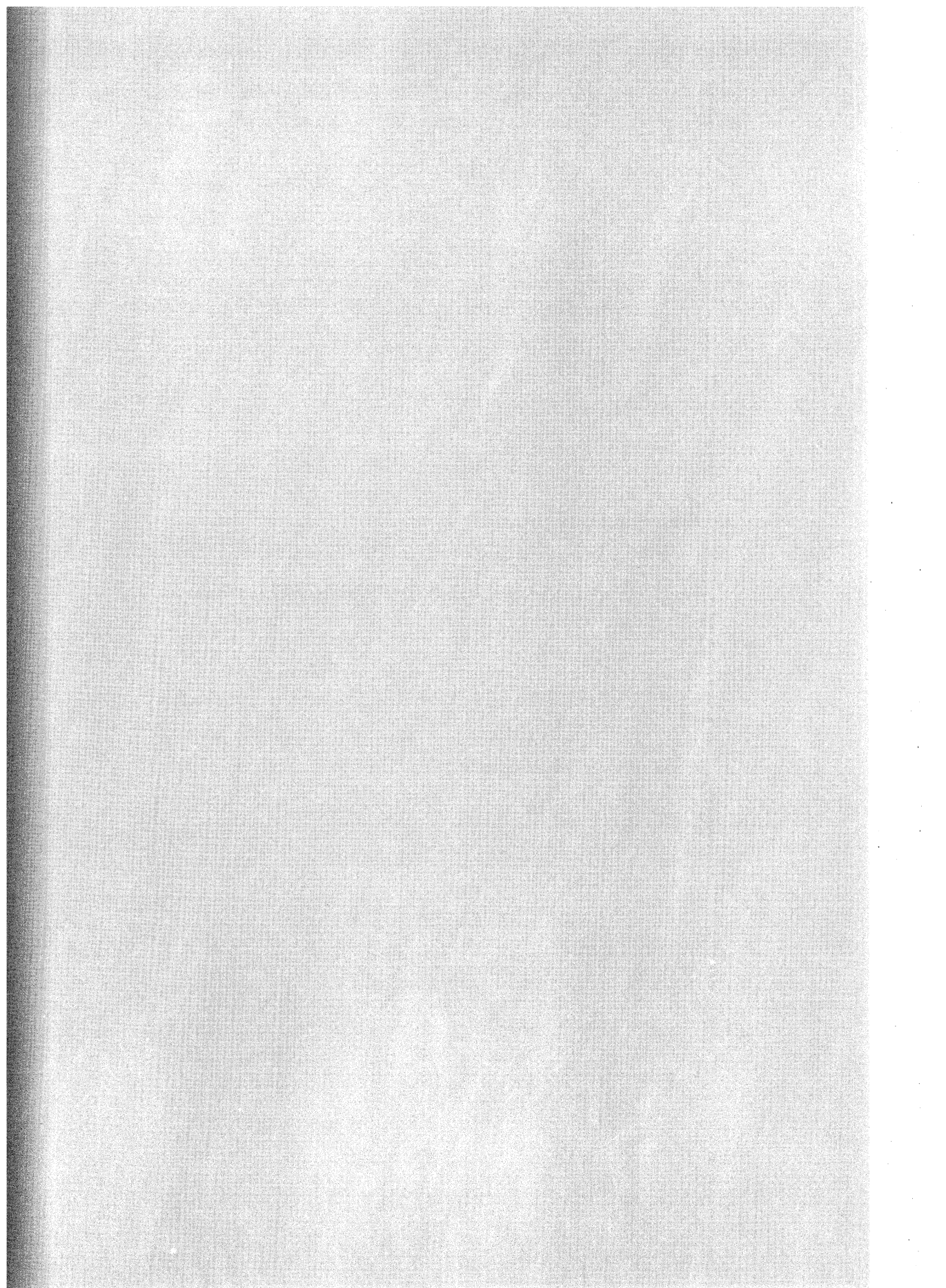
Government business enterprise reform (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Tas	1993–94	The housing loan portfolio of the Tasmanian Development Authority was privatised.	The sale to Advance Bank enabled debt to be repaid.
	Tas	1993–94	Tasmania Government Insurance Office privatised.	The sale to Fortis Australia enabled debt to be repaid.
	Tas	1993–94	Tasmanian Travel Centres in both Launceston and Hobart have been transferred from the State Government to the private sector.	This has placed the delivery of information for visitors in the major gateways to Tasmania in the hands of the industry that provides 'on ground' facilities.
	NSW	1993–94	Tender let to build, own and operate the Port Macquarie Hospital Service.	Improvements are expected in accessibility to health services, capital savings and accountability.
	Qld	30 March 1994	Sale of the Gladstone power station to a consortium led by Comalco Pty Ltd introduced a major private generator into Queensland's electricity grid.	Will ensure that a reliable, competitively priced source of supply is available to meet the State's electricity requirements and of the upgraded Boyne Smelter.
Private infrastructure provision and management	WA	March 1994	The Goldfields Gas Pipeline Agreement Bill introduced into Parliament ensures that gas transmission capacity in the pipeline is made available to third parties on a non-discriminatory basis at a fair and reasonable tariff.	The State as a whole will benefit from the additional energy infrastructure, which will enhance development activities in the inland Pilbara and Goldfields regions through lower gas and electricity prices.
	NSW	June 1994	Announced the preferred private sector tender to construct and operate a light rail service between the Sydney CBD and the urban renewal area of Ultimo–Pyrmont.	Will encourage the development of the area, make public transport use more attractive, and reduce demands on government finances.

NSW	1993–94	Private sector entered into Build Own Operate arrangements with the Water Board for the provision of four water treatment plants.	Private sector involvement should improve the quality, efficiency and effectiveness of service delivery.
NSW	June 1994	A further 6.8 kilometres of the privately built M5 Motorway in Sydney was opened to traffic.	More efficient road transport infrastructure and reduction of the Government's financial burden and operating risk.
NSW	1993–94	Negotiation completed for a private firm to construct an extension to Silverwater Road in Sydney at a cost of \$20m.	This is the Roads and Traffic Authority's first design, construct and maintain contract.

Regulation review

G Developments in business regulation and its review



Appendix G

Developments in business regulation and its review

Against a background of increasing business regulation, there have been several recent initiatives to reform the regulatory environment. There has been some progress towards implementing the recommendations of the Hilmer Review, although much remains to be done. The Commonwealth is strengthening its regulation review program and has introduced a Bill to ensure that subordinate regulation is better analysed. And mutual recognition is freeing up some aspects of interstate trade. However, while these reforms auger well for the economy, their full effects will not become apparent for some time.

Business regulation refers to government action which, either by direct control or financial inducement, encourages business entities to alter their commercial behaviour.

The Industry Commission takes an interest in regulation for two main reasons. First, under the general policy guidelines embodied in the *Industry Commission Act 1989*, the Commission is required, amongst other things, to seek “to reduce regulation of industry (including regulation by the States and Territories) where this is consistent with the social and economic goals of the Commonwealth Government.” Second, the Office of Regulation Review (ORR) — operating within the Commission since 1989 — has administrative and advisory functions specified by Cabinet relating to the review of regulation. Amongst other things, the ORR is required to provide public advice to the Commonwealth Government on proposals for new and amended regulation and comment on overall regulatory trends.

The volume of business regulation continues to grow and, this year, governments at the State and Commonwealth levels have all announced reforms to their processes for developing and reviewing regulation. The ORR has had its role and resources expanded. This appendix discusses developments in business regulation and its review over the last year.

Aggregate changes in business regulation

Business is regulated through the creation and application of three main legal mechanisms: primary legislation, subordinate legislation, and administrative decisions and instruments.

Primary legislation consists of Acts of Parliament. In 1993–94, 193 Acts were passed by the Commonwealth. Of these, 14 were Acts relating to supply or appropriation, 67 were new Acts and 112 Acts were amendments to existing legislation. At least 57 of these Acts are estimated to relate mainly to business regulation. In quantitative terms, this is similar to the volume of primary business regulation introduced in the previous year. Many of these Acts deal with minor amendments or procedural matters, and some provide for reductions in the stringency of regulation. The Acts involving more substantive amendments or new regulation are listed in Table G1.

Subordinate legislation consists mainly of statutory rules and disallowable instruments. These have the force of law but are made by an authority to which Parliament has delegated its legislative power. In 1992–93, 408 statutory rules and 1244 disallowable instruments were made. As indicated in Table G2, this continues the upward trend in subordinate legislation which has occurred over the last decade, and also reinforces the trend towards the use of disallowable instruments within the subordinate regulation category.

Administrative decisions and instruments are generally made by public officials and involve the application of legislation to particular circumstances. No data on this form of regulatory activity are available.

Selected developments in business regulation

While the foregoing figures give an indication of the quantity of regulatory activity occurring, it is difficult to judge the merits of the aggregate level of regulation in the economy. The amount of regulation does not indicate the extent of its impact. In fact, the process of improving and streamlining regulation is itself likely to increase the quantity of regulations made in any given year. For example, while the establishment of the National Registration Scheme for Agricultural and Veterinary Chemicals (discussed below) replaced existing regulatory schemes, it nonetheless increased the volume of regulation made in the year it was enacted. Even if the size of the effects of regulation was known, this would not indicate whether it was desirable or not.

Judgments about the desirability or effects of regulation therefore need to be made at a more disaggregated level. This section describes and comments on changes in specific areas of regulation in Australia over the last year.

Table G1
Selected Commonwealth primary business legislation,
1993–94

<i>Primary legislation</i>	<i>Main features</i>
<i>Agricultural and Veterinary Chemicals Act 1994</i>	Provides for the evaluation, registration and control of agvet chemicals and establishes NRA.
<i>Australian Meat and Live-stock (Quotas) Amendment Act 1993</i>	Extends the period for which quotas apply.
<i>Australian Wine and Brandy Corporation Amendment Act 1993</i>	Regulates the sale, export and import of wine.
<i>Australian Wool Research and Promotion Organisation Act 1993</i>	Gives one organisation responsibility for wool promotion and R&D.
<i>Automotive Industry Authority Repeal Act 1994</i>	Abolishes the AIA.
<i>Corporate Law Reform Act 1994</i>	Relates to information and prospectus requirements for securities and amends the <i>Australian Securities Commission Act 1989</i> .
<i>Domestic Meat Premises Charge Act 1993</i>	Imposes a charge on certain meat premises.
<i>Export Inspection Charges Laws Amendment Act 1993</i>	Provides for services under the <i>Meat Inspection Act 1983</i> to be withdrawn if the domestic meat premises charge is not paid.
<i>Financial Corporations (Transfer of Assets & Liabilities) Act 1993</i>	Relates to the transfer of assets & liabilities from/to subsidiaries of eligible foreign banks.
<i>Industrial Relations Reform Act 1993</i>	Allows for enterprise flexibility provisions in awards and for the review of awards.
<i>Industry, Technology and Regional Development Legislation Amendment Act 1994</i>	Extends period for granting financial assistance to eligible companies for R&D.
<i>Moomba-Sydney Pipeline System Sale Act 1994</i>	Provides for access to the pipeline & restricts the business of the pipeline operators.
<i>Murray-Darling Basin Act 1993</i>	Relates to the use of water, land and other environmental resources in the Basin.
<i>Native Title Act 1993</i>	Recognises a form of native title in relation to land or waters, and provides for compensation when native title is extinguished.

Table G1 (continued)

<i>Primary legislation</i>	<i>Main features</i>
<i>Nuclear Safeguards (Producers of Uranium Ore Concentrates) Charge Act 1993</i>	Imposes a charge on certain persons producing uranium ore concentrates.
<i>Nursing Home Charge Imposition Act 1994</i>	Imposes a nursing home charge.
<i>Occupational Health and Safety (Maritime Industry) Act 1993</i>	Replaces policy relating to the occupational health and safety of employees in the industry.
<i>Offshore Minerals Act 1994</i>	Relates to minerals exploration and recovery (other than petroleum).
<i>Petroleum (Submerged Lands) Fees Act 1994</i>	Levies some holders of exploration permits, retention leases and production licences.
<i>Pooled Development Funds Amendment Act 1994</i>	Amongst other things, removes restriction on PDF's investing in start-up businesses and alters the limits on shareholdings in a PDF.
<i>Primary Industries Legislation Amendment Act 1993</i>	Amends several primary industry Acts.
<i>Health Legislation (Professional Services Review) Amendment Act 1994</i>	Establishes a scheme to review professional health services.
<i>Protection of the Sea (Shipping Levy) Amendment Act 1993</i>	Imposes a levy on ships carrying oil that are present in Australian ports.
<i>Road Transport Reform (Vehicles & Traffic) Act 1993</i>	Regulates vehicle standards, driver standards, loading and securing loads, and record keeping.
<i>Superannuation (Financial Assistance Funding) Levy Act 1993</i>	Imposes levies on super and ADF funds to financially assist funds that have suffered losses through fraud or theft.
<i>Superannuation Industry (Supervision) Act 1993</i>	Provides for the Insurance and Superannuation Commission to supervise super & ADF funds.
<i>Telecommunications Amendment Act 1994</i>	Allows Austel to disallow anti-competitive tariffs.
<i>Training Guarantee (Suspension) Act 1994</i>	Training guarantee charge is not payable for the financial years 1994-95 and 1995-96.

Table G1 (continued)

<i>Primary legislation</i>	<i>Main features</i>
<i>Transport & Communications Legislation Amendment Act 1994</i>	Amongst other things, imposes restrictions on foreign interests in Qantas.
<i>Wool International Act 1993</i>	Relates to the disposal and management of the wool stockpile.
<i>Wool Legislation (Repeals and Consequential Provisions) Act 1993</i>	Repeals and amends various legislation relating to wool and the wool industry.
<i>Wet Tropics of Queensland World Heritage Area Conservation Act 1994</i>	Aims to protect and conserve the area.

Source: ORR (derived from examination of original legislation)

Pro-competitive regulation

Implementation of the Hilmer Report

At the February and August 1994 meetings of the Council of Australian Governments (COAG), the Commonwealth, the States and the Territories agreed, in general, to the competition policy principles in the report of the Independent Committee of Inquiry into a National Competition Policy (the Hilmer Report).

At its August meeting, COAG agreed in general to a package of reforms comprising:

- the revision of the competitive conduct rules contained in the Trade Practices Act and their extension to cover State and local government business enterprises and unincorporated businesses;
- the application by individual jurisdictions of agreed principles on structural reform of monopolies, competitive neutrality between the public and private sector where they compete, and a program of review of regulations restricting competition;
- the establishment in each jurisdiction of a system to carry out surveillance of prices charged by utilities and other corporations with high levels of monopoly power; and a legislatively-based regime to provide access to essential facilities such as electricity grids, rail networks, postal delivery services, communications channels and seaports; the agreed approach will provide for participating State/Territory regimes to be taken as being effective if they meet agreed principles;

Table G2
Commonwealth subordinate legislation, 1983–84 to 1992–93

<i>Year</i>	<i>Statutory rules</i>	<i>Disallowable instruments</i>	<i>Total</i>
1983–84	553	240	793
1984–85	581	501	1 082
1985–86	426	428	854
1986–87	322	510	832
1987–88	345	690	1 035
1988–89	398	954	1 352
1989–90	411	847	1 258
1990–91	484	1 161	1 645
1991–92	531	1 031	1 562
1992–93	408	1 244	1 652

Source: Senate Standing Committee on Regulations and Ordinances (various years).

- the establishment of the National Competition Council to make recommendations in relation to the declaration of essential facilities and to advise on other competition policy matters referred to it by individual governments (in relation to its advisory program, the Commonwealth would ensure that there is no duplication of the Council's work by the Industry Commission); and
- the establishment of the Australian Competition Commission, by merging the Trade Practices Commission and the Prices Surveillance Authority, to provide advice on prices oversight and to undertake (compulsory) arbitration in circumstances where there is a failure in negotiations between the owners of essential facilities and parties seeking access to them.

COAG also agreed to a number of transitional arrangements including:

- two and three year phase-in periods for the extension of trade practices legislation with provisions for the States and Territories to provide exemptions, subject to the Commonwealth's ability to over-ride any such changes, for conduct that may otherwise breach competition laws;
- grandfathering contracts entered into by the States and their authorities and by local government under the shield of the Crown and by unincorporated enterprises before 19 August 1994 which might have otherwise breached competition laws; and

- confirmation that State indentures legislated prior to 19 August 1994 which validly effect exceptions from the Trade Practices Act will continue to have the same effect.

COAG agreed to release for public comment the draft legislation on all proposed changes, including:

- the amended draft Intergovernmental Conduct Code agreement, which includes procedures for extension of the Trade Practices Act and appointments to the Australian Competition Commission; and
- the draft Intergovernmental Competition Principles Agreement, which includes procedures and principles for those elements of the national competition policy that do not require a statutory basis (structural reform of public monopolies, legislation review, competitive neutrality and prices oversight), and appointments to the National Competition Council.

COAG agreed that the Commonwealth will pay the States, Territories and local government a share of the expected revenue growth from Hilmer and related reforms to which they have contributed. COAG agreed to meet in Adelaide in February 1995 to discuss appropriate shares of this revenue and to finalise the legislation to implement the competition policy changes.

Success in establishing a national competition policy will clearly require extensive, possibly unprecedented, co-operation between the different levels of government. As Professor Hilmer has noted, COAG's endorsement of the principles of a national competition policy is not the same thing as successful implementation (Williamson 1994). Much is to be done that goes beyond extending the scope of the Trade Practices Act. This concerns unjustified regulatory restrictions on competition; the structural reform to public monopolies; the provision of third party access to essential facilities; and the fostering of competitive neutrality between businesses owned by governments and those in private hands.

Reform of the national gas market

The first practical change deriving from the new national approach to competition policy is the agreement of COAG to a national gas market. At its February 1994 meeting, COAG agreed that:

- there should be no regulatory barriers to intrastate and interstate trade in gas;
- third party access to networks both within and between States be provided on non-discriminatory commercial terms with provision for arbitration of disputes;
- uniform national pipeline construction standards be adopted;

- there be increased commercialisation of publicly-owned gas utilities;
- there be no restriction on the uses of gas; and
- gas franchise arrangements be consistent with free and fair competition in gas markets and adequate third party access.

The framework for a national gas market, which will be phased in over two years, replaces the Commonwealth's Inter-State Gas Pipelines Bill 1993. The Bill, had it been enacted, would have set up a regime to provide access to third parties with the TPC to arbitrate disputes, but would have only applied to inter-state pipelines.

Agricultural and veterinary chemicals regulation

Regulation of agricultural and veterinary chemicals in Australia is designed to meet multiple objectives including: an assessment of a product's efficacy, its public health implications, its environmental impact and occupational health and safety factors. The National Registration Authority for Agricultural and Veterinary Chemicals (NRA) began operation as an independent statutory authority in June 1993. It represents the latest development in the refinement of the regulatory regime for agricultural and veterinary ('agvet') chemicals in Australia which began in 1990.

In August 1991, the Government announced a National Registration Scheme (NRS) for 'agvet' chemicals (Crean 1991). This was a response to the Report of the Senate Select Committee on Agvet Chemicals (tabled in August 1990), and the 1990 Special Premiers' Conference which had identified the regulation of 'agvet' chemical products as an area where regulation should be reviewed.

The NRS is designed to eliminate duplication between State and Commonwealth agencies and to increase the efficiency of the clearance and registration of chemicals. It replaced the previous system whereby the Commonwealth cleared 'agvet' chemicals, but the States were responsible for registering them. Under the new arrangements, which are expected to become fully operational on 1 January 1995, the Commonwealth assumes full responsibility up to point-of-sale, including registration, while the States maintain responsibility for 'control of use'. Commonwealth legislation is to be complemented by legislation in the States and Territories which adopt the provisions of the Commonwealth Act. The NRS also includes a program to handle registration of chemicals for minor uses and a program to review existing chemicals. Under the Scheme cost recovery is to rise from 50 per cent to 100 per cent, phased in over a four year period.

The NRA was established to capture further gains associated with the Commonwealth's role in this area. According to the Minister for Primary

Industry and Energy (Crean 1992), the NRA is to maintain safety standards while:

- delivering more effective and timely chemical registration;
- allowing greater opportunities for public input into registration processes; and
- improving public access to information about agricultural and veterinary chemicals.

The new charging system to be adopted by the NRA will be less reliant on an initial fee and depend more on a sales levy. The NRA is also responsible for co-ordinating a national compliance program and for encouraging the adoption of uniform State procedures for the control-of-use of 'agvet' chemical products.

The development of the new agvet chemicals regime is a significant reform demonstrating the benefits to be achieved through co-operation between State and Commonwealth bodies. The scheme should increase the efficiency of chemical registration, eliminating several layers of administration. It also embodies a review mechanism to ensure that registrations and uses of chemicals remain appropriate over time.

While legitimate health, safety and environmental objectives underpin the regulation of chemicals in Australia, one of the NRA's objectives is also to assess the efficacy of the product, or to ensure that it performs in the intended manner when used properly. Products which fail this test are not granted registration by the NRA. This is one way of seeking to ensure the efficacy of products. However, the extent to which such assessment is necessary for approval of a product is questionable. Sales of the product in the market arguably also provide a test as to the product's efficacy, as is the case in the United States where no such assessment takes place. The NRA could augment the market approach by supplying information, perhaps on product labels, about its assessment of the efficacy of the product. This should provide for more informed decisions by potential users of the chemicals — similar to the provision of information to medical practitioners on the efficacy of pharmaceuticals.

Smoking regulation

While tobacco products have traditionally been heavily regulated, there has been a significant increase recently in regulatory activity, with developments in five areas.

First, under the *Trade Practices (Consumer Product Information Standards) (Tobacco) Regulations 1994*, tobacco products have been subjected to more stringent labelling requirements since 1 April 1994, with the full provisions of the Act to apply by 1 January 1995. The main elements of these new labelling

regulations are the requirement for warning messages to be made more extensive and for the messages to be printed in black on a white background.

Second, bans on smoking in particular venues have been extended in some States and Territories. For example, in the ACT, a new Occupational Health and Safety Code of Practice issued in May 1994 effectively bans smoking in enclosed workplaces in the ACT. The ACT is also considering a Smoke-Free Areas (Enclosed Public Places) Bill which would ban smoking in a wide range of venues including child-care centres, medical facilities, shopping centres and venues that serve both food and alcohol. In South Australia, smoke-free areas have been introduced in sporting venues that receive sponsorship from Foundation SA.

Third, by the end of 1994, all States except Tasmania will raise the legal age for purchase of cigarettes from 16 to 18 years. Many States will also introduce stiffer penalties for those breaching these regulations.

Fourth, a Bill has been introduced into the Senate which seeks to remove the Minister's authority to grant exemptions to some tobacco companies from the provisions of the *Tobacco Products (Advertising) Prohibition Act 1992*. This Act has banned, since July 1993, most forms of advertising of tobacco products with some exemptions granted by the Minister for sponsorship of events deemed to be of national or international significance.

Fifth, there have been increases in the Commonwealth excise rate and State franchise licence fees for tobacco products over the last year. Government taxes now account for approximately 60 per cent of the total price of each pack.

In addition to these changes in the regulation of tobacco products and smoking, a number of inquiries have recently been conducted or foreshadowed covering this area. The Commission has recently finalised a report on *The Tobacco Growing and Manufacturing Industries* (IC 1994e). The Senate Standing Committee on Community Affairs will commence an inquiry into the level of regulation affecting the tobacco industries later this year. And the Health Care Committee of the National Health and Medical Research Council is currently examining the health effects of possible regulation of passive smoking.

As the Commission found in its report, there are sound economic reasons for government regulation of tobacco and its use, particularly given the adverse health affects associated with smoking and exposure to it. However, while strong regulation is justified, each new regulation, or change to an existing regulation, needs to be fully evaluated.

Mutual recognition

A national scheme for mutual recognition of regulation commenced in March 1993. It ensures that most goods initially produced or imported into one State or Territory under the prevailing laws of that jurisdiction can be sold freely throughout the country. In addition, members of regulated occupations can now enter an equivalent occupation in other States or Territories.

There are several potential gains from mutual recognition. Broadly it can eliminate the costs created by having different approaches to similar regulatory problems. Firms benefit from economies of scale through product standardisation. Consumers can benefit through greater competition and enhanced product choice. It increases labour market flexibility, with gains resulting from greater labour mobility. It can also reduce duplication and administrative costs by encouraging the use of rules used in other jurisdictions. Importantly, it provides incentives for regulators to harmonise standards or regulations in different jurisdictions where it is appropriate to do so.

Institutional arrangements

The national scheme of mutual recognition is embodied in the *Mutual Recognition Act 1992*, and the accompanying State and Territory legislation that implements this Commonwealth Act. All States and Territories now participate in the scheme, with the exception of Western Australia which has not yet passed legislation. New Zealand currently has observer status. Discussions have commenced with New Zealand over its inclusion in the scheme and the New Zealand Government has solicited the views of State Premiers regarding its future involvement.

The Commonwealth-State Committee on Regulatory Reform (CORR) plays an important role in overseeing this scheme. This Committee is currently chaired by the Director-General of the NSW Cabinet Office and provides a formal linkage between the Commonwealth and the States. In February 1994, the Committee prepared a progress report on mutual recognition for COAG (CORR 1994). The report focused primarily on NSW and concluded that the scheme was operating effectively, resulting in increased labour mobility. It noted that there had been less activity in the goods area.

Ministerial Councils also oversee the mutual recognition scheme in specific areas such as consumer and environmental regulation. For example, the Consumer Products Advisory Committee which reports to the Ministerial Council of Consumer Affairs has been monitoring the effects of mutual recognition on product safety laws.

Heads of Government have agreed to conduct a comprehensive review of mutual recognition within five years of implementation. In the meantime, the

Heads of Government will monitor the scheme through Ministerial Councils and the Vocational Education, Employment and Training Advisory Committee (VEETAC).

Implementation and impact

Information about the implementation of mutual recognition of goods and occupations since March 1993 is limited for three main reasons:

- as the scheme was only implemented in March 1993, it is too early to comprehensively assess its implementation and impact;
- the scheme places the onus on regulators in different jurisdictions to inform themselves about the scheme and recognise goods and occupations from other jurisdictions so that much of the experience of mutual recognition is thus known only to the parties involved; and
- since March 1993 there does not appear to have been a broad and detailed investigation of the implementation of the scheme.

Effects on regulators

Some jurisdictions have reported that the scheme has resulted in greater cooperation between regulatory agencies — such as the NSW and Queensland Coal Mining Qualifications Boards — in harmonising regulatory requirements and exchanging information (Sturgess 1994a).

Regulatory agencies' awareness of mutual recognition will increase over time. Indeed, given the rules governing mutual recognition it is likely that in the future more regulators will be confronted for the first time with goods or occupations valid in other jurisdictions which do not comply with local rules and regulations.

Effects on movement of goods

Notwithstanding the lack of detailed data, the evidence is encouraging.

Mutual recognition has resulted in greater consumer choice. Bread consumers in NSW are now able to purchase non-standard half loaves produced in Queensland. Tasmanian oysters and game meats are now sold on the mainland. Mutual recognition has also enhanced competition and resulted in changes to the structure of various markets. For instance, six months after implementation, egg producers in northern NSW claimed that they had secured 20 per cent of Queensland's egg market, while Victorian meat can apparently be sold more freely in NSW (Wilkins 1993).

Mutual recognition appears to have particularly benefitted small businesses which previously faced obstacles to the sale of goods in other jurisdictions. For

instance, it has helped break down barriers to trade in dried fruits — such as grading requirements — by accelerating negotiations for national standards.

There appear to be no difficulties to date relating to product safety as no complaints have been reported to the Consumer Products Advisory Committee. In the meantime, this Committee is developing national standards for product safety.

While temporary and permanent exemptions are available from the scheme, generally on 'public interest' grounds, there is a risk that exemptions could in practice impede trade between jurisdictions. The Director-General of the NSW Cabinet Office (Wilkins 1993) expressed concern that too many exemptions are allowed under the existing regime, particularly relating to occupational health and safety. This was exempt on the basis that uniform occupation health and safety laws have been introduced by all jurisdictions. However, in NSW, the Workcover Authority has excluded 'pressure vehicles' by demanding different standards (Sturgess 1994a).

Effects on occupations

The effect of mutual recognition on occupations is easier to monitor than that on goods. As expected, mutual recognition has resulted in greater labour market mobility. For instance, in the first six months of the scheme 800 medical professionals, lawyers, builders and tradespeople registered in NSW as a result of mutual recognition (Wilkins 1993). In the ACT in the first year, approximately 690 occupations were registered under the provisions of mutual recognition. In addition, national registration systems for medical practitioners and lawyers are now being established.

However, there are cases where the transition to mutual recognition of occupations has not been smooth. For example, the NSW Coal Mining Qualifications Board refused to register a qualified applicant from Queensland, unless the applicant passed a written and oral examination about NSW mining legislation. In such cases, appeals can be made to the Administrative Appeals Tribunal (AAT) for arbitration. Indeed, in this case the AAT gave the opinion that the Board had no right to reject the application and the Board would be unsuccessful if it decided to take legal proceedings on health and safety grounds.

Conclusion

Mutual recognition represents a major change to the regulatory environment within Australia. Limited data are available on its impact and it may take some time before all parties adjust to the new regime. Many regulatory agencies are not aware of their obligations under mutual recognition and there have been

some examples of regulatory agencies seeking to circumvent mutual recognition.

While some problems have arisen, these do not appear to be substantial and have not been a major impediment to greater competition or occupational mobility. Overall, the scheme is bringing greater competition, consumer choice and labour market mobility. Negotiations to include New Zealand should see these benefits further widened.

Developments in regulation review

Over the last year there has been renewed interest in the review of business regulation within Commonwealth and State jurisdictions as well as nationally. As noted earlier, COAG has adopted, in principle, the major recommendations of the Hilmer Report. Amongst other things, these recommendations require that all new regulatory proposals be assessed for their impact using public processes and, for existing regulations, governments are to undertake systematic reviews to ensure that there is no restriction on competition, without a clear demonstration that any such restriction is in the public interest.

This section describes and comments on these developments.

Working Nation — business regulation reform

In its *Working Nation* White Paper (Keating 1994c), the Commonwealth Government announced a Business Regulation Reform Package. Key proposals are:

- to introduce a Legislative Instruments Bill aimed at improving the quality of subordinate regulation (see below);
- to expand the ORR (see below);
- to improve the Business Licence Information System, including undertaking studies to extend the System to local government licensing requirements, and ways to ease the burden of excessive paperwork;
- to expand and accelerate the Corporations Law Simplification Program to increase the capacity for high quality and timely improvements to the Corporations Law;
- to establish a Tax Law Improvement Program to reduce the complexity of the Income Tax Law;
- to provide assistance to ensure ‘best practice’ in local government business regulation, including approval processes; and
- to establish a committee of inquiry into an efficient national infrastructure for standards setting and compliance testing.

As well as these new proposals, the Government referred to decisions made at the February meeting of COAG. These decisions focussed on the development of a comprehensive impact assessment framework for the setting of national standards, and the development of a draft trans-Tasman mutual recognition agreement with New Zealand for consideration at the next COAG meeting.

The Legislative Instruments Bill

The Government introduced a Legislative Instruments Bill into the Parliament on 30 June 1994.

The Bill was a response to concerns about the inadequacies in Commonwealth regulation-making expressed by the States, business groups, professional organisations and the Industry Commission.

The Bill is modelled on similar legislation existing in some of the States, and takes up many of the recommendations of the Administrative Review Council (ARC 1992) Report, *Rule Making by Commonwealth Agencies* (Saunders Review). Among other things, the Bill provides for mandatory and formal public consultation on all regulatory proposals made under Commonwealth legislation that impact on business. Public consultation is to include impact assessment, which must ensure that:

- objectives of regulations are clearly stated;
- alternative measures have been identified and considered; and
- a broad indication of relative costs and benefits is made.

The results of public consultation are to be included in a 'Legislative Instrument Proposal' which will be tabled in the Parliament with the final regulation.

The Bill also establishes a Federal Register of Legislative Instruments, which is to be computer-based and widely accessible. Regulatory agencies will be required to 'back capture' (that is, identify and register) all old regulations in a phased program over the period 1 September 1995 to 1 March 1997.

While the Bill should improve the quality of Commonwealth subordinate regulation, it does not implement all the main recommendations of the Saunders Review (ARC 1992). The success of the Bill in achieving better regulatory practice will depend on the ability and willingness of regulatory agencies to carefully assess the economic and social impact of their proposals. Further, the Bill provides several ways in which the consultation requirements can be avoided. The sanction for non-compliance with the Bill is also weak — it is, in effect, an increased risk that Parliament will disallow the regulation. Whether the Parliament will be prepared to exercise this sanction in cases where analysis of proposals is inadequate (or not done) remains to be seen. The Bill introduces

a requirement for a greater level of analytical information to accompany regulation than is currently necessary for principal legislation.

In regard to existing regulation, the Government has decided to commence a comprehensive and formal program of reviews to be conducted by all portfolios with regulatory functions. This contrasts with the Saunder's Review recommendation that it introduce a program of planned repeal as recommended. If pursued vigorously, the Government's program has considerable potential to broaden and quicken the pace of microeconomic reform. The ORR will have the dual roles of assisting regulatory agencies to comply with the provisions of the proposed Legislative Instruments Act in assessing new regulation and in conducting, with the assistance of the Council of Business Representatives, the program of review of existing regulations within portfolios.

Expansion of the Office of Regulation Review

The ORR's expansion is to concentrate on four areas:

- establishment of a Council of Business Representatives;
- provision of advice to portfolios in relation to programs of review of existing legislation;
- provision of advice in relation to access to delegated legislative instruments (discussed above); and
- more effective enforcement of existing Cabinet requirements for regulation impact statements.

To facilitate its expansion into these areas, the Industry Commission was allocated an additional \$0.6 million a year in the 1994–95 Budget.

Council of Business Representatives

A council, comprising business interests representing those sectors affected by Commonwealth regulation, is to be established. The Council is to provide input and advice to the Structural Adjustment and Trade Committee of Cabinet in relation to existing regulation. The ORR is to provide secretariat support for the Council.

Programs of review of existing legislation

Ministers are to bring forward programs of review of existing regulation in their portfolios to the Structural Adjustment and Trade Committee of Cabinet.

The ORR will provide advice to portfolios of possible areas of review. That advice may be drawn from any relevant findings that emerge from meetings of the Council of Business Representatives.

Cabinet requirement for regulation impact statements

Cabinet's requirement that regulatory proposals with significant effects on business include a Regulation Impact Statement has been in operation since 1985. Under the requirements, the agency proposing a regulation is required to identify an economic or social problem which the regulation is meant to address, specify the objective of the regulation, identify the likely benefits and costs that would result, and compare the proposal with alternative measures for solving the problem.

The ORR will be helping to ensure the more effective enforcement of this Cabinet requirement.

State reform — the NSW Sturgess report

In August 1993, the NSW government announced a Commission of Inquiry into removing government regulatory impediments — such as duplication, unnecessary delay and uncertainty — which inhibit investment and employment opportunities (Fahey 1993). The inquiry was also to give consideration to the merits of a regulatory budget and other possible systemic reforms. Mr Gary Sturgess was appointed to head the inquiry.

The report, released in January 1994, is entitled *Thirty Different Governments* to reflect the perception of many inquiry participants that different regulatory agencies pursue separate and often conflicting goals (Sturgess 1994b).

The inquiry focussed not on whether particular regulations were desirable or not, but on the regulatory process itself — the form of regulation rather than its substance. Given its terms of reference, the main emphasis was on impediments and unnecessary costs to business. It identified areas of 'red tape' or "excessive formalism and complexity in the regulatory process" (p.v).

Of major concern to business within NSW was the planning approvals process. While the report accepted that there are legitimate concerns underpinning State Environment Planning Policies, it documented many cases of duplication, delays and uncertainty caused by a lack of integration between different functions of government.

In assessing the extent of the problem in NSW, the report found that while inefficient regulatory processes have an impact on investment in the State, they are not the most significant determinant of investment, or the lack of it, and are not a threat to the economic health of the State. The report pointed out, however, that encouraging more efficient regulatory processes provides an opportunity for NSW to acquire a competitive advantage over other governments and is one of the few factors affecting investment that government can control.

The report made over 40 recommendations, the most important of which relate to a significant expansion of the regulation review effort. The review found that the key to taking a whole-of-government approach lies with the Cabinet. It stated (p. viii):

If government is to take a fundamental reappraisal of its regulatory processes there must be sustained top-down support from Cabinet.

The report recommended that a senior Minister be nominated as Minister for Regulatory Review, supported by a Cabinet Committee on Regulatory Reform to undertake a three year period of 'regulatory reengineering'. A permanent Regulatory Review Unit would also be established. This approach follows the report's finding that there are no easy solutions to problems associated with inefficient regulatory processes; rather, a painstaking examination and redesign of related regulation is necessary. The approach also recognised that the constant demands on Ministers mean they cannot be expected to constantly focus on regulatory reform — hence the recommendation for a sustained three year effort.

The NSW Government has subsequently committed itself to implementing the major thrusts of the report, including the re-establishment of the Business Regulation Review Unit and the formation of a cabinet sub-committee to systematically review regulation that impedes investment.

The recommendations of the review to some extent parallel the Commonwealth Government's announcement in *Working Nation* of a business reform package. The broad approach to reform identified in the report is consistent with the greater emphasis the Commonwealth, through the ORR, will be giving to ensuring new and existing regulation provides net benefits to the community.

While the report concentrated on the regulatory process and not on the content of regulations, it nevertheless demonstrated how the regulatory structure can affect competitiveness. One case was cited where a company located a new operation in Queensland after attempting to establish in NSW but finding the approval process too difficult to negotiate. Similarly, if regulation is inefficient at the national level, firms may choose to invest overseas.

National regulatory standard setting

Increasingly, business regulation is being made nationally and co-operatively through national agencies and Ministerial Council mechanisms. In recognition of this, COAG has before it proposals to adopt a set of principles and processes to apply to the activities of these bodies. These principles and processes echo the requirements of both State legislation and the Commonwealth's new Legislative Instruments Bill. They are designed to avoid past difficulties where

some regulations have been made by national bodies without adequate analysis or public processes.

Administration of the request and response facility

During the last year, the ORR received four requests from firms to initiate action under the Government's request and response (R&R) complaint procedures.

The R&R procedures provide firms with an avenue to have regulations or regulatory regimes reviewed. For the ORR to invoke the procedure, the applicant must first make a well documented case to show that, amongst other things, the regulation is likely to have adverse effects — not just for the applicant but for the economy in aggregate (that is, taking into account any benefits that might arise from the regulation as well as the costs it causes). Substantive requests to review inefficiencies in regulatory processes receive prompt attention.

The nature and results of the four R&R applications received during the year are described briefly below.

Extended use of aspartame

Nutrasweet Australia applied for a review of the actions of the National Food Authority (NFA) in relation to aspartame. Although aspartame is an approved artificial sweetener, the NFA initially indicated that it would require a full technical assessment before its extended use in baked applications was allowed.

Following Nutrasweet's application under the R&R guidelines, the ORR initiated discussions between the parties. It was agreed that the NFA should give priority consideration to extended use of aspartame.

Export control of abalone

Dover Fisheries, a South Australian abalone exporting company, sought a review of the procedures currently in use to prevent the entry of stolen abalone to the supply lines of exporting firms. Dover Fisheries' exports had been halted by a decision by Australian Quarantine and Inspection Service (AQIS) inspectors.

Following Dover Fisheries' R&R application, the ORR held discussions with the Department of Primary Industries and Energy. The Department responded by initiating a joint review with Victorian Fisheries of the AQIS procedures for tracing legal abalone collected under licensed quota.

Cigarette labelling requirements

WD & HO Wills Pty Ltd applied for a review of aspects of recently announced labelling requirements for cigarette packages and, in particular, the requirement that health warnings be printed on a black-on-white panel. After receiving this request, the ORR sought information on the process used for making this regulation from the Department of Human Services and Health. However, the ORR terminated its involvement in the matter after Wills publicly released the contents of correspondence between the ORR and the Department.

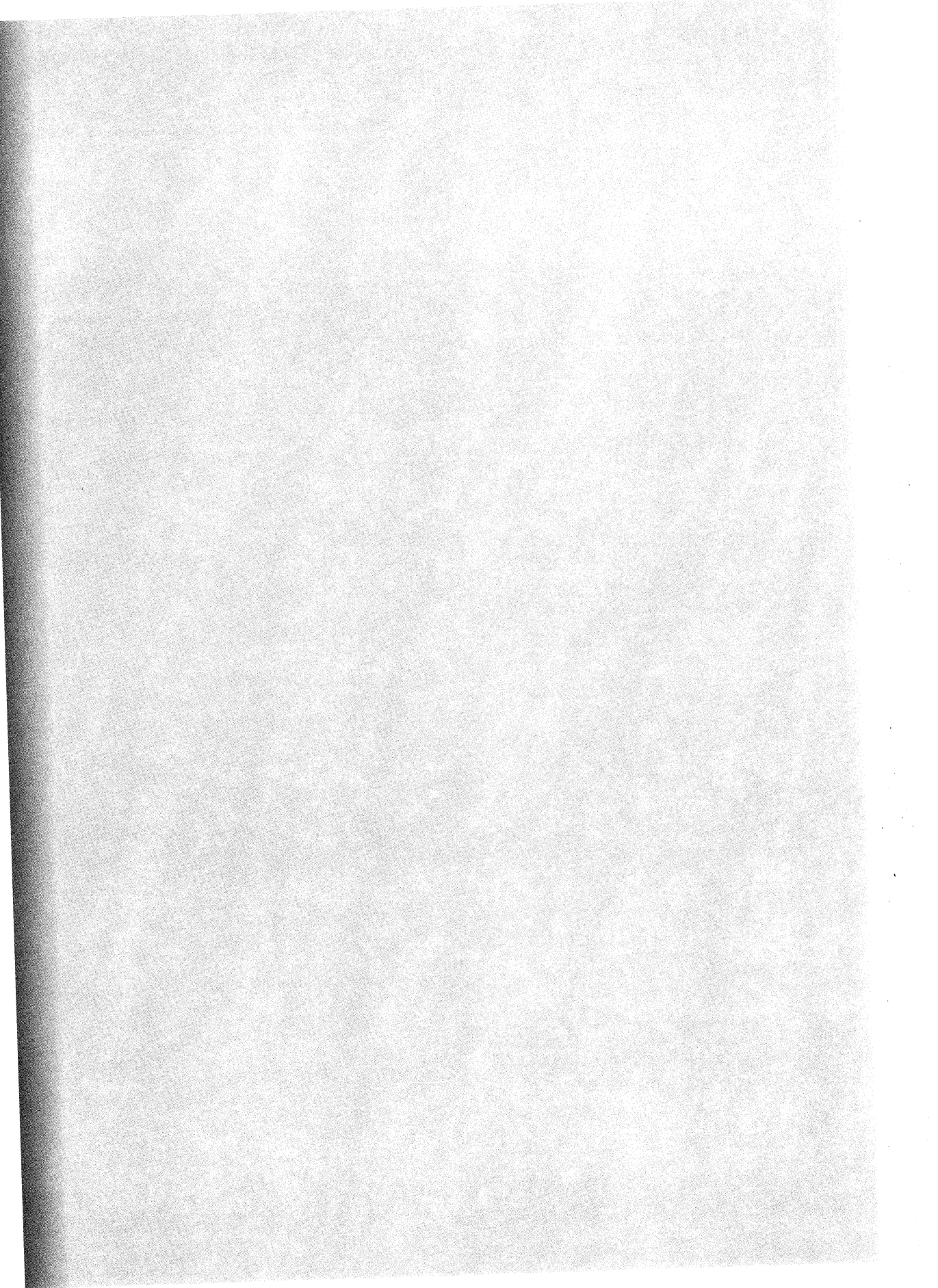
Pharmaceutical Benefits Advisory Committee processes

Schering-Plough, a manufacturer of therapeutic drugs, sought a review of the Pharmaceutical Benefits Advisory Committee's (PBAC) consideration of the company's application to have its drug, Intron-A, listed under Section 100 of the Pharmaceutical Benefits Scheme (PBS) for the treatment of patients with Chronic Hepatitis-C. The company also sought a review of the broader process by which highly-specialised or breakthrough drugs are considered by the PBAC.

The ORR undertook discussions with the Department of Human Services and Health (under which the PBAC operates). During this period, the PBAC approved PBS listing for Intron-A. The ORR is still examining, in consultation with both the PBAC and the industry, the case for a review of the process by which highly-specialised drugs are considered by the PBAC.

Assistance review

- H Implications of completion of the Uruguay Round
- I Export assistance
- J Commonwealth budgetary outlays to industry
- K Anti-dumping activity
- L Assistance to agriculture and manufacturing



Appendix H

Implications of completion of the Uruguay Round

The Uruguay Round Agreements, signed in April 1994, aim to make the world trading system fairer, more transparent and predictable. The Round advanced trade liberalisation in traditional areas and extended the process to new areas. The World Trade Organisation (WTO) will be established in 1995 to monitor and develop international trading rules. The Round will result in a reduction in agricultural tariffs and subsidies by one-third and cuts in most tariffs on industrial products. Australia is obliged to further reduce tariff rates for seven tariff lines, beyond cuts already announced. The Round led to Agreements to reduce non-tariff barriers to trade and introduce new rules governing trade in intellectual property, investment and services. The Agreements are conservatively estimated to increase world income over the next decade by about 1 per cent, while Australia's GDP is expected to increase by at least \$4.4 billion, equal to \$780 per household per year. Important issues likely to be considered in the future by the WTO include its powers, trade and competition policy, and rules for government procurement. Governments should be aware of the potential threat posed by new barriers to trade, including new non-tariff barriers and, linkage of trade, labour standards and the environment.

Negotiations for the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) started in September 1986 and were completed in December 1993. This Agreement aims to make the world trading system freer, more transparent and predictable. Its rules governing international trade use the principles of non-discrimination and most-favoured nation status to oblige all Contracting Parties to reduce tariffs on imports, and to eliminate other impediments to trade.

The Uruguay Round Agreements resulted in a comprehensive overhaul of the multilateral trading system. The Round advanced world trade liberalisation in traditional areas and extended the liberalisation process to areas previously not covered by multilateral trade agreements, including trade in services and trade-related investment measures. Common rules will now apply to most international trade in goods and services. For Australia, the most important

features of the Round include Agreements reached on agriculture, industrial products, services, intellectual property, treatment of non-tariff barriers (NTBs) and the World Trade Organisation (WTO) (Box H1).

The Australian Government — along with other agricultural exporting countries comprising the Cairns Group — was particularly concerned to ensure the liberalisation of agricultural trade in the Round.

Box H1

Important features of the Uruguay Round

- **Agriculture:** an average 36 per cent reduction in agricultural tariffs and subsidies, a cut in the volume of subsidised exports by 21 per cent, a 20 per cent cut in domestic support measures, and guaranteed market access for agricultural products.
- **Industrial products:** most tariffs cut by one-third, including trade in energy, mining, processed foods and manufactured goods.
- **General Agreement on Trade in Services (GATS):** for the first time trade in services will come under GATT-type rules. This Agreement covers trade in telecommunications, financial services, insurance, business and professional services. However, it also has a wide range of exclusions on the grounds of protecting public morals; human, plant and animal life; and criminal, privacy and safety laws.
- **Trade-Related Investment Measures (TRIMs):** limit scope for governments to impose onerous conditions or performance targets on investment approvals, including local content and trade balancing requirements.
- **Trade in Intellectual Property Rights (TRIPs):** creates comprehensive rules to protect intellectual property and govern disputes covering sophisticated and advanced technology. This Agreement includes trade in software, films, music, television, design and patents.
- **Non-tariff barriers to trade (NTBs):** tariffication of some NTBs, including technical barriers, rules of origin, and safety and emergency action rules. In addition, the Multifibre Arrangement (MFA) will be phased out and integrated into the Round.
- **World Trade Organisation:** The WTO will supersede the previous institutional arrangements for the GATT with expanded coverage of trade issues, streamlined decision making and more effective dispute settlement processes. The WTO will play a central role in monitoring and managing global trade rules.

The Industry Commission has used the Salter model to estimate that, in the long run, the Round could result in a \$1.1 billion increase in the annual income of Australia's agricultural sector¹. In addition, ABARE used the SWOPSIM model to assess the impact of the Round on Australia's agricultural sector. The results of this world agricultural trade model were broadly consistent with those of the Commission's SALTER model. The SWOPSIM model estimated that the Round would result in Australia's annual agricultural production increasing over the next decade by \$1.1 billion and exports increasing by \$950 million (Andrews, Roberts and Hester 1994). These studies measure the static gains, comparing possible outcomes at a single point in time, rather than dynamic gains over time. Thus, they substantially underestimate the long-term economic benefits resulting from this Round.

As a consequence of obligations under the Round, a number of changes will be made in Australia's industry assistance arrangements. These changes include the tariff that operates to 1995, the local content scheme and the standardisation plan for the tobacco industry, along with the tariff quota on cheese imports and sales tax concessions on fruit and vegetable juices (Appendix L).

Agreements were reached on sanitary and phytosanitary barriers — which are designed to guard against imports of animal or plant pests and diseases — textiles and clothing, technical barriers to trade, dumping, customs valuation, pre-shipment inspection, rules of origin, import licensing Agreements, subsidies and countervailing measures, and safeguards. The WTO embraces Agreements on government procurement, dairy and bovine meat and civil aircraft.

The Round included commitments by Contracting Parties — including Australia — to binding reductions in tariffs. When a country agrees to bind a tariff on a product, it commits not to increase tariffs above that level. Failure to honour bound tariff levels permits withdrawal of trading partner's tariff concessions. This limits scope for countries to increase tariffs above bound levels after the Round is completed.

In most cases Australia has agreed to bind tariffs above the levels that will exist after implementation of tariff cuts already announced by the Government. For example, upon the completion of the Government's announced phased reduction in tariffs on 30 June 1996, the average applied tariff rate in Australia will be 6 per cent. This compares with an average bound tariff of 11 per cent. In addition, the Government's announced tariff reductions will result in average tariffs in Australia declining by 70 per cent vis-a-vis Australia's commitment under the Uruguay Round to a cut in average tariffs of 44 per cent.

¹ Salter is a computable general equilibrium model of the world economy originally developed by the Industry Commission for the Department of Foreign Affairs and Trade. It models production and consumption patterns for 37 industry/commodity groups and 16 regional economies.

Therefore, the Round will have little impact on announced reductions in tariffs. However, the Australian Government is now bound by the Round to reduce tariffs beyond the 5 per cent level already announced for six tariff lines of medical equipment and one tariff line of light beer. Over the 4 years from 1 January 1996, tariffs for these lines will now have to be reduced to zero to ensure that Australia complies with its international obligations.

As a result of the Round, 95 per cent of tariff lines will be bound. With the completion of tariff cuts already announced by the Government and further cuts to ensure that Australia complies with its international obligations, tariff levels in Australia will still be significantly higher than many of our trading partners.

Following completion of the Round, the Minister for Trade announced a comprehensive review of the full range of Australia's trade policies (McMullan 1994). This review seeks to establish strategic directions for Australian trade policy into the next century.

Quantifying the benefits of the Uruguay Round

Several studies by public and private sector organisations have measured the impact of the Round on world income, the output of national economies and changes in specific sectors of national economies. These studies provide a useful insight into the economic impact of the Round. However, available techniques for making such estimates are subject to limitations².

Australia

Simulations of the key features of the Round suggest that Australia's real GDP could increase over the long term by \$4.4 billion (1992 dollars) or \$780 for each Australian household per year. National income — the welfare measure used in this model — is estimated to increase in real terms by \$1.2 billion, equal to \$215 per household per year.

2 The results of these studies are sensitive to both the assumptions and methodology employed. In addition, technical limitations mean that economic models cannot tell the whole story. For instance, most models do not consider the impact of liberalisation of trade in services and investment, protection of intellectual property and the strengthening of other rules governing trade remedies. Nor do they take account of enhanced business confidence, and improved and more stable trading relations between countries. They also assume that the status quo would have been maintained if the Round had failed. However, failure to complete the Round could have slowed world economic recovery and also resulted in a deterioration in trade relations. Therefore, such models significantly underestimate the economic benefits of trade liberalisation.

Table H1
Impact on Australia's economy of completion of the
Uruguay Round (per cent)

<i>Sector</i>	<i>Output</i>	<i>Exports</i>	<i>Imports</i>	<i>Capital</i>
Agriculture	5.5	7.6	- 0.4	10.1
Resources	4.9	10.0	1.1	5.2
Manufacturing	- 0.7	10.6	9.1	1.5
Services	0.8	1.3	0.7	2.2
Total	0.7	8.1	6.8	2.6

Source: Salter model projections

The Salter model also suggests that the Round could result in increased exports, imports and the capital stock in most key sectors of the economy. Overall, annual output is estimated to increase by 1 per cent, exports by 8 per cent, imports by 7 per cent and Australia's capital stock by 3 per cent (Table H1).

According to this model, the main beneficiaries of the Round will be the agriculture and resources sectors. Some sectors, such as manufacturing, are by some measures slightly worse off (Table H1). This is because the reduction in world trade barriers allows each country to focus on doing what it does best. Thus, while some sectors of the Australian economy might contract, others will benefit from reduced impediments to trade. Overall, the Australian economy is expected to be better-off as a result of the Round, with higher incomes, exports and investment.

The world

The Uruguay Round is expected to have a substantial and beneficial impact on the world and Australian economies over the next decade. The results of four recent studies are summarised in Table H2. Global income is estimated to increase — 8 to 11 years from now — by between US\$212 billion and US\$274 billion a year, equal to an increase of approximately 1 per cent per year. The principal sources of enhanced world income include more efficient use of domestic resources when trade barriers are removed, and increased access to the markets of trading partners.

Consumers are expected to benefit from greater product choice and lower prices, especially in markets where levels of protection are currently high. Lower prices will result in higher real incomes, welfare and demand. Employees will benefit through a combination of higher real wages and growth

Table H2
Impact of the Uruguay Round on global income/welfare^a
(US\$)

<i>Study/author</i>	<i>Outcome</i>
GATT (1994b)	235 billion/annum by 2005
World Bank/OECD (1993)	213 billion/annum by 2002
OECD (1993)	274 billion/annum by 2002
Nguyen, Perroni & Wigle (1993)	212 billion/annum

a Estimates in first three studies refer to 1992 dollars.

Source: GATT 1994b

in net employment. While adjustment to more open markets can result in some short-term job losses, more jobs will be generated by firms benefiting from the growth in world trade and markets (OECD 1993). Other effects of trade liberalisation — which are difficult to measure and quantify — could include easing of trade tensions and associated political conflict, and enhanced business confidence and investment.

Non-tariff barriers to trade (NTBs)

The reduction in average tariff levels in the past has to some extent been offset by increases in non-tariff barriers, such as voluntary export restraint agreements (VERs) and quantitative restrictions. These new barriers took forms which were beyond the disciplines of the GATT. They were sometimes introduced to avoid adjustment in uncompetitive industries, but the impact on Australia was to reduce the scope to develop our competitive export industries.

A significant outcome of the Uruguay Round is the tariffication of some NTBs. This is especially so for the agricultural and food products industries, where a large number of NTBs operate in other countries. A number of other agreements have also been reached on NTBs, including import licensing, technical barriers, rules of origin, and safeguards. These changes will make the world trading system more transparent and less discriminatory, and will result in a decline in impediments to trade particularly in the longer term.

These agreements make it more difficult for countries to impose measures that impede imports and have strengthened the disciplines and rules for these trade barriers, making them more transparent, predictable and less discriminatory. The MFA will be integrated into the rules and disciplines of the Round, including trade in textiles and clothing which has in the past been subject to bilateral quotas negotiated under the MFA. A summary of key NTB Agreements is provided in Box H2.

There is a risk that, as existing protection measures are reduced, they could be replaced by new and less visible NTBs, reducing the potential gains from the Round. New and less visible NTBs can include government support further back in the production chain and governments encouraging firms to form cartels.

The rules governing NTBs may be interpreted differently by different countries. The benefits of tariffication of NTBs could be reduced, negated or trade barriers could increase in the short term where tariff equivalents for NTBs are set too

Box H2

Non-tariff barrier agreements

Technical barriers to trade

The Technical Barriers to Trade (Standards) Agreement is intended to prevent regulations and standards being used to unjustifiably inhibit or prevent trade. This Agreement will reduce the misuse of technical regulations and standards to protect domestic industries.

Rules of origin

The Rules of Origin Agreement will improve rules used to determine the level of processing of a product that is required to change its 'nationality'. The rules of origin covered by the Agreement are used in an array of non-preferential commercial policy instruments, including most favoured nation, safeguard measures, origin marking and any discriminatory quantitative restrictions or tariff quotas. Australia is now obliged to ensure that, within three years of harmonisation of the rules of origin of Contracting Parties, various Australian rules of origin are transparent.

Safeguards/emergency action

GATT Article XIX allows countries to take emergency action against imports to protect the domestic industry from serious injury. In future, all measures will have to conform with the strengthened disciplines setting out requirements both for domestic procedures and the restrictions against imports. The Agreement will also prohibit, and require the phasing out of the so-called grey area measures, such as voluntary export restraints (VERs). However, some key issues remain, including whether new and hidden VERs may be introduced.

Sanitary, phytosanitary and environmental issues

The Uruguay Round Agreements also have provisions permitting necessary, genuine and justified sanitary and phytosanitary measures to protect human, animal or plant life or health from risks arising from disease, toxins, additives and contaminants.

high. For example, the European Union, rather than defining the tariff equivalent as the difference between its internal price and import price, has also included a 10 per cent Union preference on top of internal European Union prices. This raises tariff equivalents well above those needed to support domestic prices (Andrews, Roberts and Hester 1994).

The Trade Policy Review Mechanism (TPRM) was an early initiative in the Round that emerged from the negotiating group on the Functioning of the GATT System (FOGS). It was designed to achieve enhanced transparency of member countries' policies, especially NTBs, through international surveillance processes within the GATT forum. It involves a regular cycle of country reports — one prepared by the GATT Secretariat, another by the government concerned — which review developments in each country's trade policy and are discussed in the GATT Council. Australia was one of the initial countries reviewed under the TPRM.

The additional transparency for NTBs at the international level can exert some discipline on the policies of member governments. However, there is a recognised need to underpin this with greater transparency at the national level where policy is ultimately made. Member governments were unable to reach agreement on appropriate institutional arrangements to this end, merely agreeing in general terms on the value of domestic transparency. The Agreement states:

Members recognize the inherent value of domestic transparency of government decision-making on trade policy matters for both Members' economies and the multilateral trading system, and agree to encourage and promote greater transparency within their own systems (GATT 1994a, p.379).

Other trade issues to be considered

Several issues related to multilateral trade are ongoing and have yet to be considered in detail by the Contracting Parties. Key issues which are likely to be considered by the WTO are discussed below.

Powers of the WTO

The WTO will have a wider role than the GATT, which was never an organisation in the formal sense, the Contracting Parties to the General Agreement being served by a Secretariat. However, while the WTO will have the authority to review the trade policies of its members, many of its powers have yet to be clarified by the Contracting Parties. Resolution of these issues could give new powers to the WTO and extend coverage of the Round. There has also been discussion about linking trade rules with a variety of related issues, such as the environment and labour market regulations. These changes

could in the long term result in the WTO having considerable influence over national regulations in these areas.

The environment

Negotiations are in progress between the Contracting Parties which could link trade policies with measures to protect the environment. Trade policies can have implications for the environment in such areas as handling and packaging requirements, labelling, pollution and measures to protect human, animal or plant life or health. There are concerns that in some cases trade liberalisation could be incompatible with preservation of the environment, including rain forests and marine life. Indeed, some governments have imposed environmental standards on other countries through trade restrictions. However, trade policy can be a blunt and ineffective tool for addressing environmental concerns and can be abused to raise trade barriers.

The WTO Preamble includes direct reference to the objective of sustainable development and the need to protect and preserve the environment. In addition, an ongoing work program on trade and the environment will be established under the auspices of the WTO.

Labour market regulations

Contracting Parties are considering giving the WTO powers to review national regulations dealing with labour markets, including occupational health and safety, union rights, and the use of child and prison labour. This development has been accelerated by interest shown by the United States and French Governments. Many developing countries are concerned by the threat posed to the trading system by the linkage of market access and labour markets. They claim that linking trade and labour policies could increase scope for protectionist actions and effectively deny developing countries the power to use their comparative advantage, by restricting access to the markets of Contracting Parties.

Competition policy

Competition policies regulate price fixing, mergers, monopolies, market power and restrictive practices. Such policies and their implementation can either facilitate or impede international trade. The Round did not include a specific agreement on trade and competition policy. However, implementation of obligations of the Round will require countries to examine trade and domestic competition policy.

The extension of competition policy to codes regulating international trade would require the creation of a new body of international competition law and practice. This may take considerable time to develop and evolve. Therefore, in

the short term, the onus is on individual countries to review their national competition policy. Competition policy and trade will be the subject of future multilateral trade negotiations under the auspices of the WTO. In addition, the work program of the WTO will include research into the links between competition policy and international trade³.

Government procurement

Government procurement policies favouring one's own country were originally exempted from the GATT. However, there has been a growing consensus that such policies should come under multilateral trade disciplines. Twelve countries are signatories to the 1979 Agreement on Government Procurement (AGP). Australia is not a signatory. The AGP obliges signatories to reduce central government procurement of goods which is favourable to domestic commerce and industry. It also seeks to increase transparency and equity in national procurement (GATT 1993).

A new AGP is to come into effect in 1996, substantially expanding non-discriminatory coverage for procurement to all levels of government, but excluding national security. Australia already has a relatively open and liberal national procurement policy and the Commonwealth is considering participating in the new AGP. Participation by Australia would require the co-operation and approval of the Commonwealth and State governments.

If Australia were to participate, this could have implications for government procurement programs to the extent that they result in preference for Australian goods and services, such as the Partnership for Development program.

3 Australian competition policy — including regulations pertaining to the misuse of market power and anti-dumping controls — is already aligned with that of New Zealand, under the auspices of the Closer Economic Relations Agreement (Fels 1994).

Appendix I

Export assistance

Assistance to Australian exporters from the more readily quantifiable programs exceeds \$1 billion per year. This assistance is directed to a relatively small proportion of exports. The manufacturing sector and in particular the transport equipment industries are major beneficiaries. The mining sector on the other hand receives negligible export assistance. A number of programs such as Australia's Official Development Assistance program could facilitate exports, but the extent of the export assistance they provide is unclear.

This appendix reports on the current Commonwealth policies towards export assistance. It reports recent trends and developments in export assistance programs¹, assesses the major beneficiaries of that assistance and discusses some of the less transparent programs which assist or facilitate exports².

Recent trends and developments in export assistance

The level of export assistance associated with government programs is not always apparent. Some programs provide assistance which is clearly linked to exports, while others may have a number of objectives which include the encouragement of exports. In some cases, the level of assistance afforded by these specific and multiple objective programs is not readily quantified. This can occur because the budgetary costs do not equate with the assistance provided, or the export-assisting effect of programs is difficult to estimate from available data³. Given these difficulties the approach taken has been, where

- 1 Appendix O of the Commission's *Annual Report* (IC 1993d) discussed specific programs in detail. In most cases the methodologies used to estimate export assistance in this appendix are the same as those previously reported. The only major changes in methodologies relate to the Passenger Motor Vehicle Export Facilitation Scheme and the Factor f scheme where the Commission's estimates have been replaced with data provided by the Automotive Industry Authority and the Department of Industry Science and Technology, respectively.
- 2 The successful completion of the Uruguay Round will have implications for a number of Australia's export assistance programs. These implications are discussed in Appendix H.
- 3 See Appendix O of the Commission's 1992-93 *Annual Report* (IC 1993d), for further discussion.

possible, to report the dollar value of the assistance, rather than the nominal and effective rates of assistance.

The dollar value of assistance to exporters through the more readily quantifiable Commonwealth programs increased marginally to \$1 392 million in 1993–94, and is expected to rise by a further 5 per cent to \$1 470 million in 1994–95 (Table II). With the exception of the TCF and motor vehicle industries, rates of budgetary assistance is relatively modest compared to assistance afforded by tariffs.

Assistance afforded by most of the export-related programs has remained relatively stable over the period reviewed. Notable exceptions are increases in assistance for the Export Market Development Grants, the International Trade Enhancement Scheme, the Factor f program for pharmaceuticals and the Development Import Finance Facility and the Textiles, Clothing and Footwear (TCF) export programs. On the other hand, the cost to the budget of the Passenger Motor Vehicle (PMV) Export Facilitation Scheme, international wool promotion and AQIS's quarantine and export inspection services has declined. Recent developments relating to these programs are discussed below. Given that the amount of assistance increased by less than exports themselves increased, the rate of export assistance in aggregate declined marginally.

Export Market Development Grants

Budgetary outlays for the Export Market Development Grants (EMDG) scheme are expected to increase to \$230 million in 1994–95 — a 10 per cent increase on 1993–94 outlays. The program is designed to encourage small to medium-sized Australian firms develop overseas export opportunities. The scheme was extended in 1992 to increase the period an individual firm is eligible for grants where it enters new markets. A further extension of the scheme, to cover single service tourism operators, was announced in May 1994.

The EMDG scheme has recently been the subject of two reviews — an internal and unpublished evaluation by Austrade and an external efficiency and effectiveness audit by the Australian National Audit Office (ANAO) (Auditor-General 1994). Following the Austrade evaluation, the Government decided to continue the scheme for a further five years, with expenditure expected to increase to \$290 million by 1997–98 (Keating 1994c, p.79). The review by ANAO, concluded amongst other things, that little data were available to measure the effectiveness of the scheme and recommended that more meaningful data be collected and published by Austrade.

Table I1
Commonwealth export facilitation and assistance,
1991–92 to 1994–95 (\$ million)

	1991 –92	1992 –93	1993 –94	1994 –95
SPECIFIC EXPORT FACILITATION AND ASSISTANCE PROGRAMS				
Export finance & insurances services				
EFIC's Government Guarantee				
– Commercial Account	13.0	10.0	11.2	9.5
– National Interest Business Account	1.1	1.7	0.8	2.3
Other assistance from National Interest				
Business	ne	ne	ne	ne
Export Finance Facility interest subsidy	10.9	9.4	7.6	6.2
Export marketing, intelligence and promotional services				
Asia Infrastructure initiative	–	–	–	3.0
Australian Horticultural Corporation	1.5	2.5	2.2	1.5
Agri-food Industry initiative	–	0.2	1.3	3.2
Austrade: International Business				
Services	112.1	125.5	135.2	140.2
Asia Pacific Fellowship program	3.9	3.2	3.3	0.9
Australia in Asia	–	0.9	13.2	10.4
Australian Tourist Commission	69.5	74.5	77.2	78.3
Australian Wool Corporation: wool				
export promotion	32.1	25.0	20.0	–
Clean Food Export Strategy	–	..	2.0	3.0
Export Access	1.0	4.1	6.1	6.6
Export Market Development Grants	134.0	148.0	209.7	229.9
International Trade Enhancement	20.7	20.8	32.0	36.4
Scheme				
Innovative Agricultural Marketing	4.5	3.8	3.8	4.5
Program				
Primary Industries Marketing Skills				
Program	1.0	1.3	0.8	1.6
Project Marketing Loans Facility	0.6	1.7	0.7	0.7
Quarantine & export inspection services ^a	8.4	9.7	–	–
– AQIS meat export inspection subsidy	–	–	–	7.3
Rural Enterprise Network Program	–	–	0.4	0.9
Wine Industry Export Development				
Grant	–	–	–	0.5

Table I1 (continued)

	1991	1992	1993	1994
	-92	-93	-94	-95
Trade facilitation schemes				
Passenger motor vehicle Export Facilitation Scheme ^b	341.7	367.0	273.5	270.0
TCF Imports Credits Scheme ^c	31.4	74.3	100.0	130.0
Duty and excise drawback ^d	59.1	68.8	86.8	80.0
TEXCO By-law for export concession	37.7	26.0	22.6	18.2
Information industries				
– Vendor Qualification Scheme	1.2	1.2	1.2	–
– IT Standards program	–	–	–	2.0
Sub-total	885.4	979.6	1011.6	1047.1
EXPORT COMPONENT OF MULTIPLE OBJECTIVE PROGRAMS				
Computer bounty	34.0	34.2	35.6	34.2
Machine tools and robots bounty	2.5	1.4	1.3	1.4
Shipbuilding bounty	20.2	19.9	22.2	19.4
Photographic film bounty	12.0	6.0	–	–
Dairy product — market support payments	148.4	140.5	143.5	165.0
Pharmaceuticals — Factor f	17.4	27.4	42.2	59.9
Partnerships for Development	ne	ne	ne	ne
TCF Industry Development Strategy				
– Further Wool Processing program	–	5.9	14.9	6.0
Incentives for International competitiveness program	–	ne	ne	ne
Development Import Finance Facility	98.0	120.0	120.0	130.0
Private Sector Linkages program	–	–	1.0	6.5
Other export assistance in Overseas				
Development Assistance	ne	ne	ne	ne
Sub-total	332.5	355.3	380.7	422.4
Total	1 217.9	1 334.9	1 392.3	1 469.5

ne not estimated.

.. less than \$100 000.

a Represents the deficit associated with expenditures which are considered to be recoverable.

b Automotive Industry Authority (AIA) estimates of revenue forgone for calendar years 1991, 1992 and 1993. Data reported for 1994–95 are Commission estimates.

Table I1 (continued)

c Financial year estimates by the Textiles, Clothing and Footwear Development Authority (TCFDA), representing the actual value of import credits issued, which equals the duty which will be forgone when credits are used. 1994–95 data are Commission estimates.

d Figure for 1994–95 is an estimate.

Source: Willis and Beazley (1994), relevant Department Annual Reports and Program Performance Statements, AIA (1994), TCFDA (1993), advice from the TCFDA and Commission estimates

International Trade Enhancement Scheme

The International Trade Enhancement Scheme, which will continue for another four years (Keating 1994c, p.80), provides concessional loans to assist export marketing activities. The increase in outlays recorded in the above table reflects the scheme's extension, in 1993–94, to smaller exporters, who could not pass the previous eligibility criteria of achieving expected export earnings of at least \$20 million over a five year period.

Pharmaceuticals — Factor f program

Firms participating in the Factor f program receive higher prices for pharmaceuticals sold under the Pharmaceutical Benefit Scheme, conditional on the firms agreeing to increase activity in Australia. The scheme was expanded from ten participants to seventeen participants in 1992–93.

The Department of Industry Science and Technology has advised that payments associated with increased export activity increased from \$17 million in 1991–92 to \$26 million in 1992–93. Given the increase in participants and the higher total outlays estimated for the scheme in 1993–94 and 1994–95 (see Table I1), the export assistance component is expected to increase to \$42 million and \$60 million respectively in these years.

Development Import Finance Facility

The Development Import Finance Facility (DIFF) is an overseas development assistance (ODA) program which provides grants to developing countries which enter into ODA contracts with Australian firms. The DIFF grant is normally combined with concessional finance provided by the Export Finance and Insurance Commission (EFIC). Together these two programs create a highly concessional finance package which enhances Australian exporters' project bids in developing countries. The budget outlays for the DIFF increased from \$98 million in 1991–92 to \$120 million per annum for 1992–93 and 1993–94.

The program was further extended in 1994–95 to \$130 million, with a minimum of \$20 million of these funds being allocated to the so-called ‘Green’ DIFF. This initiative will:

provide expanded opportunities for Australian business to supply developmentally important goods and services with an environmental focus to developing countries (Bilney 1994, p.48).

The implications of Australia’s ODA program to exports are discussed in more detail below.

TCF export assistance and the Import Credits Scheme

Export assistance for the TCF sector is currently provided through a number of programs under the umbrella of the TCF Industry Development Strategy. Under the current strategy, \$160 million has been allocated to firms with the intention of promoting industry restructuring and increasing competitiveness. Only a proportion of these outlays relate to exports. Nevertheless, the Government has reported that the strategy has led to an 85 per cent increase in exports since 1987–88 to nearly \$550 million (Cook 1994).

The Industry Development Strategy is scheduled to terminate in 1996. The Government in its *Working Nation* White Paper announced that the future arrangements for the TCF sector would be reviewed. When announcing the review, the Prime Minister said:

The industry has committed itself to a quadrupling of textile, clothing and footwear exports to \$2 billion by the year 2000, and it is appropriate for Government to examine how its programs can best assist the achievement of this objective (Keating 1994c, p.85).

The TCF Future Strategies Committee consists of representatives from the ACTU, business, Austrade and the Department of Finance. The Committee is to report by January 1995 on:

- the competitive position of the TCF industries and opportunities in both domestic and export markets;
- strategies to take advantage of identified opportunities; and
- the contribution and effectiveness of the Textiles, Clothing and Footwear Development Authority (TCFDA) and the current Industries Development Strategy (Cook 1994).

A separate review of TCF tariffs to apply after the year 2000 is scheduled for 1996.

At this stage, the TCF Import Credit Scheme (ICS) is the predominant export assistance program for the sector. The Import Credit Scheme operates in a similar fashion to the PMV Export Facilitation scheme. Both schemes are designed to encourage restructuring by facilitating exports. They offer import

entitlements based on the value added in eligible exports and so assist exports. However, unlike a direct export subsidy, the credits give the holder an entitlement to import goods duty-free and in this sense may increase imports as well as exports (IC 1990). The tariff rate applying to imports determines the maximum level of assistance afforded by these two programs. Hence the level of assistance under the schemes will decline as the phased reductions in tariffs continue.

The TCF Import Credit Scheme came into effect in July 1991. The credits issued under the scheme have more than trebled since its first year of operation. In 1991–92, \$31 million in ICS credits were issued on \$228 million of exports. Credits issued increased to \$74 million in 1992–93 (Table I2). The TCFDA has advised that credits issued under the scheme rose to \$100 million in 1993–94. Further information about exports and the average value added for 1993–94 is not yet available.

In the first two years Leather and furskins and Apparel exports received the largest proportion of credit by value. However, assistance relative to the value of exports was significantly lower for Leather and furskins, due to the lower domestic value added in these exports. In the absence of credits, TCF imports of Apparel and Certain finished textiles attract the highest rates of duty.

Table I2
Creation of TCF import credits, 1991–92 and 1992–93

<i>Sector</i>	<i>Exports</i>		<i>Credits issued</i>		<i>Average value added</i>		<i>Implicit export assistance^a</i>	
	<i>1991–92</i>	<i>1992–93</i>	<i>1991–92</i>	<i>1992–93</i>	<i>1991–92</i>	<i>1992–93</i>	<i>1991–92</i>	<i>1992–93</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>per cent</i>	<i>per cent</i>
Leather & furskins	154.7	255.8	15.7	27.5	10.2	35.9	10.1	10.8
Textiles	38.2	129.7	8.1	28.3	21.2	72.8	21.2	21.8
Apparel	24.2	53.9	5.4	11.4	22.3	70.7	22.3	21.2
Clothing & accessories	1.8	17.3	0.4	3.8	21.4	73.0	22.2	22.0
Footwear	8.7	15.1	1.9	3.2	21.3	71.9	21.8	21.2
Total	227.6	471.8	31.5	74.2	13.8	52.5	13.8	15.7

a The implicit export subsidy is a nominal measure of assistance and equals the value of credits as a proportion of ICS export values.

Source: TCFDA (1992,1993) and Commission estimates

For example, in 1992 tariff rates were 51 per cent for Apparel and Certain finished textiles, and 41 per cent for Footwear. Given the higher rates of duty, it is not surprising that Apparel imports attracted the majority of ICS credits in both years.

PMV Export Facilitation scheme

The Commission in its *Annual Report* drew attention to the lack of available information on the use of the PMV export facilitation scheme (IC 1993d, p.335). The Automotive Industry Authority (AIA) subsequently released estimates of the amount of duty forgone on goods imported duty-free as a result of the export facilitation credits (AIA 1994). These estimates show that revenue duty forgone under the PMV export facilitation scheme amounted to \$367 million in the 1992 calendar year and declined to \$274 million in 1993. The Authority, in its final report on the state of the automotive industry, noted that about \$100 million of the duty forgone over the three-year period related to export credits carried forward and that very few of these credits were carried forward into 1994 (AIA 1994).

The decline in credits carried forward and the reduced rate of duty on passenger motor vehicles and components suggest that duty forgone from the scheme will not return to the high levels reported for the early 1990s. Nevertheless, this scheme will continue to be one of the larger export assistance programs available to industry.

International wool promotion

The Government made its final contributions to the Australian Wool Corporation for international wool promotion in 1993–94. Outlays for the program had declined from \$32 million in 1991–92 to \$20 million in 1993–94.

AQIS's quarantine and export inspection services

In 1992–93, Australian Quarantine Inspection Service (AQIS) user charges for export inspection services did not recover total costs and a deficit of \$9.7 million was incurred. In 1993–94, full cost recovery was achieved by AQIS for export inspection services.

The beneficiaries of export assistance

Australia's measured export assistance amounts to less than 2 per cent of the value of goods and services exports. However, this figure gives a false impression of the importance of export assistance to some of Australia's exports.

The mining sector stands out as being in receipt of relatively little assistance. In 1992–93, mining accounted for about 21 per cent of the value of Australian exports but received well under 1 per cent of the identified export assistance equal to \$4.7 million in assistance (Figure I1).

The proportion of export assistance to the services sector, and to a lesser extent the primary production sector, is closer to these sectors' contributions to exports. For example, in 1992–93, the services sector accounted for 22 per cent of total exports, while receiving 20 per cent of identified assistance, equal to \$263 million.

A large proportion of services export assistance is provided through four programs — the Australian Tourist Commission, Austrade's international business services, Export Market Development Grants and the aid-related Development Import Finance Facility. These programs accounted for 96 per cent of the services sector export assistance in 1992–93. Of this, budget outlays for the Australian Tourist Commission accounted for 32 per cent of services export assistance in 1992–93. Tourism also received a relatively large share of the EMDG allocated to the services sector. Tourism has been reported as accounting for 43 per cent of services exports in 1992–93 equal to \$9 billion (Keating 1994c, p.55). Exports of construction services also received significant assistance, particularly through EFIC interest-rate subsidy and the Development Import Finance Facility.

In 1992–93, primary production accounted for 8 per cent of exports, whilst receiving 4 per cent of export assistance, equal to \$50 million. In 1992–93, the Government's contributions to wool export promotion and the under-recovery of export and inspection services were the major programs assisting primary production exports. As noted above, the Government's involvement in wool export promotion has now ceased and the export inspection service has moved to full recovery of recoverable costs.

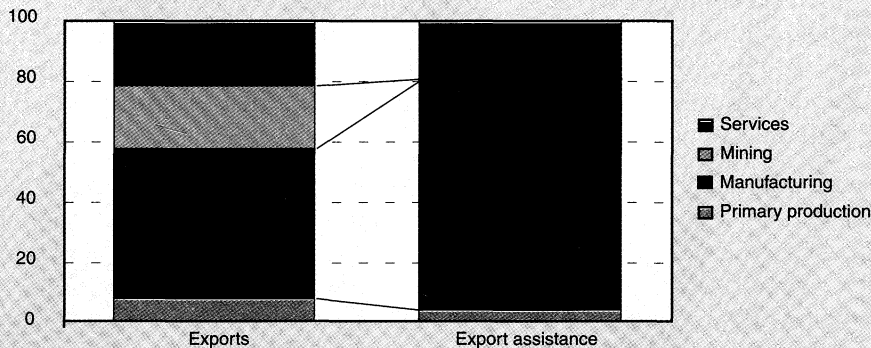
The largest proportion of the export assistance provided by the Commonwealth is enjoyed by the manufacturing sector. In 1992–93, for example, 76 per cent of the assistance reported in Table I1, equal to \$1 017 million, was directed to the manufacturing sector. In that year, approximately half of Australia's exports were from this sector (Figure I1)⁴.

Export assistance directed to the manufacturing sector is enjoyed by a relatively small proportion of the sector's exports (Figure I2)⁵. The Transport equipment

4 A significant proportion of manufacturing exports comprise lightly processed agricultural products. Some manufacturing assistance reported here, such as assistance for meat and dairy exports, are classified as agricultural assistance in Appendix L.

5 The programs not allocated to manufacturing subdivisions were Austrade's international business services, the Asia Pacific Fellowship, the International Trade Enhancement Scheme, Duty Draw Back and TEXCO.

Figure I1
Exports^a and export assistance by sector, 1992-93
 (per cent)



a Exports include merchandise trade plus service sector credits.

Source: Commission estimates and ABS Cat Nos. 5410.0 and 5302.0

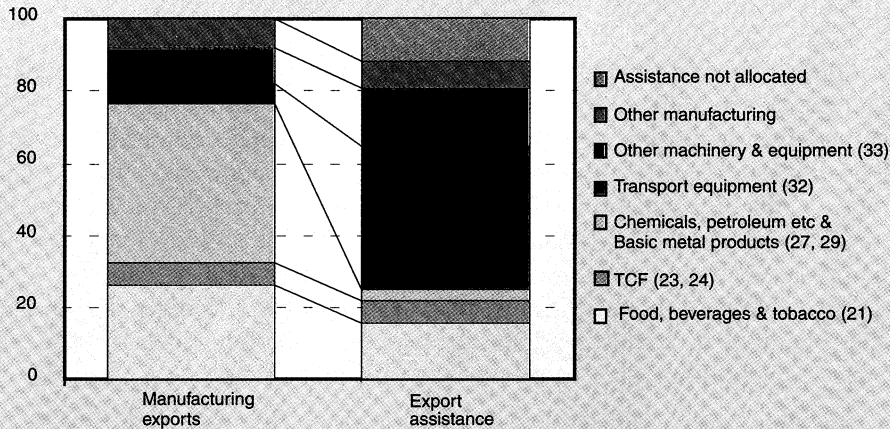
industry subdivision (ASIC 32) was by far the single largest beneficiary of export assistance in the sector.

In 1992–93, for example, the subdivision contributed 5 per cent of the sector's exports and received over 39 per cent of the export assistance attributed to the manufacturing sector. The export assistance programs which assisted industries in this subdivision included the Passenger Motor Vehicle Export Facilitation Scheme, the Shipbuilding Bounty, EMDG and services to ship exports through EFIC's Export Finance Facility Interest Subsidy and Unsecured Performance Bonds. Automotive, Railways and Marine products were three of the twenty product/industry groups nominated by Austrade as warranting promotion in foreign markets (Austrade 1993).

In contrast, the Chemicals, petroleum and coal products, and Basic metal products industry subdivisions (ASIC 27 and 29) accounted for 44 per cent of the manufacturing sector's exports and received less than 4 per cent of the sector's export assistance in 1992–93. The majority of this assistance was directed to one activity, Pharmaceutical exports, through the Factor f program.

Figure 12

Composition of manufacturing exports and export assistance, 1992-93 (per cent)



Source: Commission estimates

Forms of export assistance and facilitation that are difficult to measure

The assistance associated with some export-related programs is difficult to quantify. Programs which fall into this category include EFIC's National Interest Business (NIB), Official Development Assistance and Partnerships for Development. These programs have the potential to provide significant levels of assistance to Australian exporters.

National Interest Business

In addition to providing more commercially-oriented export finance and insurance, through EFIC, the Commonwealth Government operates a NIB. The NIB, which is administered by EFIC, covers eligible export insurance and finance which the Commonwealth considers to be too risky for EFIC but in the national interest. The Commonwealth Government bears any losses incurred by the NIB and receives premiums and interest income paid by NIB clients.

The Commission has derived an estimate of the assistance to exports associated with funds borrowed from the NIB account⁶. In all cases the estimate is less than \$2 million. However, these estimates are conservative as they are based on a comparison of the notional risk-free interest rate, the Government bond rate, and the interest that would be charged on equivalent unguaranteed commercial loans.

The non-commercial nature of NIB exports suggests that the total level of export assistance is likely to be high. NIB net payouts by the Commonwealth have varied considerably over the last five years, ranging from a net outlay of \$244 million in 1991–92 to a net inflow — that is, premiums and interest minus outlays — of \$17 million in 1989–90. Net expenditure for NIB was expected to be \$15 million in 1993–94 (Willis and Beazley 1994, p.3.174). These payouts only provide a rough estimate of the assistance provided to exports. This assistance would be more accurately represented by the difference between the actual premiums or interest paid and the expected long-term costs of providing finance. This information is not currently available.

Traditionally, agriculture has been the primary beneficiary of the NIB. However, in recent years the Government's policy on the NIB has been to cover exports of certain small to medium-sized exporters through the 'unsecured' Performance Bond Facility and the Export Working Capital Guarantee. Both schemes were extended in the *Working Nation* White Paper (Keating 1994c). The Performance Bond Facility, which was introduced in March 1991, was expanded to provide Advance Payment Bonds. The Export Working Capital Guarantee Facility, which was introduced in 1992–93 to assist small to medium exporters suffering from a shortfall in working capital, was extended to cover exports of services and manufactured goods, as well as capital goods. The Government expects that premium income will more than offset any outlays on these facilities (Willis and Beazley 1994).

Manufacturing exports are the primary beneficiaries of these new schemes. During 1992–93, for example, the Unsecured Performance Bond Facility supported \$50 million in bonds, with 70 per cent directed to ship exports (EFIC 1993, p.25).

Official development assistance

The main objective of Australia's \$1.4 billion ODA programs is to help developing countries improve their living standards through economic and social development. There are different types of aid:

6 These borrowings generally relate to claim payments where recovery is likely and are an alternative to payments from consolidated revenue.

- tied aid may be defined as aid which is mainly tied to procurement in the donor country; and
- untied aid covers aid which is fully and freely available for essentially world-wide procurement.

Untied aid does not impose purchasing obligations on recipients and so can be used freely. Accordingly, it cannot provide assistance to industry in donor countries. By contrast, tied aid can in some circumstances confer assistance, but in practice the extent of such assistance is difficult to measure. Tied aid will provide assistance where the Australian supplier would not otherwise have won the order, or would not have won it at a price as high to the supplier as has been obtained.

Some Australian firms have found that aid programs provide a useful vehicle for exploring and obtaining overseas export markets. There are numerous examples of the value of ODA to Australian industry. For instance:

- the 1992–93 ODA program has been estimated to have generated direct purchases of Australian goods and services to the value of \$1 208 million — about 90 per cent of total AIDAB expenditure (Flood 1994a);
- a study of Australia's aid to China over the period 1980–81 to 1991–92 found that \$285 million of aid funds generated \$838 million in actual or anticipated business (AIDAB 1993, p.7); and
- the firm which undertook the feasibility studies, design work and project management for the Mekong Bridge built between Laos and Thailand subsequently signed a \$1.75 million contract with the Asian Development Bank to design a road project in Laos. Its involvement in the bridge construction was considered instrumental in winning the project (Flood 1994a).

Some ODA programs seek to provide some assistance to Australian industry. For example, two programs that directly assist exports are the DIFF and the Private Sector Linkages Program (PSLP). The DIFF, in addition to providing 'foreign aid', also enhances Australian exporters' opportunities in developing countries by providing grants in combination with concessional finance from EFIC (see above). The PSLP links Australian private firms with the private sector in developing countries⁷. However, because of data limitations, the Commission has not sought to measure the level of assistance. In addition, aid is provided to maximise the benefits to other countries and the level of assistance provided by programs, other than those with explicit assistance objectives, is likely to be small or negligible.

⁷ For more information on DIFF and PSLP refer to the Commission's *Annual Report* (IC 1993d, pp.344–355).

Tied aid is a significant share of Australia's aid budget. The Development Assistance Committee of the OECD assesses the tying status of member countries. A recent OECD (1994b, p.195) report on member countries' total aid funding classified 55 per cent of Australia's aid as tied in 1991, up from the previous year's figure of 45 per cent. This compares with the OECD average of 24 per cent. Only Italy, with 56 per cent, had a higher rate of tied aid in 1991. Of the 14 OECD countries reported, six were below the 24 per cent average and two were below 4 per cent.

The Commonwealth has recently reviewed the rules which restricted project management contracts to Australian-based companies with at least 51 per cent domestic share-holding. Since 7 March 1994, a company will only be able to bid for the right to supply Australian ODA if it is registered with the Australian Securities Commission and has a headquarters and associated facilities in Australia or New Zealand (Flood 1994b). Whilst these changes go some way to increasing the level of competition for aid projects, bids are still effectively restricted to Australian and New Zealand industry.

Partnerships for development

The Partnerships for Development program is part of the Commonwealth Government's strategy to develop Australia's information technology industry. The program is linked to government procurement from international information technology firms. International firms which sell over \$40 million in goods or services per year to Australian governments must achieve target levels of activity within Australia. The activities generally subject to scrutiny cover expenditure on research and development, exports of goods or services and local content in exports.

If the export requirements are in excess of those which might otherwise be initiated by participating firms, the scheme can facilitate and/or assist exports. The scheme has the potential to lead to higher prices being paid by Australian governments for information technology. However, the actual level of export assistance associated with the scheme is unclear. This program could be affected if Australia were to sign the new GATT Agreement on Government Procurement (Appendix H).

Appendix J

Commonwealth budgetary outlays to industry

Budgetary outlays supporting industry are expected to exceed \$2.1 billion in 1994–95, a 10 per cent increase on outlays in 1993–94. Outlays to primary production are expected to increase to \$553 million in 1994–95. However, outlays to the sector remain below the peak of \$660 million reported for 1991–92. Of the six years reviewed, outlays to the manufacturing sector will peak at \$892 million in 1994–95. Outlays to the mining and energy sector are expected to decline in 1994–95, by 12 per cent, to \$111 million. Over the previous five years, outlays to the sector had been steadily increasing, but from a comparatively low base. Services sector outlays are expected to increase in 1994–95 to \$550 million, but remain below the high of \$554 million reported in 1991–92.

Commonwealth budgetary outlays to industry focus on those expenditures that potentially increase returns to activities in four sectors:

- primary production incorporating agricultural, forestry and fishing industries (see Table J1, p. 268);
- manufacturing (see Table J2, p.272);
- mining and energy (see Table J3, p. 276); and
- selected service industries (see Table J4, p.277).

The methodology used for selecting and reporting budgetary outlays is described in Box J1.

The programs reported in this paper accounted for 1.7 per cent of total Commonwealth budgetary outlays in 1993–94 and are expected to remain around this level in 1994–95. State programs, while also having the potential to increase returns, have not been included. The Commission's estimate of State government outlays for primary industry indicated that these outlays approximately equal those provided to agriculture by the Commonwealth¹.

1 See Appendix Q of the Commission's 1992–93 *Annual Report* (IC 1993d).

Box J1**Methodology for estimating budgetary outlays**

The estimates report the *net* budgetary outlays of programs considered to be of most benefit to Australian industries, especially those which involve discrimination between industries or activities such as exporting. However, for many schemes, the relationship between program expenditure and assistance received is not always straightforward. For example, programs which have major social welfare objectives that may dominate assistance objectives have been excluded.

Because of the difficulty of identifying and allocating revenue forgone from preferential taxation measures no attempt has been made to include them in the estimates. However, these measures are important to industry.

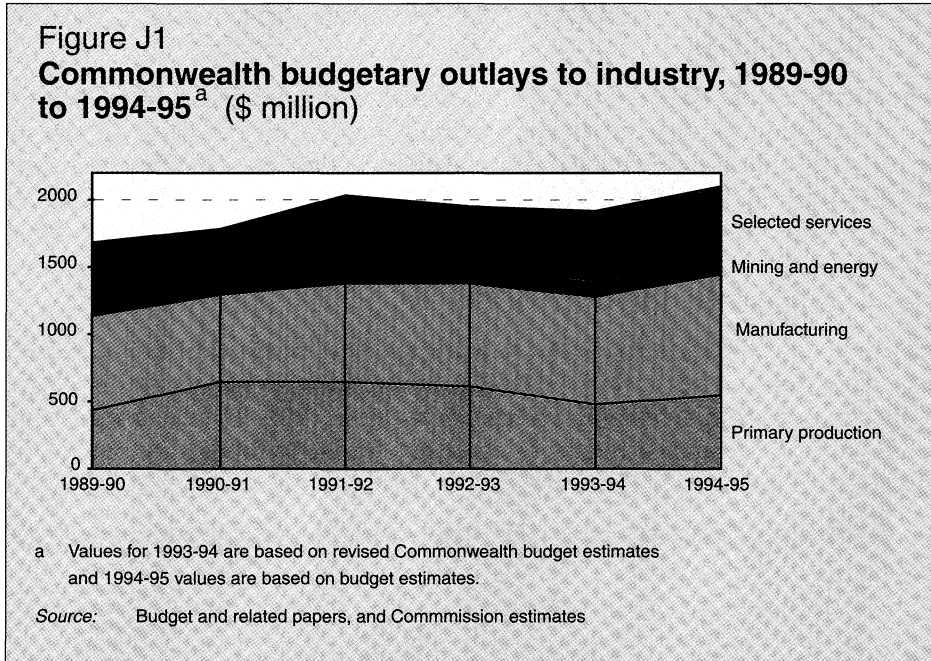
The data reported relate to budgetary support to industry. This support does not necessarily imply assistance. In cases where outlays support an increase in local production, budget expenditures are deemed to afford assistance. This condition will normally apply where there are competitive markets for the goods or services benefitting from budgetary support. For example, outlays for a production bounty are deemed to provide assistance.

In cases where outlays compensate for inefficiently delivered programs, outlays are not deemed to provide assistance. This condition may apply where a competitive market for the goods and services provided does not exist. For example, outlays for the Australian Quarantine and Inspection Service may be a case in point, as administrative reforms are currently under way to lower inspection costs.

In previous reviews of budgetary outlays to industry, the Commission allocated programs to the sector believed to be the main beneficiary. This approach has been reviewed. In the current analysis, where possible, programs conferring benefits to more than one sector have been apportioned amongst the benefitting sectors. However, data limitations mean that not all programs have been apportioned in this way. Some continue to be allocated to the sector believed to receive the most assistance from the outlay.

On the basis of revised budget estimates, total budgetary outlays to industry are expected to have decreased marginally in 1993–94 to \$1.9 billion². However,

² Due to the Budget being brought down in May rather than August, many estimates reported for 1993–94 are revised budget estimates rather than the actual outlays. Actual outlays will not be known until late 1994 and will be reported subsequently.



outlays to industry are budgeted to increase in 1994-95 to \$2.1 billion. These outlays will be marginally higher than those in the earlier peak of 1991-92, when over \$2 billion was outlaid (Figure J1). Budgetary appropriations supporting industry in 1994-95 represent a 10 per cent increase on 1993-94 outlays.

The manufacturing sector receives the largest proportion of budgetary support with 42 per cent of budgetary outlays in 1993-94. Outlays supporting primary producers and selected service industries were 26 per cent for each sector respectively in 1993-94. At 5 per cent, budgetary outlays supporting the mining and energy sectors remain relatively minor.

While some types of industry support have been expanded, others have been contracted. For example, since the mid 1980s, support afforded through bounties has declined in importance as a proportion of total budgetary support to industry (Figure J2). Most bounty assistance had been allocated to manufacturing. While this form of support has been scaled back substantially other forms, such as export support, have expanded.

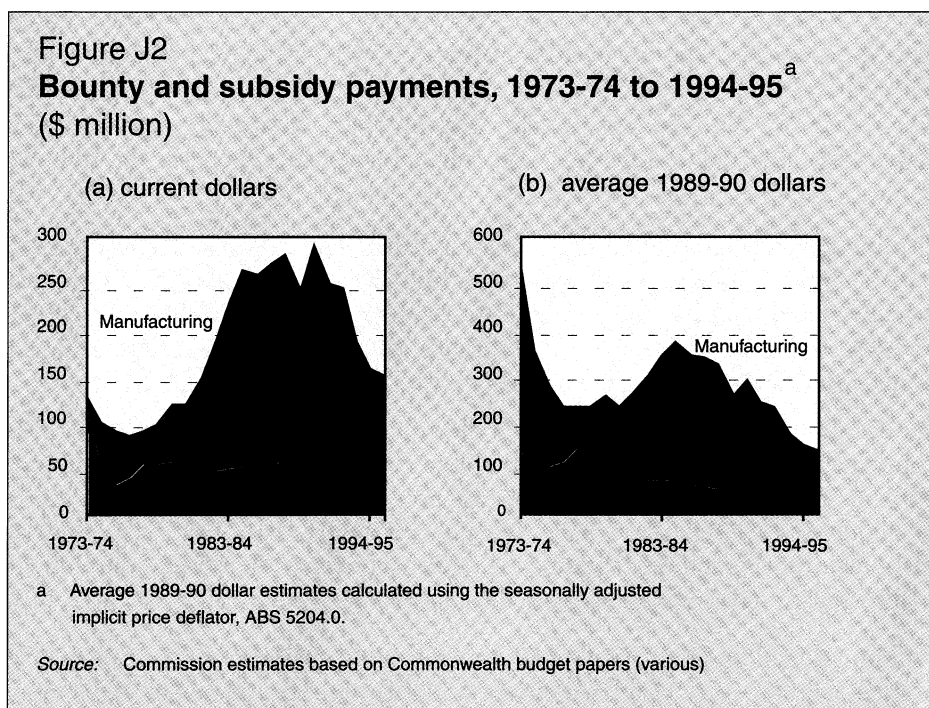
As shown in Figure J2, production bounties and subsidies are mainly used to assist manufacturing. The importance of agriculture as a recipient of this type of support declined during the 1980s. Currently, no bounty assistance is provided to agriculture. In nominal terms, these outlays peaked in 1989-90

(Figure J2a). However, in constant 1989–90 dollars, outlays were highest in 1973–74 (Figure J2b).

The ratio of direct budgetary outlays to a sector's Gross Product (GP) evaluated in current dollars is useful when considering the importance of those outlays to the recipient industries³. In 1991–92, budgetary outlays to agriculture, forestry and fishing peaked at 5.8 per cent of the sector's contribution to GP. However, this may have been due to low commodity prices which depressed GP. After declining to 3.7 per cent of the sector's GP in 1993–94, budgetary outlays are expected to increase to 4.1 per cent in 1994–95.

Outlays to the manufacturing sector as a proportion of sector GP have increased marginally from 1.2 per cent in 1990–91 to an expected 1.5 per cent in 1994–95. Budgetary outlays to the mining and energy sector in 1992–93 were 0.4 per cent of GP and have remained relatively constant. Similarly, budgetary outlays to selected services have remained around 0.5 per cent of that sector's GP.

The following sections report on the major changes in budgetary outlays by sector.



³ GP by industry for 1993–94 and 1994–95 are Budget estimates.

Primary production — agriculture, forestry and fishing

Outlays to primary production declined significantly to \$480 million in 1993–94. This decline was primarily due to reduced net outlays under the Rural Adjustment Scheme. Budget estimates for 1994–95 indicate outlays to the sector will increase to \$553 million, (though this will increase with subsequent additional provisions for drought relief) At that level, outlays would be 19 per cent lower than the high of \$660 million reported for 1991–92 (Table J1)⁴.

Agriculture receives the largest share of budget outlays directed towards primary production. In 1993–94, for example, 92 per cent of reported budget outlays related to agriculture. This share is slightly greater than the contribution of agriculture to primary production. Of these outlays, over 60 per cent supports agricultural research and development (Figure J3).

In 1993–94 three programs — the CSIRO Institute of Plant Production and Processing, the National Land Care Program, and the CSIRO Institute of Animal Production and Processing — accounted for 50 per cent of reported outlays provided by the Commonwealth to this sector.

Budgetary outlays to agriculture are often provided in response to specific industry conditions. When the conditions which gave rise to the outlays change, the programs are scaled down or discontinued. As may be seen from Figure J3, budgetary programs which may be categorised as providing adjustment assistance have been the main source of the fluctuations in budgetary outlays to agriculture. For example, the higher budgetary outlays to the sector in the early 1990s can be partially explained by measures taken to assist the wool industry after the collapse of the reserve price scheme. Also, many ongoing programs for agriculture, such as the Rural Adjustment Scheme, tend to offer counter-cyclical adjustment funding. Because the conditions which resulted in the lower outlays reported for 1993–94 and 1994–95 may not continue, the recent decrease in primary production outlays may not be indicative of a long-term trend.

Research and development, and 'other' program funding (eg National Landcare Program), by contrast, increased from \$266 million in 1989–90 to a budgeted expenditure of \$406 million for 1994–95 (Figure J3). The increase in 'other' program funding has been largely due to the establishment of the National Landcare Program. Funding of export enhancing programs for primary industry decreased from \$89 million in 1989–90 to a budgeted \$30 million in 1994–95. However, export programs have been subject to fluctuations in funding

⁴ As net outlays under the Export Finance Insurance Corporation's National Interest Business (NIB) program provide only a weak indication of assistance, the program is excluded from budgetary outlays reported for the primary production sector.

associated with events such as wheat underwriting in (respect of the 1986–87 pool) 1989–90 and dairy product underwriting in 1991–92.

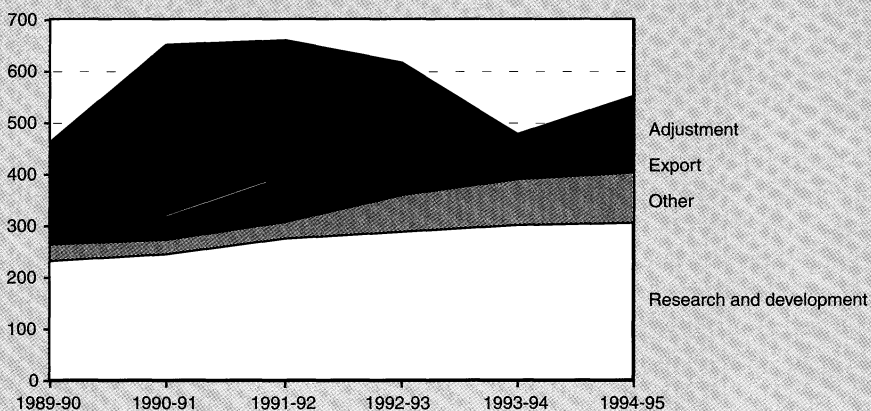
Manufacturing

Outlays to the manufacturing sector are expected to increase from \$800 million in 1993–94 to \$890 million in 1994–95. Outlays increased in five of the six years reported. Over the entire period, outlays increased by 28 per cent or 5 per cent per annum. GP for the sector increased on average by 2.6 per cent per annum over the period.

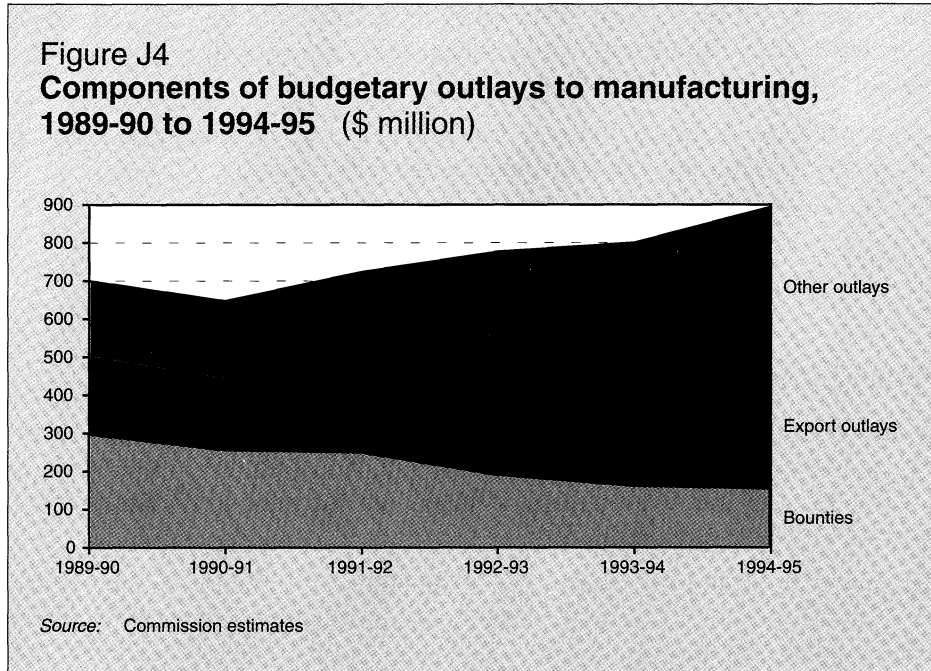
In 1993–94, four programs — Bounties, the Development Import Finance Facility, the Export Market Development Grants Scheme and the Factor f program — accounted for \$424 million, which was over 50 per cent of measured budgetary outlays to the Australian manufacturing sector. The main components of manufacturing budgetary outlays are given in Figure J4.

A bounty on the production of ethanol was introduced in July 1994 as part of the Government's lead abatement strategy. The bounty will apply for three years. Outlays for the new bounty are expected to be \$6 million in 1994–95. Total outlays over the life of the bounty are expected to be \$25 million.

Figure J3
Primary industry budgetary outlays by objective,
1989-90 to 1994-95 (\$ million)



Source: Commission estimates



Despite the introduction of the new bounty, total outlays for bounties are expected to decline in 1994-95. This decline is in accordance with the Government's policy of reducing assistance to import replacing manufacturing activities (afforded mainly by tariffs and bounties) and increasing assistance to export activities (afforded by other measures). Funding for bounty assistance declined over the six years reported in Table J2 — from \$290 million in 1989-90 to an estimated \$150 million in 1994-95.

Export assistance is expected to increase to \$344 million in 1994-95, a 66 per cent increase from \$207 million in 1989-90. Export assistance is discussed in more detail in Appendix I.

Funding for manufacturing 'other outlays' increased to \$142 million in 1993-94. Outlays are expected to increase to \$163 million in 1994-95. Outlays for the Factor f pharmaceutical program are expected to increase from \$80 million in 1993-94 to \$114 million in 1994-95. Budgetary outlays for general industry development programs also increased, from \$196 million in 1993-94 to \$234 million in 1994-95. Outlays for the Industry Innovation Programs and the National Industry Extension Service were major contributors to this increase.

Many existing programs were extended to cover small and medium enterprises in the Government's *Working Nation* statement (Keating 1994c). For example, funding will increase in 1994–95 to:

- expand the National Industry Extension Service to small and medium enterprises judged to be potential exporters (\$6 million);
- encourage firm networking (\$9.1 million); and
- improve small and medium enterprise access to finance (\$4.6 million).

Mining and energy

Commonwealth budgetary outlays to the mining and energy sector are relatively low. However, outlays increased from \$90 million in 1989–90 to \$127 million in 1993–94, a 40 per cent increase. Outlays are budgeted to decline to \$111 million in 1994–95 (see Table J3).

The decline in 1994–95 is mainly due to the budgeted reduction in funding for the CSIRO Institute of Minerals, Energy and Construction — from \$85 million in 1993–94 to \$68 million in 1994–95. Outlays to the Institute are the major source of Commonwealth funds to the sector and accounted for at least 60 per cent of outlays to the sector between 1989–90 and 1994–95. The remainder of support is spread over a variety of schemes.

Services

Outlays to selected service industries increased by 15 per cent to \$506 million in 1993–94. Outlays are expected to increase a further 9 per cent to \$550 million in 1994–95 (see Table J4)⁵.

Many outlays associated with service industries arise from specific purpose or once-off grants. For example, in 1989–90, when outlays totalled \$438 million, 18 per cent of outlays related to one-off support for the tourism and domestic airline industries during the 1989 aviation pilots' dispute. Outlays accordingly declined to \$395 million in 1990–91. The subsequent increase to a high of \$554 million in 1991–92 was largely due to outlays for pharmacy and waterfront industry adjustment packages. Funding for the pharmacy adjustment package is ongoing while the waterfront industry reform package finished in 1992–93.

⁵ For the purposes of this appendix, the service sector has been defined narrowly. Outlays to the communications, construction, film, retailing, tourism and transport industries have been included. Other service activities, such as health and education services, which have a significant social welfare component have been excluded.

In 1993–94 four programs, Austrade's export market development grants and export promotion operating expenses, the Australian Tourist Commission, and Australian Film Finance Corporation and Film Australia Pty Ltd accounted for 65 per cent of Commonwealth budgetary outlays to the selected service industries reported.

The Asian Infrastructure initiative is the only new program reported for the sector in 1994–95. This program is a form of export assistance and is intended to afford support for Australian-based construction firms bidding for large projects in Asia. Three million dollars has been appropriated for the initiative in 1994–95.

Table J1
Commonwealth budgetary outlays to primary production^a,
1989–90 to 1994–95 (\$ million)

	1989 –90	1990 –91	1991 –92	1992 –93	1993 –94	1994 –95
AGRICULTURE						
Crops						
Australian Horticultural Corporation	0.4	1.0	1.5	2.5	2.2	1.5
Australian Plague Locust Commission	0.4	0.8	1.1	2.7	2.9	5.7
Sugar industry adjustment assistance	3.0	0.6	–	–	–	–
Sugar Industry Program	–	–	–	–	3.1	9.1
Trade sanctions compensation — Iraq	–	–	32.9	–	–	–
Wheat underwriting ^b	33.8	–	–	–	1.1	–
Sub-total	37.6	2.4	35.5	5.2	9.3	16.3
General agricultural activities						
Austrade						
– Export Market Development Grants Scheme	4.1	4.1	2.7	3.8	5.3	5.8
– export promotion operating expenses	2.7	2.7	2.8	3.1	3.4	3.5
Clean Food Export Strategy	–	–	–	–	2.0	3.0
Commonwealth Development						
Bank subsidy	–	–	–	–	6.6	9.2
Farm Household Support Scheme	–	–	–	0.9	5.3	8.5
Farm Management Advisory Skills Program	0.1	0.2	–	–	–	–
Innovative Agricultural Marketing Program ^c	2.5	4.1	4.5	3.8	3.8	4.5
National Landcare Program	–	–	–	60.6	73.7	70.6
National Soil Conservation Program	24.1	22.0	24.5	–	–	–
Primary Industries Marketing Skills Program	1.3	1.8	1.0	1.3	0.8	1.6
Australian Quarantine and Export Inspection Service ^d	37.2	18.2	15.7	12.3	–	–

Table J1 (continued)

	1989 -90	1990 -91	1991 -92	1992 -93	1993 -94	1994 -95
- AQIS meat inspection subsidy	-	-	-	-	-	7.3
Rural Adjustment Scheme ^e	44.7	52.1	149.4	159.6	19.4	78.0
Rural Communities Access Program ^f					10.7	10.9
- Business Advisers for Rural Areas	-	-	0.9	1.8		
- Rural Counselling Program	0.9	1.2	5.2	7.0		
Rural Development Incentive Scheme	-	-	-	-	0.1	1.7
Rural Enterprise Network Program	-	-	-	-	0.4	0.9
Rural Industries Business Extension Service	-	-	-	1.0	2.0	0.5
Tasmanian Freight Equalisation Scheme	1.5	1.5	1.4	1.2	1.6	1.6
World Best Practice Incentive Scheme	-	-	-	-	0.5	3.6
Sub-total	119.1	107.9	208.1	256.4	135.6	211.2
Livestock, poultry, etc.						
Australian Animal Health Laboratory	5.5	5.4	5.5	6.0	5.9	5.7
Bovine Brucellosis and Tuberculosis Eradication Campaign	8.3	11.0	7.9	5.3	4.0	4.1
Dairy products underwriting	-	-	22.0	-	-	-
Exotic disease preparedness programs	0.2	1.6	1.7	1.5	1.3	1.2
National Residue Survey	-	-	-	-	0.9	0.4
Wool - interest subsidy	-	-	22.5	22.5	-	-
- international promotion	25.0	22.9	32.1	25.0	20.0	-
- supplementary support payments	-	255.8	44.2	-	-	-
Sub-total	39.0	296.7	135.9	60.3	32.1	11.4
Research and development						
Australian Special Rural Research Fund	5.0	-	-	-	-	-
Cooperative Research Centres	-	-	3.5	6.7	16.5	20.3

Table J1 (continued)

	1989 -90	1990 -91	1991 -92	1992 -93	1993 -94	1994 -95
CSIRO Institute of Animal Production and Processing	55.5	69.0	75.8	65.5	66.8	65.3
CSIRO Institute of Plant Production and Processing	73.3	84.1	90.9	93.8	84.8	81.9
Grains research	13.3	14.4	14.8	15.7	21.2	23.3
Horticulture research	1.2	3.1	4.4	8.3	10.8	11.4
Land and water research	9.9	13.3	13.3	13.7	11.1	11.1
Meat research	13.8	13.6	20.8	23.8	23.5	21.5
Rural Industries R&D Corporation	5.0	6.0	8.4	11.3	11.5	11.5
Water resources — assessment and research grants	7.4	2.7	0.3	0.3	0.7	0.2
Wool	20.8	11.7	13.8	13.2	11.2	12.7
Other rural research ^g	10.1	11.7	12.3	17.9	21.3	24.7
Sub-total	215.3	229.6	258.3	270.2	279.4	283.9
Total outlays to agriculture	411.0	636.6	637.8	592.1	456.4	522.8
FORESTRY						
National Afforestation Program	7.5	0.7	0.4	0.1	—	—
National Forest Policy Program	—	—	—	—	1.5	2.7
Northeast Queensland Rainforests Package	11.6	—	—	—	—	—
NSW Forest Industry Package	—	—	—	—	—	1.9
NSW Southeast Forests Package	1.7	0.4	0.1	—	—	—
Plantation initiatives						
— National Forest Policy Program	—	—	—	0.5	0.3	—
— North Queensland Community Rainforests Revegetation Program	—	—	—	—	0.9	1.5
Southeast Forests Agreement	—	—	—	—	—	2.0
Tasmanian Forest Industry Package	17.2	—	4.2	12.5	6.4	5.6
Victorian Forest Industry Package	—	3.9	4.7	1.3	—	—
Tasmanian Freight Equalisation Scheme	1.5	1.4	1.2	1.4	1.6	1.6
Total outlays to forestry	39.5	6.4	10.6	15.8	10.7	15.3

Table J1 (continued)

	1989 -90	1990 -91	1991 -92	1992 -93	1993 -94	1994 -95
FISHERIES						
Fisheries industry adjustment	-	-	1.3	-	-	-
Research and development	7.9	9.3	7.8	8.5	10.7	12.6
Resources research	-	-	2.7	2.9	2.2	2.3
Surveys and development	0.2	0.5	-	-	-	-
Total outlays to fisheries	8.1	9.8	11.8	11.4	12.9	14.9
Total outlays to agriculture, forestry and fisheries	458.6	652.8	660.2	619.3	480.0	553.0
National Interest Business ^h	(17.2)	226.5	243.7	53.9	14.8	17.1
Total outlays to agriculture, forestry, & fisheries, including net NIB outlays	441.4	879.3	903.9	673.2	494.8	570.1

- Nil.

a Commonwealth Government expenditure net of industry contributions. 1993-94 data are updated Budget estimates and 1994-95 data are budget estimates.

b In respect of the 1986-87 wheat pool.

c Some Innovative Agricultural Marketing Program projects may be classified to the manufacturing sector. For example, in 1990-91 approximately 50 per cent of approved projects assisted manufacturing industries. However, as for most years, the majority of assistance is to agriculture the program has been classified to agriculture.

d The outlays for quarantine and export inspection services represent the deficit associated with expenditures which are considered to be recoverable.

e The gross Rural Adjustment Scheme outlay of \$58.3 million for 1994-95 was lowered by repayments of \$38.9 million.

f The Rural Communities Access Program introduced in the 1994-95 budget combines several existing rural programs.

g The other industries are: dairy, eggs, chicken meat, cotton, dried fruit, grapes and wines, honey, pigs, forestry, sugar, and tobacco.

h The estimates reported in this section are NIB net outlays — that is payments less insurance premiums. These payments are insurance payouts, and in 1990-91 and 1991-92 were mainly connected with Australia's imposition of trade sanctions against Iraq. Unlike the 'Trade sanctions compensation — Iraq', payments reported elsewhere in the table, these outlays were in response to insurance claims for which premiums had been paid. The NIB scheme is likely to provide assistance, although net outlays give only a weak indication of any assistance provided. In 1989-90 NIB insurance premiums exceeded payments.

Source: Commonwealth Budget Papers (various years) and Commission estimates.

Table J2
Commonwealth budgetary outlays to the manufacturing sector^a, 1989–90 to 1994–95 (\$ million)

	1989 –90	1990 –91	1991 –92	1992 –93	1993 –94	1994 –95
Bounties						
Bed sheeting	1.7	2.9	2.6	2.4	2.0	1.5
Books	24.0	24.2	21.5	21.4	20.5	18.7
Citric acid	–	–	0.7	0.7	0.7	1.0
Computers	45.0	51.3	74.5	74.9	78.0	74.8
Cultivation machinery	3.3	–	–	–	–	–
Ethanol	–	–	–	–	–	5.8
Grain harvesters	2.0	–	–	–	–	–
Injection moulding equipment	0.1	–	–	–	–	–
Metal working machine tools and robots	12.2	15.2	16.0	8.6	8.0	8.7
Printed fabrics	1.8	1.7	2.8	1.5	0.8	0.7
Sensitised photographic film	6.0	12.0	12.0	6.0	–	–
Ships	45.1	37.4	24.4	24.2	26.0	24.2
Ship repair	0.3	–	–	–	–	–
Steel mill products	0.1	–	–	–	–	–
Textile Bounty Capitalisation Grants Scheme	59.3	28.1	39.1	14.5	–	–
Textile yarns	90.6	77.2	51.1	32.0	21.0	15.9
Sub-total	291.5	250.0	244.7	186.2	157.0	151.3
Other industry-specific programs						
Agri-food industry initiative	–	–	–	0.2	1.3	3.2
Australian Magnesium Metal Technology Initiative	–	–	–	4.9	12.3	2.8
CSIRO pulp mill research	0.5	1.4	1.9	1.9	1.9	–
Ethanol research and development	–	–	–	–	1.6	2.3
Equity in the Australian Technology Group	–	–	–	30.0	–	–
Heavy Engineering Adjustment and Development Program	9.7	3.7	1.2	–	–	–
Information industries strategy	2.1	–	–	–	–	–

Table J2 (continued)

	1989 -90	1990 -91	1991 -92	1992 -93	1993 -94	1994 -95
Information industries						
– Info. Tech. Development Program	–	–	–	0.3	0.3	2.3 ^b
– Vendor Qualification Scheme	2.1	1.2	1.2	1.2	1.3	–
Malaria Joint Venture	0.8	2.3	9.4	–	–	–
Metals-based Engineering Program	2.2	5.1	5.6	1.4	0.1	0.1
Motor Vehicles and Components Development Grants Scheme	8.3	4.7	2.3	–	–	–
National Space Program	2.4	5.2	5.7	5.4	5.5	9.3
Pharmaceutical industry assistance (Factor f Program)	12.9	16.7	26.3	51.9	80.0	113.5
Steel Study Project	–	–	–	0.8	0.3	–
Tasmanian Wheat Freight Subsidy Scheme	3.0	3.3	3.2	2.9	2.7	2.7
TCF Industries Development Strategy	5.4	4.9	16.0	66.1	34.8	25.5
Wine Industry Package – Grants to wine makers	–	–	–	–	–	0.9
Other industry-specific programs sub total	49.4	48.5	72.8	167.0	142.1	162.6
General industry development programs						
Australian Made Campaign	–	–	2.0	2.0	2.0	1.5
Best Practice Demonstration Program	–	–	10.0	15.6	6.8	4.8
Commonwealth Development Bank subsidy	–	–	–	–	3.9	5.4
Cooperative Research Centres	–	–	3.0	10.7	23.5	29.0
CSIRO Institute of Industrial Technologies	57.1	64.7	64.2	67.6	63.0	62.7
Enterprise Networking Program	–	–	–	–	–	9.1
Investment Promotion Strategy	3.5	5.5	8.0	–	–	–
Industry Innovation Program ^c					40.0	52.3
– Advanced Manufacturing Technology Development Program	–	–	0.1	0.6	c	c

Table J2 (continued)

	1989 -90	1990 -91	1991 -92	1992 -93	1993 -94	1994 -95
- Grants for Industry Research and Development	32.4	29.6	32.2	34.3	c	c
- National Procurement Development Program	5.6	4.2	4.4	5.4	c	c
- Technology Development Programs (including National Teaching Company Scheme)	1.9	3.0	3.2	3.1	c	c
National Industry Extension Service	18.8	19.7	21.1	16.4	22.0	33.5
Science Innovation Program	0.6	0.4	-	-	-	-
Support for Australian Suppliers Small and Medium Enterprise Development Program	-	-	-	-	-	2.3
Tasmanian Freight Equalisation Scheme	-	-	2.4	1.4	1.0	-
Sub-total	150.6	155.0	178.3	184.4	196.2	233.8
Total - excluding export assistance	491.5	453.5	495.8	537.6	495.3	547.7
Export assistance						
Austrade						
- Asia Pacific Fellowship	-	-	3.9	3.2	3.3	0.9
- Export Market Development Grants Scheme	64.8	64.8	50.0	60.7	83.9	92.0
- export promotion operating expenses	42.4	42.4	44.8	50.2	54.1	56.1
- International Trade Enhancement Scheme	-	4.5	20.7	20.8	32.0	36.4
- Private Sector Linkages Program	-	-	-	-	1.0	6.5
Development Import Finance Facility	80.1	72.0	95.1	89.8	103.1	111.7
Enterprise Development Program	-	-	-	-	11.7	28.5
Export Access Program	-	-	1.0	4.2	6.1	6.6
Interest subsidy for financing eligible export transactions EFIC	17.8	6.5	10.0	6.9	6.3	5.1
International Business Development Scheme	1.6	-	-	-	-	-

Table J2 (continued)

	1989 -90	1990 -91	1991 -92	1992 -93	1993 -94	1994 -95
Wine Industry Package – export development grant	–	–	–	–	–	0.5
Total export assistance	206.7	190.2	225.5	235.8	301.5	344.3
Total manufacturing	698.2	643.7	721.3	773.4	796.8	892.0

– Nil.

- a Commonwealth Government expenditure net of industry contributions. 1993–94 data are updated Budget estimates and 1994–95 data are Budget estimates.
- b The 1993–94 estimate includes outlays for Information industries — Vendor Qualification Scheme.
- c For 1993–94 disaggregated information on the schemes included under the 'Industry innovation programs' were not available. In the *Working Nation* statement (Keating 1994d), the programs were merged into a single program for which multiple criteria apply.

Source: Commonwealth Budget Papers (various years), Industry Research and Development Board (various years) and Commission estimates.

Table J3
Commonwealth budgetary outlays to the mining and energy sector^a, 1989–90 to 1994–95 (\$ million)

	1989 –90	1990 –91	1991 –92	1992 –93	1993 –94	1994 –95
Austrade						
– Export Market Development Grants Scheme	4.0	4.0	3.1	2.5	5.2	5.7
– export promotion operating expenses	2.6	2.7	2.8	3.1	3.4	3.5
Coal freight rate efficiency scheme for NSW producers	10.0	–	–	–	–	–
Coal market study	–	–	–	–	–	0.2
Cooperative Research Centres	–	–	3.2	6.7	11.3	13.9
CSIRO Institute of Minerals, Energy and Construction	56.9	64.4	73.2	80.5	85.3	67.8
Energy management programs	1.0	4.2	4.5	7.8	7.3	6.5
Energy Research and Development Corporation	–	12.3	11.8	11.6	11.0	11.1
National Energy Research Development and Demonstration Program	10.6	–	–	–	–	–
Office of the Supervising Scientist of the Alligator Rivers Region Research Institute ^b	1.8	1.6	1.9	1.9	1.6	1.3
Rehabilitation of former uranium mine sites	1.0	1.5	0.7	0.4	0.3	0.2
Renewable energy research	0.9	–	–	–	–	–
Tasmanian Freight Equalisation Scheme	1.1	0.8	0.9	1.0	1.2	1.2
Total outlays to mining and energy	89.9	91.5	102.1	115.5	126.6	111.4

a Commonwealth Government expenditure net of industry contributions. 1993–94 data are updated Budget estimates and 1994–95 estimates are Budget estimates.

b A levy on uranium exports is intended to cover three quarters of the cost of the supervising scientist. One quarter of the cost has been recorded here.

Source: Commonwealth Budget Papers (various years) and Commission estimates.

Table J4
Commonwealth budgetary outlays to selected service industries^a, 1989–90 to 1994–95 (\$ million)

	1989 –90	1990 –91	1991 –92	1992 –93	1993 –94	1994 –95
Ausmusic	–	–	–	0.6	1.2	1.2
Austrade – Export Market						
Development Grants Scheme	89.1	89.1	78.3	81.0	115.3	126.4
– export promotion						
operating expenses	58.3	58.3	61.7	69.0	74.3	77.1
Australia in Asia programs	–	–	–	0.9	9.2	10.4
Australian Film Commission	11.8	16.1	16.6	17.1	17.9	18.7
Australian Film Finance						
Corporation and Film Australia						
Pty Ltd ^b	60.9	72.8	75.6	67.8	63.4	60.6
Australian Tourist Commission	55.2	62.6	69.5	74.5	77.2	78.3
Asian Infrastructure initiative	–	–	–	–	–	3.0
Bass Strait passenger subsidy	–	–	–	–	0.3	0.3
Building research	0.3	0.3	0.3	0.3	–	–
Capital Grants Scheme (for purchase of new or second hand trading ships, contingent on lower crewing levels)	7.2	7.6	15.9	0.1	24.0	27.2
Commonwealth Development						
Bank subsidy	–	–	–	–	3.8	5.4
Cooperative Research Centres	–	–	8.5	21.0	40.4	49.8
CSIRO Institute of Information Science and Engineering	36.6	34.4	42.3	37.9	38.1	42.6
Development Import Finance Facility	13.2	11.8	2.9	30.2	16.9	18.3
Domestic airlines — waiver of charges during pilots' dispute	67.6	–	–	–	–	–
Interest subsidy for financing eligible export transactions EFIC	3.7	1.4	0.9	2.5	1.3	1.1
Multi-Function Polis	1.0	1.1	2.7	1.5	1.6	3.0
Pharmacy Restructuring Authority grants	–	13.5	36.4	8.3	6.4	8.7
Remote air services subsidy	1.0	1.1	1.1	1.1	1.2	1.2
Shipping industry reform	7.5	6.6	12.5	0.7	11.2	14.3

Table J4 (continued)

	1989 -90	1990 -91	1991 -92	1992 -93	1993 -94	1994 -95
Tourism, pilots' dispute recovery package	12.8	-	-	-	-	-
Towage industry reform	2.2	0.3	5.3	-	-	-
Tasmanian Freight Equalisation Scheme	1.8	1.2	1.7	1.7	2.0	2.0
Waterfront industry reform	8.2	17.2	121.5	22.9	-	-
Total	438.4	395.4	553.7	439.1	505.7	549.6

- Nil.

a Commonwealth Government expenditure net of industry contributions. 1993-94 data are updated Budget estimates and 1994-95 data are Budget estimates.

b The 1991-92 figure does not include Film Australia Pty Limited.

Source: Commonwealth Budget Papers (various years) and Commission estimates.

Appendix K

Anti-dumping activity

Anti-dumping action decreased during 1993–94 but is still at a high level. The number of anti-dumping cases instigated by Australia is causing some international concern. The development of a new GATT anti-dumping code in the successful Uruguay Round of trade negotiations means that Australia's anti-dumping provisions will be amended to make them consistent with our new international obligations. To the extent that our trading partners also adopt the new code, this may benefit Australian exports into those countries.

Australia's anti-dumping and countervailing duty legislation is based on the General Agreement on Tariffs and Trade (GATT) Anti-dumping Code. This sets out criteria which must be met before an anti-dumping action can be taken, but does not require that action must be taken where dumping is found. The GATT code is an attempt to constrain the scope for abuse of anti-dumping actions for protectionist ends.

Imported goods are 'dumped' in Australia if they are assessed as being sold for less than their 'normal value' — generally taken to be the price of the goods in the exporter's home market. The term is misleading as it may imply that the goods are unwanted or inferior, but it really means that Australians have access to imports at lower prices. The same effect is achieved if a foreign government subsidises exports. However, whereas dumping arises from the commercial decisions of foreign exporters, subsidies derive from foreign governments using their taxpayers' funds to lower export prices and increase market share.

Before an anti-dumping action is taken and duties imposed, it must be established that dumping is causing or threatening 'material injury' to an Australian industry. To determine this, a 'normal value' — or a lower 'non-injurious free on board' (NIFOB) — value is assessed as a floor price for imports. A duty is imposed equivalent to the margin between the export price and the floor price. Similar rules apply if it is assessed that a foreign government is providing financial assistance to exports, in which case a countervailing duty may be imposed. However, if the exporter gives a formal undertaking not to price goods below the floor price, an anti-dumping duty is not imposed, but the undertaking is counted as an anti-dumping measure.

Anti-dumping procedures are often seen as a mechanism to safeguard against 'unfair' pricing practices of overseas competitors. However, price discounting can be a normal business strategy, occurring in periods of depressed demand or where firms have excess capacity or a need to maintain large scale production runs.

Recent developments affecting anti-dumping and countervailing provisions

International developments: the GATT Anti-dumping and Subsidies Codes

The recently concluded Uruguay Round of GATT negotiations has implications for the anti-dumping practices of Australia and its trading partners. The Government has announced (Keating 1994c, p.45) that it is taking steps to amend anti-dumping legislation to comply with the new GATT commitments. The more substantive changes in the GATT Anti-dumping Code (GATT 1994a, and DFAT 1994b, pp.47–48), adopted by all member states, are:

- 'domestic industry', 'interested party' and other key concepts are clarified and defined to enable easier interpretation of the provisions;
- more specific requirements are to be met before the instigation of an action and for the determination of dumping and injury;
- a minimum level of dumped imports and a minimum dumping margin must be established for an investigation;
- anti-dumping duties must be withdrawn if injury to the domestic industry ceases. Duties should not remain in force for more than five years without review; and
- a disputes' settlement body is to arbitrate disputes.

Changes affecting the Subsidies and Countervailing Duties Code include;

- a definition of a subsidy and categories of subsidy that are prohibited, actionable, and non-actionable. Subsidies can be countervailable, or challenged through a dispute settlement system;
- clearer and more detailed provisions for the application of countervailing duty measures against subsidised injurious imports; and
- a prohibition on subsidies to all products, except only a partial prohibition on some agricultural products.

The new GATT Anti-dumping Code will also have implications for Australia's major trading partners such as the United States and Canada. These countries

have been active against allegedly dumped goods from Australia, such as steel and beef. To the extent that they comply with the new provisions, Australian exporters may benefit. For example, if the United States complied with the requirement for a five year time limit for anti-dumping provisions, this may exert pressure on anti-dumping action against Australian canned pears, which has been in operation since 1973, and last reviewed in 1981.

In April 1989, a Trade Policy Review Mechanism was set up by the GATT under which the trade policies of member countries are reviewed regularly. Reports are prepared on each country by the GATT Secretariat and the country concerned. In January 1994, the GATT Secretariat presented its second report (GATT Council 1994) on Australia.

The report noted that, inter alia, over the past few years Australia had initiated about one third of the world's anti-dumping actions. These cases were concentrated in chemicals and processed agricultural products.

Domestic developments

Anti-dumping provisions have been subject to frequent changes. In 1986 legislative amendments arising from a review by Gruen (1986) reduced the scope for assistance to be provided through anti-dumping arrangements.

As a result of a review of the anti-dumping system by the Department of Industry and Commerce in 1991 (Button 1991), changes were introduced in two stages, on 10 July 1992, and on 1 January 1993. The details of these provisions were described in the Commission's 1992-93 *Annual Report* (IC 1993d). The 1 January 1993 amendments to the anti-dumping legislation (Beddall 1992) introduced a system to determine dumping and countervailing duties, including an interim dumping duty. The interim duty is determined with reference to the normal value, the export price, and the NIFOB value which are ascertained at the time the anti-dumping action is taken. It is payable even if later consignments are not imported at 'dumped' prices. As the interim duty may exceed the amount strictly allowable under the GATT rules, the new provisions provide for the importer to request a refund of overpaid duties at six-monthly intervals, and for the duty itself to be reviewed every 12 months.

These provisions effectively increase the administrative burden and dumping duties imposed — at least in the short run — as interest is not paid on the amount of the refund. They also increase the incentive for a foreign exporter to provide a formal undertaking to adhere to the floor price, thereby avoiding dumping duties. However Australia's anti-dumping provisions remain consistent with the GATT Anti-dumping Code. Up to this year (1993-94), only one importer has applied for a refund of overpaid duties, and the application has not yet been finalised.

Review of the Australian Customs Service

The Committee of Review into the Australian Customs Service (Conroy report) followed a Parliamentary Committee investigation of Customs' prosecution of the Midford Paramount case (JCPA 1993b).

Amongst other matters, submissions to the inquiry criticised the lack of transparency in Customs' findings in anti-dumping reports. Relevant information, it said, was "shrouded in Confidential Appendices" (Conroy 1993, para 3.54). The Committee's recommendations, some of which are already being acted on by Customs, centred mainly on procedural aspects of anti-dumping administration and included:

- best-practice standards be established;
- the legislation be redrafted to clearly prescribe procedures for all parties so as to minimise subsequent court action;
- Customs and the Anti-dumping Authority (ADA) publish a manual for processing of complaints;
- the ADA conduct 'material injury' inquiries in parallel with Customs' investigation of dumping;
- judicial review only be allowed against the Minister's decision to issue a dumping notice;
- the ADA advise and assist industry on establishing material injury; and
- streamlined arrangements between Customs and the ADA and improved Customs relations with industry.

The recommendation that Customs and the ADA work simultaneously on a case would effectively reduce the time taken to complete the process. Indeed, the Committee believed that overall processing time for actions could be reduced by up to 80 days (Conroy 1993, para 15.34). These recommendations, designed to improve the efficiency of the agencies conduct of investigations, also have the effect of increasing incentives for domestic manufacturers to initiate complaints and may facilitate positive findings.

Anti-dumping action in 1993–94

The number of cases reported as initiated in 1993–94 has fallen to 51 from 77 in 1992–93 (Table K1). Although this is still at a high level, it is the lowest since 1989–90. This may reflect improvements in economic conditions as the nation emerges from recession. The number of anti-dumping cases tends to rise during an economic downturn and decline as the economy recovers.

Table K1
Anti-dumping and countervailing activity, 1989–90 to
1993–94

	1989 –90	1990 –91	1991 –92	1992 –93	1993 –94
New cases^a					
Cases under inquiry as at 1 July	16	9	53	43	33
– Customs	12	10	20	6	14
– ADA	4	9	33	37	19
New cases initiated ^b	31	73 ^c	88 ^c	77 ^c	51
Cases where measures imposed					
– at preliminary finding stage	11	40	70	19	16
– at final finding stage	5	12	43	27	19
Measures					
Cases subject to measures	24	1	26	77	94 ^d
New cases subject to measures	5	12	43	27	19

a Cases defined as one commodity from one country.

b In 1992–93, one application for anti-dumping measures was later withdrawn.

c Initiated using a different basis to previous and subsequent years.

d Includes 6 price undertakings.

Source: ACS (1994)

The number of cases initiated by Customs as a result of its prima facie investigations has been affected by changes in screening applicants. In 1989 a court case found that Customs had erred in rejecting an application on the grounds that it was known to have been based on inaccurate information. A subsequent court challenge to a similar Customs rejection of another case re-affirmed this first decision. Consequently, between 1990–91 and 1991–92, and for some part of 1992–93, the number of initiations probably increased as a result. However, in late 1992, Customs put into place new screening procedures based on provisions in the July 1991 legislation. This allowed it more discretion in rejecting applications known to be deficient. These developments suggest that 'Initiations' data as reported in Table K1, K2 and K4, may not be on a consistent basis over time. Nevertheless, they do tend to move in line with other indicators of activity such as 'Measures imposed'.

The Chemicals and petroleum products industries continued to be the dominant initiator of anti-dumping actions, with 36 per cent of cases for the previous five years, followed by Miscellaneous manufacturing with 19 per cent. For 1993–94, the three greatest users, Chemicals and petroleum products, Textiles,

and Miscellaneous manufacturing accounted for more than 76 per cent of new cases (Table K2).

However, the number of cases initiated illustrates only one aspect of the extent to which dumping affects Australian imports. An analysis of the proportion of imports which are dumped is more revealing. Table K3 shows that imports found to be dumped account for only a small proportion of total imports: 0.02 per cent in 1991–92, 0.05 per cent in 1992–93 and 0.01 per cent in 1993–94. This represents a doubling of dumped imports in 1992–93 over 1991–92, but a substantial decrease in 1993–94 over 1992–93. The overall picture presented of dumping as a proportion of manufactured imports is that it is small and variable.

Chemicals have been the source of most of the cases initiated, but imports subject to anti-dumping duties do not account for a particularly significant proportion of total imports of chemical products. In some other cases, dumped import penetration and the duties imposed are quite significant. For example, in 1991–92, nearly 20 per cent of imports of Bacon, ham, and smallgoods were subject to an average dumping duty of 13.6 per cent. The average duty applying to other imports under that ASIC subdivision was 9.6 per cent. For 1992–93, the figures were 15.5 per cent penetration, at an average anti-dumping duty rate

Table K2
Anti-dumping and countervailing cases, complaints
formally initiated by industry^a, 1989–90 to 1993–94

ASIC subdivision	1989	1990	1991	1992	1993	Five year period	
	-90	-91 ^a	-92	-93	-94	total	per cent
Food and beverages	9	11	18	10	—	48	15.0
Textiles	3	—	—	2	10	15	4.7
Paper and paper products	—	3	2	9	—	14	4.4
Chemical and petroleum products	7	43	32	18	16	116	36.2
Metallic mineral	2	—	—	—	—	2	0.6
Non-metallic mineral products	1	1	13	—	4	19	5.9
Basic metal products	4	—	—	3	4	11	3.4
Fabricated metal products	1	—	7	—	—	8	2.5
Transport equipment	—	7	4	1	—	12	3.8
Other machinery and equipment	3	4	—	2	4	13	4.1
Miscellaneous manufacturing	1	4	12	32	13	62	19.4
Total	31	73	88	77	51	320	100

— Nil.

a Cases defined as one commodity by one country.

Source: ACS (1994)

of 10.6 per cent, and in 1993–94, the penetration was 31.4 per cent with a duty of 11.4 per cent. Vegetable products under ASIC 2132, subject to anti-dumping action, attracted an average anti-dumping duty of over 40 per cent in both 1991–92 and 1992–93, and the proportion of imports dumped increased from 0.2 per cent in 1991–92, to 2.5 per cent in 1992–93. Although anti-dumping duties imposed on individual products are usually confidential, the Commission has imputed average dumping margins for ASIC categories in Table K3 from value for duty, and duty paid.

Anti-dumping actions against inputs into further production deny user industries access to lower cost inputs. Goods in ASIC 3363 (Materials handling equipment), subject to anti-dumping actions, attracted anti-dumping duties of over 20 per cent and penetration increased from 0.2 per cent in 1991–92 to 3.6 per cent in 1992–93. Organic industrial chemicals nec; glass products; and batteries showed low penetration, but the anti-dumping duties were many times greater than the tariff duties on total imports of goods in their respective groupings. Many of these are inputs into goods which are subsequently exported. Here the anti-dumping actions may raise input costs to Australian exporters who must then compete with foreign exporters some of whom have unfettered access to dumped inputs.

In assessing the effect of anti-dumping duties on imports it is important to note that the actions initiated have an unquantifiable disincentive effect on other foreign exporters. The threat of an anti-dumping action, or the knowledge that such actions have been successful in the past, may dissuade exporters from offering such goods at low prices. This will have a similar effect to voluntary export restraints. Hence the anti-dumping system will have effects not captured by the number of anti-dumping actions imposed.

Recent cases of interest

Cases brought under the 1991 legislation

Legislative changes in 1991 extended the concept of injury in countervailing and anti-dumping cases to suppliers of inputs used in domestic production competing with dumped goods. Under GATT codes, actions can only relate to injury caused or threatened to an industry producing a like product. For a more detailed discussion of this see the Commission's 1990–91 *Annual Report* (IC 1991d, p.196). To date, this has resulted in two cases in which primary producers have taken anti-dumping action.

Table K3

Goods subject to anti-dumping duties as a proportion of imports, and average duties imposed, 1991-92 to 1993-94 (per cent)

ASIC	Description	1991-92		1992-93		1993-94	
		Proportion of imports	Average dumping duty ^a	Proportion of imports	Average dumping duty ^a	Proportion of imports	Average dumping duty ^a
2117	Bacon, ham and smallgoods nec	19.65	13.59	15.47	10.60	31.42	11.44
2132	Vegetable products	0.23	45.52	2.51	40.35	1.28	12.79
2753	Sythetic resins and rubber	..	15.66	0.40	14.58	0.51	13.31
2754	Organic industrial chemicals	0.01	21.99	..	29.90	..	11.73
2850	Glass and glass products	..	64.41	0.07	12.16	0.26	11.73
3356	Batteries	3.73	16.19	1.83	11.13	0.35	14.35
3363	Materials handling equipment	0.16	24.01	3.58	20.69	..	..
21-34	Total Manufacturing	0.02		0.05		0.01	

.. Insignificant

a Average duty obtained by dividing duty paid for dumped goods, by value for duty.

Source: ABS Cat no 5464 and Commission estimates.

Glace Cherries

Growers of white cherries successfully brought an anti-dumping case against dumped cherries in brine from the EC. The EC took the matter to the GATT, which established a panel to examine the case. The complaint involved the definition in the GATT code of a 'like' good. Fresh white cherries, it claimed, were not a 'like product' to cherries in brine. French and Italian exporters of glace cherries argued that the industry comprised manufacturers of glace cherries (ADA 1992).

The Australian complainants argued that, as white cherries are used solely in the manufacture of glace cherries, the industry comprised both growers and processors. This is allowed for in Australian legislation which the Government contends is in accordance with GATT provisions. In response to the EC, Australia argued that because glace cherries are a manufactured rather than primary product, their subsidisation by EC countries is prohibited under Article 9 of the Subsidies Code. By mutual agreement, both complaints were withdrawn (ADA 1993b).

Edam red wax ball cheese

In this case, the United Dairy Farmers of Victoria tried to claim injury arising from imports of edam cheese. Customs arrived at a negative preliminary finding and this was confirmed by the ADA. It considered that the farmers had not shown that they were part of the industry as defined by the legislation and had failed to establish that material injury was caused or threatened to Australian producers of the imported product (ADA 1994a).

Other cases

Fibreglass insect screening

In this case, the ADA reviewed a Custom's negative preliminary finding on fibreglass insect screening from the Peoples Republic of China. The ADA found that the product was sold in Australia for a higher price than in China. In a normal dumping investigation, this would mean that the goods are not dumped. However, as China is a centrally planned economy, its domestic prices cannot be used to ascertain normal values. The practice in this situation is to use price information from a comparable third country. The only other two countries where insect screening is made are Canada and the USA. Manufacturers in both countries refused to co-operate with Customs (ADA 1993a).

Consequently, the ADA's assessment of normal values had to be based on the selling price of insect screening in the Australian market. This is the first

occasion on which the ADA has resorted to this method of ascertaining normal values. It accordingly found that the goods were dumped with substantial dumping margins. Because of these circumstances, in this instance, the term 'dumping' implied only that the product imported from China is cheaper than the locally made product. But the ADA also found that imported product was considered inferior, and that dumping was not causing or threatening material injury to the domestic industry. Customs' negative preliminary finding was therefore confirmed.

Formulated trifluralin

Formulated trifluralin (FT) is a concentrated pre-emergence herbicide used to control annual grasses and broad-leaved weeds in specified horticultural and agricultural crops. The ADA found that South African exporters were eligible for General Export Incentive Scheme (GEIS) grants of about 18 per cent of the free-on-board (fob) value of exports of FT during the period 1 March 1993 to 31 March 1994, and countervailing duties were imposed (ADA 1994b). These duties represent a cost penalty to Australian primary producers, many of whom are exporters.

Foreign country incidence of Australia's anti-dumping actions

The number of anti-dumping actions taken against various countries is shown in Table K4. During 1993–94, the most actions were taken against exporters from Singapore, South Africa, South Korea and Taiwan, each accounting for about 10 per cent of total initiations for the year. Over the five year period shown, the greatest number of actions have been taken against exporters in South Korea, Taiwan and China. Singapore, Thailand, Italy, France and Malaysia, also had numerous actions directed against them.

Recently some of Australia's trading policies including its anti-dumping policies, have come in for criticism. Singapore complained, in its 1993 Economic Report, of Australia's anti-dumping activity. The report (Ministry of Trade and Industry, Republic of Singapore 1994, p.83) stated that:

Singapore's exports to Australia continued to encounter the highest number of anti-dumping actions.

From 1 January 1993, the Australian Authorities also introduced certain changes to its legislation which would make it even more attractive for Australian industries to file anti-dumping and anti-subsidy complaints against imports.

Table K4
Initiations of anti-dumping and countervailing cases by
country^a, 1989–90 to 1993–94

<i>Country</i>	<i>1989</i> <i>–90</i>	<i>1990</i> <i>–91</i>	<i>1991</i> <i>–92</i>	<i>1992</i> <i>–93</i>	<i>1993</i> <i>–94</i>	<i>Total</i>	<i>Ave</i> <i>%</i>
Belgium/Lux	–	1	2	3	–	6	1.9
Brazil	–	6	1	4	1	12	3.8
China	1	5	8	3	2	19	5.9
France	2	2	6	3	1	14	4.4
Germany	–	3	2	5	1	11	3.4
Hong Kong	–	–	1	3	2	6	1.9
India	–	–	2	4	–	6	1.9
Indonesia	–	1	4	5	1	11	3.4
Italy	2	3	7	1	2	15	4.7
Japan	–	5	4	1	2	12	3.8
South Korea	3	6	5	6	5	25	7.8
Malaysia	–	2	3	5	3	13	4.1
Netherlands	2	–	3	1	3	9	2.8
Singapore	–	4	2	5	6	17	5.3
South Africa	1	–	–	3	6	10	3.1
Spain	–	4	2	–	1	7	2.2
Taiwan	4	4	7	3	5	23	7.2
Thailand	1	1	7	6	1	16	5.0
UK	2	2	4	1	2	11	3.4
USA	4	5	4	3	2	18	5.6
Other	9	19	14	12	5	59	18.4
Total	31	73	88	77	51	320	100.0

– Nil.

a Cases where dumping and subsidisation are alleged for the same country and commodity are two distinct initiations.

Source: ACS (1994)

An ASEAN Free Trade Agreement (AFTA) may have implications for dumping and anti-dumping policy in the region. If Australia were to join AFTA, ASEAN may request modifications to Australia's anti-dumping legislation (DFAT, 1994a, p.133). According to DFAT:

Australian anti-dumping actions are causes of irritation in ASEAN countries;as a price for AFTA membership, ASEAN may request some softening of Australian anti-dumping provisions.

A report recently released by the Industrial Structure Council (ISCJ 1994), an advisory body to Japan's Minister of International Trade and Industry, criticised Australia's record on anti-dumping actions. The ISCJ claimed that from 1990 to 1993, Australian anti-dumping actions comprised 29 per cent of the world total — 204 out of a total of 691. The report said Australia conducted 21 more inquiries than the USA, and 114 more than all the EU countries combined. It also said that Australia's "determination of injury ... in some instances has been questionable" (p.168). But it further noted that Japanese firms were little affected.

Appendix L

Assistance to agriculture and manufacturing

Assistance provided to agriculture decreased in 1992–93, with the average effective rate for the sector declining slightly to 11 per cent. The change was due predominantly to increasing returns in many export markets. Disparities in assistance between commodities decreased in 1992–93. As many of the programs which assist agriculture are counter-cyclical, the decline in assistance to the sector is not necessarily a long-term trend.

In line with the assistance reduction program announced in the Commonwealth Government's March 1991 Statement, assistance to the manufacturing sector continued to decline in 1993–94. The sector's 1993–94 average effective rate of 10 per cent is projected to decline to 5 per cent by 2000–01 — the completion date for the March 1991 assistance reduction program. At the end of this program, the textile, clothing and footwear and passenger motor vehicle industries will still be afforded assistance levels several times more than the manufacturing average. Assistance to these highly-assisted industries will be reviewed in 1996.

Working Nation set out a range of policies to encourage growth and reduce unemployment (Keating 1994c). These included a range of new initiatives to assist small and medium business, particularly small manufacturing enterprises. Changes were also made to government procurement policy, with greater emphasis on industry impact statements. In addition, developing country tariff preferences were removed for all but the least developed countries.

This appendix reports on recent developments in assistance for Australia's agricultural and manufacturing sectors. The estimates of assistance to agriculture are reported for 1992–93, the latest year for which data are available. For comparison, estimates for earlier years are also reported. The announcement of phased reductions in assistance to the manufacturing sector enabled the Commission to produce projections of assistance to 1996–97 and

for 2000–01 in its last *Annual Report* (IC 1993d). This appendix presents summary information and details for selected years, including 1993–94.

Box L1

Methodology for measuring assistance

The Commission uses a number of standard measures in reporting industry assistance. Nominal and effective rates of assistance are the principal measures used. The *nominal rate of assistance on outputs* for an activity is the percentage by which government assistance allows the average gross returns per unit of output to increase, relative to the hypothetical situation in which no assistance is provided. The *effective rate of assistance* is the percentage increase in returns to an activity's value added per unit of output, relative to the hypothetical situation of no assistance. These measures facilitate comparisons of the relative incentive effects of assistance on different industries within a sector and over time.

The focus is on trends in assistance and disparities in assistance within a sector. The Commission's emphasis in measuring and monitoring assistance has been two-fold. The first is to identify the major government interventions that differentially assist industries. The second is to, at the most disaggregated level practicable, consistently measure over time and between industries, the assistance within a sector. Reflecting their relative importance and data limitations, the forms of assistance measured are broader in agriculture than in manufacturing. Hence care should be exercised when making inter-sectoral comparisons.

The estimates reported below cover the major Commonwealth government interventions which selectively alter incentives between activities. The estimates include assistance provided via tariffs, quantitative import restrictions, local content schemes, certain export incentives and, for agricultural commodities, domestic pricing arrangements and income tax concessions. The estimates do not cover the entire range of assistance provided by the Commonwealth. For example, assistance arising from government procurement policies, the partnerships for development scheme, the Factor f scheme for pharmaceuticals or anti-dumping activity are not included.

State government interventions of national significance that raise the prices of agricultural commodities are included in the estimates. However, any assistance (positive or negative) which may arise from the Commonwealth or State government provision of infrastructure is excluded due to the difficulty in quantifying the level of assistance involved in activities where there is no clear alternative benchmark price.

Value added is the return to land, labour and capital from the production process.

Assistance to agriculture

This section summarises trends and developments in agricultural assistance. The following information on agricultural assistance is presented in tabular form at the end of this appendix:

- assistance to agriculture by form (Table L1, p.312);
- price distortions and producer transfers (Table L2, p.314); and
- nominal and effective rates of assistance by activity and standard deviations for the sector (Table L3, p.317).

Trends in measured assistance to agriculture

Sectoral assistance

Assistance to agriculture fell in 1992–93. The effective rate of assistance to agriculture continued to decline from a previous peak in 1990–91, falling from 12 per cent in 1991–92 to 11 per cent in 1992–93. The nominal rate of assistance remained at 4 per cent in 1992–93. The fall in assistance predominantly reflects the increase in returns from export markets in 1992–93, together with the counter-cyclical nature of many assistance programs, and the continued phased reduction in tariffs. The assistance estimates are also influenced by improvements in the value of sheepmeat, beef, dairy, wheat, sugar and citrus production. The farm-gate value of agricultural production increased from \$18 843.5 million in 1991–92 to \$19 628.4 million in 1992–93 (ABS 1994d, p.5).

Commonwealth funding to the sector through the Rural Adjustment Scheme (RAS) increased in 1992–93. Funding to the States under the RAS increased from \$157.3 million in 1991–92 to \$168.9 million in 1992–93. The funding for 1992–93 included \$16.5 million for drought support in Queensland and New South Wales. A new RAS was introduced from 1 January 1993, focussing on productivity improvement measures, training in farm management skills and the use of expert advice and land trading to facilitate adjustment (Crean 1992b). The Department of Social Security was given the responsibility for administration of the farm household support measures.

In April 1993, the Government announced further drought support of \$11 million in 1993–94 for New South Wales and Queensland under the 'exceptional circumstances' provisions. For the period 1 May 1993 to 30 June 1994, \$44.6 million of 'exceptional circumstances' funding, including \$5 million of the drought support, was made available to wool growers (Crean 1993b). The budget extended these RAS provisions by 6 months to December 1994 in those areas of Queensland in exceptional drought circumstances and

also provided Queensland with increased funding under the normal RAS (DPIE 1994). The RAS will be subject to review in 1996.

The Australian Quarantine and Inspection Service (AQIS) continued its program of cost recovery through 1992–93. It is expected that 100 per cent cost recovery will be achieved in 1993–94. To enable charges for meat inspection services to be kept to a reasonable commercial level, while AQIS continues to restructure its operations, an operating subsidy for meat inspection for 1994–95 and 1995–96 was introduced in the budget. This subsidy to meat processors will total \$7.3 million in 1994–95, including a concession for meat processors adversely affected by the premises charges introduced in 1994 (DPIE 1994, p.49).

Almost \$9 million in funding will be provided for regionally-based infrastructure projects improving water management (Keating 1994c). The projects include the development of a 'best-practice model' for sustainable development through enhanced water quality management in the Goulburn Valley and a land and water management project dealing with salinity and drainage problems in the Sunraysia Irrigation Region. The RAS will be tailored to meet structural adjustment needs of the specific regions. The Commission has not estimated assistance arising from under- or over-pricing of infrastructure services, for example irrigation. However, assistance implications could be significant (IC 1992c).

Forms of assistance

Assistance through domestic pricing arrangements and tariffs fell significantly in 1992–93. Tariff assistance fell from \$33 million in 1991–92 to \$28 million in 1992–93. Improved export returns reduced price distortions for export competing commodities. The value of local content arrangements for tobacco leaf increased by \$8 million in 1992–93.

The assistance provided to wheat and wool through the Government guarantee on borrowings by the Australian Wheat Board and Wool International increased in 1992–93. The \$11 million decrease in the value of the Government guarantee for wool was offset by an increase in its value from \$21 million in 1991–92 to \$38 million in 1992–93 for wheat. Marketing support continued to benefit wool.

Assistance through export inspection increased marginally in 1992–93 but remains well below the high levels prior to the introduction of cost recovery.

Reflecting the increase in measured assistance to agriculture through research and development, tax concessions and natural disaster relief arrangements, assistance to value-adding factors increased. The measurement of assistance to agriculture through the RAS has been improved. Data have been obtained

detailing the level of funds provided on a State-by-State basis to primary producers under the RAS during 1992–93. Using the previous methodology, the effective rate of assistance to agriculture for 1992–93 would increase to 12 per cent from the 11 per cent reported in Table L3.

Input assistance remained relatively unchanged from 1991–92 levels. However funding of the Brucellosis and Tuberculosis Eradication Campaign increased marginally.

Commodity assistance

Wool

Assistance to wool increased marginally in 1992–93, the effective rate increasing by 2 percentage points to 18 per cent. The wool industry received significant assistance through the ‘exceptional circumstances’ provision of the Rural Adjustment Scheme. In 1992–93, the wool industry also received the second of a \$22.5 million interest subsidy and \$25 million for wool promotion. The last grant for wool promotion will be made in 1993–94. The Government guarantee on the stockpile debt was valued at \$82 million in 1992–93.

Following the review of the wool industry in 1993 (see IC 1993d, Appendix N), Wool International, with responsibility for the sale of the wool stockpile and provision of industry services, and the Australian Wool Research and Promotion Organisation (AWRAP), responsible for wool promotion and research and development, were established. Both wool industry bodies commenced operation on 1 December 1993. Wool International is to be privatised on 1 July 1997 with wool growers receiving shares in the company in proportion to their levy contributions. It is responsible for the commercial sale of the stockpile based on a fixed schedule which commenced 1 July 1994. Stockpile sales of 5 kilotonnes per month will be made until December 1994, increasing to 33 kilotonnes per quarter until privatisation. The Government guarantee of stockpile borrowings will cease with privatisation.

The Australian Trade and Investment Package (ATIP) Ministerial Council was established, following the wool industry review, comprising representatives of both industry bodies and Government agencies. The Council’s objective is to ensure a co-ordinated approach to the future development of wool markets and has identified China and India as prime targets. In May 1994, a \$4 million package to boost assistance to the Chinese wool processing and textile industry was approved, the package being developed jointly by AWRAP and the Australian International Development Assistance Bureau.

Recent wool prices have been approaching the previous reserve price scheme levels. At the end of the 1993–94 selling season, the national market indicator reached 624 cents per kilogram clean, well above the July 1993 opening level of

450 cents per kilogram. Assistance to wool is expected to fall after 1994 with the end of Commonwealth government funding for wool promotion.

Sugar

Assistance to sugar fell in 1992–93 reflecting the reduction in the tariff from \$76 per tonne to \$55 per tonne on 1 July 1992 and the increase in world raw sugar prices from US9.1c/lb in 1991–92 to an estimated US9.6c/lb. The nominal rate of assistance fell to 3 per cent from 7 per cent in 1991–92. The effective rate fell from 21 per cent in 1991–92 to 9 per cent in 1992–93.

The sugar tariff is to be maintained at \$55 per tonne until 30 June 1997. A review of the tariff will be undertaken in 1995–96 (Crean 1993b). The Government has announced the phased removal of DC preference margins for sugar. However, the maintenance of the tariff at \$55 per tonne means that the preference margin of 5 percentage points will remain until the tariff is reviewed by the Commonwealth government. Single-desk selling for both the domestic and export markets and the price pooling arrangements for sugar will be reviewed in 1996. Commonwealth funding of \$19 million for 12 sugar infrastructure projects designed to promote investment and growth was approved in November 1993. An estimated expenditure of \$8 million will be made in 1993–94.

Rice

The disparity between domestic and export prices for rice fell in 1992–93. However, as a result of an increase in other forms of assistance, for example, an increase in adjustment assistance, the effective rate of assistance increased from 6 per cent in 1991–92 to 11 per cent in 1992–93. The nominal rate of assistance remained at 2 per cent. The estimates have been revised back to 1988–89 and are now based on a comparison of the lower of either the domestic price or the constructed import parity price with the export price.

Following the collapse of the Queensland rice industry during 1993, production of rice has been concentrated in New South Wales. Statutory marketing arrangements allow the Ricegrowers' Co-operative Limited to vest and market all rice grown in New South Wales. The current arrangements under the Marketing of Primary Products Act (NSW) will be reviewed in 1996.

Dairy

Estimates of assistance to the production of milk are measured by reference to its end use. Assistance to manufactured milk reflects the support provided by the Commonwealth to dairy products. This support sets the minimum level of assistance to all milk produced. State government support provides premiums for sales of fresh (liquid) milk.

Assistance provided to manufactured milk through market support payments on exports fell in 1992–93, but remained high. The effective rate fell 13 percentage points to 20 per cent. Market support payments averaged 22 per cent of average export prices. The maximum rate of market support allowed in 1993–94 is 20 per cent of estimated average export prices. The rates applying at 1 July 1993 averaged just under 15 per cent. Consistent with the phasing of market support to 10 per cent of estimated average export prices in 1999–2000 (Crean plan) the 1994–95 legislated maximum rate of market support is 19 per cent of estimated average export prices.

After increasing over the period 1988–89 to 1991–92, assistance to fresh milk production fell in 1992–93. The nominal rate of assistance fell to 44 per cent in 1992–93 while the effective rate fell from greater than 200 per cent to 154 per cent. The fall in assistance reflects an increase in the manufacturing milk benchmark price.

As a result of the Uruguay Round of trade negotiations, the Government is preparing legislation to terminate the current Market Support Arrangements for dairy products as of 30 June 1995. The market support arrangements were determined to be an export subsidy and are therefore subject to provisions requiring reduction of subsidies by 36 per cent in expenditure and by 21 per cent in volume of subsidised between 1995–96 and 2000–01. Legislation is proposed for 1994 to terminate market support payments, thereby allowing Australia to demonstrate its commitment to international trade liberalisation. Consultation is underway between industry and Government towards legislating a replacement mechanism to take effect from 1 July 1995, which is GATT-consistent and delivers support for the dairy industry until the year 2000, at a level as near as practicable to that which would have derived under current arrangements.

Further, under the Uruguay Round, Australia has undertaken to replace the existing tariff-quota on cheese imports with a tariff, and to maintain access opportunities at least equivalent to existing terms (Appendix H). This results in the application from 1 January 1995 of a tariff of \$96 per tonne on cheese imports to a total of 11 500 tonnes, with imports above that level attracting a tariff equivalent of \$1 440 per tonne (or 37 per cent ad valorem). The rate of duty on the first 11 500 tonnes imported will remain unchanged to the year 2000 but the duty to be applied to imports above this level will be reduced, progressively and evenly, by a total of 15 per cent during the six years 1995 to 2000.

Citrus

Assistance to citrus production fell in 1992–93, reflecting the fall in the tariff and lower world prices for concentrated orange juice. The nominal rate of

assistance fell from 3 per cent in 1991–92 to 2 per cent in 1992–93. The effective rate remained at 5 per cent in 1992–93. Assistance to citrus production is measured assuming that the developing country (DC) tariff on imported frozen concentrated orange juice (FCOJ) sets a floor price for all citrus production. Fresh fruit and fresh juice can command a market premium over and above this floor price. Due to the Government's decision to phase out DC tariff preference margins, tariff assistance to citrus production will remain at around 1992–93 levels until 1 July 1995. At that date, the preference margin will have been removed and the tariffs applying to imports of FCOJ from developing countries and other sources will decline simultaneously.

Estimates of assistance to the citrus industry do not include the assistance provided through the sales tax differential on fruit juice. The 'local content' concession supports returns to growers who sell their early season navel and valencia oranges, and also their lemons to processing factories. Under the current arrangements all fruit juice products containing at least 25 per cent Australian, New Zealand or Papua New Guinean fruit juice receive a 10 per cent concession on sales tax. As a result of the Uruguay Round Agreement the sales tax 'local content' concession will be removed on 1 January 1995.

Dried vine fruit

Assistance to sultana production increased in 1992–93 despite a decline in the disparity in returns received for 1993 season sultanas on the domestic and export markets. As a result of the lower farm-gate value of dried vine fruit production, the effective rate of assistance for dried vine fruit increased by 47 percentage points to 82 per cent. Estimates of assistance back to 1989–90 reflect the comparison of the lower of either the domestic price or the constructed import parity price with the export price.

The Dried Sultana Production Underwriting Scheme, designed to protect growers from significant and sustained falls in export returns, is due to terminate at the end of the 1993 season sultana sales. The scheme has been triggered only once, for 1982 season sultanas, resulting in Commonwealth government payments of \$1.321 million to growers.

Tobacco

Assistance to the tobacco growing industry increased in 1992–93. The nominal rate of assistance increased from 36 per cent in 1991–92 to 62 per cent in 1992–93. The effective rate increased from its 1991–92 level of 123 per cent to significantly above 200 per cent in 1992–93. The reported estimates of assistance for the period 1989–90 to 1992–93 are based on a new methodology developed for the Commission's Tobacco growing and manufacturing industries

inquiry. Measurement of assistance is based on comparison of the administered domestic price, determined under the Tobacco Industry Stabilisation Plan (TISP), with the import substitution price for each grade of tobacco. Estimates reported for 1992–93 correspond to the tobacco crop sold during the 1993 selling season. The increase in assistance reflects the significant fall in world prices for tobacco leaf in 1992–93.

The current tobacco industry marketing arrangements include a local leaf content scheme and TISP under which production quotas and prices are determined for each grade of tobacco. These arrangements are due to terminate in September 1995. The Commission has released its report on *The Tobacco Growing and Manufacturing Industries*, recommending an appropriate tariff to apply from that date (IC 1994e).

Eggs

The egg industry in New South Wales was deregulated in 1989–90. This provided the impetus for deregulation of the South Australian egg industry in May 1992 and the Victorian egg industry in June 1993.

Measured assistance to egg production fell slightly in 1992–93. The estimates for the period 1989–90 to 1992–93 reflect a revised methodology. Previously, the benchmark price had been based on the farm-gate price for eggs in the deregulated market (New South Wales). However, shortages of eggs in New South Wales during 1992–93, increased the farm-gate price for eggs significantly. As a result, it was difficult to determine the appropriate benchmark price to use for 1992–93 estimates¹. For the revised estimates, the benchmark price has been determined as the weighted average of farm-gate prices in the deregulated markets over the period 1989–90 to 1992–93. This benchmark price is compared to the average price received by farmers in the States maintaining regulation. The effective rate decreased from its 1991–92 level of 8 per cent to 3 per cent in 1992–93.

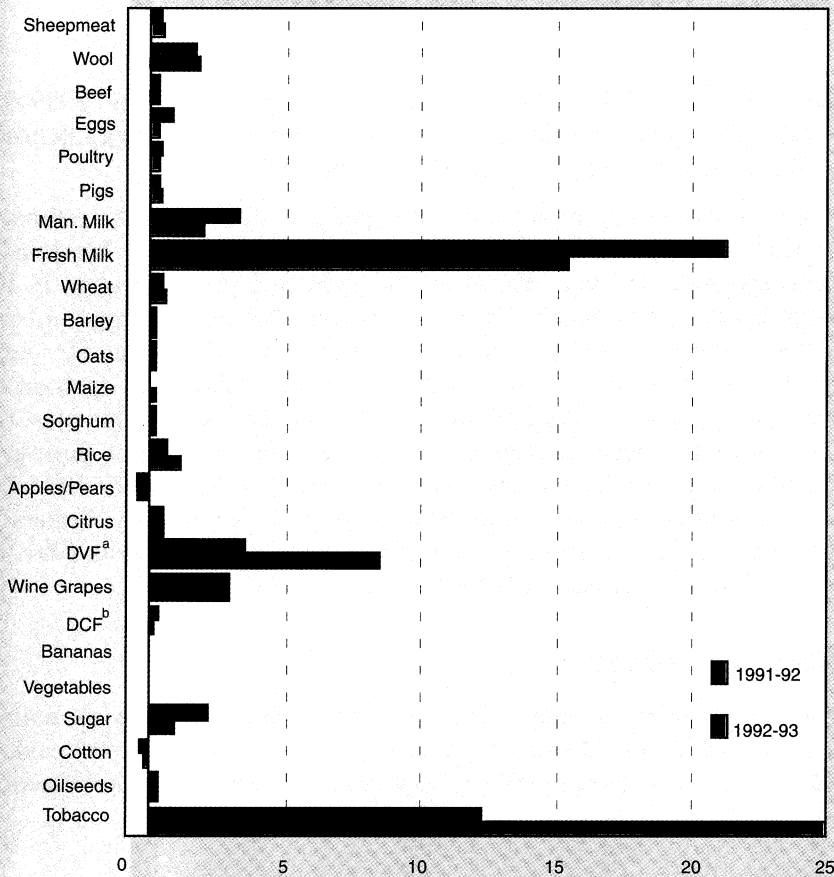
Disparities in assistance

As shown in Figures L1 and L2, assistance varies significantly among agricultural commodities. Disparities in assistance, as measured by the standard deviation, decreased between 1991–92 and 1992–93. Disparities in effective

¹ If the old methodology had been used, the nominal rate of assistance for 1992–93 would have fallen to -8 per cent and the effective rate of assistance to -17 per cent in 1992–93.

rates between commodities decreased to 25 percentage points for 1992-93 from 29 percentage points in 1991-92. While Government policy is to reduce overall assistance to this sector, annual variations in assistance can be expected due to the nature of assistance arrangements. Disparities in effective assistance levels are also an indicator of the potential for loss of efficiency in resource use. In the long run, the potential for a loss of efficiency is greatest when there are wide

Figure L1
Average effective rates of assistance to agricultural commodities, 1991-92 to 1992-93 (per cent)



a Dried vine fruit.

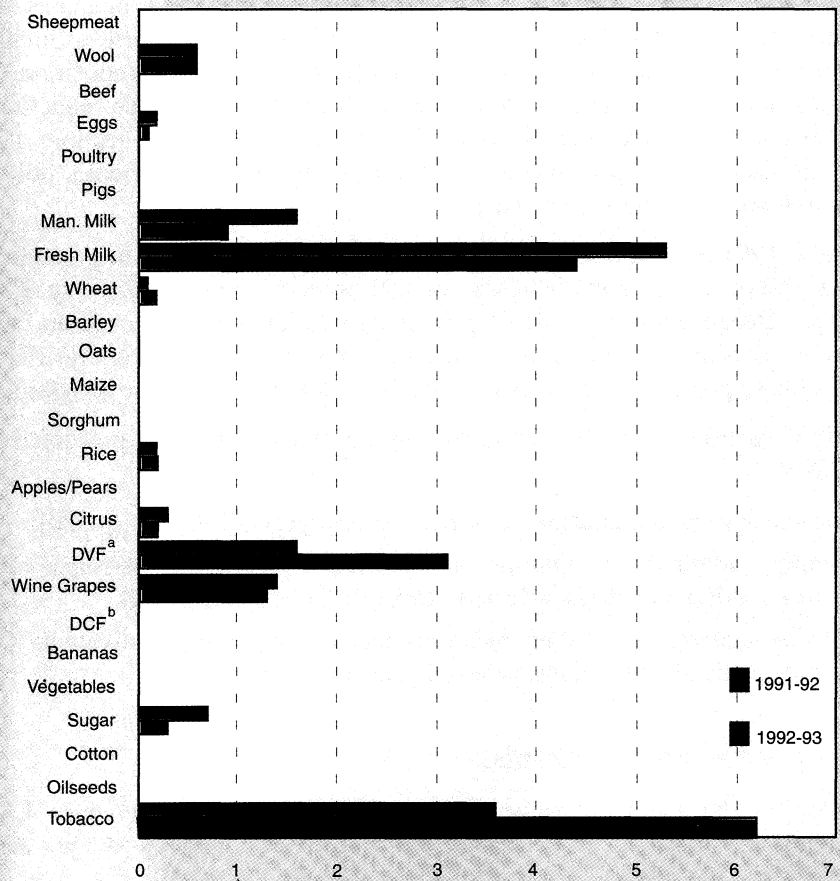
b Deciduous canning fruit.

Source: Commission estimates

disparities in the effective assistance afforded commodities which compete relatively closely for resources and use similar production processes. The decreased disparity in effective rates reflects the fall in assistance across most commodities.

Disparities in nominal rates also fell in 1992–93. However, disparities in nominal rates only provide a weak indication of potential losses in domestic consumption efficiency arising from the assistance arrangements because of the

Figure L2
Average nominal rates of assistance to agricultural commodities, 1991-92 to 1992-93 (per cent)



a Dried vine fruit.

b Deciduous canning fruit.

Source: Commission estimates

sector's export orientation. Domestic price distortions — which measure the difference between the domestic price of a commodity and the price that would prevail without assistance — are an indicator of the higher prices paid on the domestic market. Domestic price distortions decreased for many commodities in 1992–93 except for tobacco which experienced a significant increase. Price distortions vary significantly between agricultural commodities and in 1992–93 ranged from zero for wheat to 62 per cent for tobacco.

Assistance to manufacturing

This section reports, in summarised format, the Commission's estimates of assistance to manufacturing. In its 1992–93 *Annual Report* (IC 1993d) the Commission presented a new series of assistance estimates and projections for the sector for the period 1989–90 to 1996–97 and 2000–01. These estimates and projections reflected recent changes in the structure and composition of manufacturing industries and incorporated the program of assistance reductions arising from the Government's March 1991 Statement. The section also contains a discussion of two recent developments in the Government's policy relating to manufacturing sector assistance.

The March 1991 Statement set out a fixed schedule for reductions in protection that will leave most manufacturing industries with little industry-specific assistance. Because the schedule of reductions was known in advance and the majority of assistance to the sector is provided by way of ad valorem tariffs, it was possible to project the assistance levels through to the end of the program.

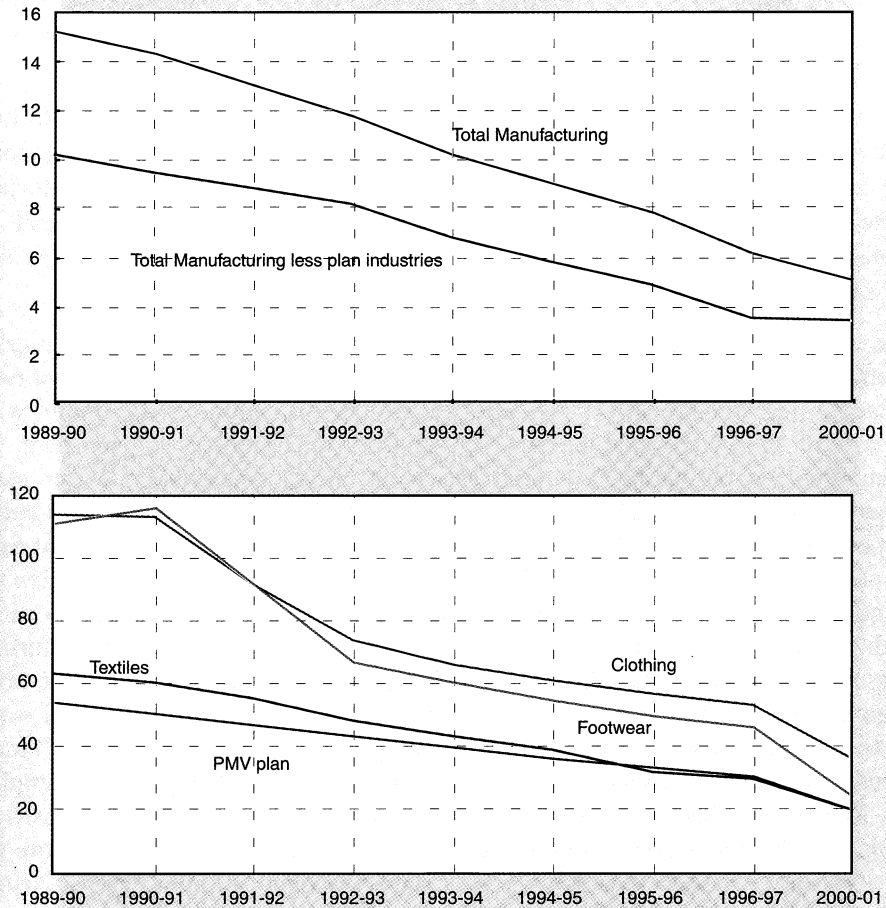
The following information on manufacturing industry assistance is presented in tabular form:

- assistance to manufacturing, by form, selected years (Table L4, p.320);
- average nominal on outputs and effective rates of assistance for manufacturing industries, selected years (Table L5, p.321); and
- subsidy equivalents, tax on materials and consumer tax equivalents for manufacturing subdivisions, selected years (Table L6, p.325).

Trends in measured assistance

Assistance to the manufacturing sector declined in 1993–94 (Figure L3). Average nominal rates of assistance declined by 1 percentage point to 6 per cent and average effective rates of assistance declined from 12 per cent to 10 per cent from last year. This trend will continue until 2000. As a result of

Figure L3
Average effective rates of assistance to manufacturing industries, 1989-90 to 1996-97 and 2000-01 (per cent)



Source: Commission estimates

the March 1991 program of assistance reductions, most tariffs will phase down to 5 per cent by 1996 and bounties will be lowered in line with the reductions in tariffs. In addition, protection provided to the textile, clothing and footwear, and passenger motor vehicles industries — the 'Plan' industries — is to be progressively reduced to the year 2000. On 1 July 2000, passenger motor vehicles and components and most textile and footwear industries will be

assisted by tariffs of 15 per cent, while clothing imports will attract tariffs of 25 per cent.

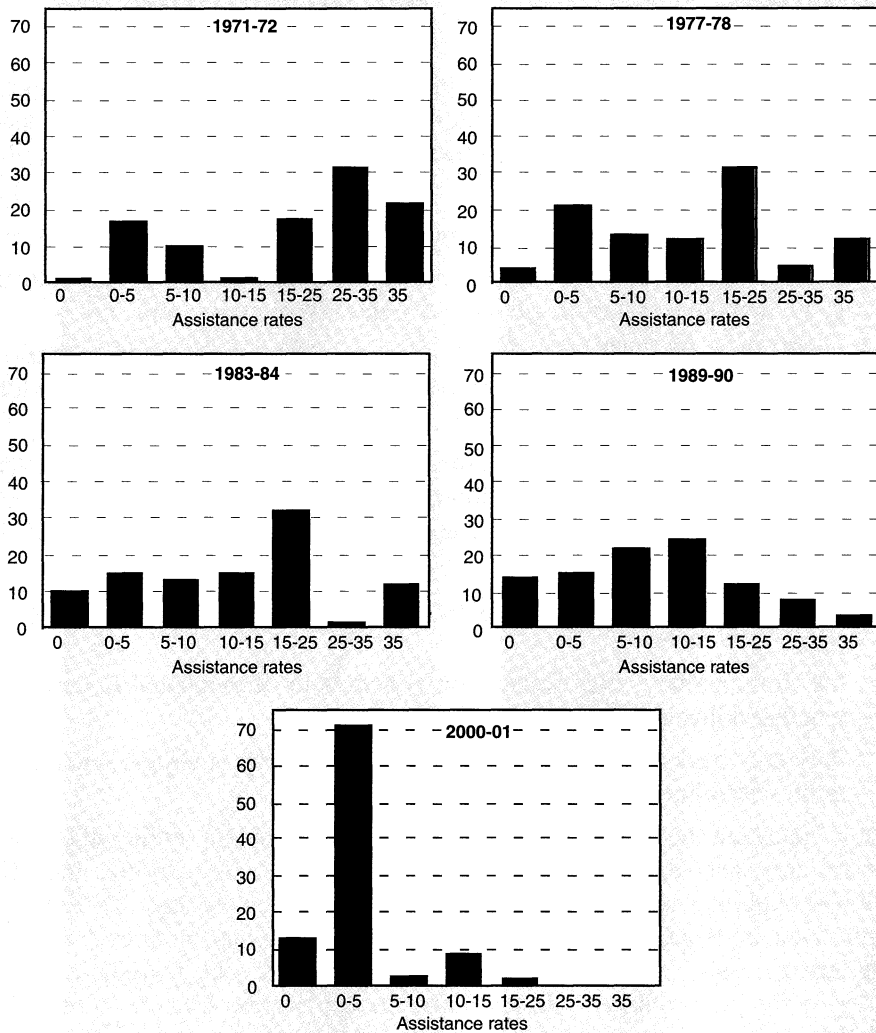
In 2000–01 — the end of the March 1991 program of reductions — the average nominal rates of assistance on all manufacturing output is projected to decline to 3 per cent and the effective rate for the manufacturing sector is projected to fall to 5 per cent. Average effective assistance for the manufacturing sector excluding ‘Plan’ industries, is projected to be just over 3 per cent, once the changes are fully implemented.

The monetary equivalents of assistance to the sector are reported in Table L6. These dollar values provide an indication of the income transfers resulting from the assistance structure². The consumer tax equivalent for the manufacturing sector fell from \$8.7 billion in 1989–90 to \$6.5 billion in 1993–94 and is projected to decline to \$4 billion in 2000–01. The net subsidy equivalents for the same years were \$9.4 billion, \$6.6 billion and \$3.3 billion.

The current decline in manufacturing assistance is not just a recent phenomenon, but an acceleration of what has been in evidence over the last two decades. In 1971–72 only 1 per cent of the value of manufacturing output was in receipt of a zero nominal rate of assistance. Another 17 per cent of manufacturing output had nominal assistance of no greater than 5 per cent (Figure L4). In 1983–84 these proportions were 10 per cent and 14 per cent, respectively. By 1989–90 these proportions had increased to 14 per cent and 15 per cent, respectively. Projections for the year 2000–01 put the proportion of manufacturing output with a zero nominal rate at 14 per cent and the proportion with nominal rates of no more than 5 per cent at 71 per cent. Manufacturing output in 2000–01 from the ‘Plan’ industries — including passenger motor vehicles and textiles, clothing and footwear — will have nominal rates of over 5 per cent and in most instances substantially over 15 per cent. These ‘Plan’ industries receive relatively high effective assistance. In 1993–94, for example, the Motor vehicles and parts industry group, which includes the industries subject to the passenger motor vehicle plan, was afforded an effective rate of 38 per cent. In that year the Textiles, and Clothing and footwear industry subdivisions were afforded average effective rates of 37 per cent and 65 per cent, respectively.

2 It is important to recognise that these estimates do not represent the economic or welfare costs of assistance. The welfare costs of assistance depend on the behavioural responses of producers and consumers and are more appropriately measured within a general equilibrium framework.

Figure L4
Distribution of total manufacturing value of output by nominal rates of assistance, various years 1971-72 to 2000-01 (per cent)



Source: Commission estimates

By 2000-01 the Clothing and footwear subdivision will have an average effective rate of 34 per cent. However, some activities within the subdivision, notably ASIC 2442 Cardigans and pullovers and ASIC 2443 Knitted goods nec, will enjoy effective rates of more than 50 per cent. The effective rate for the

Motor vehicles and parts industry group will be 19 per cent in 2000–01. The average effective rate for the industries covered by the ‘Plan’ — ASIC 3231, ASIC 3233, and ASIC 3234 — will be 20 per cent.

Recent changes in manufacturing assistance policy

Working Nation

Working Nation (Keating 1994c) set out a range of policies and programs to encourage growth and reduce unemployment including measures to assist manufacturing. Important developments in manufacturing assistance policy include:

- phased tariff reductions for most industries to cease at 5 per cent in 1996;
- strategies to assist TCF industries after the termination of the Industry Development Strategy in 1996 to be reviewed (see Appendix I);
- tariff rates for TCF and PMV assistance arrangements to remain as previously announced, with a review of post-2000 arrangements scheduled in 1996;
- Developing Country tariff preferences to be removed for all but the least developed countries — the culmination of an ongoing process (the Asian ‘tigers’ and certain imports were removed from the preferential list earlier);
- increased emphasis on industry development in Government procurement policy (see below);
- the Commercial Tariff Concession system is to be evaluated to determine whether adjustments are needed; and
- duty drawback and TEXCO (Tariff Export Concession Order) schemes are to be streamlined.

To a large extent the industry statement aims for an economy-wide rather than a sectoral approach to industry policy. Nevertheless certain activities including TCF and exports, particularly from small and medium enterprises (SMEs), were emphasised in *Working Nation*. For example, it extends, or introduces new programs to assist SMEs (Box L2). These programs seek to redress factors hindering the performance — in particular the export performance — of SMEs, including a lack of access to finance, disincentives to undertake research and development and high costs of gaining information.

Box L2**Working Nation initiatives to assist small and medium enterprises**

- Reduce the qualification threshold for individual companies and research and development syndicates to increase SME access to 150 per cent tax concession for research and development.
- Introduce a new support scheme to encourage small high technology firms to commercialise innovations (\$48 million over 4 years).
- Establish a joint Australia Industrial Property Organisation/NIES information program on intellectual property to assist small firms make better use of the patent and design system.
- Improve SMEs' access to CSIRO technology and expertise through CSIRO (\$10 million over the next three years).
- Undertake research into SMEs to enhance knowledge of firm performance, ownership and growth so that programs may be tailored to SMEs.
- Improve SME access to finance by:
 - assisting banks to understand SMEs and to standardise their loan application and approval process;
 - improving training for accountants, business advisers and bankers to enhance their knowledge of the special needs of SMEs and facilitate dialogue between banks and small business; and
 - providing direct assistance to SMEs to obtain export advice on and preparation of applications for export finance facilities (estimated at \$4.6 million in 1994–95, falling to \$3.4 million in 1997–98).
- Achieve a wider diffusion of best-practice management skills by implementing a \$102 million major outreach program through the AusIndustry network to target potential SME exporters.
- Introduce a pilot non-executive directors scheme to provide strategic advice to fast growing small firms.
- Develop a major advertising campaign to promote the role of the Commonwealth Development Bank in lending to small business. Outlays for the campaign estimated at \$700 000 per year for three years.
- Make Pooled Development Funds more attractive to institutional investors to enhance their effectiveness as a vehicle for providing venture and development capital to SMEs. Tax revenue is expected to fall by \$3 million in 1995–96 as a result of the changes.

Box L2 (continued)

- Provide support for the ‘business angels’ scheme — Business Equity Information Service to match potential investors with small firms requiring equity finance.
- Address SMEs’ lack of capacity to fulfil export contracts due to capital shortfalls by commissioning the National Investment Council to report on the raising and use of capital by SMEs.
- Further develop the Export Finance Insurance Corporation facilities to increase SMEs’ export capability.
- Introduce initiatives in the Department of Industry Science and Technology and the Department of Employment, Education and Training to encourage small business employment and training. The initiative will cost \$4.2 million in 1994–95 and \$1.1 million in 1995–96.
- Enhance opportunities for Commonwealth purchases from SMEs by a range of initiatives including improving the operation of the common use contact system and the availability of better information and practical assistance — through supplier development initiatives.
- Provide additional funding of \$6 million to NIES to expand the delivery of enterprise development services to SMEs. Outlays for this initiative are expected to increase to \$25.9 million in 1995–96.

The Government also announced a series of measures in *Working Nation* that have the objective of increasing the proportion of domestically-manufactured goods and services purchased. The Commonwealth Government is a major purchaser of goods and services. Changes announced will:

- use an endorsed supplier approach for most purchases of information technology and major office machines;
- require agencies to explain why they do not use common use contracts;
- as part of a new ‘two envelope approach’ to major purchases, require industry impact statements for purchases over \$10 million. One envelope will detail Australian industry involvement, the other will detail how the tender meets the product specifications. According to *Working Nation*, this “ensures that the technical, price and industry development aspects of a tender bid can be examined by officers experienced in those specific areas” (Keating 1994c, p.77);
- introduce a new Australian Suppliers Information Program (ASIP) with funding of \$9.6 million over four years. The program aims to identify local suppliers of goods and services; and

- establish a National Procurement Board that has the objective of increasing the efficiency of Government purchasing as well as providing advice and collecting data³.

The reductions in assistance over the last two decades have forced the manufacturing sector to respond to a higher degree of international competition. In addition, with completion of the Uruguay Round, Australia will be obliged to reduce tariff rates to zero percentage points for 6 tariff lines of medical equipment (Appendix H). However, for most of the manufacturing sector, this incentive to improve efficiency could come to a halt in 1996. For example, the Government announced in *Working Nation* that the 5 per cent tariff applying in 1996 will be maintained⁴. This decision will mean that, as in 1989–90, around 14 per cent of the sector's value of output will face the full thrust of international competition (Figure L4). Another 71 per cent will receive shelter by way of the 5 per cent tariff, whilst the remaining 15 per cent of manufacturing output will enjoy much higher levels of assistance. This assistance comes at a cost to consumers and industry alike.

Following implementation of the March 1991 Statement and *Working Nation*, tariff levels in Australia will be substantially lower than the levels applying in the 1980s and 1970s. The high level of effective assistance afforded textiles, clothing and footwear and passenger motor vehicles indicates that in a relative sense, extra returns are provided to the use of resources in those activities. This can encourage additional resources into these activities or, alternatively, allow resources to be retained when they could yield more wealth if they were used elsewhere in the community.

The Government has announced that the assistance arrangements for these industries are to be reviewed. A TCF Future Strategies Committee was set up in June 1994 to review the role for Government after the current Industry Development Strategy terminates in 1996. Separate reviews of the post 2000 TCF tariff arrangements and the PMV assistance arrangements are scheduled for 1996.

These 'Plan' industries have undergone substantial restructuring over the last decade. However, as noted above, by 2000–01 they will still be sheltered behind considerably higher assistance than the remainder of the manufacturing sector.

3 Defence, which has its own established procurement policy, is excluded from these arrangements.

4 Estimate based on Australian Customs Service data, which has not yet incorporated additional tariff reductions which will be required to meet Australia's international obligations under the Uruguay Round (Appendix H).

Developing country preferences

Australia introduced the Australian System of Tariff Preference (ASTP) for developing country imports in 1966. Under the ASTP, imports from certain developing countries pay a lower preferential rate of duty. The ASTP was introduced in response to a general concern that certain less competitive developing countries could not increase exports to Australia because the general tariff rate was, for their imports, prohibitive. Under the scheme, preference margins were only offered providing imports did not, or would not, cause or threaten injury to local industry. Initially the preference margins varied considerably between commodities. In some cases the original margins of preference were quite significant. For example, until 1973, a 42 percentage point developing country margin or a preferential tariff rate of 15 per cent applied to imports of 'electric fans, office or household'. Currently, the preference margin for all eligible developing country imports is 5 percentage points.

A large number of changes have been made to the scheme since it was first introduced. These changes have in the main systematically reduced the preference margin or removed the more 'competitive' developing countries from the system. In 1992, for example, the phased removal of preference for all imports from Hong Kong, the Republic of Korea, Singapore and Taiwan commenced.

The most recent changes to the developing country preference were announced in *Working Nation*. Developing country preferences are to be phased out or removed for all but the least developed countries, which include some South Pacific countries. The decision will not involve any explicit tariff increases for developing countries, as their tariff rates will be held constant until they fall into line with the general tariff rates applying to import from other sources. The removal of the preference margin reflects the Government's judgment that the margin can no longer be justified given Australia's relatively low tariffs (Keating 1994c). However, if this decision had not been implemented, imports from many developing countries would have entered duty free in 1996, when imports from general sources were subject to a 5 per cent tariff.

In contrast to the 1960s, developing country imports now constitute a large proportion of total imports. In 1992–93, for example, over 20 per cent of Australian imports by value received the developing country preference. To the extent that these countries are the lowest cost suppliers, they will have strongly influenced the competitive price faced by Australian producers and the removal of the preference will provide additional protection to local producers. As a result of this implicit increase in tariffs, those sections of Australian industry which competed against developing country imports will be exposed to

potentially less import competition and consumers and users of intermediate goods will be penalised.

Although the decision to remove developing country preferences has the potential to increase assistance to those activities that compete with imports from developing country sources, it has little impact on assistance to manufacturing sector output as measured by the Commission. One of the assumptions used in estimating assistance has been that the developing country preference merely diverts rather than creates trade. Hence the developing country tariff rates were only assumed to be the protective rate if imports from developing countries were the major source of competing imports. Following this approach the production of a number of agricultural commodities — tobacco, sugar growing and citrus — was assumed to be assisted by the developing country tariff rates. Manufacturing industries using these commodities as inputs will be penalised by the higher tariff.

Table L1
Assistance to agriculture by form, 1988–89 to 1992–93^a
 (\$ million)

	<i>Previous series</i>		<i>Current series</i>		
	<i>1988</i> <i>–89</i>	<i>1989</i> <i>–90</i>	<i>1990</i> <i>–91</i>	<i>1991</i> <i>–92</i>	<i>1992</i> <i>–93</i>
Assistance to outputs					
Domestic pricing arrangements ^b	371	402	450	460	393
Tariffs	70	42	29	33	28
Local content schemes	23	23	21	22	30
Export incentives	2	2	1	1	3
Export inspection services ^c	67	59	37	8	9
Marketing support	27	25	59	56	50
Underwriting arrangements	–	–	22	–	–
Government guarantees	–	31	82	113	120
Wool supplementary support payments	–	–	300	–	–
Total	560	584	1 001	693	633
Assistance to value-adding factors					
Adjustment assistance ^d	60	72	68	139	106
Agricultural research	129	144	159	150	167
Income taxation concessions ^e	290	205	19	27	78
Natural disaster relief	36	14	9	5	4
Total	515	435	255	321	355
Assistance to inputs					
Disease control ^f	9	10	11	8	5
Stockfeed ^g	-17	–	–	–	–
Tariffs on inputs ^h	-122	-118	-100	-103	-105
Tariffs on plant and machinery ^h	-171	-129	-76	-68	-66
Total	-301	-237	-165	-163	-166

– Nil.

a Estimates for 1990–91, 1991–92 and 1992–93 are based on revised cost structures.

b These estimates include the effects of any import restrictions which enable the domestic price to exceed the landed duty-free price of competing imports (eg tariffs on dried vine fruits and sugar imports).

c Since 1989–90 assistance has been based on shortfalls from 100 per cent cost recovery.

Table L1 (continued)

- d The estimate for 1992–93 includes improved measurement of assistance provided under the Rural Adjustment Scheme. The figure reflects actual payments made to primary producers.
- e A small amount of this assistance supports activities for which nominal and effective rates have not been estimated.
- f Covers assistance provided by the bovine brucellosis and tuberculosis eradication campaign.
- g The effects of domestic pricing arrangements, which ended on 30 June 1989, for stockfeed wheat used in pig, poultry and egg production. These arrangements could either tax or subsidise user industries.
- h The additional costs incurred due to assistance raising the prices of inputs. The current series includes the effect of tariffs on materials used in non-traded inputs.

Source: Commission estimates

Table L2

Price distortions and producer transfers for agricultural commodities^{a,b}, 1988–89 to 1992–93

Activity/commodity description	1988–89		1989–90		1990–91		1991–92		1992–93	
	Price distortion	Producer transfer	Price distortion	Producer transfer	Price distortion	Producer transfer	Price distortion	Producer transfer	Price distortion	Producer transfer
	%	\$m	%	\$m	%	\$m	%	\$m	%	\$m
Horticulture										
Dried vine fruits ^c										
Sultanas	37	12	26	10	31	15	28	10	26	11
Currants	20	1	19	1	17	1	15	1	14	1
Raisins	20	1	19	1	17	1	15	1	14	..
Wine grapes	21	53	16	32	15	22	14	28	13	25
Citrus	11	18	6	9	4	7	2	5	2	3
Tobacco ^d	43	23	41	23	35	21	36	22	62	30
Extensive cropping										
Wheat										
Human use	2	6	–	–	–	–	–	–	–	–
Stockfeed	3	1	–	–	–	–	–	–	–	–
Industrial	1	..	–	–	–	–	–	–	–	–
Extensive irrigation and high rainfall crops										
Sugar ^e	38	62	23	50	54	69	31	40	15	24
Cotton ^f	27	9	–	–	–	–	–	–	–	–
Rice ^g	14	4	11	4	14	4	14	4	13	4

Table L2 (continued)

Activity/commodity description	1988-89		1989-90		1990-91		1991-92		1992-93	
	Price distortion	Producer transfer	Price distortion	Producer transfer	Price distortion	Producer transfer	Price distortion	Producer transfer	Price distortion	Producer transfer
	%	\$m	%	\$m	%	\$m	%	\$m	%	\$m
Intensive livestock										
Eggs ^h	na	na	9	21	6	17	2	5	1	2
Manufacturing milk										
Cheese ⁱ	24	67	13	57	15	62	15	62	12	53
Butter ⁱ	40	18	17	23	23	23	21	22	16	18
Skim milk powder ^j	19	19	19	19	24	16	22	15	14	10
Whole milk powder	17	6	16	7	21	6	22	5	15	4
Casein	19	1	19	1	29	1	26	..	15	..
Fresh milk ^k	24	121	36	176	38	198	53	253	44	230

na Not available.

- Nil.

.. Producer transfer less than \$0.5 million or price distortion between -0.5 per cent and 0.5 per cent.

a The price distortion is the proportional difference between the assisted price of a commodity and the price that would prevail without assistance. For export-competing commodities, it is the proportional difference between domestic or constructed import parity and comparable export prices. For import-competing commodities, it is the proportional difference between the domestic and import (landed duty-free) prices. In the case of tariff assistance, the price distortion is the tariff rate applying to imports as a percentage of the landed duty-free price.

b Producer transfers represent the income transfer to farmers from domestic consumers/users due to domestic prices being maintained above export/import parity. The transfers are derived for export industries either by multiplying the difference between domestic or constructed import parity and comparable export prices by domestic sales or by multiplying the difference between the average prices received by farmers and comparable export prices by production. With the exception of sugar, it is assumed that all transfers accrue to the farming activity.

Table L2 (continued)

- c Includes price raising effects of tariffs used in conjunction with the domestic marketing arrangements. The price distortion for sultanas is based on the difference between the lower of either average domestic or constructed import parity returns and comparable export returns to packers.
- d Transfers derived by applying the price differential between Australian green leaf and comparable imported green leaf to the domestic sales of Australian leaf.
- e Producer transfers were estimated in accordance with the industry formula used for dividing raw sugar returns between millers and growers. For 1988–89 the price distortion for sugar was calculated by comparing average unit returns from domestic and export sales. The import embargo on sugar was replaced by a specific tariff rate on sugar imports from 1 July 1989. Since 1989–90 the price distortion was calculated by comparing the average domestic unit returns with a constructed export parity price.
- f The domestic marketing arrangements ceased in June 1989.
- g Estimated by comparing domestic and export prices for medium- and long-grain rice. The price distortion for rice grown in Queensland is based on the difference between the average domestic and comparable export prices for rice grown in New South Wales. The estimates for 1991–92 and 1992–93 exclude producer transfers associated with Queensland production. Queensland production accounts for approximately 2 per cent of Australian production.
- h Following the deregulation of the New South Wales egg market the data necessary to estimate assistance were no longer available and estimates were not reported for 1988–89. Estimates since 1989–90 have been revised. The benchmark price has been determined as the weighted average of farm-gate prices in the deregulated markets over the period 1989–90 to 1992–93. This benchmark price is compared to the average price received by farmers in each of the States maintaining regulation. In 1991–92, New South Wales was the only deregulated state. The South Australian industry was deregulated in 1992–93.
- i The methodology for estimating producer transfers has been revised to exclude the levies charged on domestic sales of butter and cheese used to fund the supplementary support payments. The domestic price distortion includes the added costs of the levies to consumers and users of butter and cheese. This arrangement ended on 30 June 1989.
- j From 1989–90 includes buttermilk.
- k In 1988–89 the producer transfers were estimated for each state by multiplying the difference between the state fresh milk price and a notional deregulated price, by fresh milk sales in the state. For New South Wales, Queensland and South Australia, the deregulated price assumed to be the Victorian manufacturing milk price plus freight from Victoria. For Western Australia and Tasmania, the deregulated price was assumed to be the local manufacturing milk price, plus winter incentive payments. Estimates since 1989–90 are based on the difference between the state fresh milk price and the local manufacturing milk price plus an allowance of 20 per cent of the average Australian manufacturing milk price (to represent the cost of assurance of out-of-season supply).

Source: Commission estimates

Table L3

Average nominal and effective rates of assistance by agricultural activity and standard deviations for the agricultural sector, 1988–89 to 1992–93

<i>Activity/commodity description</i>	<i>Nominal rate of assistance on outputs^a</i>						<i>Effective rate of assistance^b</i>					
	<i>Previous series</i>			<i>Current series</i>			<i>Previous series</i>			<i>Current series</i>		
	<i>1988 –89</i>	<i>1989 –90</i>	<i>1990 –91</i>	<i>1990 –91</i>	<i>1991 –92</i>	<i>1992 –93</i>	<i>1988 –89</i>	<i>1989 –90</i>	<i>1990 –91</i>	<i>1990 –91</i>	<i>1991 –92</i>	<i>1992 –93</i>
Horticulture												
Apples and pears	..	2	1	1	..	..	..	..	..	-5	-5	-5
Dried vine fruits ^c	22	18	19	19	16	31	48	37	41	43	35	85
Wine grapes	21	16	15	15	14	13	47	34	34	31	29	29
Citrus	12	6	5	5	3	2	22	10	8	9	5	5
Deciduous canning fruits	1	1	..	..	..	..	6	8	4	3	3	1
Bananas	..	..	..	..	..	–	1	1	1	..	..	..
Tobacco ^d	56	41	35	35	36	62	110	80	59	119	123	>200
Vegetables	..	..	..	..	..	..	-2	-1	-1	-1	..	..
Average	6	4	4	4	3	4	11	8	7	7	7	8
Extensive cropping												
Wheat	..	1	5	5	1	2	..	3	12	12	5	6
Barley	..	..	..	..	..	..	..	..	..	..	1	1
Oats	..	..	..	..	..	..	-1	..	1	2	1	1
Maize	..	..	..	..	–	..	-1	1	1	2	..	1
Sorghum	..	..	..	..	..	..	-1	1	2	2	1	1
Oilseeds	..	..	..	..	..	..	3	9	3	2	3	3
Average	..	1	3	3	1	1	..	2	8	8	3	4

Table L3 (continued)

Activity/commodity description	Nominal rate of assistance on outputs ^a						Effective rate of assistance ^b					
	Previous series			Current series			Previous series			Current series		
	1988 -89	1989 -90	1990 -91	1990 -91	1991 -92	1992 -93	1988 -89	1989 -90	1990 -91	1990 -91	1991 -92	1992 -93
Extensive irrigation and high-rainfall crops												
Sugar ^e	9	6	10	10	7	3	21	16	27	27	21	9
Cotton ^f	2	-	-	-	-	..	5	6	..	-4	-3	-2
Rice ^g	3	3	4	4	2	2	5	6	10	11	6	11
Average	6	3	4	4	3	2	11	10	8	10	7	5
Extensive grazing												
Beef	2	1	1	1	..	..	10	5	3	4	3	3
Wool	..	1	10	10	6	6	2	1	22	26	16	18
Sheepmeat	2	2	3	3	..	..	5	6	8	9	4	5
Average	1	1	6	6	2	2	5	3	12	14	8	8
Intensive livestock												
Pigs	..	..	..	..	..	..	-3	3	2	2	3	4
Poultry	..	..	..	..	..	..	2	9	1	1	4	3
Eggs ^h	na	9	7	7	2	1	na	23	13	20	8	3
Milk production	22	24	28	28	28	19	53	58	70	55	73	54
Manufacturing milk	21	17	20	20	16	9	49	38	47	43	33	20
Fresh milk ⁱ	24	36	41	41	53	44	59	105	123	129	>200	154
Average	11	11	13	13	13	10	28	32	33	42	45	32
Total agriculture												
Average	3	3	6	6	4	4	8	7	13	15	12	11
Standard deviation^j	(7)	(7)	(9)	(9)	(10)	(9)	(14)	(16)	(20)	(22)	(29)	(25)

Table L3 (continued)

- na Not available.
- Nil.
- .. Between -0.5 per cent and 0.5 per cent.
- a Average nominal rates on outputs are weighted by the unassisted value of output of each activity.
- b Average effective rates are weighted by the unassisted value added of each activity.
- c The estimates of assistance to sultanas have been revised and are based on a comparison of the lower of either domestic or constructed import parity returns with the export returns.
- d Estimates since 1989-90 have been revised based on the comparison of the administered domestic price with the import substitution price for each grade of tobacco leaf.
- e The embargo on sugar imports ceased in June 1989. The estimates since 1989-90 are based on a revised methodology. The price distortion was calculated by comparing the average domestic unit returns with a constructed export parity price.
- f The domestic marketing arrangements for cotton ceased in June 1989.
- g Estimated by comparing domestic and export prices for medium- and long-grain rice. The price distortion for rice grown in Queensland is based on the difference between the average domestic and comparable export prices for rice grown in New South Wales. The estimates for 1991-92 and 1992-93 exclude producer transfers associated with Queensland production. Queensland production accounts for approximately 2 per cent of Australian production.
- h Following the deregulation of the New South Wales egg market the data necessary to estimate assistance were no longer available and estimates were not reported for 1988-89. Estimates since 1989-90 have been revised. The benchmark price has been determined as the weighted average of farm-gate prices in the deregulated markets over the period 1989-90 to 1992-93. This benchmark price is compared to the average price received by farmers in each of the States maintaining regulation. In 1991-92, New South Wales was the only deregulated state. The South Australian industry was deregulated in 1992-93.
- i In 1988-89 the producer transfers were estimated for each state by multiplying the difference between the state fresh milk price and a notional deregulated price, by fresh milk sales in the state. For New South Wales, Queensland and South Australia, the deregulated price was assumed to be the Victorian manufacturing milk price plus freight from Victoria to the respective states. For Western Australia and Tasmania, the deregulated price was assumed to be the local manufacturing milk price, plus winter incentive payments. Estimates since 1989-90 are based on a revised methodology. The producer transfer was estimated by multiplying the difference between the fresh milk price and the local manufacturing milk price plus an allowance of 20 per cent of the average Australian manufacturing milk price to represent the cost of assurance of out-of-season supply.
- j The standard deviation in percentage points measures how far from the average items in a frequency distribution are located, thereby measuring the extent of variation or dispersion in the distribution. The larger the variability amongst individual activities' nominal and effective rates, the larger the standard deviation.

Source: Commission estimates

Table L4
Assistance to manufacturing by form^a, various years
1989–90 to 2000–01 (\$ million)

	1989 –90	1993 –94	1996 –97	2000 –01
Assistance to outputs				
Tariffs ^b	13 671	10 996	6 629	5 562
Quantitative import restrictions	505	–	–	–
Bounties ^c	208	90	50	47
Export incentives ^c	241	291	285	285
Assistance to materials				
Tariffs ^b	5 064	4 045	2 624	2 274
Quantitative import restrictions	94	–	–	–
Excise taxes	97	100	100	100
Assistance to value-adding factors^d				
	..	59	8	8

– Nil.

.. Less than \$0.5 million.

a 1989–90 are in current prices, while 1993–94, 1996–97 and 2000–01 are in 1991–92 prices. The figures for assistance to outputs and materials are, respectively, the sum of the gross subsidy equivalents and the tax on materials for individual industries, classified according to form of assistance. The summation of these amounts across industries will exceed the actual total for the sector due to some of the outputs of industries being used as intermediate inputs by other industries within the sector.

b Includes relatively minor amounts of assistance from domestic pricing arrangements for certain agricultural commodities. Figures are net of the savings from concessional entry of imported materials under certain policy by-laws, commercial tariff concession orders, duty drawback and by-law for exports.

c Except for the base year 1989–90, the estimates presented in this table do not represent the actual bounty and export incentive payments in each year. The estimates measure the assistance afforded by the current rates of bounty and export incentives in each year using fixed 1989–90 production patterns.

d The Commission's new series of manufacturing assistance estimates includes, for the first time, some assistance to value-adding factors; namely, certain capital grants and concessional loans for TCF industries.

Source: Commission estimates

Table L5

**Average nominal and effective rates of assistance^a by manufacturing industry, various years
1990-91 to 2000-01 (per cent)**

<i>Industry^b</i>		<i>Nominal rate of assistance on outputs</i>						<i>Effective rate of assistance on outputs</i>					
		<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1996</i>	<i>2000</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1996</i>	<i>2000</i>
<i>ASIC</i>	<i>Description</i>	<i>-91</i>	<i>-92</i>	<i>-93^c</i>	<i>-94^c</i>	<i>-97^c</i>	<i>-01^c</i>	<i>-91</i>	<i>-92</i>	<i>-93^c</i>	<i>-94^c</i>	<i>-97^c</i>	<i>-01^c</i>
211	Meat products	1	1	1	1	..	..	1	1	1	1	1	1
212	Milk products ^d	13	13	13	12	9	6	2	3	3	3	2	1
213	Fruit and vegetable products ^d	9	9	9	8	4	4	14	14	14	12	7	7
214	Margarine and oils and fats nec	6	6	6	5	3	3	15	15	16	15	9	9
215	Flour mill and cereal food products ^d	6	5	5	5	4	4	6	6	6	5	4	4
216	Bread, cakes and biscuits ^d	2	1	1	1	1	1	..	-1	-1	..	1	1
217	Other food products ^d	8	6	6	5	3	3	4	4	4	3	2	2
218	Beverages and malt ^d	5	5	5	4	2	2	4	4	4	3	2	2
219	Tobacco products ^d	9	9	9	8	5	5	7	7	8	8	5	5
21	FOOD, BEVERAGES AND TOBACCO^d	5	5	5	4	3	3	4	4	4	3	2	2
234	Textile fibres, yarns and woven fabrics	15	13	11	9	7	5	56	49	42	37	23	15
235	Other textile products	25	24	21	19	14	10	44	44	39	37	28	19
23	TEXTILES	18	16	14	12	9	6	51	46	41	37	25	17
244	Knitting mills	55	48	41	37	29	20	140	119	101	92	76	49
245	Clothing	66	54	44	39	30	21	106	84	66	59	47	33
246	Footwear	61	49	35	31	23	13	116	91	67	60	46	24
24	CLOTHING AND FOOTWEAR	63	52	42	37	29	19	113	92	73	65	52	34
253	Wood and wood products	7	7	6	6	3	3	9	8	8	7	4	4
254	Furniture and mattresses	17	14	12	10	4	4	22	19	15	12	4	4

Table L5 (continued)

<i>Industry^b</i>		<i>Nominal rate of assistance on outputs</i>						<i>Effective rate of assistance on outputs</i>					
		<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1996</i>	<i>2000</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1996</i>	<i>2000</i>
<i>ASIC</i>	<i>Description</i>	<i>-91</i>	<i>-92</i>	<i>-93^c</i>	<i>-94^c</i>	<i>-97^c</i>	<i>-01^c</i>	<i>-91</i>	<i>-92</i>	<i>-93^c</i>	<i>-94^c</i>	<i>-97^c</i>	<i>-01^c</i>
25	WOOD, WOOD PRODUCTS AND FURNITURE	11	10	8	7	4	4	14	12	10	9	4	4
263	Paper and paper products	9	9	9	7	3	3	16	16	16	13	5	5
264	Printing and allied industries	5	5	5	4	2	2	5	5	5	4	2	2
26	PAPER, PAPER PRODUCTS PRINTING AND PUBLISHING	6	6	6	5	2	2	7	7	7	6	2	2
275	Basic chemicals	6	5	5	4	2	2	10	10	10	8	4	4
276	Other chemical products	9	9	9	7	3	3	12	12	12	10	4	4
277	Petroleum refining	-	-	-	-	-	-	-	-	-	-	-	-
278	Petroleum and coal products nec	7	6	5	5	3	3	20	15	15	13	7	7
27	CHEMICAL, PETROLEUM AND COAL PRODUCTS	2	2	2	2	1	1	8	7	7	6	3	3
285	Glass and glass products	4	4	4	4	3	3	4	4	4	4	3	3
286	Clay products and refractories	3	3	2	2	1	1	4	3	3	3	1	1
287	Cement and concrete products	1	1	1	1	..	..	1	1	1	1	..	..
288	Other non-metallic mineral products	9	8	7	7	4	4	12	11	10	9	5	5
28	NON-METALLIC MINERAL PRODUCTS	3	3	2	2	1	1	4	3	3	3	2	2
294	Basic iron and steel	8	7	6	5	4	4	18	17	13	12	9	9
295	Basic non-ferrous metals	..	..	..	..	..	..	..	..	..	..	..	..
296	Non-ferrous metal basic products	10	9	9	8	4	4	36	33	31	27	14	14
29	BASIC METAL PRODUCTS	4	4	3	3	2	2	8	8	6	6	4	4

Table L5 (continued)

<i>Industry^b</i>		<i>Nominal rate of assistance on outputs</i>						<i>Effective rate of assistance on outputs</i>					
		<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1996</i>	<i>2000</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1996</i>	<i>2000</i>
<i>ASIC</i>	<i>Description</i>	<i>-91</i>	<i>-92</i>	<i>-93^c</i>	<i>-94^c</i>	<i>-97^c</i>	<i>-01^c</i>	<i>-91</i>	<i>-92</i>	<i>-93^c</i>	<i>-94^c</i>	<i>-97^c</i>	<i>-01^c</i>
314	Structural metal products	9	9	8	7	4	4	11	10	10	8	3	3
315	Sheet metal products	14	13	12	10	4	4	22	20	20	15	5	5
316	Other fabricated metal products	14	13	12	10	4	4	21	19	18	14	6	6
31	FABRICATED METAL PRODUCTS	12	11	10	9	4	4	18	16	15	12	4	4
323	Motor vehicles and parts	26	24	22	20	15	10	48	45	41	38	28	19
324	Other transport equipment	9	8	7	6	3	3	9	7	7	5	2	2
32	TRANSPORT EQUIPMENT	22	20	19	17	12	9	34	31	29	26	19	13
334	Photographic, professional and scientific equipment	8	7	7	5	3	3	17	15	14	11	7	7
335	Appliances and electrical equipment	15	13	12	10	5	5	19	17	15	12	6	6
336	Industrial machinery and equipment	13	11	10	8	4	4	16	14	13	11	5	5
33	OTHER MACHINERY AND EQUIPMENT	14	12	11	9	4	4	17	15	14	11	5	5
345	Leather and leather products	9	9	8	7	3	3	39	38	35	30	18	17
346	Rubber products	15	14	12	10	6	6	20	17	14	13	9	9
347	Plastic and related products	13	13	13	10	5	5	17	17	17	13	6	6
348	Other manufacturing	14	12	11	10	5	5	22	20	18	15	7	8
34	MISC. MANUFACTURING	13	13	12	10	5	5	19	18	17	14	7	7
21-34	TOTAL MANUFACTURING^e	8	8	7	6	4	3	14	13	12	10	6	5
		(7)	(7)	(5)	(5)	(3)	(3)	(10)	(9)	(9)	(7)	(4)	(4)

Table L5 (continued)

Nil.

Between 0 per cent and 0.5 per cent for nominal rates and between -0.5 per cent and 0.5 per cent for effective rates.

Assistance provided by tariffs and certain non-tariff measures. An industry's nominal rate of assistance on outputs is an average of the nominal rates on the products made by that industry, weighted by the unassisted value of output for each product. For effective rates, assistance to an activity is net of the effects of tariffs and certain other forms of government intervention which alter the prices of material inputs used by the industry. For certain TCF industries, the estimates also include some assistance to value-adding factors.

- b Industry subdivision, group, and class from the Australian Standard Industrial Classification (ASIC) 1983 edition.
- c Estimates for 1992–93 to 2000–01 reflect 1991–92 prices, as data for that year were the latest available at the time of publication.
- d Estimates for 1991–92 and 1992–93 and projections through to 2000–01 reflect Commission projections of assistance to agricultural commodities.
- e The figures in brackets are the medians of the nominal rates of assistance for 4-digit ASIC industries using the weights specified for the averages to determine the 50th percentile.

Source: Commission estimates

Table L6

Subsidy equivalents, tax on materials and consumer tax equivalents^a by manufacturing subdivision^b, 1989–90, 1993–94 and 2000–01 (\$ million)

Industry ASIC code Description	Gross subsidy equivalent ^c			Tax on materials ^d			Net subsidy equivalents ^e			Consumer tax equivalent ^f		
	1989 –90	1993 –94	2000 –01	1989 –90	1993 –94	2000 –01	1989 –90	1993 –94	2000 –01	1989 –90	1993 –94	2000 –01
21 Food, beverages and tobacco ^g	1 512	1 456	854	1 077	1 026	570	436	429	285	1 224	825	542
23 Textiles	799	512	262	198	136	67	603	376	196	348	264	161
24 Clothing and footwear	1 614	1 022	531	313	218	108	1 301	804	428	2 032	1 381	964
25 Wood, wood products and furniture	793	519	262	280	207	104	513	312	159	440	260	128
26 Paper, paper products, printing and publishing	816	588	258	231	193	92	584	396	166	91	63	31
27 Chemical, petroleum and coal products	843	666	311	305	239	117	538	427	194	204	162	95
28 Non-metallic mineral products	206	161	95	60	50	28	146	111	67	36	26	18
29 Basic metal products	869	623	437	224	173	131	645	450	306	102	71	49
31 Fabricated metal products	1 295	926	435	456	346	220	840	580	215	310	221	112
32 Transport equipment	3 050	2 334	1 182	1 094	845	457	1 956	1 489	725	2 197	1 823	1 180
33 Other machinery and equipment	1 874	1 208	590	703	468	238	1 171	739	352	1 401	866	561
34 Miscellaneous manufacturing	953	706	336	314	245	109	638	461	230	272	194	128
21-34 Total manufacturing	14 625	10 721	5 553	5 255	4 417	2 240	9 371	6 574	3 322	8 657	6 487	3 970

a These represent the income transfers throughout the community from assistance and, consequently, should not be used as measures of the economic (or welfare) costs to the community. Figures for 1989–90 are in current year prices, while those for 1993–94 and 2000–01 are expressed in 1991–92 prices, using price indexes of articles produced by manufacturing industries.

b Industry subdivisions from ASIC 1983 edition.

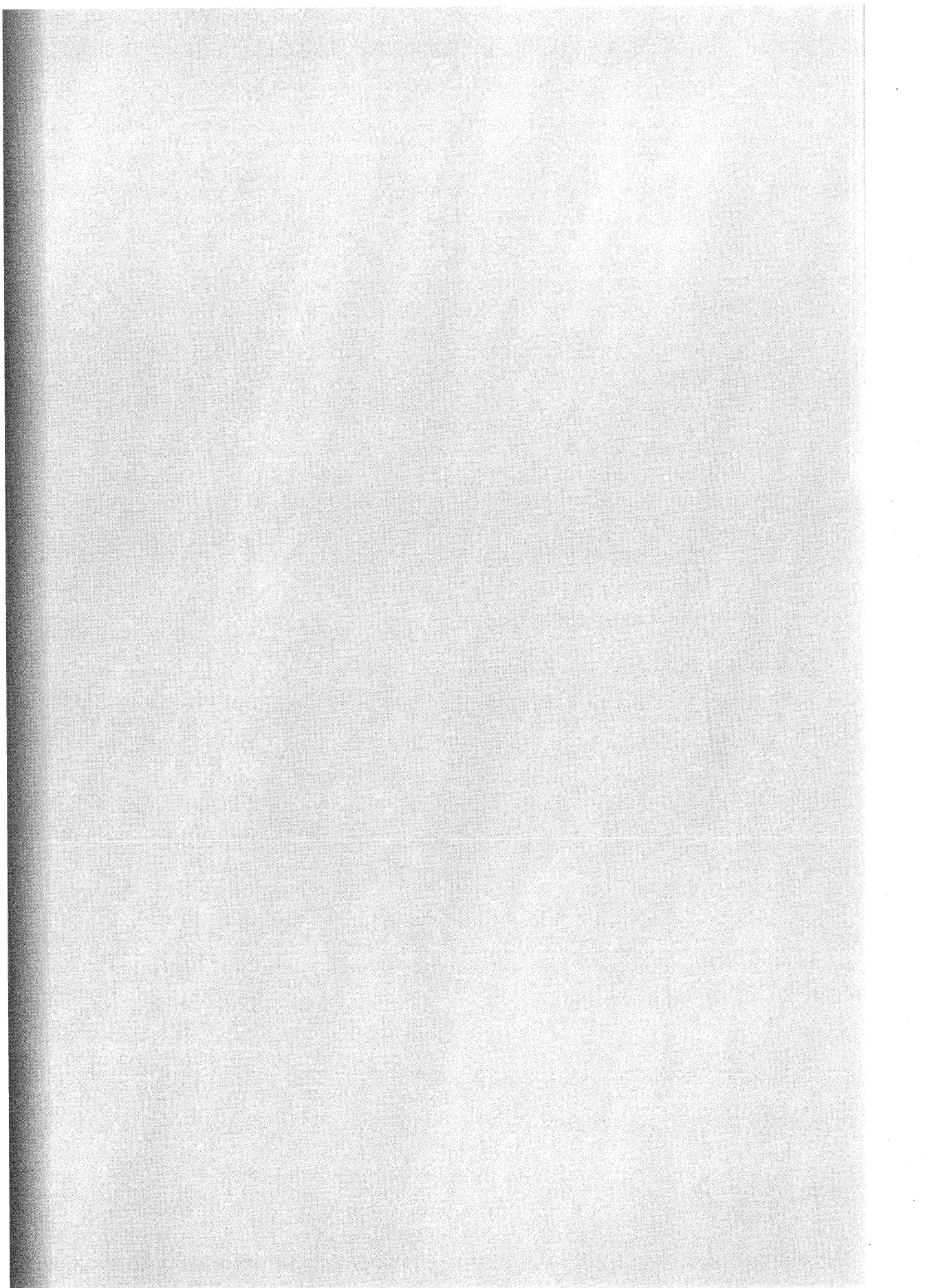
Table L6 (continued)

- c The gross subsidy equivalent is the estimated change in producers' gross returns from assistance. It is the notional amount of money necessary to provide an industry with a level of assistance equivalent to the nominal rate of assistance on its output. Gross subsidy equivalents for individual industries have been summed to derive totals for industry groups and the sector as a whole. These totals will exceed the actual group and sector totals due to some of the outputs of industries being used as intermediate inputs by other industries in the same group or sector.
- d The tax on materials is the estimated net change in costs to user industries due to government intervention altering the prices paid for intermediate inputs. Taxes on materials for individual industries have been summed to derive totals for industry groups and the sector as a whole. These totals will exceed the actual group and sector totals due to some of the outputs of industries being used as intermediate inputs by other industries in the same group or sector.
- e The net subsidy equivalent is the estimated change in returns to an activity's value added due to assistance. It is the notional amount of money necessary to provide a level of assistance to an activity's value added equivalent to its effective rate of assistance. It is equal to the gross subsidy equivalent plus assistance to value-adding factors, less the tax on materials.
- f The consumer tax equivalent is the transfer from final consumers paying higher prices due to assistance. The estimates in this table cover transfers from consumers of final goods, and hence cannot be compared with estimates published before 1984–85 which included the transfers from both final consumers and intermediate users. Transfers due to intermediate usage of outputs by other industries were excluded using ABS input-output data for 1986–87.
- g Estimates for 1993–94 and projections for 2000–01 reflect the Commission's projections of assistance to agricultural commodities.

Source: Commission estimates

Corporate review

- M Administrative matters
- N Financial statements
- O Inquiry activity and reports of the Commission



Appendix M

Administrative matters

This appendix outlines the composition and staffing of the Commission, key management issues and performance matters. It also addresses formal reporting requirements.

Contents

Introduction	331
Corporate overview	331
Structure	331
Key management issues	333
Social justice and equity	335
Internal and external scrutiny	337
Other management matters	338
Program performance	340
Inquiry activities	341
Annual reporting requirements and aids to access	346

Attachments

M1	Commissioner and staffing overview	347
	Commissioners	347
	Staff	349
	Performance appraisal and pay	353
	Training	355
M2	Freedom of information statement	357
M3	Reports and papers released by the Commission in 1993–94	359
M4	Compliance index	360

Boxes

M1	Inquiry process — an illustration	344
----	-----------------------------------	-----

Tables

M1	Staff and financial resources summary, 1993–94	341
M2	Inquiry activity, 1991–92 to 1993–94	342
M3	Total inquiry expenditure, 1993–94	342
M4	Inquiry (non-salary) expenditure, 1993–94	345
M1.1	Chairperson and Commissioners, 30 June 1994	348
M1.2	Part-time Associate Commissioners, 30 June 1994	348
M1.3	Part-time Associate Commissioner appointments completed in 1993–94	348
M1.4	Staffing profile, 30 June 1994	349
M1.5	Senior Executive Service staff by employment status, 30 June 1994	350
M1.6	Staff (other than Senior Executive Service) by employment status, 30 June 1994	350
M1.7	Staff by classification and location, 30 June 1994	351
M1.8	Staff by classification and reason for separation, 1993–94	352
M1.9	Equal employment opportunity target groups, 30 June 1994	354
M1.10	Performance-based pay — distribution of ratings and amounts payable, 1993–94	355

Figures

M1	Industry Commission structure, 30 June 1994	332
----	---	-----

Introduction

The Commission's role is outlined in Chapter 3. In brief, the Commission is a review and advisory body. Its main functions are to advise governments on ways of improving Australia's economic performance, and to report annually on the performance of Australian industry and developments in assistance and regulation. It has a number of other functions such as reviewing business regulation and providing secretariat support for the performance monitoring of government trading enterprises and service providers.

The first part of the appendix provides an overview of the Commission's structure, and key management issues faced during the year. Included is information on social justice and equity, internal and external scrutiny, and formal reporting requirements. This is followed by a program performance report.

Corporate overview

Structure

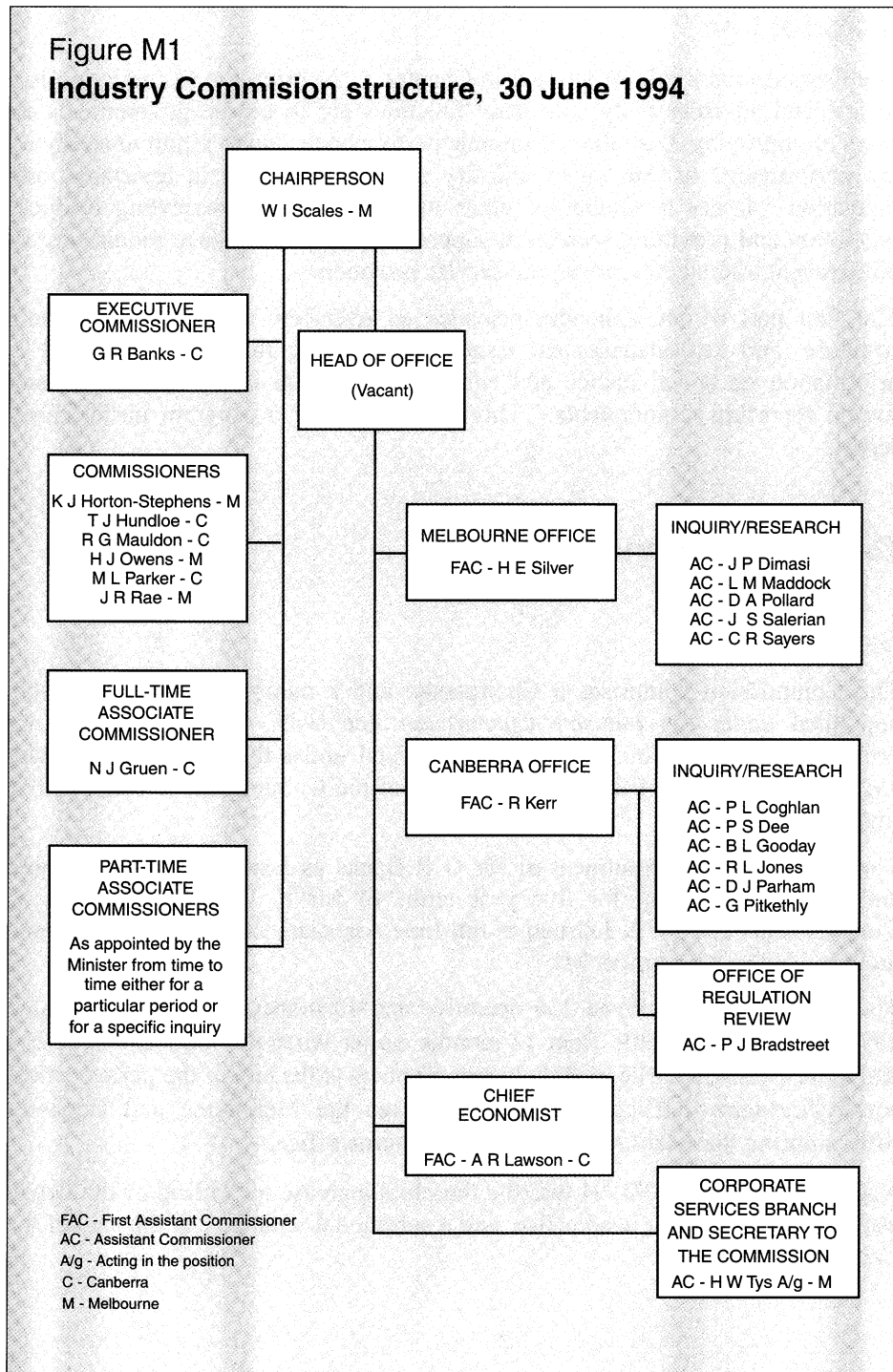
The Commission comprises a Chairperson and a number of Commissioners appointed under the *Industry Commission Act 1989*, and is supported by professional and administrative staff employed under the *Public Service Act 1922*. An overview of the senior structure of the Commission is contained in Figure M1.

The year saw the appointment of Mr G R Banks as Executive Commissioner and the reappointment for five year terms of Mr K J Horton-Stephens as Commissioner and Mr N J Gruen as full-time Associate Commissioner. Details are provided in Attachment M1.

The Commission employed 236 operative and 40 inoperative staff at 30 June 1994. This differed little from 12 months earlier when the numbers were 230 and 37 respectively. The slightly higher numbers at the end of the period reflect some short-term staffing duplication between the Melbourne and Canberra offices during the establishment of the Melbourne office.

Noteworthy during 1993–94 was the threefold increase in staffing of the newly established Melbourne head office, and a substantial reduction in the size of the Canberra office.

**Figure M1
Industry Commission structure, 30 June 1994**



Staffing numbers in the Melbourne office grew from 40 at 30 June 1993 to 120 at 30 June 1994. The bulk of this growth was met by new recruitment with only about 25 per cent of staff at the end of the period being officers who had relocated from the Canberra office. The Melbourne staffing target of about 155 is expected to be reached by 30 June 1995.

Growth in Melbourne staff numbers has been offset to a major degree by a decline in numbers in the Canberra office. At the start and end of the period, Canberra staff numbers were 227 and 156 respectively. The Canberra office is expected to be at its target size of about 80 staff by the end of 1995.

The Commission's staffing profile, including various disaggregations, is shown in Attachment M1.

Key management issues

The year just concluded has been a particularly challenging one. The Commission's areas of activity and workload expanded, coinciding with high staff turnover as a result of the relocation to Melbourne. The focus of management has been on strategies to maintain quality and output, while handling transitional staffing issues.

Two-city location

The year saw the establishment of the Commission's head office in Melbourne, following the Government's decision in May 1992 that the Commission relocate from Canberra.

In November 1992, the Commission established a temporary Melbourne office in the Rialto Towers, Collins Street, while it arranged for permanent accommodation.

Permanent accommodation needs had to be modified following the Government's decision in April 1993 to retain a Commission presence in Canberra. The effect of that decision is that about two-thirds of the Commission will operate out of Melbourne, the balance being located in Canberra. Both offices have an inquiry and research capacity. The Office of Regulation Review is located in the Canberra office, while corporate services are based in Melbourne.

The Commission's permanent Melbourne accommodation is on levels 26 to 28, Collins Tower, 35 Collins St. The new accommodation was occupied in December 1993.

The decline in the size of the Canberra office has necessitated a review of accommodation requirements in that location. As Canberra numbers contract, the Commission has progressively consolidated staff and relinquished surplus

space. Assessment of longer-term office accommodation options in Canberra is currently underway.

Maintaining output

The unprecedented turnover of staff called for a range of strategies to ensure that output and quality were not compromised. These included forming somewhat larger than normal inquiry teams to accommodate a mix of experienced and less experienced staff, extensive training and development programs, frequent interaction between staff of the two offices, secondments of appropriate staff from other organisations, and the use of consultants.

Non relocatees

All staff were encouraged to consider relocation to Melbourne. Opportunities to visit Melbourne were provided, and information sessions offered on aspects such as education, real estate and a range of facilities. Consultants assisted staff in the decision-making process, by providing a framework within which to weigh up the often conflicting aspects of work, personal, family and lifestyle considerations.

Staff who decided not to relocate are being given every possible assistance to find alternative employment. Measures include:

- decision-making workshops;
- training and development to improve marketability to other employers; and
- assistance to help search for alternative employment.

Of the 254 staff with the Commission on 13 May 1992 (announcement date of the relocation), staff movements as at 30 June 1994 have been as follows:

- 65 have been absorbed into the Canberra office;
- 29 have transferred to Melbourne;
- 86 have found positions elsewhere, retired or resigned; and
- 16 have taken voluntary redundancy packages.

As at 30 June 1994, 58 staff not placed in the Canberra office were still to be relocated, redeployed or retired.

Commissioner/SES planning retreat

Commissioners and Senior Executive Service staff participated in a two-day retreat in April 1994. The retreat was co-ordinated by an external consultant. The major objectives were to discuss:

- matters associated with running a two-office structure; and

- future directions and strategies for the Commission.

The Commission is currently implementing the recommendations which came from this event.

Social justice and equity

The Commission promotes the Government's social justice and equity goals by encouraging community participation in its public inquiry process. In this way, all concerned have the opportunity to influence the Commission's policy advice to government and to ensure that the Commission's reports reflect the social impacts of any recommendations.

Access and equity

The Commission promotes participation in its inquiries by widely publicising the inquiry program and seeking comments and inputs from a range of stakeholders.

For example, during the Charitable organisations inquiry Commissioners and staff have sought the involvement of people from non-English speaking backgrounds through industry visits. They visited Aboriginal community groups in Western Australia, Queensland and the Northern Territory. There was also consultation with the Society for the Blind to produce the issues paper on audio tape, in Braille and in large print in an attempt to improve access for the visually impaired.

The inquiry into Public housing provided another example of broad-ranging consultation. Commissioners and staff visited Aboriginal communities in Alice Springs, Cowra, Kununurra, Kalumburu, Redfern and Toomelah and staff attended a meeting of the Murrumbidgee/Lachlan Regional Council. Hearings were held in Mackay to provide an opportunity for South Sea Islanders to participate at public hearings. People with disabilities were visited in their homes to allow them to acquaint the Commission with their special housing problems.

In May 1994, the Ethnic Communities' Council of NSW Inc published a report critical of the Commission's implementation of the Government's Access and Equity strategy (ECCNSW 1994). The report, entitled *Equity, Efficiency and the Industry Commission*, was researched and produced as part of the Access and Equity project funded by the Department of Immigration and Ethnic Affairs under the Migrant Access Projects Scheme. According to the report, the Commission's inquiry process "does not adequately take into account the culturally diverse nature of Australian society generally"(p.5).

The Commission is assessing the criticisms contained in the report with a view to ensuring that there are appropriate opportunities for all residents of Australia to participate in inquiries which potentially affect them.

The published reports of the Commission take account of views of all interested parties and attempt to provide outcomes in the interests of all Australians. The Commission operates under the Treasury portfolio Access and Equity Plan and will continue to seek input from a wide cross-section of the Australian community.

Equal employment opportunity

The Commission has worked closely with the Public Service Commission and staff association representatives to finalise an equal employment opportunity plan to cover the 1993–96 period. The Public Service Commissioner approved the plan on 8 August 1993. The plan was officially launched within the Commission at staff meetings in both Melbourne and Canberra. Each staff member was issued with a copy of the plan while new starters are provided with a copy on commencement.

All positions advertised during the year included a new selection criterion relating to awareness and understanding of government policies on equal employment opportunity, industrial democracy, and occupational health and safety.

The Assistant Commissioner, Corporate Services Branch, is the Senior Executive with responsibility for equal employment opportunity. An Administrative Service Officer Class 5 has day-to-day operational responsibility for these matters. There was no variation to the allocation of resources to this function during 1993–94.

The Commission's National Consultative Council provides the forum for discussing equal employment opportunity issues raised by management and staff.

Information about equal employment opportunity in appointments, and details for target groups, are contained within Attachment M1.

Status of women

As the Commission is a small organisation, it does not have a women's unit. However, mechanisms to promote the status of women are outlined in the Commission's equal employment opportunity plan, staff selection guidelines and industrial democracy plan. Statistical information on the employment of women is contained in Attachment M1.

Internal and external scrutiny

Internal scrutiny

Last year's *Annual Report* discussed a review of the Office of Regulation Review (IC 1993d, Appendix M). Steps to implement the recommendations have been largely completed.

This year, the Commission undertook an internal review of its corporate services. These services had been reviewed by an external consultant in December 1991, but the relocation of most of the services to Melbourne, and the uncertain implications of operating a two-office structure, made a further review timely. The main findings were:

- flexibility in provision of corporate services is needed as the demand for corporate services will evolve as the two offices become established; and
- processes for ensuring delivery of relevant services as efficiently as possible need to be initiated.

A number of internal user groups have now been established to provide user feedback to service providers about the type and standard of services in demand. A number of services are to be benchmarked against external (best-practice) organisations with the objectives of engendering a culture of continuous improvement.

In March 1994, the Commission awarded a consultancy to advise on the development of a communications strategy. The outcome provides a sound framework within which the Commission proposes to promote its communication activities. The Commission's communications unit has been strengthened with the appointment at senior level of a communications director.

External scrutiny

Auditor-General Report No. 27 1993–94, *Report on Ministerial Portfolios, Autumn Sittings 1994*, referred to the operation of the Commission. It noted that the audit report of the Commission's financial statements for 1992–93 was unqualified, and that recommendations from the audit of accounts and records were being implemented.

There were no reports on the Commission by the Ombudsman under the *Ombudsman Act 1976* during the year.

Financial statements

The Australian National Audit Office has conducted an audit of the Commission's 1993–94 financial statements. The audited financial statements are in Appendix N.

Other management matters

Industrial democracy

The National Consultative Council is the Commission's formal consultative mechanism for industrial democracy. It met four times during 1993–94 to consider issues including equal employment opportunity, workplace bargaining, the review of corporate services and the related benchmarking, performance appraisal, the Melbourne relocation, occupational health and safety issues including formation of an OH&S committee, home-based work, relocation of the Canberra office and the election of staff and staff association representatives to the National Consultative Council.

Workplace bargaining

Steps were taken during the year to identify potential areas of productivity improvements to form the basis of pay increases and/or improved working conditions. The process falls within the ambit of the December 1992 agreement entitled Improving Productivity, Jobs and Pay in the Australian Public Service 1992–94, between the Government and the Public Sector Union. Work in this area is continuing in conjunction with staff and the union.

Home-based work

The Commission has given approval for a staff member to undertake home-based work following the introduction of the Interim Home-based Work Award into the Australian Public Service. The Commission understands it was the first government agency to approve a case of home-based work.

Occupational health and safety

The Commission's OH&S Committee was established during 1993–94. Health and safety representatives were elected to represent staff of the Melbourne and Canberra offices.

During 1993–94, the Commission continued its pro-active approach to the early identification of potential workplace injuries. It achieved an insurance premium for workers' compensation of 0.79 per cent of salaries expenditure, which compares with the average premium of 1.4 per cent for the group in which the Commission is classified. The services of an ergonomist were engaged to advise on the purchase of appropriate furniture and equipment for the permanent Melbourne office. Ergonomists were contracted in both the Canberra and Melbourne offices to advise staff on safe working methods and correct use of adjustable furniture.

No formal occupational health and safety investigations were conducted during the year. No notices or directions relating to Clauses 30, 45, 46 and 47 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991* were issued to the Commission during the year.

Employee assistance program

The Commission continued to provide access for all staff to an Employee Assistance Program (EAP) through the Employee Assistance Service ACT (EASACT). Canberra-based staff utilise the EASACT group while Melbourne-based staff utilise the services of an EASACT sub-contractor, Davidson and Trahaire Pty Ltd.

The EAP provides independent, confidential and professional counselling, consultation and training assistance to staff and their immediate families who seek help with work-related and personal problems.

Freedom of information

The Commission received two applications for documents during 1993–94 under the *Freedom of Information Act 1982*. The requests were responded to within the statutory timeframe. A statement encompassing formal reporting requirements is at Attachment M2.

Regulations

No regulations under the Industry Commission Act were made during the year. The Commission had no cause to exercise its power to compel participants in inquiries to provide evidence.

Advertising and market research

The Commission publicises each of its inquiries so that any individual, firm or organisation with an interest has an opportunity to present their views. Activities to publicise inquiries range from newspaper advertisements and the distribution of the *IC Bulletin* (a quarterly newsletter) to announcing key stages of inquiries by press release.

In 1993–94, a total of \$126 707 was paid to Neville Jeffress-Sydney Pty Ltd (trading as Neville Jeffress Advertising), the Commonwealth's master agency for classified advertising.

Consultancy services

The Commission used a total of 66 consultancies during 1993–94 for a total expenditure of approximately \$756 000.

Program performance

As a review and advisory body, the Commission does not have responsibility for implementing government programs. Its only program responsibility is to carry out its inquiry and incidental functions prescribed under its Act.

Evaluating the performance of a review and advisory body is difficult. The Commission has few objective output or outcome indicators upon which to assess its inquiry performance.

Appendix O provides some information on Commission inquiry outputs and outcomes. It contains summaries of the findings and recommendations from Commission reports and Government responses to those reports. The difficulty in basing an assessment of the Commission's performance entirely on this kind of information is that outcomes in terms of acceptance or rejection of Commission recommendations may reflect the political climate of the time, rather than the quality of the advice.

In non-inquiry areas, there is increasing demand for the Commission's involvement in activities such as regulation review, the provision of technical support to other agencies and the provision of secretariat support for Commonwealth, State and Territory governments in performance monitoring. Measuring the impact of these aspects of Commission work on reform outcomes is also very difficult.

For example, yardstick competition, made possible by performance monitoring, is held to be important in promoting reform of government trading enterprises (Chapter 3). Yet establishing the strength of the links between performance monitoring and reform — and the Commission's role in strengthening those links — is a matter for judgment rather than precise measurement.

Inevitably, performance has to be assessed in large measure according to views about the quality of the Commission's output, taking account of the resources at its disposal.

In attempts to gauge the outcomes and the quality and influence of its work, the Commission has undertaken independent reviews of inquiry reports (IC 1992c) and the annual report (IC 1993d). Readership surveys and reviews will be considered again in the future.

The Commission has concentrated in the past year on gaining informal feedback through widespread consultation. Views have been canvassed among policy makers at Commonwealth, State and Territory levels as well as industry, union and community groups.

As set out in Chapter 3, the Commission sought during 1993–94 to achieve better outcomes from its work by improving inquiry procedures and improving its communications and liaison activities.

A summary of staff and financial resources is provided in Table M1. Further detail on staffing is provided in Attachment M1. Financial aspects of the Commission's operations are provided in Appendix N and, in regard to the inquiry program, in the next section.

Table M1
Staff and financial resources summary,
1993–94

<i>Commissioners and staffing^a</i>	<i>No.</i>
Commissioners	8
Associate Commissioners ^b	8
Operative staff ^c	236
<i>Expenditure</i>	<i>\$'000</i>
Salaries and allowances	
Holders of Public Office ^d	1 020
Staff	9 778
Administrative expenses	
Inquiry (non-salary) expenditure	1 696
Other	2 673
Property operating expenditure	1 710
Melbourne relocation costs	7 475
External economy-wide modelling projects	589
Total expenditure	24 941

- a At 30 June 1994.
 b Includes one full-time Associate Commissioner.
 c Those not absent from duty for 12 or more weeks.
 d Commissioners plus Associate Commissioners.

Inquiry activities

The Commission's core activities are public inquiries on issues referred to it by the Government. During 1993–94 the Commission completed eight inquiries and received seven further inquiry references (excluding involvement in a separate Committee of inquiry into the Wine grape and wine industry). Table M2 summarises inquiry activities for the last three years.

Brief summaries of the findings and recommendations from Commission reports are presented in Appendix O, along with Government decisions on recent reports.

Table M2
Inquiry activity, 1991–92 to 1993–94

	1991–92	1992–93	1993–94
References received	8	8	7 ^a
Issues/background papers released	8	8	8
Public hearings (sitting days)	94	96	145
Industry visits ^b	na	360	660
Participants/submissions ^b	999	890	1 494
Draft reports completed	11	7	8
Reports completed ^c	13	7	8
References on hand (as at 30 June)	7	8	7

na Not available.

a Does not include the Commission's input to the Committee of inquiry into the Wine grape and wine industry.

b Number of visits and participants/submissions in inquiries for which reports were completed in the year.

c Includes interim reports, reports on parts of references and reports covering more than one reference. Draft reports are listed separately. Includes the *Meat Processing* report and *The Tobacco Growing and Manufacturing Industries* report which were signed in 1993–94 but not released until July and September 1994 respectively.

Table M3
Total inquiry expenditure^a, 1993–94 (\$'000)

<i>Inquiry</i>	<i>Approximate salary costs</i>	<i>Other costs</i>	<i>Total cost</i>
Taxation and financial policy impacts on urban settlement	708	170	878
Adding further value to Australia's forest products	389	129	518
Environmental waste management equipment, systems and services	411	137	548
Public housing	487	284	771
Impediments to regional industry adjustment	767	158	925
Workers' compensation in Australia	583	224	807
Urban transport	892	260	1 152
Meat processing	464	222	686

a Rounded to nearest \$1 000. Inquiries for which expenditures were completed in 1993–94.

The Commission's inquiries are involving increasing public consultation, evident in the numbers of submissions received and the extent of public hearings and visits to interested parties by Commissioners and staff. The broad agenda of inquiry issues is requiring the Commission to interact with people and organisations who are not necessarily familiar with the Commission's processes or analytic framework.

The terms of reference for inquiries have, in a number of cases, become very wide-ranging. Specification of many aspects of key issues is now common, as is the request for advice on implementation of recommendations and international reference points. All this adds to more complex inquiries taking longer: in some cases 15 month inquiries, or longer, have been necessary to cover the ground. In addition, the Commission also commits some resources before a reference arrives to undertake preparatory research and, after a report is completed, to explain its findings.

While the Commission's public inquiries have many common elements (eg publicly available submissions, a draft report released for public comment, public hearings), each inquiry requires adaptation to encourage effective public input. Box M1 summarises aspects of the inquiry into Public housing, one of the larger inquiries completed in 1993–94.

Expenditure

In line with the wider scope of inquiries, longer time frames and expanded public consultation, the cost of the Commission's inquiries has increased. Table M3 summarises inquiry expenditures in 1993–94.

Non-salary administrative costs associated with inquiries are shown in Table M4. The major cost is travel associated with public consultation. The Commission increased its use of consultants in its inquiries.

The Commission provides copies of its inquiry reports to members of Parliament and to each inquiry participant. Copies are also sold through the Australian Government Publishing Service bookshops.

Box M1

Inquiry process — an illustration

The terms of reference for the Public housing inquiry were received on 5 November 1992.

An issues paper was distributed to individuals and organisations with an interest in public housing. The paper raised likely issues and reform options.

Prior to the start of the public hearings, discussions were held with individuals and organisations to help the Commission set an agenda for the inquiry.

A questionnaire was sent to State housing authorities early in the inquiry. It was developed in consultation with the authorities and the then Commonwealth Department of Health, Housing and Community Services.

The Commission held discussions and visits with 74 organisations and individuals. Information and advice was also requested from many other organisations.

Three external consultancies were arranged:

- a review of overseas housing assistance measures;
- an estimate of the size and distribution of housing subsidies by tenure; and
- the development of housing policies and programs under the Commonwealth-State Housing Agreement.

In addition, a study was undertaken to empirically test the rent-setting model proposed by the Commission.

The first round of public hearings was held between 12 February 1993 and 27 April 1993 with hearings in each of the capital cities and one regional centre.

The draft report was released on 2 August 1993. A briefing on the draft report was held for Commonwealth, State and Territory government departments.

A further round of public hearings focussing on the proposals in the draft report was held between 27 August 1993 and 15 October 1993, with hearings in each capital city and one regional centre.

The inquiry was conducted over twelve months. Completion was delayed for one week to allow participants at the Indigenous Australian Shelter Conference to give consideration to the Commission's proposals for Aboriginal and Torres Strait Islander housing.

Over 1 200 individuals and organisations registered an interest in the inquiry and 370 submissions were received. All relevant State and Commonwealth agencies participated.

Table M4
Inquiry (non-salary) expenditure, 1993–94 (\$)

<i>Inquiry</i>	<i>Duration of inquiry</i>	<i>Travel</i>	<i>Printing</i>	<i>Consultants</i>	<i>Other</i>	<i>Total 1993–94</i>	<i>Total expenditure all years^a</i>
Taxation and financial policy impacts on urban settlement	11/91–04/93	–	15 227	–	–	15 227	169 802
Adding further value to Australia's forest products	09/92–09/93	18 029	8 500	–	3 878	30 406	128 859
Environmental waste management equipment, systems and services	09/92–09/93	28 762	7 850	–	4 961	41 573	137 395
Public housing	11/92–11/93	55 233	18 300	52 000	39 606	165 139	283 726
Impediments to regional industry adjustment	09/92–12/93	47 766	17 205	–	31 312	96 283	158 223
Workers' compensation in Australia	11/92–02/94	46 792	22 406	41 950	29 915	141 063	223 756
Urban transport	09/92–02/94	57 819	25 025	24 602	22 678	130 124	259 902
Meat processing	06/93–04/94	69 790	38 760	79 887	33 375	221 812	221 812
Tobacco growing and manufacturing industries	10/93–06/94	51 964	–	–	15 898	67 862	
Petroleum products	05/93–07/94	52 665	–	8 609	49 870	111 144	
Defence procurement	08/93–09/94	77 989	–	14 000	15 153	107 142	
Vehicle and recreational marine craft repair and insurance industries	03/94–03/95	18 000	–	–	11 807	29 807	
Research and development	09/93–05/95	107 906	–	4 649	48 888	161 443	
Wine grape and wine industries ^b		3 184	–	4 664	4 971	12 819	
New industrial materials	04/94–04/95	11 024	–	2 045	1 293	14 362	
Occupational health and safety	05/94–05/95	4 281	–	136	970	5 387	
Charitable organisations	12/93–06/95	105 651	–	81 682	54 120	241 453	
General inquiry preparation and marketing		76 056	–	–	26 822	102 879	
Total		832 911	153 273	250 454	459 287	1 695 925	

a Total expenditure is shown for completed inquiries only.

b Cost of secretariat services to 30 June 1994.

Annual reporting requirements and aids to access

Information contained in this *Annual Report* is provided in accordance with subsections 25(6) and 25(7) of the *Public Service Act 1922*, section 74 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*, section 50AA of the *Audit Act 1901*, and section 8 of the *Freedom of Information Act 1982*.

The entire report is provided in accordance with section 45 of the *Industry Commission Act 1989*.

This year's *Annual Report* has been prepared in accordance with the guidelines issued by the Department of the Prime Minister and Cabinet. The guidelines seek to minimise the amount of detail contained within annual reports but state that matters of detail previously required for inclusion in annual reports should be made available within five working days of the date of request.

A compliance index is at Attachment M4.

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

Assistant Commissioner
Corporate Services Branch
Industry Commission
Locked Bag 2
Collins Street East Post Office
45 Collins Street
Melbourne Vic 3000
Telephone (03) 653 2251

Inquiries about any Commission publications can be made to:

Director
Communications Unit
Industry Commission
Locked Bag 2
Collins Street East Post Office
45 Collins Street
Melbourne Vic 3000
Telephone (03) 653 2183

Attachment M1

Commissioner and staffing overview

This attachment gives details of Commissioner appointments as well as the staffing profile.

Commissioners

The Chairperson, Mr W I Scales AO, is assisted by seven Commissioners, one full-time Associate Commissioner and a number of part-time Associate Commissioners appointed to specific inquiries. Full-time Commissioners, the periods of their appointment and their location are shown in Table M1.1.

Executive Commissioner

Mr G R Banks was appointed Executive Commissioner on 4 August 1993. This position holds most of the administrative powers of the Chairperson and the Executive Commissioner acts in place of the Chairperson during absences.

New Commissioner

Mr N R Stevens was appointed Commissioner on 14 December 1993. He left to take up the position of Secretary of the Department of Communications and the Arts on 23 December 1993.

Reappointment of Commissioner

Mr K J Horton-Stephens was reappointed as Commissioner for a further term commencing 1 March 1994 until 28 February 1999.

Full-time Associate Commissioner

Mr N J Gruen, who was first appointed a full-time Associate Commissioner on 19 April 1993, was appointed for a further five years from 19 April 1994.

Part-time Associate Commissioners

Part-time Associate Commissioners are appointed for the duration of particular inquiries. Those with appointments at 30 June 1994 are shown in Table M1.2.

During the year, a number of part-time Associate Commissioner appointments ended with the completion of the relevant inquiry. Details are shown in Table M1.3.

Table M1.1
Chairperson and Commissioners, 30 June 1994

<i>Name</i>	<i>Period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr W I Scales AO (Chairperson) (M)	21 May 1992	20 May 1997
Mr G R Banks (Executive Commissioner)(C)	19 June 1991	18 June 1996
Dr R G Mauldon (C)	9 Mar 1990	31 Dec 1994
Dr M L Parker (C)	9 Mar 1990	8 Mar 1995
Mr K J Horton-Stephens (M)	1 Mar 1994	28 Feb 1999
Dr T J Hundloe (C)	10 Feb 1992	9 Feb 1997
Mr J R Rae (M)	1 Dec 1992	30 Nov 1997
Mrs H J Owens (M)	8 Feb 1993	7 Feb 1998

(M) denotes based in Melbourne; (C) denotes based in Canberra

Table M1.2
Part-time Associate Commissioners, 30 June 1994

<i>Name</i>	<i>Inquiry</i>	<i>Appointed</i>	<i>Due to end</i>
Prof B L Johns	Petroleum products	8 June 1993	5 July 1994
Mr J M Moten	Defence procurement	14 Sept 1993	31 Aug 1994
Sr M M McGovern	Charitable organisations	16 Dec 1993	21 June 1995
Mr P H Hall	Research & development	30 Sept 1993	9 Mar 1995
Mr J C McColl	Tobacco growing and manufacturing industries	9 Nov 1993	29 July 1994
Dr T J Considine	New industrial materials	30 May 1994	12 Apr 1995
Mr M Easson	Occupational health & safety	24 June 1994	23 May 1995

Table M1.3
**Part-time Associate Commissioner appointments completed
in 1993–94**

<i>Name</i>	<i>Inquiry</i>	<i>Appointed</i>	<i>Ended</i>
Dr D Scrafton	Urban transport	27 Oct 1992	15 Feb 1994
Prof C Walsh	Impediments to regional industry adjustment	16 Oct 1992	17 Dec 1993
Prof J W Neville	Public housing	25 Nov 1992	11 Nov 1993
Mr J A Ware	Environmental waste management equipment, systems & services	29 Oct 1992	17 Sept 1993
Dr R N Byron	Adding further value to Australia's forest products	16 Oct 1992	15 Sept 1993

Staff

The Commission's staffing profile is shown in Table M1.4, while Tables M1.5 and M1.6 provide further breakdowns in respect of the Senior Executive Service and the employment status of staff. In each case, figures in brackets record the corresponding numbers a year earlier. Table M1.7 provides a breakdown by employment status and location.

Table M1.4
Staffing profile^a, 30 June 1994

<i>Level</i>	<i>Female</i>		<i>Male</i>		<i>Totals</i>	
Senior Executive Service Band 3	0	(0)	0	(1)	0	(1)
Senior Executive Service Band 2	1	(0)	1	(3)	2	(3)
Senior Executive Service (Specialist) Band 2	0	(0)	1	(1)	1	(1)
Senior Executive Service Band 1	3	(4)	13	(14)	16	(18)
Senior Officer Grade A	0	(0)	1	(1)	1	(1)
Senior Officer Grade B	9	(7)	32	(27)	41	(34)
Senior Officer Grade C	13	(11)	22	(25)	35	(36)
Senior Info Tech Officer Grade B	0	(0)	2	(2)	2	(2)
Senior Info Tech Officer Grade C	1	(2)	1	(3)	2	(5)
Info Tech Officer Grade 2	0	(0)	1	(1)	1	(1)
Info Tech Officer Grade 1	0	(0)	1	(0)	1	(0)
Senior Public Affairs Officer Grade 1	0	(0)	1	(0)	1	(0)
Public Affairs Officer Class 3	0	(1)	0	(0)	0	(1)
Senior Professional Officer Grade C	1	(1)	0	(0)	1	(1)
Professional Officer Class 2	2	(2)	0	(0)	2	(2)
ASO ^b Class 6	17	(11)	22	(16)	39	(27)
ASO Class 5	14	(17)	22	(27)	36	(44)
ASO Class 4	6	(5)	2	(1)	8	(6)
ASO Class 3	24	(26)	7	(3)	31	(29)
ASO Class 2	21	(15)	2	(3)	23	(18)
ASO Class 1	1	(1)	2	(4)	3	(5)
Research Officer Grade 2	7	(8)	7	(5)	14	(13)
Graduate Admin. Assistant	3	(8)	13	(10)	16	(18)
General Services Officer Grade 3	0	(0)	0	(1)	0	(1)
Total	123	(119)	153	(148)	276	(267)

a Figures in brackets are the corresponding numbers at 30 June 1993. Includes 40 inoperative staff at 30 June 1994 and 37 at 30 June 1993.

b Administrative Service Officer.

Table M1.5
Senior Executive Service staff by employment status^a,
30 June 1994

<i>Level</i>	<i>Status</i>	<i>Female</i>		<i>Male</i>		<i>Total</i>	
Band 3	Permanent	0	(0)	0	(1)	0	(1)
Band 2	Permanent	1	(0)	1	(2)	2	(2)
Band 2 (HDA)	Temporary	0	(0)	0	(1)	0	(1)
Band 2 (Specialist)	Permanent	0	(0)	1	(1)	1	(1)
Band 2	Inoperative	0	(0)	0	(1)	0	(1)
Band 1	Permanent	2	(2)	10	(9)	12	(11)
Band 1 (HDA)	Temporary	0	(0)	1	(2)	1	(2)
Band 1	Inoperative	1	(2)	2	(2)	3	(4)
Total		4	(4)	15	(19)	19	(23)

a Figures in brackets are the corresponding numbers at 30 June 1993.

Table M1.6
Staff (other than Senior Executive Service) by
employment status^a, 30 June 1994

<i>Status</i>	<i>Female</i>		<i>Male</i>		<i>Total</i>	
Full-time permanent	107	(101)	133	(127)	240	(228)
Full-time temporary	6	(4)	5	(2)	11	(6)
Part-time permanent	3	(9)	0	(0)	3	(9)
Part-time temporary	3	(1)	0	(0)	3	(1)
Total	119	(115)	138	(129)	257	(244)

a Figures in brackets are the corresponding numbers at 30 June 1993.

Table M1.7
Staff by classification and location^a, 30 June 1994

<i>Level</i>	<i>Canberra</i>	<i>Melbourne</i>
Senior Executive Service Band 2	1	1
Senior Executive Service (Specialist) Band 2	1	0
Senior Executive Service Band 1	10	6
Senior Officer Grade A	1	0
Senior Officer Grade B	27	14
Senior Officer Grade C	24	11
Senior Info Tech Officer Grade B	2	0
Senior Info Tech Officer Grade C	0	2
Info Tech Officer Grade 2	1	0
Info Tech Officer Grade 1	0	1
Senior Public Affairs Officer Grade 1	0	1
Senior Professional Officer Grade C	0	1
Professional Officer Class 2	2	0
Administrative Service Officer Class 6	19	20
Administrative Service Officer Class 5	18	18
Administrative Service Officer Class 4	5	3
Administrative Service Officer Class 3	17	14
Administrative Service Officer Class 2	8	15
Administrative Service Officer Class 1	3	0
Research Officer Grade 2	8	6
Graduate Administrative Assistant	9	7
Total	156 (227)	120 (40)

a Figures in brackets are the corresponding numbers at 30 June 1993. Includes the following inoperative staff: 1993-94: Canberra 34, Melbourne 6; 1992-93: Canberra 37, Melbourne 0.

Separations

The Commission experienced a high staff turnover during the year with staff departures totalling 82. Staff separations by classification and reason for separation are shown in Table M1.8.

Of the 35 separations for 'other' reasons, 16 were due to staff accepting voluntary retirement packages and the other 19 resulted from contracts ending. There were no applications from departing officers under Chapter 13 of the *Guidelines on Official Conduct of Public Servants (1987)* relating to the acceptance of business appointments on retirement or resignation.

Table M1.8
Staff by classification and reason for separation^a,
1993–94

	<i>Reason for separation</i>									
	<i>Promotion</i>		<i>Transfer</i>		<i>Resignation</i>		<i>Retirement</i>		<i>Other</i>	
Senior Exec Service	0	(0)	3	(1)	1	(1)	0	(1)	1	(0)
Senior Officer Gr B	0	(1)	6	(4)	0	(4)	0	(0)	0	(1)
Senior Officer Gr C	1	(0)	3	(3)	1	(1)	0	(0)	5	(1)
Snr Info Tech Off Gr C	0	(0)	0	(0)	0	(0)	1	(0)	1	(0)
Snr Prof Off Grade C	0	(0)	0	(1)	0	(0)	0	(0)	0	(0)
Pub Affairs Off 3	0	(0)	1	(0)	0	(0)	0	(0)	0	(0)
Prof Off Class 2	0	(0)	0	(0)	0	(1)	0	(0)	1	(0)
Prof Off Class 1	0	(0)	0	(0)	0	(0)	0	(0)	1	(0)
ASOC 6	1	(1)	4	(3)	0	(0)	0	(0)	1	(3)
ASOC 5	2	(4)	7	(2)	1	(1)	0	(0)	2	(2)
ASOC 4	0	(0)	0	(1)	0	(2)	0	(0)	3	(0)
ASOC 3	1	(0)	5	(2)	0	(3)	2	(0)	6	(5)
ASOC 2	2	(3)	1	(0)	3	(0)	0	(0)	9	(3)
ASOC 1	0	(1)	0	(2)	0	(0)	0	(0)	4	(4)
Research Off 2	1	(4)	0	(0)	0	(0)	0	(0)	0	(1)
GSO 3	0	(0)	0	(0)	0	(0)	0	(0)	1	(2)
GAA	0	(0)	0	(0)	0	(2)	0	(2)	0	(0)
Total	8	(14)	30	(19)	6	(15)	3	(3)	35	(22)

a Figures in brackets are the corresponding numbers for 1992–93.

Recruitment

The high separation rate during 1993–1994 (approximately one-third) resulted in the recruitment of 91 staff during the year. Of these, 27 females and 34 males were employed as full-time permanent staff (including 3 female and 13 male graduates). Another 18 females and 9 males were employed on a full-time temporary basis for various periods and 3 females were employed on a part-time temporary basis.

Equal employment opportunity in appointments

Each of the 91 people recruited to the Commission during 1993–94 was given the opportunity to identify with any of the equal employment opportunity groups. Where new staff indicated membership of the groups, the records show that there were 23 women, 12 people of non-English speaking background, no

Aboriginal and Torres Strait Islanders and one person with an intellectual or physical disability. Further breakdowns are contained in Table M1.9.

The division of staff between the sexes has not altered since last year with women continuing to occupy 45 per cent of all positions. Women occupy 21 per cent of Senior Executive Service positions, 20 per cent of Senior Officer Grade B (and equivalent) positions and 39 per cent of Senior Officer Grade C (and equivalent) positions.

Performance appraisal and pay

The Commission continued the performance appraisal scheme for Senior Executive Service and Senior Officer staff. The scheme requires written work agreements between officers and their supervisors, and the formal rating of performance linked to a performance payment. A broadly similar scheme applies to officers below the Senior Officer range, although no formal ratings are determined and no performance-based pay is attached to this scheme.

The performance appraisal schemes provide a means for staff and supervisors to agree on the work to be completed over the period of the performance contract or work plan. The appraisals provide the opportunity for structured feedback on performance. Separate discussions are held to agree on any training and development needs identified in the appraisal process.

The performance pay schemes rate achievement against the performance contract on a 1 to 5 scale. The ratings imply the following:

- 1 – inefficient performance not eligible for performance-based pay;
- 2 – adequate performance not eligible for performance-based pay;
- 3 – fully effective performance eligible for performance-based pay;
- 4 – superior performance eligible for performance-based pay at one and a half times the amount paid to an officer achieving a 3 rating; and
- 5 – outstanding performance eligible for performance-based pay at twice the amount paid to an officer achieving a 3 rating but no more than the maximum amount payable — \$12 500 if Senior Executive Service Band 2, \$10 000 if Senior Executive Service Band 1, \$8 000 if Senior Officer Grade A or B (and equivalents), and \$3 000 if Senior Officer Grade C (and equivalents).

Distribution of the performance-based pay pool was made equitably so that officers within a particular band who achieved the same rating received the same payment. Pro-rata payments were made where officers had worked the minimum 3 months to establish eligibility for payment but had not completed a full 12 months. In respect of performance during 1993–94, a total of \$280 000

Table M1.9

Equal employment opportunity target groups, 30 June 1994

	Salary range									Total
	Above \$58 107 (includes SES)	\$47 815 – 58 106 (SOA/SOB & equiv)	\$42 720 – 47 816 (SOC & equiv)	\$36 512 – 42 719 (includes ASOC6)	\$33 520 – 36 511 (includes ASOC5)	\$29 895 – 33 519 (includes ASOC4)	\$26 968 – 29 894 (includes ASOC3)	\$23 749 – 26 967 (includes ASOC2)	Below \$23 748 (includes ASOC1)	
Sex										
– female	4	9	15	19	14	13	24	24	1	123
– male	15	36	23	23	23	9	7	15	2	153
Total	19	45	38	42	37	22	31	39	3	276
Aboriginal or Torres Strait Islanders	0	0	0	0	0	0	0	0	0	0
People with disabilities	0	2	3	0	0	1	1	0	1	8
Non-English speaking background										
– 1st generation	2	3	4	2	3	0	1	1	0	16
– 2nd generation	0	1	2	2	7	4	5	2	1	24

Source: Based on staff responses to voluntary equal employment opportunity surveys

Table M1.10
Performance based pay — distribution of ratings and
amounts payable, 1993–94

		<i>Rating</i>			
		<i>1&2</i>	<i>3</i>	<i>4</i>	<i>5</i>
<i>Percentage of officers who achieved rating</i>					
Senior Executive Service, Bands 1 & 2 ^a		0	39	56	5
Senior Officer Grade B	Male	17	35	35	13
	Female	12	50	25	13
Total		15	39	33	13
Senior Officer Grade C	Male	18	46	36	0
	Female	6	65	29	0
Total		13	53	34	0
Overall		12	45	37	6
<i>Amount payable for 12 month period (\$)</i>					
Senior Executive Service Band 2		0	5 619	8 429	na
Senior Executive Service Band 1		0	4 495	6 743	8 991
Senior Officer Grade B		0	3 586	5 379	7 172
Senior Officer Grade C		0	1 339	2 009	na

na not applicable.

a Privacy provisions preclude further disaggregation.

was distributed to 18 Senior Executive Service officers (\$104 000), 39 Senior Officers Grade B (\$127 000), and 45 Senior Officers Grade C (\$49 000). Table M1.10 shows the spread of ratings and the related dollar amounts.

Training

The Commission's expenditure on training is well in excess of the minimum 1.5 per cent of salary expenditure, reflecting the Commission's strong commitment to training and development of its staff.

A total of 344 person-days were spent participating in eligible training programs during the year or, on average, around one and one-half days per operative staff member. The number of staff who participated in training and development was 268 (which includes staff who left the Commission during the year). Categories of training included professional and technical development (including

Studybank), people and performance management skills, communications and presentation skills. Major training activities during the year are summarised below.

- Middle Management Development Program — 20 staff attended a residential course.
- Communication Strategies — 22 Commissioners and Senior Executive Services staff attended a session to enhance skills in the presentation of Commission reports.
- Micro and macro economic refreshers — 11 economists attended two half-day sessions designed to enhance and maintain professional skills.
- Program for inquiry staff — two half-day report writing courses were attended by 13 staff.
- Stress management — as part of a program of special courses associated with the relocation of the Commission to Melbourne, 20 staff attended a course on strategies for dealing with and preventing stress.
- Induction — an improved in-house induction course was developed of which two were conducted. Further courses will be run on an ‘as needed’ basis.
- Information technology — 137 staff attended training to enhance their skills.
- Postgraduate study awards — four study awards were granted, two for the full academic year, one for half of the academic year, and one for one-third of the academic year. Two awards were for study at the ANU, and one each at the University of New England and Melbourne University. The classifications of staff receiving the awards were two Senior Officers Grade C, one Administrative Service Officer Class 6 and one Administrative Service Officer Class 5.

Attachment M2

Freedom of information statement

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

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

The Commission is required under its Act to conduct public inquiries on the matters referred to it by the Government. The Commission's inquiry procedures actively seek to encourage participation by all interested parties.

The Commission may inspect and copy relevant documents and summons persons to give evidence in the course of its inquiries, and such witnesses are protected under the Act from being subject to prejudicial treatment as a result of their giving evidence.

Categories of documents

Information circulars, issues papers, inquiry guidelines and draft reports are sent to interested parties and inquiry participants, as well as being made available to the public free of charge, on request. Final reports are made available, free of charge, to inquiry participants.

Documents available for purchase at Commonwealth Government Bookshops include:

- the Commission's Annual Report to Parliament;
- reports on matters referred to the Industry Commission by the Minister; and
- reports on matters researched by the Commission.

Copies of submissions made to inquiries, excluding confidential material, can be purchased through the Expo Document Copy Centre, PO Box 1154, Fyshwick, Canberra, ACT, 2609. Transcripts of public hearings can be purchased from Spark and Cannon Pty Ltd, which has offices in Melbourne, Adelaide, Sydney, Brisbane and Perth. Transcripts and submissions can also be accessed through all State libraries.

Facilities for access

Relevant Commission documents, including copies of submissions and transcripts, may be inspected in the Commission's libraries in Melbourne and Canberra between 8.30 am and 5.00 pm, Monday to Friday. Information and

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

The Director — Finance and Services
Industry Commission
Locked Bag 2
Collins Street East Post Office
45 Collins Street
Melbourne Vic 3000
Telephone: (03) 653 2270
Facsimile: (03) 653 2199

The Commission received two applications for documents during 1993–94 under the *Freedom of Information Act 1982*. The requests were responded to within the statutory time frame. In the public interest, all fees were waived in relation to one application. As at the end of June, following a request from the applicant, the Commission was undertaking an internal review of its response to one of the above applications.

Attachment M3

Reports and papers released by the Commission in 1993–94

Reports

- 32 *Adding Further Value to Australia's Forest Products*, 15 September 1993
- 33 *Environmental Waste Management Equipment, Systems and Services*, 17 September 1993
- 34 *Public Housing*, 11 November 1993
- 35 *Impediments to Regional Industry Adjustment*, 17 December 1993
- 36 *Workers' Compensation in Australia*, 4 February 1994
- 37 *Urban Transport*, 15 February 1994
- 38 *Meat Processing*, 20 April 1994
- 39 *The Tobacco Growing and Manufacturing Industries*, 29 June 1994

Information/discussion papers

- Recent Developments in Regulation and its Review*, November 1993
- Improving the Efficiency of GBEs*, May 1994

Other publications

- Compendium of Reports 1992–93*, 1993
- An Introduction to the Industry Commission*, 1994
- IC Bulletin*, Issue Nos 1,2,3, 1993–1994

Attachment M4

Compliance index

<i>Topic</i>	<i>page</i>
Chairperson's letter of transmission to the Minister	iii
Table of contents	vii, 329
Introduction to the report	Chapter 3
Portfolio overview	na
Corporate overview	Chapter 3, 331
structure and senior management	331
program structure	na
significant developments in management	333
social justice and equity perspective	335
internal and external scrutiny	337
Program performance reporting	340
Industrial democracy	338
Occupational health and safety	338
Freedom of information	339, 357
Advertising and market research	339
Glossary	na
Staffing overview	347
Financial statements including Auditor-General's report	Appendix N
Summary tables and reconciliation tables of appropriations and program elements	Appendix N
Contact officer for further information	346
Alphabetical index	433

Appendix N

Financial statements

This appendix presents the audited financial statements for the Industry Commission for 1993–94. The statements have been prepared on an accrual accounting basis.

Contents

Independent audit report	363
Certification	365
Operating statement	366
Statement of assets and liabilities	367
Program statement	368
Statement of cash flows	369
Statement of transactions by fund	370
Notes to the financial statements	371



our ref;

**INDUSTRY COMMISSION
INDEPENDENT AUDIT REPORT**

Scope

I have audited the financial statement of the Industry Commission for the year ended 30 June 1994.

The statement comprises:

- . Statement by the Commission Chairperson and the acting Assistant Commissioner, Corporate Services Branch
- . Operating Statement
- . Statement of Assets and Liabilities
- . Program Statement
- . Statement of Transactions by Fund
- . Statement of Cash Flows, and
- . Notes to and forming part of the financial statements.

The Commission's Chairperson and Assistant Commissioner, Corporate Services Branch are responsible for the preparation and presentation of the financial statement and the information contained therein. I have conducted an independent audit of the financial statement in order to express an opinion on it.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statement is free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statement, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statement is presented fairly in accordance with Australian accounting concepts and standards and statutory requirements so as to present a view of the department which is consistent with my understanding of its financial position, its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In accordance with sub-section 51(1) of the *Audit Act 1901*, I now report that in my opinion, the financial statement:

- . is in agreement with the accounts and records kept in accordance with section 40 of the Act;
- . is in accordance with the Financial Statements Guidelines for Departmental Secretaries (Accrual Reporting), and
- . presents fairly in accordance with Statements of Accounting Concepts and applicable Accounting Standards the information required by the Guidelines including the Commission's and administered financial transactions and its cash flows for the year ended 30 June 1994 and the Commission's and administered assets and liabilities as at that date.



C.M. McPherson
Executive Director

Canberra

15 September 1994

Statement by the Departmental Secretary

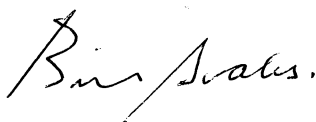
and

Principal Accounting Officer

Certification

We certify that the attached financial statements are in agreement with the Industry Commission's accounts and records and, in our opinion, the financial statements present fairly the information required by the Financial Statement Guidelines for Departmental Secretaries (Accrual Reporting) including the Commission's departmental and administered financial transactions for the year ended 30 June 1994 and departmental and administered assets and liabilities as at 30 June 1994.

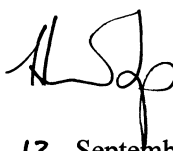
Signed



Dated 13 September 1994

W I Scales
Chairperson

Signed



Dated 13 September 1994

H W Tys
A/g Assistant Commissioner
Corporate Services Branch

Industry Commission

OPERATING STATEMENT
for the year ended 30 June 1994

	<i>Note</i>	<i>1994</i>	<i>1993</i>
		<i>\$'000</i>	<i>\$'000</i>
COST OF SERVICES			
Operating expenses			
Employee expenses	2(a)	13 111	13 731
Other administrative expenses	2(a), 20	9 839	7 413
Total operating expenses		22 950	21 144
Operating revenues from independent sources			
Profit on sale of non-current assets		37	50
Section 35 resource agreement		117	97
Total operating revenues from independent sources		154	147
<i>Net cost of services</i>		22 796	20 997
REVENUES FROM GOVERNMENT			
Parliamentary appropriations used for:			
Ordinary annual services (a)	2(b)	24 190	18 022
Other services		589	326
Liabilities assumed by government	2(b)	1 889	1 645
Resources received free of charge	2(b)	10	9
Total revenues from government		26 679	20 002
<i>Operating result</i>		3 883	(995)
Accumulated operating results at 1 July 1993	13	(4 806)	(3 811)
<i>Accumulated operating results at 30 June 1994</i>	13	(922)	(4 806)

ADMINISTERED ITEMS

Administered expenses		nil	nil
Administered revenues			
Miscellaneous Receipts	2(c)	187	282
Total administered revenues		187	282

(a) Appropriation Act No. 1 excluding Section 35 receipts.

Industry Commission

STATEMENT OF ASSETS AND LIABILITIES

as at 30 June 1994

	<i>Note</i>	<i>1994</i>	<i>1993</i>
		<i>\$'000</i>	<i>\$'000</i>
CURRENT ASSETS			
Cash	5	77	57
Receivables	6	6	3
Inventories	7	nil	nil
Other	8	336	406
Total current assets		419	466
NON-CURRENT ASSETS			
Leasehold improvements	9	2 274	nil
Computers, plant and equipment	9	1 205	1 219
Total non-current assets		3 479	1 219
<i>Total assets</i>		3 898	1 685
CURRENT LIABILITIES			
Creditors	10	470	357
Provisions	11	941	1 012
Other	12	308	666
Total current liabilities		1 719	2 035
NON-CURRENT LIABILITIES			
Provisions	11	3 101	4 456
Total non-current liabilities		3 101	4 456
<i>Total liabilities</i>		4 820	6 490
NET LIABILITIES	13	922	4 806
ADMINISTERED ITEMS			
Administered assets			
Receivables	6	4	230
Total administered assets		4	230
Administered liabilities		nil	nil

Industry Commission

PROGRAM STATEMENT
for the year ended 30 June 1994

Program 7 - Industry Commission

	<i>Note</i>	<i>1994</i>	<i>1993</i>
		<i>\$'000</i>	<i>\$'000</i>
COST OF SERVICES			
Operating expenses	2(a), 20	22 950	21 144
Revenues from independent sources		154	147
<i>Net cost of services</i>		22 796	20 997
REVENUES FROM GOVERNMENT			
Parliamentary appropriations used for:			
Ordinary annual services (a)	2(b)	24 190	18 022
Other services		589	326
Liabilities assumed by government	2(b)	1 889	1 645
Resources received free of charge	2(b)	10	9
Total revenue from government		26 679	20 002
<i>Operating result</i>		3 883	(995)
<i>ASSETS</i>		3 898	1 685
<i>LIABILITIES</i>		4 820	6 490

ADMINISTERED ITEMS			
Expenses		nil	nil
Revenues	2(c)	187	282
<i>ASSETS</i>		4	230
<i>LIABILITIES</i>		nil	nil

(a) Appropriation Act No. 1 excluding Section 35 receipts.

Industry Commission

STATEMENT OF CASH FLOWS

for the year ended 30 June 1994

	<i>Note</i>	<i>1994</i>	<i>1993</i>
		<i>\$'000</i>	<i>\$'000</i>
CASH INFLOWS FROM OPERATING ACTIVITIES			
Inflows:			
Parliamentary Appropriations		24 779	18 348
Section 35 receipts		115	92
Total cash inflows		24 894	18 440
Outflows:			
Salaries and related expenditure		12 204	10 455
Administration and property		9 737	7 519
Total cash outflows		21 941	17 974
<i>Net cash provided by operating activities</i>	19	2 953	466
CASH INFLOWS FROM INVESTING ACTIVITIES			
Inflows:			
Disposal of non-current assets		48	70
Total cash inflows		48	70
Outflows:			
Purchase of non-current assets		2 980	510
Total cash outflows		2 980	510
<i>Net cash used in investing activities</i>		(2 932)	(440)
Net increase in cash		21	26
Cash at beginning of reporting period		57	31
Cash at end of reporting period		77	57

CASH FLOWS FROM ADMINISTERED TRANSACTIONS

Cash inflows:

Miscellaneous Receipts 414 83

Cash outflows:

nil **nil**

Net cash inflows from administered transactions **414** **83**

Industry Commission

STATEMENT OF TRANSACTIONS BY FUND

for the year ended 30 June 1994

<u>1992-93</u>	<u>Note</u>	<u>1993-94</u>	<u>1993-94</u>
<i>Actual</i>		<i>Budget</i>	<i>Actual</i>
\$		\$	\$
<i>Consolidated Revenue Fund</i>			
RECEIPTS			
82 811	Miscellaneous	620 000	413 630
162 468	Section 35 of Audit Act 1901	130 000	162 342
245 279	Total receipts	750 000	575 972
EXPENDITURE			
	Expenditure from annual appropriations:		
		16	
18 510 456	Appropriation Act No. 1	27 942 342}	24 941 468
-	Appropriation Act No. 3	62 000}	
18 510 456	Total expenditure	28 004 342	24 941 468
<i>Trust Fund</i>			
	Trust Account (Commonwealth activities):		
		17	
1 231	Receipts	32 000	38 934
1 575	Expenditure	32 000	38 948
1 231	Total receipts	32 000	38 934
1 575	Total expenditure	32 000	38 948

Industry Commission

Notes to the financial statements for the year ended 30 June 1994

Note 1 Summary of significant accounting policies

(a) *Reporting entity*

The financial statements disclose information about all the resources controlled by the Commission. In this context resources controlled means those resources that the Commission is able to deploy to meet its objectives.

In addition, the Commission administers, but does not control, some resources on behalf of the Commonwealth. It is accountable for the transactions involving those administered resources, but does not have a discretion in relation to their deployment. For those resources, the Commission acts only as an agent of the Commonwealth.

The administered transactions and balances are disclosed as part of the relevant financial statements.

(b) *Basis of accounting*

The financial statements have been prepared in accordance with the *Financial Statement Guidelines for Departmental Secretaries (Accrual Reporting)* issued by the Minister for Finance in February 1994 which require compliance with relevant Statements of Accounting Concepts and Australian Accounting Standards.

The financial statements have been prepared on an accrual basis, are in accordance with the historical cost convention and do not take account of changing money values, except where stated.

(c) *Rounding*

Amounts have been rounded to the nearest \$1 000 except in relation to the following items:

- Statement of Transactions by Fund
- Act of grace payments, waivers and write-offs

-
- Auditor's remuneration
 - Remuneration of executives
 - Expenditure from Annual Appropriations, and
 - Receipts and expenditure of the trust fund.

Totals are the rounded sums of unrounded figures.

(d) *Employee entitlements*

All vesting employee entitlements (including annual leave and long service leave) are recognised as liabilities.

Long service leave is calculated having regard to the probability that long service leave will in the future either be taken or have to be paid. Long service leave has been calculated on this basis using probability factors against pro-rata entitlements calculated for all employees.

The determination of current and non-current portions is based on past history of payments.

(e) *Superannuation payments*

The liability for superannuation payments (other than the productivity contribution) is assumed by the Commonwealth. The notional value of employer contributions for the year is recorded as part of employee expenses and an equal amount is recorded as part of 'liabilities assumed by government' (revenue) in the Operating Statement. The amounts have been calculated as 19.1% (1993 - 17.9%) of total salary and allowances for superannuation purposes of all CSS and PSS members employed by the Commission.

(f) *Taxation*

The Commission's activities are exempt from all forms of taxation except fringe benefits tax.

(g) *Foreign currency*

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date.

Currency gains and losses are not recognised in the financial statements as the Department of Finance assumes responsibility for the Commission's foreign currency exposure. The net amount of such gains and losses is not considered material to the Commission's operations.

(h) *Prepayments*

Prepayments consist of amounts paid by the Commission in respect of goods and services that have not been received at 30 June 1994.

(i) *Asset capitalisation threshold*

Property, plant and equipment consist of items having an individual cost/value over \$2 000. Items costing less than this amount are considered to be immaterial and their cost is expensed as incurred.

Inventories consist of goods or other property with an individual cost/value over \$1 000 which are held as *consumable stores*. Items costing less than this amount are considered to be immaterial for reporting purposes and their cost is expensed as incurred.

Land and buildings does not include rented property which the Commission does not control. Property rental liabilities are disclosed in Note 15.

(j) *Valuation of non-current assets*

Non-current assets are valued at the cost of acquisition, less accumulated depreciation. Computer equipment includes computer software.

(k) *Depreciation of non-current assets*

All non-current assets having a limited useful life are systematically depreciated over their useful lives in a manner which reflects the consumption of the service

potential embodied in those assets. Depreciation is provided for on a straight-line basis, using rates which are reviewed annually. Major depreciation periods are:

<i>Asset Class</i>	<i>Total useful life</i>
Land	not applicable
Buildings	not applicable
Leasehold improvements	10 years
Plant	10 years
Furniture	10 years
Office equipment	5 years
Computer hardware	3 years

(l) *Creditors*

Creditors consist of amounts which were due to be paid by the Commission for goods and services received on or before 30 June 1994, but which were unpaid at that date.

(m) *Insurance*

In accordance with Government policy, assets are not insured, and losses are expensed as they are incurred.

(n) *Receivables*

A provision is raised for any doubtful debt based on a review of all outstanding accounts as at year end.

Bad debts are written-off during the year in which they are identified.

(o) *Resources received free of charge*

Resources received free of charge are recognised as revenue where the amounts can be reliably measured. Use of those resources is recognised as an expense.

(p) *Administered transactions*

All running costs are charged as Departmental expenses (including expenses directly related to administered assets).

Note 2 Items of expenses and revenues

The aggregate amounts shown in the Operating Statement and the Program Statement include the following classes of expenses and revenues:

*(a) Expenses - departmental items*Provision for employee benefits

	<u>1994</u>	<u>1993</u>
	(\$'000)	(\$'000)
Recreation leave	450	1 199
Employer contribution for employee superannuation	1 889	1 645
Performance pay (including lump sum superannuation contributions)	262	262

Other administrative expenses

	<u>1994</u>	<u>1993</u>
	(\$'000)	(\$'000)
Doubtful debt - Sale of non-current assets	nil	3
Provision for depreciation:		
- leasehold improvements		nil
- property, plant and equipment	137	
	572	554

*(b) Revenues - departmental items*Parliamentary appropriations

	<u>1994</u>	<u>1993</u>
	(\$'000)	(\$'000)
Unexpended Running Costs funds <i>carried-over</i> from the previous financial year in accordance with the agreed running cost arrangement with Department of Finance	1 176	386

Provision for employee benefits

	<u>1994</u>	<u>1993</u>
	(\$'000)	(\$'000)
Long service leave - withdrawal of amount overprovided	935	(704)

Liabilities assumed by Government

	<u>1994</u>	<u>1993</u>
	(\$ '000)	(\$ '000)
Liability for employee superannuation	1 889	1 645

Resources received free of charge

	<u>1994</u>	<u>1993</u>
	(\$ '000)	(\$ '000)
Accounting and budgetary services in the form of the computerised Finance ledger and payroll services provided by the Department of Finance	10	9

(c) *Revenues - administered items*

Miscellaneous receipts

	<u>1994</u>	<u>1993</u>
	(\$ '000)	(\$ '000)
Sale of house purchased from staff	154	227
Other receipts	33	55
	187	282

Note 3 Act of grace payments, waivers and write-offs

(a) *Act of grace payments*

	<u>1994</u>	<u>1993</u>
	(\$)	(\$)
Payments made during the financial year in accordance with directions given under Section 34A(1) of the Audit Act 1901	nil	nil

(b) *Waiver of rights to payment of moneys*

	1994		1993	
	Number	Amount (\$)	Number	Amount (\$)
Amounts waived pursuant to subsection 70C of the Audit Act 1901	nil	nil	nil	nil
Amounts waived pursuant to other legislation	nil	nil	nil	nil

(c) *Amounts written-off*

	1994	1993
	(\$)	(\$)
Amounts written-off under Section 70C(1) of the Audit Act 1901:		
(i) Losses or deficiencies of public moneys	nil	nil
(ii) Irrecoverable amounts of revenue	nil	nil
(iii) Irrecoverable debts and overpayments	nil	nil
(iv) Amounts of revenue, debts, or overpayments, the recovery of which has been determined to be uneconomical	nil	nil
(v) The value of lost, deficient, condemned, unserviceable or obsolete stores	2 279	250
Amounts written-off under other legislation:	nil	nil

(d) *Losses and deficiencies etc in public moneys and other property*

	1994	1993
	(\$)	(\$)
Action taken during the financial year under Part XIIA of the Audit Act 1901	nil	nil

Note 4 Auditors' remuneration

	1994	1993
	(\$)	(\$)
Audit fees payable to the Australian National Audit Office (ANAO) for the audit of the Commission's financial statements	35 000 (est)	35 000

Note 5 Cash

The Commission held the following cash balances as at 30 June:

	<u>1994</u>	<u>1993</u>
	(\$'000)	(\$'000)
Cash Advances (Petty Cash, Travelling Allowance, Corporate Credit Card)	77	57
Collections of Public Moneys (CPM)	nil	nil
	77	57

The cash balances are represented by:

<u>1992-93</u>		<u>1993-94</u>
(\$'000)		<u>Cash</u>
		<u>Advances</u>
		(\$'000)
2	Cash on hand	2
55	Cash at bank	75
57		77

The amounts shown above for *Cash advances* and for *Cash at bank* at 30 June 1994 include the following amount:

- \$15 033 held at the Reserve Bank to facilitate the settlement of the Commission's Australian Government Credit Card account with the Westpac Banking Corporation (1993 — \$15 033).

Note 6 Receivables

(a) Departmental items

As at 30 June, amounts in the following classes were due to be received by the

Commission pursuant to an arrangement made under Section 35 of the Audit Act 1901:

	1994		1993	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Industry Commission staff		1		..
Other departments		1		3
Trade debtors	6		3	
less Provision for Doubtful Debts	3	3	3	nil
		6		3

Of the total amount of \$6 000 outstanding as at 30 June 1994, the following amounts were *overdue* (ie unpaid after 30 days from date of issue of the debit advice) for the periods shown below:

1992-93		1993-94		
(\$'000)		IC staff	Other depts	Trade debtors
		(\$'000)	(\$'000)	(\$'000)
3	Less than 30 days	..	..	nil
nil	30-60 days	..	nil	..
nil	More than 60 days	..	..	nil
3		..	1	..

(b) *Administered items*

Amounts in the following classes were due to be received by the Commission for payment to the Commonwealth Public Account as at 30 June:

	1994	1993
	(\$'000)	(\$'000)
Industry Commission staff	1	1
Other departments	2	nil
Trade debtors	..	229
	4	230

Of the total amount of \$4 000 outstanding as at 30 June 1994, the following amounts were *overdue* (ie unpaid after 30 days from date of issue of the debit advice) for the periods shown below:

<u>1992-93</u>	<u>1993-94</u>			
		<u>IC staff</u>	<u>Other depts</u>	<u>Trade debtors</u>
(\$'000)	(\$'000)	(\$'000)	(\$'000)	
.. Less than 30 days	..	2	nil	nil
.. 30-60 days	..	nil	nil	nil
nil More than 60 days	1	nil	nil	nil
..	1	2	nil	nil

All the receivables are expected to be fully recovered.

Note 7 Inventories

At 30 June 1994 the Commission did not hold any inventory items which had an individual cost/value over \$1 000 (1993 — \$nil).

Note 8 Other

	<u>1994</u>	<u>1993</u>
	(\$'000)	(\$'000)
Prepayments	191	241
Residential houses purchased from Industry Commission staff	145	164
	336	406

During 1993-94 the Commission purchased a house from a staff member who was compulsorily transferred to Melbourne as part of the Commission's re-location.

As the Commission intends to re-sell the house within 12 months of 30 June 1994, this property has been recognised as a current asset and shown as *Other*.

Refer also to Note 14 for additional information concerning the acquisition of this property by the Commission.

Note 9 Property, plant and equipment

	<u>1994</u>	<u>1993</u>
	(\$'000)	(\$'000)
(i) Land and buildings at cost	nil	nil
(ii) Leasehold improvements at cost	2 411	nil
less accumulated depreciation	137	nil
Net book value	2 274	nil
(iii) Computers, plant and equipment at cost	2 823	3 603
less accumulated depreciation	1 619	2 384
Net book value	1 205	1 219
Total at cost	5 234	3 603
less accumulated depreciation	1 755	2 384
Net book value	3 479	1 219

A house purchased from a staff member has not been included above as this property has been recognised as a current asset. Refer also Notes 8 and 14 for additional information concerning the acquisition and sale of this property by the Commission.

A reconciliation of opening and closing balances is shown below:

	<u>1994</u>	<u>1993</u>
	(\$'000)	(\$'000)
Leasehold improvements		
<i>Opening value 1 July 1993 (at cost)</i>	nil	nil
<i>add assets purchased during 1993-94 (at cost)</i>	2 411	nil
<i>less assets disposed during 1993-94 (at cost)</i>	nil	nil
<i>Closing value 30 June 1994 (at cost)</i>	2 411	nil
Computers, plant and equipment		
<i>Opening value 1 July 1993 (at cost)</i>	3 603	3 584
<i>add assets purchased during 1993-94 (at cost)</i>	569	510
<i>less assets disposed during 1993-94 (at cost)</i>	1 348	492
<i>Closing value 30 June 1994 (at cost)</i>	2 823	3 603

Note 10 Creditors

The total amount owed to creditors at 30 June is as follows:

	<u>1994</u>	<u>1993</u>
	(\$'000)	(\$'000)
Trade creditors	442	322
Other creditors	28	35
	470	357

Note 11 Provision for employee entitlements

(a) Current liabilities

	<u>1994</u>	<u>1993</u>
	(\$'000)	(\$'000)
Annual leave (including leave bonus)	647	915
Long service leave	294	96
	941	1 012

(b) Non-current liabilities

	<u>1994</u>	<u>1993</u>
	(\$'000)	(\$'000)
Annual leave (including leave bonus)	779	708
Long service leave	2 322	3 748
	3 101	4 456

Note 12 Other

Amounts owed as employee entitlements are as follows:

	<u>1994</u>	<u>1993</u>
	(\$'000)	(\$'000)
Performance pay (including lump sum superannuation contributions)	262	261
Salaries and wages	46	404
	308	666

Note 13 Net liabilities

Accumulated operating results:

	<u>1994</u>	<u>1993</u>
	(\$'000)	(\$'000)
Net liabilities at 1 July	4 806	3 811
Decrease in net liabilities resulting from operations	3 883	(995)
Net liabilities at 30 June	922	4 806

Note 14 Land held for sale or re-sale

During 1993-94 the Commission purchased a house from a staff member compulsorily transferred to Melbourne as part of the re-location of the Commission. Refer also Note 8 for additional information concerning the acquisition and sale of this property by the Commission.

The following information relates to this property which is held for re-sale:

	<u>1994</u>	<u>1993</u>
	(\$'000)	(\$'000)
Total cost of acquisition (exclusive of any surveys, roads and drainage and other developmental expenses)	145	164
Total cost of developmental expenses capitalised	-	-
Total amount of rates, taxes or interest and any other amounts capitalised	-	-

Note 15 Commitments

The Commission has entered into the following commitments as at 30 June 1994:

1992-93 (\$'000)		Due for Payment				Total (\$'000)
		Not later than 1 year (\$'000)	1-2 years (\$'000)	2-5 years (\$'000)	Later than 5 years (\$'000)	
21	Capital expenditure	nil	nil	nil	nil	nil
3	Administrative expenses	41	nil	nil	nil	41
	Contribution to the IMPACT					
741	project	246	123	nil	nil	369
	Contribution to economy-wide					
309	modelling at Monash University	103	nil	nil	nil	103
17 093	Operating leases	2 190	1 698	4 936	6 308	15 132

Note 16 Expenditure from annual appropriations

Details of appropriations and expenditures relating to each division, sub-division and item included in the total amounts shown for annual appropriations in the Statement of Transactions by Fund are as follows:

1992-93 Actual (\$)		1993-94 Appropriation (\$)	1993-94 Actual (\$)
Appropriation Act Nos. 1 and 3			
Division 675 Industry Commission			
18 184 456	1. Running Costs (Annotated Appropriation)	27 415 342	24 352 468
	3. Other Services		
	01. Contribution towards the further development of		
120 000	the IMPACT Project	378 000	378 000
	02. Contribution towards the development of economy-		
206 000	wide modelling at Monash University	211 000	211 000
18 510 456	Total Appropriation Act Nos. 1 and 3	28 004 342	24 941 468

Note 17 Receipts and expenditure of the trust fund

This section discloses details of each Head of the Trust Fund and Trust Account for which the Commission is responsible.

The information shown provides a break-down of the information relating to the Trust Fund contained in the Statement of Transactions by Fund.

<u>1992-93</u>		<u>1993-94</u>
<i>Actual</i>		<i>Actual</i>
(\$)		(\$)
Services for other governments and non-departmental bodies		
Legal authority - Audit Act 1901		
Purpose - Payment of costs in connection with services performed on behalf of other governments and non-departmental bodies		
Receipts and expenditure -		
1 785	Cash balance at 1 July 1993	1 440
1 231	Receipts	38 934
3 016		40 374
1 575	Expenditure	38 948
1 440	Cash balance at 30 June 1994	1 426

Transactions under the head of trust relate to incapacity payments to current employees in accordance with determinations made, and funds issued, by COMCARE.

Note 18 Remuneration of executives

The amounts of fixed remuneration and performance pay received/receivable by all the Commission's executive officers are as follows:

	<u>1994</u>	<u>1993</u>
	<i>Number</i>	<i>Number</i>
Fixed remuneration		
\$100 000 to \$110 000	4	1
\$110 000 to \$120 000	1	3
\$120 000 to \$130 000	2	1
\$130 000 to \$140 000	1	9
\$140 000 to \$150 000	7	-
\$150 000 to \$160 000	-	1
\$170 000 to \$180 000	1	-
Total fixed remuneration	\$2 069 446	\$1 638 550
Performance pay	\$97 500	\$97 500

Note 19 Cash reconciliation - cash flow statement

A reconciliation of net cash provided by operating activities to operating result is shown below:

	<u>1994</u>	<u>1993</u>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Operating result	3 883	(995)
Depreciation	709	554
Profit on sale of non-current assets	(37)	(50)
Increase in receivables	(3)	(1)
Decrease in other (assets)	70	(201)
Increase in creditors	113	120
Decrease in provisions	(1 426)	891
Decrease in other (liabilities)	(358)	149
	2 953	466

Note 20 Other administrative expenses

	<i>1994</i>	<i>1993</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Administrative expenses - current	6 034	4 390
Administrative expenses - capital	736	415
Legal services	37	13
Property operating expenses - current	2 419	2 189
Property operating expenses - capital	24	79
Contribution towards the further development of the IMPACT project	378	120
Contribution towards the development of economy-wide modelling at Monash University	211	206
	9 839	7 413

Note 21 Guarantees and undertakings

The Industry Commission had not given any guarantees or undertakings as at 30 June 1994 (1993 — Nil).

Appendix O

Inquiry activity and reports of the Commission

The Commission's inquiry program embraces a wide range of subject areas, including aspects of economic and social infrastructure. This appendix documents the stages of the Commission's 1993-94 inquiry program — the terms of reference, principal issues and recommendations, and Government responses.

The inquiry program is the Commission's principal area of work (Chapter 3). Public inquiries are conducted in response to terms of reference sent by the Commonwealth Government.

This appendix outlines the terms of reference, summarises major recommendations and Commonwealth Government responses to Commission inquiries conducted in 1993-94. It updates the inquiry program information provided in previous Annual Reports.

Unlike previous Annual Reports, a complete listing of Commission findings and recommendations is not provided. Readers with an interest in the detail are referred to the individual reports or to the *Compendium of Reports 1993-94* (IC 1994h).

Table O1 lists the inquiries that were underway during 1993-94. Earlier inquiries are also included where some or all of the Commission's recommendations have yet to receive a Government response. Any partial responses for these earlier inquiries have been reported in previous Annual Reports.

Table O1 does not include reports which were completed by the Commission more than two years ago (ie prior to 1992-93), but have not received a complete Government response. The relevant inquiries are:

- Availability of capital (Report No 8 signed 9.12.91);

Table O1

Stage of completion of inquiries and Government responses to Commission reports

<i>Date received</i>	<i>Inquiry title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>For major recommendations see</i>	<i>Government response^a</i>
18.7.91	Water resources and waste water disposal	AR 90-91	Report No 26 signed 17.7.92	AR 92-93	no further response ^b
18.7.91	Intrastate aviation	AR 90-91	Report No 25 signed 17.7.92	AR 92-93	no response
30.10.91	Mail, courier and parcel services	AR 91-92	Report No 28 signed 30.10.92	AR 92-93	page 413
21.11.91	Taxation and financial policy impacts on urban settlement	AR 91-92	Report No 30 signed 7.4.93	AR 92-93	no response
18.12.91	Australian Horticultural Corporation	AR 91-92	Report No 24 signed 30.6.92	AR 92-93	page 414 ^c
18.12.91	Horticulture	AR 91-92	Report No 29 signed 18.2.93	AR 92-93	page 414
19.3.92	Port authority services and activities	AR 91-92	Report No 31 signed 31.5.93	AR 92-93	no response ^b
18.9.92	Environmental waste management equipment, systems and services	AR 92-93	Report No 33 signed 17.9.93	page 392	page 393
18.9.92	Urban transport	AR 92-93	Report No 37 signed 15.2.94	page 393	page 394
18.9.92	Adding further value to Australia's forest products	AR 92-93	Report No 32 signed 15.9.93	page 395	page 396
18.9.92	Impediments to regional industry adjustment	AR 92-93	Report No 35 signed 17.12.93	page 396	page 398
5.11.92	Public housing	AR 92-93	Report No 34 signed 11.11.93	page 398	page 400

5.5.93	Petroleum products	AR 92-93	Report No 40 signed 5.7.94	na ^d	na ^d
23.6.93	Meat processing	AR 92-93	Report No 38 signed 20.4.94	page 401	page 403
29.10.93	The tobacco manufacturing and growing industries	page 405	Report No 39 signed 29.6.94	page 403	page 404
31.8.93	Defence procurement	page 406	Report No 41 signed 30.8.94	na ^d	na ^d
10.9.93	Research and development	page 407	Inquiry in progress	na	na
16.12.93	Charitable organisations	page 408	Inquiry in progress	na	na
17.3.94	Vehicle and recreational marine craft insurance and repair industries	page 410	Inquiry in progress	na	na
12.4.94	New industrial materials	page 411	Inquiry in progress	na	na
23.5.94	Occupational health and safety	page 412	Inquiry in progress	na	na

AR Industry Commission Annual Report.

na Not applicable.

a As at 21 September 1994.

b No formal announcement. See Appendix E for industry developments.

c Report was to be considered in conjunction with the Commission's Horticulture report (IC 1993d).

d Report had not been tabled/released by the Government as at 21 September 1994.

- Review of overseas export enhancement measures (Report No 19 signed 3.4.92);
- Raw material pricing for domestic use (Report No 21 signed 1.4.92);
- Commercial restrictions on exporting (including franchising) (Report No 23 signed 27.4.92); and
- National Procurement Development Program (Report No 20 signed 31.3.92).

Reports released

This section provides a summary of the main findings and recommendations of inquiry reports that have been released since the Commission's last Annual Report.

Environmental waste management equipment, systems and services

Report No 33 released 21 December 1993

This inquiry — along with Adding value to Australia's forest products — was the first of the Government's new industry development references. This new style of reference is industry specific in nature and is intended to provide opportunities to investigate growth prospects, as well as to expose impediments to improved performance.

The Environmental waste management equipment, systems and services industry includes firms and individuals producing goods and services which reduce the production of solid, liquid and gaseous wastes or dispose of wastes. This encompasses an extremely diverse array of activities, ranging from the development of highly sophisticated waste monitoring technologies to the production of basic equipment (eg plastic garbage bins) and the provision of services, such as those provided by land fill operators and consultancy firms.

The Commission reported that global demand for the industry's products is substantial (at least A\$280 billion) and growing annually by over 5 per cent. Demand growth is expected to be highest in some South-East Asian nations, many of which face significant environmental problems (eg limited access to sanitation and safe drinking water).

The Commission found that the local industry is competitive in at least four distinct segments of the market: rehabilitation/remediation of mining and industrial sites; waste water and sewage treatment; monitoring and sensing equipment; and environmental consultancy services.

Australian firms' ability to exploit market opportunities in these and other market segments will depend in large measure on: the industry's success in identifying market opportunities; its ability to contain costs and meet the price, quality and service requirements of domestic and overseas customers; its success in demonstrating its capabilities to those customers; and, for export sales, its willingness to meet the specific economic, environmental and cultural demands of the rapidly growing Asian market.

The Commission found that the industry's capability to improve its competitiveness and to seize growth opportunities will also depend on actions by governments in formulating environmental objectives and in ensuring that other government policies (eg procurement policies) and functions (eg the operation of regulatory authorities) are efficient and effective. In particular, governments need to: meet environmental objectives more efficiently; promote more efficient use and operation of land fills; facilitate participation in government tenders; clarify lenders' liability for environmental damage; and consider establishing an Environmental Industries Council.

Government response

No response to the report has been announced as at 21 September 1994.

Urban transport

Report No 37 released 20 June 1994

The Commission's analysis highlighted the significance of transport for the life and efficient working of Australia's cities:

- transport gives people access to a wide range of economic, social and cultural activities;
- the different modes of transport allow people to choose how they go to work, school, shops and so on;
- technological change and other improvements to transport have increased the opportunities and choices that are available;
- although private cars dominate urban travel, public transport, cycling, walking, taxis and community transport have significant roles; and
- efficient urban freight movements are essential for trade and commerce.

The Commission found that in many respects urban transport performs well, but there is considerable scope for improvement:

- urban transport systems generally lack the flexibility to cope with changing travel patterns and with social and technological changes;

- service delivery in public transport is often inefficient and short on innovation;
- the quality of public transport is often poor, particularly in terms of reliability and frequency. Criticisms from participants also included unattractiveness, lack of safety, and inconvenience;
- measures to improve accessibility to urban transport for the disadvantaged in the community are not well targeted;
- urban transport has major environmental impacts, especially in terms of local air quality, noise and risks to life and limb, with motor vehicles the largest contributor;
- fares and user charges do not reflect the economic costs of provision to the individual; and
- the drain on public sector budgets and the cost to taxpayers from building and operating urban transport systems are both high.

The Commission presented a package of reforms, centred on improving the operating environment for urban transport. The package seeks to:

- introduce constructive competition in the delivery of public transport services;
- reform the agencies involved in transport infrastructure and public transport;
- price urban transport so as to encourage the more efficient use of both roads and urban public transport;
- promote better environmental outcomes associated with urban travel;
- better target and deliver measures to make urban transport more accessible to the disadvantaged; and
- promote better decisions on investments in transport systems.

Government response

On 20 June 1994, the Commonwealth Government stated (Howe, Brereton and Gear 1994) that it supported the broad thrust of the reforms put forward by the Commission and that they would be carefully examined and considered in the light of other policy mechanisms in this area, such as the Australian Urban and Regional Development Review.

Other issues raised by the report would be considered by the Australian Transport Council, which consists of Commonwealth and State Ministers for Transport and is responsible for developing the framework for a national transport policy. This reflects the fact that most of the Commission's recommendations concern matters which are the responsibility of State and Territory governments.

The Government acknowledged the contribution that many of the Commission's recommendations could make towards improving the performance of the urban transport sector. However, it indicated that in shaping the microeconomic agenda governments would need to give careful consideration to effects on social justice and urban reform.

The Government agreed that reform of the urban transport sector would take time. However, given the importance of the reform, the Government decided to request the Industry Commission to report on progress made in the sector in 1997.

Adding further value to Australia's forest products

Report No 32 released 26 November 1993

This inquiry was in response to an industry development reference.

The Commission found that Australia's forest product industries have considerable growth potential. Reduced wood availability in many traditional supplying nations, coupled with increasing demand for most wood and paper products, will create significant growth opportunities for Australia's suppliers of forest products in both international and domestic markets. However, the capacity of Australia's forest industries to capitalise on the emerging growth opportunities will largely depend on their ability to increase international competitiveness.

The Commission considered that many of the measures required to improve performance need to be undertaken by the firms themselves. However the competitiveness of the forest products industries is closely linked to the performance of governments.

Governments are major suppliers — and in some cases the sole suppliers — of important inputs such as wood, energy, rail and port services. They also provide essential infrastructure (eg roads) and regulate (or otherwise oversight) many facets of the industries' operations (eg the development of new projects, the export of logs and woodchips, and the level of environmental emissions). Consequently, the Commission reported that it is not feasible to lift performance to the maximum possible extent unless governments also become internationally competitive.

The Commission found that the performance of Commonwealth and, in particular, State government agencies which impact on the operations of the forest products industries needs to be improved.

The Commission considered that there is a need for the Australian Taxation Office to clarify the application of the *Income Tax Assessment Act 1936* as it applies to sellers of immature plantations.

Government response

In its initial response at the time the report was released, the Government (Griffiths, Lee and Gear 1993) agreed that action must be taken by Government if prospects of export growth and import replacement are not to be stymied by inefficient practices.

The Government stated that recommendations for privatisation of public plantations, corporatisation of forest services and regulation reform will be referred to the States through the Australian Forestry Council. The Government also reiterated its policy that export controls over wood from native forests will be retained.

In regard to the Commission's taxation recommendations, the Government's announcement noted that the Australian Taxation Office is preparing a comprehensive ruling to clarify the taxation treatment of native forests and plantations used for commercial wood production. A draft ruling was issued in February 1994.

In *Working Nation* (Keating 1994c), the Government further stated that many of the recommendations of the report were being implemented, particularly through the joint Commonwealth/State Forest Policy Statement implementation process. A final response to the Industry Commission report will be released following Government consideration of criteria for defining environmentally preferred paper products to be used for Government purchasing targets.

Impediments to regional industry adjustment

Report No 35 released 25 March 1994

Against a backdrop of difficult economic conditions and high unemployment in many regions of Australia, the Commission was asked to report on impediments to regional adjustment of industry, and on ways of facilitating the effective movement of people and businesses within and between regions.

The Commission found most regions to be facing pervasive pressures for change, pressures that are of national and international origin and which differ substantially throughout Australia.

A central theme in the inquiry was the difficulties that uniformity in policy and regulation can pose for regional adjustment and development, given the diversity among regions.

The Commission found that only if individual workplaces within a region are competitive can the region prosper and offer expanded employment opportunities. The more flexible are workplaces, the higher productivity is likely to be, and the higher the wages that can be paid. For those who lose jobs,

whether for structural or cyclical reasons, retraining is needed. Training could be provided in formal institutions or on the job — the latter is important in areas where institutional support is limited. However, minimum award wages can reduce incentives for employers to provide training, by limiting their ability to pay wages that reflect the lower productivity of new employees.

The Commission considered that greater recognition needs to be given to the particular conditions faced by workplaces in different regions when workplace bargaining is undertaken. From a regional perspective, this is best achieved under arrangements in which: general minimum employment standards provide the only constraint on workplace agreements; and employees have freedom to choose who negotiates on their behalf at the workplace.

Determining the success of Labour Market Programs is difficult in the absence of comprehensive monitoring, incorporating control groups, long time-frames and methodologies that account for substitution and displacement effects among employees. The Commission found post-program monitoring wanting. Given the proliferation of labour market schemes and the substantial sums involved, the Commission recommended that there be an independent public review of their role and effectiveness.

In terms of 'immobile' factors of production, the Commission found that while land prices are not constrained directly by governments, land uses are controlled by zoning regulations, development approval processes and other regulations. These affect land values and the extent to which land uses can change in response to adjustment pressures.

Fragmentation of local government has been associated with land use problems and high service costs. The Commission saw merit in State governments undertaking public evaluations of local government jurisdictions.

The standard and price of a region's infrastructure can affect the location decisions of people and firms. While public infrastructure investment can promote growth, it must be based on informed decisions about demand, scale, timing and funding of projects and take into account demonstrable social benefits that might be ignored under strictly commercial criteria. For major projects, there should be a requirement that such cost-benefit analysis be published to ensure greater transparency.

Competition among the States to attract development projects is to be expected, and can yield important national benefits when based on underlying competitive advantage and 'good government'. The Commission considered that, where governments seek to sustain populations in particular regions, there are advantages in approaches designed to make the regions more attractive to capital generally — such as by improving regional infrastructure, labour force skills and administrative efficiency. Ad hoc subsidy deals (such as selective tax

exemptions) negotiated with particular companies, carry the danger of bidding wars, which can result in 'negative-sum' outcomes for the nation as a whole.

Government response

The Government (Gear 1994a) indicated that the report would be considered in the context of its White Paper on employment and growth and that any remaining issues would be considered at a later stage.

Working Nation (Keating 1994c) did not respond to the Commission's report in specific terms. However, a number of its proposals addressed matters raised in the Commission's report, including provision of training wages and the interaction of the taxation and social security systems (see Chapter 1).

Public housing

Report No 34 released 13 January 1994

The Commission's report into public housing proposed reforms aimed at improving the effectiveness and efficiency of housing assistance. In formulating the reforms, the Commission assumed that funding constraints are inevitable and that assistance should go first to those most in need.

It was argued that improved delivery of housing assistance will not be achieved until governments clarify their housing objectives and assistance is provided under arrangements that improve accountability and transparency. In particular, there is a need for a better delineation of responsibilities under the Commonwealth-State Housing Agreement (CSHA).

The Commission proposed that the Commonwealth, consistent with its responsibilities for income support, provide rent assistance for all eligible people on low incomes. The Commonwealth should contribute to the cost of public housing in two ways — through a payment equivalent to the rent assistance received by social security recipients and an incentive payment to support an appropriate level of public housing. These rent subsidies would be available to individuals who live in public and community houses. Under these arrangements, the CSHA would be negotiated bi-laterally and funded on a recurrent rather than the existing capital basis. The level of funding received by each government would depend on the need of its people and the housing costs they face. These new arrangements will therefore increase transparency and provide for Commonwealth funds to be directed where the assistance is required most.

Under the proposed arrangements, States and Territories would be responsible for ensuring that there is an adequate supply of low-cost housing. Accountability would be strengthened, and appropriate pressures brought to

bear if the housing needs of groups, such as Aboriginal and Torres Strait Islander people, were not met.

The administration of public housing programs would be significantly altered under the Commission's proposals. The property and tenancy management functions of State housing authorities would be performed by separate agencies. The tenancy manager would provide assistance on a holistic basis, meeting housing needs through public housing, community housing or private rental. The property manager would manage the public housing stock and lease to the tenancy manager on a fee-for-service basis, charging market rents.

Public housing allocation and pricing reforms are proposed to improve the effectiveness of the assistance provided, redress inequities in current policies and improve efficiency by providing greater choice to tenants over the type and location of the housing they receive.

The reforms proposed for community housing are aimed at ensuring that people who are eligible for public housing receive similar levels of assistance should they choose community housing. The Commission also recommended that government expenditure for the promotion of the tenure be funded separately from housing assistance, to improve transparency and allow proper accounting of the benefits and costs of community housing.

The recommended reforms to supported assistance programs are aimed at severing the current links between housing assistance and support services and the need to modify public and community housing for people with special needs or disabilities. A recommended rationalisation of the Supported Accommodation Assistance and the Crisis Accommodation programs will also provide greater flexibility in meeting the immediate and medium-term housing needs of people who are initially in crisis.

Aboriginal and Torres Strait Islander housing suffers from overcrowding, the stock is poorly maintained and fails to meet cultural needs. The Commission's recommendations are aimed at redressing the fundamental cause of these problems — intergovernmental funding tensions arising from unclear demarcation of responsibilities. The recommendations, in conjunction with those for public and community housing, will ensure equitable treatment of Aboriginal and Torres Strait Islander people as well as promote self-sufficiency and self-determination. Housing assistance for Aboriginal and Torres Strait Islander people would be provided through programs available to all people in each State and Territory and their special cultural needs would be met through a separate Commonwealth program.

Government response

In its initial response to the report, the Government (Howe, Baldwin and Gear 1994), stated that it would not adopt the Industry Commission's proposal to remove targeted funding for Aboriginal and Torres Strait Islander housing assistance through the Aboriginal and Torres Strait Islander Commission. The Government announced that it would provide a detailed response on the broad directions for general housing assistance reform in June 1994.

The Government intends to work with State and Territory governments through the Council of Australian Governments (COAG) to establish greater clarity of Commonwealth and State roles and responsibilities in public housing. Public housing was listed on the August 1994 COAG agenda but, as of 21 September, no response has been announced.

Workers' compensation in Australia

Report No 36 released 4 February 1994

The Commission found that the existing multiplicity of workers' compensation arrangements results in inequity (eg different benefit structures and entitlements) and inefficiency (eg national employers and their employees must cope with different rules in each jurisdiction, and are sometimes required to over-insure).

Workers' compensation costs are being shifted — both ways — between workers' compensation schemes and government health and income support programs, often to the detriment of both. Actions by governments to influence the location decisions of businesses, by creating low benefit, low cost workers' compensation schemes are generally being paid for by workers, other firms or taxpayers. Unhealthy competition at this level eroded both benefits and incentives to reduce the cost of work related injury and disease, while what is required is healthy competition which would lead to best practice in prevention, rehabilitation and claims management.

The Commission highlighted that an effectively structured benefits package, combined with performance-based premium systems, will create incentives for employers and employees to reduce the incidence and costs of claims, and that a nationally consistent approach to these and associated administrative arrangements will address equity, efficiency and cost sharing issues.

The Commission's preferred approach involves putting in place agreed national benefits and supporting arrangements to limit the extent of cost-shifting onto injured and ill workers and the community. At the same time, greater competition in the provision of insurance and other services aimed at effective prevention and rehabilitation should be encouraged through the establishment of

a nationally available workers' compensation scheme which would compete with existing State and Territory schemes.

Government response

On 21 April 1994, the Government (Keating 1994a) made a preliminary response to the Commission's report. It acknowledged that there is room for substantial improvement in Australia's workers' compensation arrangements, and generally endorsed the directions for reform contained in the Commission's recommendations. However, the Government maintained that very careful consideration must be given to the design of any new, uniform benefits structure to ensure that an appropriate balance is achieved between the needs of injured workers, the incentives for employers to maintain safety as well as the implications for labour costs and employment. In this context, the Government maintained that while the Commission's illustrative benefits structure would create greater incentives to reduce the cost of workplace injury and illness, it would also involve at least a short term increase in premium levels.

The Labour Ministers' Council addressed the report in May 1994, and a detailed response by the Government was expected no later than August 1994. Workers' compensation was listed on the August 1994 COAG agenda but, as of 21 September, no response has been announced. Consistent with a recommendation of the report, the Government announced (Gear 1994b) an inquiry into occupational health and safety arrangements in Australia. The inquiry is being conducted by the Industry Commission, commenced on 23 May 1994 and is to run for 14 months.

Meat processing

Report No 38 released 18 July 1994

This inquiry was in response to an industry development reference.

The Commission found that Australian meat is generally price competitive on export markets, largely because processors are able to buy livestock at very low prices compared with processors in other countries. Despite some recent improvements, Australia's meat processing industry operates at significantly higher cost than processing industries in most countries with which it competes and Australian meat exports have been losing market share in almost all our major export markets.

The major threats facing the industry relate to competition from other meat producing countries such as New Zealand, where productivity is increasing, and from a number of South American countries when they are granted foot and mouth disease free status.

Labour is by far the largest single input cost of processing livestock into meat. The industry has been disadvantaged by a poor industrial relations climate and a poor occupational health and safety record. Features of the industry's award system inhibit innovation and have contributed to industrial unrest. As a result, capacity utilisation of the Australian industry is low resulting in higher fixed costs per unit of output.

Reform through the negotiation of enterprise agreements has been stymied by failure to achieve agreement on a national minimum rates award. Negotiations would be progressed by the establishment of an independently chaired consultative council, as is provided for in recent industrial relations legislation.

Generally, government inspection for health reasons is a prerequisite for sale in both domestic and international markets. The industry pays for inspection, which gives it a particularly strong interest in the efficiency of the process to ensure the integrity of meat products. The Commission considered that regulation should not be used to limit competition and quality assurance systems should be adopted wherever possible.

The Australian Quarantine and Inspection Service (AQIS) licenses all abattoirs and other meat processing facilities in which meat is produced for export and inspects and certifies all meat and meat product exports. The Commission recommended that the regulatory and service provision roles of AQIS be separated and where possible, the services be contestable.

The fundamental justification for the Australian Meat and Live-stock Corporation (AMLC) and the Meat Research Corporation (MRC) is that they are engaged in the provision of services which generate returns for the industry in ways which could not be fully captured by individual producers and firms. The Commission recommended that there be closer co-operation between the corporations and the industries they serve.

The Commission said that the Australian Meat and Livestock Industry Policy Council (AMLIPC) should be abolished or restructured to reflect the interests of levy payers. The Commission considered a Meat Industry Authority should be formed under the umbrella of the AMLIPC to evaluate the programs of the AMLC and MRC.

The Commission recognised the recent outcome of the Uruguay Round of GATT negotiations has provided a major boost to the prospects of Australia's meat processing industry. However, wherever trade restrictions are imposed in the form of import quotas, entitlements to these markets should be fully transferable between Australian suppliers, and a proportion of entitlements should revert each year to a common pool to be reallocated by tender. In principle, revenue from the tendering of entitlements should be remitted to general revenue.

Government response

On 18 July 1994, the Government (Collins, Brereton, Cook and Gear 1994) stated that the Commission's report provides a further opportunity to assess the direction of industry reforms currently underway, such as the restructuring of AQIS.

Before releasing its final response to the report, the Government will be consulting with industry on some of the matters raised by the Commission, including issues involved in further streamlining the industry's statutory arrangements. The aim of these consultations, which are to be handled by the AMLIPC, is to ensure the industry statutory bodies are cost effective and their programs are able to facilitate the development of an internationally competitive industry. The Government announcement stated that it has been agreed that a discussion paper covering these issues would form the basis of these consultations. This approach would honour the Government's election commitment to review the AMLC.

The Government announcement stated that the federal industrial relations framework, which covers a significant portion of the meat processing industry, provides a focus for new opportunities to accelerate reform.

The tobacco growing and manufacturing industries

Report No 39 released 1 September 1994

The catalyst for this inquiry is the impending termination, on 30 September 1995, of arrangements which have regulated the production and marketing of tobacco leaf in Australia for nearly three decades. Under a Local Leaf Content Scheme (LLCS), tobacco product manufacturers who use 50 per cent local leaf in their products qualify for concessional rates of duty on their leaf imports, and since 1977, growers and all three manufacturers have participated in a Tobacco Industry Stabilisation Plan (TISP). The Commission was asked to report on the appropriate tariff level to apply following termination of those arrangements.

The Commission found that the TISP and the LLCS has not provided an opportunity for growers to compete with each other on the basis of quality or price and has suppressed competition between tobacco product manufacturers. The marketing arrangements were also found to have been primarily responsible for the development of an inefficient industry structure in which there are too many growers, and too much capacity, to efficiently supply the demand for domestically produced tobacco leaf.

The Commission found that a backlog of regionally concentrated adjustment pressures now requires, and is receiving, urgent attention. In the Myrtleford region of Victoria, local community-based initiatives have been prominent,

whereas in the Mareeba-Dimbulah region, the Queensland Government has been responsible for the development of a co-ordinated program to facilitate regional adjustment.

The Commission reported that many tobacco growers are unable to obtain assistance under the Rural Adjustment Scheme (RAS) because they either fail to meet the assets test or cannot demonstrate long-term viability, but that this does not provide a basis to change the RAS eligibility criteria specifically for tobacco growers.

Other impediments to adjustment were identified as the small size of tobacco farms, regulations relating to subdivision, grower access to finance, lower returns from alternative activities, age and ethnic background of growers, and uncertainty about the prospect of further government assistance to remain in, or leave, tobacco production. The Commission found that these impediments to adjustment do not warrant the provision of assistance beyond that which is already available for adjustment purposes.

For the short term, the Commission considered that an initial ad valorem tariff of 25 per cent will be appropriate for imports of tobacco leaf. Although this will continue to provide high assistance in relation to assistance to most other Australian industries, the Commission sought to avoid compounding the short term adjustment task already facing the industry. For the longer term, the Commission recommended that the initial tariff be phased down to 5 per cent over a period of seven years.

The Commission noted that the timing of termination of the existing marketing arrangements, and implementation of its recommendations, may be affected by agreements recently reached under the Uruguay Round of trade negotiations.

Government response

The Government (Collins, Cook and Gear 1994) stated that it recognised the need to ensure that the economic and social pressures of tobacco industry adjustment in the regions of Mareeba and Myrtleford are addressed. The Government also stated that it would have to ensure that Australia's obligations in relation to tobacco under the GATT and the Uruguay Round of trade negotiations are met and that consideration is given to the impact on manufacturers.

The Government indicated that it plans to seek the views of growers, manufacturers and, if necessary, overseas suppliers on the Commission's recommendations. A submission is to be put to Cabinet by the end of the year.

Terms of reference for inquiries commenced

This section presents the terms of reference for inquiries that have been received since the Commission's last Annual Report.

The tobacco growing and manufacturing industries

The tobacco growing and manufacturing industries were referred to the Industry Commission for inquiry and report by 29 July 1994. The inquiry report was released on 1 September 1994.

Having regard to the Government's decision to terminate the Tobacco Industry Stabilisation Plan and the Local Leaf Content Scheme on 30 September 1995, the Commission was asked to report on the appropriate tariff level to apply after that date to imports of tobacco leaf and manufactured tobacco products.

In making its recommendations the Commission was asked to aim to improve the overall economic performance of the Australian economy.

The Commission was asked to report on:

- emerging trends in local and global markets for the industry;
- the current structure and competitiveness of the industry, including an identification of strengths and weaknesses, drawing international comparisons where appropriate;
- the potential for further development of the industry, including the scope for increasing exports and any barriers to the export of tobacco leaf and tobacco products; taking account of Australia's international approach in relation to tobacco and health;
- any measures which could be undertaken to remove impediments or otherwise contribute to the efficiency, growth or export development of the industry, in ways that are consistent with the principles of efficient resource use in the economy;
- any impediments to efficient land use, especially impediments to the structural adjustment of the industry, including identifying and adjusting to alternative land use;
- the effectiveness of the existing rural adjustment policies in facilitating adjustment and any measures which could be undertaken to remove impediments to efficient land use, in ways that are consistent with the principles of efficient resource use in the economy; and
- the effects on the industry, and the economy in general, of any measures recommended by the Commission.

Furthermore, the Commission was requested to quantify the extent of any assistance provided to the industry, identify if it is offered in a discriminatory manner within the industry and report on ways in which:

- that assistance could be better used to promote the long term development or adjustment of the industry and economy; and
- the costs of adjusting to lower levels of assistance can be minimised.

Where appropriate and without disclosing material provided in confidence, the Commission was requested to report on examples of past success and failure in the industry, both in Australia and elsewhere, by way of case studies or other means.

The Commission was requested to have regard to the established economic, social, health and environmental objectives of governments.

Defence procurement

Australia's defence procurement was referred to the Industry Commission for inquiry and report by 31 August 1994.

The Commission is to report on:

- the effectiveness and efficiency of Australia's current defence procurement arrangements in achieving value for money, taking account of strategic defence arrangements;
- the impact, including regional effects and industry development aspects, of defence procurement programs and institutional arrangements on particular industries such as shipbuilding, aerospace, electronics and engineering; and
- the extent to which Australian industry is reliant on Australian defence procurement.

Without limiting the scope of the reference the Commission is requested to have regard for:

- the Government's policy to promote defence self-reliance as enunciated in the 1987 policy information paper *The Defence of Australia*;
- priorities for development of the Australian Defence Force as outlined by the *Force Structure Review* of May 1991 and the study *Defence Policy and Industry* in 1992; and
- the Government's objectives of improving the efficiency and international competitiveness of Australian industry.

The Commission is to have regard to the established economic, social and environmental objectives of governments; and avoid duplicating any recent substantive studies undertaken elsewhere.

Research and development

Research and development undertaken by industry, government agencies and higher education institutions was referred to the Industry Commission for inquiry and report by 9 March 1995. Subsequently, the reporting date was extended to 10 May 1995.

The Commission is to examine and report on:

- the effect of research and development activities on innovation in Australia and its impact on economic growth and industry competitiveness; and
- the efficiency and effectiveness of policies and programs which influence research and development and innovation in Australia.

Without limiting the scope of this reference, the Commission is requested to report on:

- the roles and capacities of industry, government agencies and higher education institutions in identifying and developing research requirements and in supporting, undertaking and influencing research and development and innovation in Australia;
- policies affecting the performance of industry in undertaking research and development;
- the efficiency and effectiveness of programs, regulations, or other institutional arrangements that affect the level, type, and focus of research and development and its application including:
 - government science and innovation grants and taxation measures;
 - government policies toward major scientific research agencies including funding and cost recovery arrangements; and
 - the primary industry and energy research and development corporations;
- the appropriateness of the present balance of support between service, manufacturing and rural industries;
- the appropriateness of present methods of government financial support, including funding levels and the efficiency of mechanisms used to allocate funds both within and across programs;
- evidence concerning the impact of research and development activities on industry competitiveness in selected overseas countries;
- any changes which should be made to enhance program delivery or the impact of current measures (including the Discretionary Grants Scheme and the Generic Technology Grants Scheme (GIRD) should the Government wish to extend funding for the program);

- the effectiveness of any policies or practices which impinge on the effectiveness or numbers of joint ventures or other contractual arrangements between government research agencies and private companies in relation to research and development; and
- the incentives and impediments to:
 - the dissemination, uptake and commercialisation of Australian research outcomes;
 - the enhancement of information flows between Australia and other countries in relation to research and development;
 - the creation of linkages between research agencies, higher education institutions and business; and
 - the impact of Australia's intellectual property law on research and development.

The Commission is to take account of the Government's 1992 White Paper, *Developing Australian Ideas*, and recent substantive studies undertaken elsewhere. The Government has in recent years kept under review a number of major reforms in the higher education system. The Commission should not report on the appropriateness of present methods of government funding support with regards to:

- the appropriateness of the overall level of Government funding for the higher education system; or
- sources of funding for higher education (except in relation to research functions), including the balance between government funding and income from student contributions.

The Commission is to have regard to the established economic, social and environmental objectives of governments, including those of the National Strategy for Ecologically Sustainable Development.

Charitable organisations

Charitable organisations in Australia were referred to the Commission for inquiry and report by 16 March 1995. Subsequently, the reporting date was extended to 21 June 1995.

For the purpose of this inquiry, charitable organisations are defined as:

- non-government establishments, organisations, associations or trusts that are primarily established otherwise than for the purpose of profit or benefit to the individual members of the organisations, and the principal objects or purposes of which are charitable or benevolent, and which provide any of the following:

- welfare services, including income support and the provision of clothing, goods and food;
- community services, such as care in people's homes or community centres provided to frail older people, younger people with a disability, and those requiring post acute or palliative care;
- accommodation services, such as emergency shelters and hostels, and homes for children, frail older people, or people with disabilities;
- nursing or convalescent homes, drug referral and rehabilitation, and blood transfusion services;
- employment and training services for the unemployed and people with disabilities;
- advocacy, referral, counselling, and legal services; and
- emergency and development assistance overseas;
- any businesses owned by those organisations defined above;
- any peak bodies which represent organisations covered above; and
- any establishments or companies which provide fund raising services for welfare or charitable purposes.

The Commission is to examine and report on:

- the size, scope, efficiency, and effectiveness of the services provided in Australia by charitable organisations;
- the size and scope of, and funding arrangements for, those services delivered overseas by charitable organisations; and
- the administrative efficiency of charitable organisations.

Without limiting the scope of this reference, the Commission is requested to report on:

- the nature and appropriateness of the interaction between assistance and services provided in Australia by charitable organisations and those provided by government programs;
- the extent to which any assistance currently provided in Australia by any of governments, charitable organisations, or the private sector, could more effectively be provided by either of the others, having due regard to client confidentiality, comparability of eligibility conditions and entitlements across the nation and accountability of public funds and for services provided;
- the role of charitable organisations in the provision of goods and services to or on behalf of governments and competition between charitable organisations and business enterprises;

- the appropriateness of any legislation or regulations governing the activities of charitable organisations;
- the effect on charitable organisations of relevant industrial agreements and arrangements;
- the appropriateness of the present taxation treatment of charitable organisations;
- the effectiveness of current government financial or other assistance to charitable organisations, including any measures which could be taken to maximise the benefits of such assistance; and
- current funding sources of charitable organisations and any impediments to their capacity to raise funds or attract voluntary labour.

In considering the effectiveness of the provision of services by charitable organisations and the appropriateness of their interaction with Government programs, the Commission is to have regard to the objectives of the organisations and the objectives of particular programs under which specific activities are funded.

The Commission is to have regard to the established economic, social, industrial relations and environmental objectives of governments; and take account of any recent substantive studies undertaken elsewhere.

Vehicle and recreational marine craft repair and insurance industries

Motor vehicles, towed vehicles and marine craft repair industries and related repair insurance industries were referred to the Industry Commission for inquiry and report by 17 March 1995. (In this reference 'marine craft' are those usually used for recreational purposes).

The Commission is to report on the scope for improving the efficiency of the industries covered above and options for achieving those efficiencies.

Without limiting the scope of the reference, the Commission is requested to report on:

- insurance company competitiveness, including premiums, loss ratios and expense ratios;
- assessment of repair schedules;
- the cost and quality of repairs;
- the use, cost and effect of different categories of replacement parts including:
 - 'genuine' parts usually carrying the trade mark of the vehicle manufacturers and sold through their outlets;

- parts made by manufacturers of 'genuine' parts but marketed by them under their own brand names through normal retail outlets;
- after market parts (copies) made by firms that do not supply the vehicle manufacturers and may be of lower specification and price; and
- used parts;
- competition between insurers, between repairers and between towing firms, including the impact of possible arrangements between insurance companies, towing firms and repairers; and
- arrangements and legal processes for determining claims, including the role of loss assessors and the efficacy of complaints procedures available to clients.

The Commission is to have regard to the established economic, social and environmental objectives of governments; and avoid duplication of any substantive studies undertaken elsewhere.

New industrial materials

The research, development, production and processing by Australian firms and organisations of new and advanced industrial materials based on metals, ceramics, polymers and composites of those materials was referred to the Industry Commission for inquiry and report by 12 April 1995.

In making its recommendations, the Commission is to aim to improve the overall economic performance of the Australian economy.

The Commission is to report on:

- emerging local and global trends in:
 - the development of industrial materials;
 - processing technologies, including those that impact on the application of new materials and new industrial applications for existing materials;
 - markets for new industrial materials; and
 - the transfer of technology between different business sectors;
- the international marketing environment, including barriers to Australian exports;
- the current structure and competitiveness of the sector, including an identification of strengths and weaknesses, drawing international comparisons where appropriate;

- the potential for further development and greater use of new and advanced materials including, in particular, the scope for increasing output of high value added products and exports;
- any measures which could be undertaken to remove impediments or otherwise contribute to the development and processing of new industrial materials, in ways that are consistent with the principle of efficient resource use in the economy;
- the identification of groups benefiting from and disadvantaged by any of the above measures, and implementation strategies for any suggested measures;
- the effects on industry and the economy in general of any measures recommended by the Commission; and
- the research base for the industry, including the quantitative balance between the private and public sectors, sourcing of research overseas, and the relevance and capacity of the public sector research base.

Furthermore the Commission is requested to quantify the extent of any assistance currently provided to relevant industries, identify if it is offered in a discriminatory manner and report on ways in which:

- that assistance could be better used to promote the long term development of industry and the economy; and
- the costs of adjusting to lower levels of assistance can be minimised.

Where appropriate and without disclosing material provided in confidence, the Commission is to report on examples of past successes and failures in relevant industry sectors, both in Australia and elsewhere, by way of case studies or other means.

The Commission is to have regard to the established economic, social and environmental objectives of governments.

Occupational health and safety

Australia's approach to occupational health and safety was referred to the Industry Commission for inquiry and report by 23 May 1995. Subsequently, the reporting date was extended to 23 July 1995.

The Commission is to report on the broad strategies which should be undertaken or continued to achieve optimal outcomes in preventing occupational injury, illness and disease for the next decade.

Without limiting the scope of this reference the Commission is to report on:

- the levels, causes and costs of occupational injury, illness and disease in Australian industry, including the identification of differences relating to

workforce characteristics (including gender and ethnicity) and workplace characteristics;

- the extent and costs of prevention of occupational injury, illness and disease;
- the costs and benefits of preventive strategies including complementary legislation and educational and promotional strategies;
- the contribution that employers, employees and their representative organisations, occupational health and safety professionals and researchers can make to the prevention of occupational injury, illness and disease in the workplace;
- the implications of incorporating occupational health and safety matters in enterprise agreements;
- the appropriate legislative approaches and roles for National, Commonwealth and State/Territory agencies in promoting occupational health and safety;
- the development and implementation (particularly the extent of acceptance in the workplace and State agencies) of national occupational health and safety standards;
- export opportunities for Australian occupational health and safety services; and
- identification of best practice approaches to occupational health and safety.

The Commission is to report on any relevant implementation strategies.

The Commission is to have regard to the established economic, social, environmental and regulatory reform objectives of governments; and take account of recent substantive studies undertaken elsewhere

Government responses to reports from previous years

Mail, courier and postal services

Report No 28 released 8 December 1992

On 15 November 1993, the Government announced (Beddall 1993) a series of reforms to introduce further competition for Australia Post. These included:

- effective from July 1994, the price competition threshold is to be cut from ten times the standard letter rate (\$4.50) to four times the standard letter rate (\$1.80), and the weight limit halved from 500 grams to 250 grams;

- outgoing international mail is to be deregulated. Incoming international mail would be deregulated subject to only Universal Postal Union (UPU) member countries lodging with Australia Post's network at UPU treaty charge rates; and other international operators interconnecting on the same basis as domestic mailers;
- Australia Post is to continue to operate a standard letter service (at present costing 45 cents) at a uniform rate throughout the country;
- there is to be more flexibility for business lodging mail in bulk. Document exchange operation and the transfer of mail within an organisation are to be exempted from Australia Post's reserved services; and
- Australia Post is to remain in full public ownership as a statutory corporation operating a national postal network.

A review is to be conducted in 1996–97 to examine the future arrangements for Australia Post. The terms of reference for this review should be consistent with the Government's determinations on the findings of the National Competition Policy Review, including its policies on a declared access regime, monopoly pricing, competitive neutrality and regulatory restrictions on competition.

Horticulture

Report No 29 released 2 April 1993

A report by the Government's Horticultural Task Force was released in February 1994 (Horticultural Task Force 1994). As part of its responsibilities, the Task Force was asked to address the recommendations of the Industry Commission report. The Task Force:

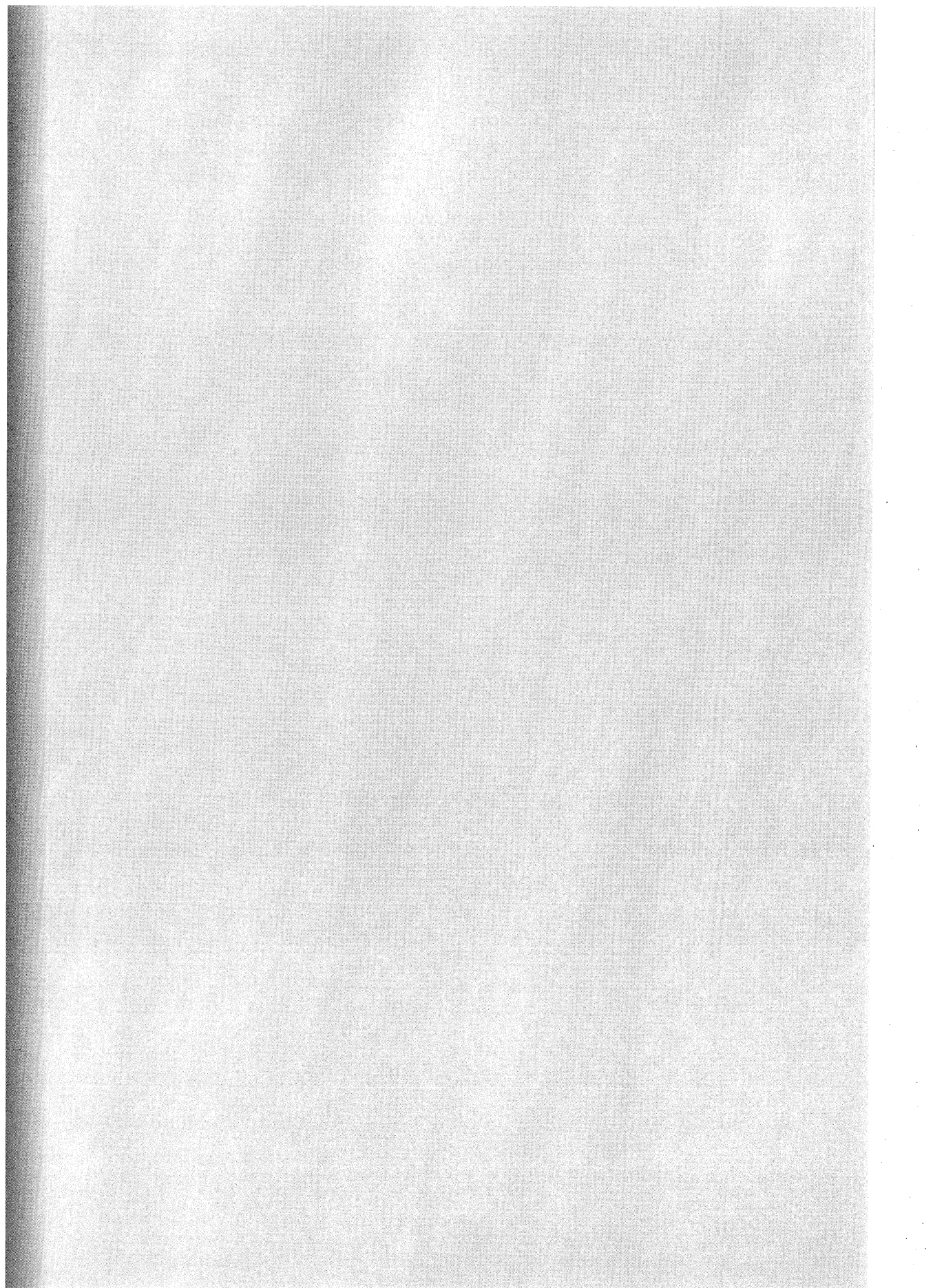
- recommended acceptance of the Commission's recommendation that the taxation treatment of expenditure on all new horticultural plantations be revised to provide a more neutral treatment compared with expenditure on other activities;
- recommended that the Department of Primary Industries and Energy in conjunction with the Australian Horticultural Corporation, or some other appropriate government agency, establish a data base on export assistance programs available to the horticultural industry;
- in response to Australia's commitments under the Agriculture Agreement of the GATT round, the Citrus Working Group recommended that;
 - the Government exempt fresh orange juice from sales tax on the basis that it is an essential food item; and
 - that beverages other than fresh orange juice and containing more than 25 per cent juice, should continue to be taxed at the concessional rate of 11 per cent, rather than the higher rate of 21 per cent;

- recommended against the Commission's proposal to decouple industry levy proceeds from the expenditure of these moneys by the Australian Horticultural Corporation;
- recommended acceptance of the Commission's recommendation that the trading powers of the Australian Horticultural Corporation be removed. The Task Force believed that consideration of these powers should be undertaken in the context of improving the co-operative relationship between horticultural exporters and the Australian Horticultural Corporation;
- recommended the retention of the Australian Horticultural Corporation's licensing powers;
- recommended that adequate Commonwealth funding for export market development activities undertaken by the Australian Horticultural Corporation be continued for a period of seven years through to the year 2000. No Commonwealth funds should be used to support domestic promotional activities except in circumstances where this is undertaken for the purposes of the national interest;
- supported the Commission's recommendation that horticultural industry representatives have greater involvement in international market access negotiations;
- recommended that the Australian Quarantine Inspection Service (AQIS) 'franchise' its export inspection activities to the States to administer in accordance with national standards established by AQIS; and
- recommended that within two years of the devolution in inspection services to the States, that AQIS, in consultation with unions and industry stakeholders, undertake an integrated examination of future options for the delivery of inspection services and introduce new arrangements which will improve the efficiency of the service and introduce greater competition.

Report reference

List of references

Index



List of references

- ABA (Australian Broadcasting Authority) 1993, *Annual Report (covering the period 5.10.92 to 30.6.93)*, Canberra.
- ABS (Australian Bureau of Statistics) 1992, *Foreign Trade 1991–92, Australia: Magnetic Tape Service*, ABS Catalogue no 5464.0, AGPS, Canberra.
- 1993a, *Foreign Trade 1992–93, Australia: Magnetic Tape Service*, ABS Catalogue no 5464.0, AGPS, Canberra.
- 1993b, *Government Financial Estimates, Australia 1993–94*, ABS Catalogue no 5501.0, AGPS, Canberra.
- 1994a, *Foreign Trade 1993–94, Australia: Magnetic Tape Service*, ABS Catalogue no 5464.0, AGPS, Canberra.
- 1994b, *Taxation Revenue Australia 1992–93*, ABS Catalogue no 5506.0, AGPS Canberra.
- 1994c, *1992–93 Government Finance Statistics, Australia*, ABS Catalogue no 5512.0, AGPS, Canberra.
- 1994d, *1992–93 Value of Agricultural Commodities Produced Australia*, ABS Catalogue no 7503.0, AGPS, Canberra.
- 1994d, *Balance of Payments (Quarterly)*, ABS Catalogue no 5302.0, AGPS, Canberra.
- (various issues), *Australian National Accounts: National Income, Expenditure and Product (annual)*, ABS Catalogue no 5204.0, AGPS, Canberra.
- (various issues), *Australian National Accounts: National Income, Expenditure and Product (quarterly)*, ABS Catalogue no 5206.0, AGPS, Canberra.
- ACS (Australian Customs Service) 1994, *1993–94 Annual Report*, AGPS, Canberra.
- ADA (Anti-Dumping Authority) 1992, *Glace Cherries from France and Italy*, Report no 64, AGPS, Canberra, March.
- 1993a, *Fibreglass insect screening from the Peoples Republic of China*, Report no 111, AGPS, Canberra, October.
- 1993b, *1992–93 Annual Report*, AGPS, Canberra.
- 1994a, *Review of the Australian Customs Service negative prima facie decision on Edam red wax ball cheese from the Netherlands*, Report no 121, AGPS, Canberra, February.
- 1994b, *Formulated trifluralin from the Republic of South Africa*, Report no 122, AGPS, Canberra, March.

-
- AIA (Automotive Industry Authority) 1994, *Report on the State of the Automotive Industry 1993*, AGPS, Canberra.
- AIDAB (Australian International Development Assistance Bureau) 1993, *Commercial benefits from development cooperation with China*, Canberra.
- Andrews, N., Roberts, I. and Hester, S. 1994, 'The Uruguay Round Outcome: Implications for Agricultural and Resource Commodities', Paper delivered to ABARE Outlook 94 Conference, Canberra, 1–3 February.
- ARC (Administrative Review Council) 1992, *Rule Making by Commonwealth Agencies* (Saunders Review), Report no 35, AGPS, Canberra, March.
- Armstrong, I. (Minister for Ports) 1994, *Media Release*, 15 August.
- Auditor-General 1990, Audit Report no 18, 1990–91, AGPS, Canberra.
- 1993, *An Audit Commentary on Aspects of Commonwealth-State Agreements*, Audit Report no 6, 1993–94, AGPS, Canberra.
- 1994, *Australian Trade Commission, the Export Market Development Grants Scheme — Its Efficiency and Effectiveness*, Audit Report no 33, 1993–94, AGPS, Canberra.
- Austel 1994, *Industry Development Arrangements Customer Equipment: Half Year Report — Year 5*, March.
- Austrade 1993, *Australian Trade Commission Annual Report 1992–93*, Sydney.
- Australian Parliament 1994, *Commonwealth Authorities and Companies Bill*, 29 June.
- Baker, S. 1994, *Financial Statement 1994–95*, Financial Paper no 1, South Australian Government, Adelaide.
- Bascand, G.M. 1989, 'Implications of Alternative Tax Bases: with Particular Reference to Direct and Indirect Consumption Taxes', in Head, J.G. (ed), *Australian Tax Reform in Retrospect and Prospect*, Australian Tax Research Foundation, Sydney, pp.275–324.
- Beddall, D. (Minister for Small Business, Construction, and Customs) 1992, 'Ministerial Statement on Anti-Dumping Legislation', *Weekly Hansard*, no 15, House of Representatives, 4 November, pp.2580–82.
- Beddall, D. (Minister for Communications) 1993, 'Sensible Approach Preferred in Postal Reforms', *Media Release*, 40/93, 15 November.
- BIE (Bureau of Industry Economics) 1985, *Submission to EPAC: Implications of Abolishing Payroll Tax*, Canberra.
- Bilney, G. (Minister for Development Cooperation and Pacific Island Affairs) 1994, 'Australia's Development Cooperation Program 1994–95', *Budget Related Paper no 2*, AGPS, Canberra.

- Break, G.F. 1967, *Intergovernmental Fiscal Relations in the United States*, Brookings Institution, Washington DC.
- 1980, *Financing Government in a Federal System*, Brookings Institution, Washington DC.
- Brennan, G. 1977, 'Criteria for State and Local Taxes', in Mathews, R.L. (ed), *State and Local Taxation*, ANU Press, Canberra.
- 1990, State Taxation Issues: Commentary, in Walsh, C. (ed), *Issues in State Taxation*, Centre for Research on Federal Financial Relations, ANU, Canberra.
- Brennan G. and Pincus J. 1990, 'An Implicit Contract Theory of Intergovernmental Grants', in *Publius*, vol. 20, no 4, pp.129–144.
- Brereton, L. (Minister for Transport) 1994a, *News Release*, no T50/94, 22 August.
- 1994b, *News Release*, no 52/94, Maritime Industry Dispute, 13 September.
- BTE (Bureau of Transport Economics) 1984, *Assessment of the Australian Road System: Financing*, Occasional Paper 61, AGPS, Canberra.
- Button, J. (Minister for Industry, Technology and Commerce) 1991, 'Ministerial Statement on Anti-dumping Legislation', *Weekly Hansard*, vol. 22, Senate, December, pp.4288–94.
- Button, J. and Bolkus, N. 1992, 'Government Promotes Opportunities for Local Firms', *Media Release*, 17 December.
- CGC (Commonwealth Grants Commission) 1990, *Report on Issues in Fiscal Equalisation, Volume I — Main Report and Volume II — Appendixes and Consultant's Report*, AGPS, Canberra.
- Chapman, R. and Vincent, D. 1986, 'Payroll Taxes in Australia, Part 1: Background and Theoretical Analysis', *Economic Analysis and Policy*, vol. 16, no 2, September, pp.121–135.
- 1987, 'Payroll Taxes in Australia, Part 1: An Economy-wide Approach to Estimating the Effects of Their Removal', *Economic Analysis and Policy*, vol. 17, no 2, September, pp.149–177.
- Civil Aviation Authority 1994, *Civil Aviation Authority Industry Development Plan*, AGPS, Canberra.
- COAG (Council of Australian Governments) 1993, *Communique*, Melbourne, 8–9 June.
- 1994a, *Communique*, Hobart, 25 February.
- 1994b, *Communique*, Darwin, 19 August.
- Collins, B., Brereton, L., Cook, P. and Gear, G. 1994, 'Industry Commission identifies areas for reform of the meat processing industry', *Joint statement*, 18 July.

-
- Collins, B., Cook, P. and Gear, G. 1994, 'Industry Commission recommends 25 per cent tariff for tobacco', *Joint statement*, 1 September.
- Collins, D.J. 1987, 'Fringe Benefits Taxation: An Economist's Perspective', *Australian Tax Forum*, vol. 4, no 1.
- 1990, 'Competition and Harmonisation in State Taxation', in Walsh, C. (ed), *Issues in State Taxation*, Centre for Research on Federal Financial Relations, ANU, Canberra.
- 1993, 'Problems with State Taxes: A Reformer's View', in Collins, D.J. (ed), *Vertical Fiscal Imbalance*, Conference series no 13, Australian Tax Research Foundation.
- Conroy Report (Committee of Review into the Australian Customs Service) 1993, *Review into the Australian Customs Service*, December, AGPS, Canberra.
- Cook, P. (Minister for Industry, Science and Technology) 1994, *News Release*, 109/94, 7 June.
- CORR (Committee on Regulatory Reform) 1994, *Report to the Council of Australian Governments*, February.
- Court, R.F. 1994, *1994–95 Economic and Financial Overview*, Budget Paper no 5, Treasury of Western Australia, Perth.
- Cousins, D. 1994, 'The Future Role of Prices Surveillance', Industry Commission Seminar, 23 June, Canberra.
- Crean, S. (Minister for Primary Industry and Energy) 1991, *Media Release*, DPIE 91/204c, 2 August.
- 1992a, *Media Release*, DPIE 92/596, 24 July.
- 1992b, *Media Release* DPIE 92/78C, 21 September.
- 1993a, *Media Release* DPIE 93/7J, 2 February.
- 1993b, *Media Release* DPIE 93/23C, 28 April.
- CSRS (Commonwealth-State Relations Secretariat) 1994, *Catalogue of Specific Purpose Payments to the States and Territories*, Department of Prime Minister and Cabinet, Canberra.
- Dawkins, J. (Treasurer) and Willis, R. (Minister for Finance) 1992, *Budget Paper no 4, Budget Statements 1992–93*, AGPS, Canberra.
- 1993a, 'Premiers' Conference Loan Council Outcome for 1993–94', *Press Release*, no 73, 5 July.
- 1993b, *Budget Paper no 3, Budget Statements 1993–94*, AGPS, Canberra.

- DeLacy, K. (Treasurer of Queensland) 1993, *Financial Relations Between the Queensland and Commonwealth Governments*, State Budget 1993–94, Budget Paper no 4, Queensland.
- Department of Finance 1993a, *Accountability and Ministerial Oversight Arrangements for Commonwealth Government Business Enterprises*, Canberra.
- 1993b, *A Policy Framework for Commercialisation*, AGPS, Canberra.
- DFAT (Department of Foreign Affairs and Trade) 1994a, East Asia Analytical Unit, *ASEAN Free Trade Area, Trading Block or Building Block?*, AGPS, Canberra.
- 1994b, Trade Negotiations and Organisation Division, *Uruguay Round, Outcomes for Australia*, AGPS, Canberra, December.
- DIR (Department of Industrial Relations) 1994, 'Update on Formalised Federal Workplace Agreements, May 1994', Wages Policy Branch, and subsequent correspondence with the Industry Commission.
- DPIE (Department of Primary Industries and Energy) 1994, *Portfolio Budget Measures Statements 1994–95*, AGPS, Canberra.
- DTC (Department of Transport and Communications) 1992, *Radiocommunications: Spectrum Management Reform*, September.
- Duncan, I. and Bollard, A. 1992, *Corporatisation and Privatisation, Lessons from New Zealand*, Auckland.
- ECCNSW (Ethnic Communities' Council of New South Wales) 1994, *Equity, Efficiency and the Industry Commission*.
- EFIC (Export Finance and Insurance Corporation) 1993, *Annual Report*, Rodenprint, Sydney.
- EPAC (Economic Planning and Advisory Council) 1985, *The Economic Effects of Payroll Tax*, Council Paper no 2, Canberra.
- 1990, *Towards a More Co-operative Federalism*, Discussion Paper 90/04, AGPS, Canberra.
- Fahey, J. (Premier, NSW) 1993, *Media Release*, 6 August.
- Fels, A. 1994, 'The Australian System of Competition Law and its Relationship to International Harmonisation of Competition Laws', Paper delivered to Symposium on International Harmonisation of Competition Laws, Taipei, 11–16 March.
- FitzGerald, V.W. 1993, *National Saving, A Report to the Treasurer*, AGPS, Canberra.
- Fletcher, C. 1993, 'Competition Between Regional Governments and the Federal Culture of Fiscal Equalisation', *Australian Journal of Political Science*, vol. 28.1.

-
- Flood, P. (Director General of AIDAB) 1994a, 'Aid's bridge to commerce', *Australian Financial Review*, 6 April 1994, (copied and reported in AIDAB media kit on The Mekong River Bridge).
- 1994b, *The Australian Aid Program — Promoting Industry Capabilities*, Speech, Sydney, 21 June.
- Fordham, R.C., 1991, *Land Tax Review*, Victoria.
- Freebairn, J., Porter, M. and Walsh, C. 1989, *Savings and Productivity: Incentives for the 1990s*, Allen and Unwin.
- Freebairn, J. 1993, 'The GST and Payroll Tax Abolition', in Head, J.G. (ed), *Fightback! An Economic Assessment*, Proceedings of conference organised by the Public Sector Management Institute, Monash University.
- GATT (General Agreement on Tariffs and Trade) 1993, 'New GATT Procurement Agreement Gives International Access to Hundreds of Billions of Dollars of Government Purchases', *Press Release*, 15 December, Geneva.
- 1994a, *Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations*, GATT Secretariat, Marrakesh, 5 April.
- 1994b, 'Increases in market access resulting from the Uruguay Round', *News of the Uruguay Round of Multilateral Trade Negotiations*, 12 April, Geneva.
- GATT Council 1994, *Trade Policy Review Mechanism — Australia; Report by the Secretariat*, January.
- Gear, G. (Assistant Treasurer) 1994a, 'Industry Commission report on impediments to regional industry adjustment', *Press Release*, 25 March.
- 1994b, 'Industry Commission inquiry into Occupational Health and Safety', *Press Release*, 23 May.
- GPTNSW (Government Pricing Tribunal of New South Wales) 1993, *Annual Report 1992–93*, Sydney.
- 1994, *News Release*, 23 May.
- Grewal, B.S. 1975, 'Specific Purpose Grants in a Federal System: Overseas Experience', in Mathews, R.L. (ed), *Responsibility Sharing in a Federal System*, Research Monograph no 8, Centre for Research on Federal Financial Relations, ANU, Canberra.
- Griffiths, A., Lee, M. and Gear, G. 1993, 'Industry Commission sees growth opportunities for forest products', *Joint statement*, 26 November.
- Groenewegen, P. 1984, *Public Finance in Australia, Theory and Practice*, second edition, Prentice-Hall, Sydney.
- Gruen, F.H. 1986, *Review of the Customs Tariff (Antidumping Act) 1975: Report*, AGPS, Canberra.

- Head, J. 1985, *Record of Proceedings*, Presentation to National Tax Summit, AGPS, Canberra, 4 July, pp.212–214.
- Hill, J. 1990, *Report of the Land Tax Review Group*, South Australia
- Hilmer, F.G., Rayner, M. and Taperell, G. (The Independent Committee of Inquiry) 1993, *National Competition Policy*, AGPS, Canberra.
- Horticultural Task Force 1994, *Strategies for Growth in Australian Horticulture*, A report to Senator the Hon. Bob Collins, Minister for Primary Industries and Energy, Canberra.
- Howe, B., Baldwin, P. and Gear, G. 1994, 'Release of Industry Commission report on public housing', *Joint statement*, 13 January.
- Howe, B., Brereton, L. and Gear, G. 1994, 'Industry Commission sees scope for reform in urban transport', *Joint statement*, 20 June.
- IASC (International Air Services Commission) 1993, *Annual Report 1992–93*, AGPS, Canberra.
- IC (Industry Commission) 1990, *The Automotive Industry*, Report no 5, AGPS, Canberra.
- 1991a, *Mining and Minerals Processing in Australia*, Report no 7, AGPS, Canberra.
- 1991b, *Energy Generation and Distribution*, Report no 11, AGPS, Canberra.
- 1991c, *Rail Transport*, Report no 13, AGPS Canberra.
- 1991d, *Annual Report 1990–91*, AGPS, Canberra.
- 1991e, *Availability of Capital*, Report no 18, AGPS, Canberra.
- 1992a, *Intrastate Aviation*, Report no 25, AGPS Canberra.
- 1992b, *Water Resources and Waste Water Disposal*, Report no 26, AGPS, Canberra.
- 1992c, *Annual Report 1991–92*, AGPS, Canberra.
- 1993a, *Horticulture*, Report no 29, AGPS, Canberra.
- 1993b, *Taxation and Financial Policy Impacts on Urban Settlement*, Report no 30, AGPS, Canberra.
- 1993c, *Port Authority Services and Activities*, Report no 31, AGPS, Canberra.
- 1993d, *Annual Report 1992–93*, AGPS, Canberra.
- 1993e, *Adding Further Value to Australia's Forest Products*, Report no 32, AGPS, Canberra.
- 1993f, *Environmental Waste Management Equipment Systems and Services*, Report no 33, AGPS, Canberra.

-
- 1993g, *Public Housing*, Report no 34, AGPS, Canberra.
- 1993h, *Impediments to Regional Industry Adjustment*, Report no 35, AGPS, Canberra.
- 1994a, *Workers' Compensation in Australia*, Report no 36, AGPS, Canberra.
- 1994b, *Urban Transport*, Report no 37, AGPS, Melbourne.
- 1994c, *Meat Processing*, Report no 38, AGPS, Canberra.
- 1994d, *Improving the Efficiency of GBEs*, Information Paper, May 1994, Canberra.
- 1994e, *The Tobacco Growing and Manufacturing Industries*, Report no 39, AGPS, Canberra.
- 1994f, *Petroleum Products*, Report no 40, AGPS, Canberra.
- 1994g, *The Performance of Australian Industry, 1993–94*, AGPS, Canberra (forthcoming).
- 1994h, *Compendium of Reports 1993–94*, AGPS, Canberra (forthcoming).
- Industrial Structure Council of Japan, (Subcommittee on Unfair Trade Policies and Measures 1994), *1994 Report on Unfair Trade Policies by Major Trading Partners*, Research Institute of International Trade and Industry, Tokyo.
- Industry Research and Development Board (various issues), *Annual Report*, AGPS, Canberra.
- James, D.W. 1992, *Intergovernmental financial relations in Australia*, Australian Tax Research Foundation, Information Series no 3, Sydney.
- JCPA (Joint Committee of Public Accounts) 1993a, *Inquiry into the Commercialisation of Public Sector Operations*, Submissions, vol. 1–5, Canberra.
- 1993b, *The Midford Paramount Case and Related Matters*, Report no 325, AGPS, Canberra.
- Kasper, W. 1993, 'May the Best State Win — Switching to Competitive Federalism', Address presented to the Bert Kelly Lectures, Centre for Independent Studies, Sheraton Hotel, Brisbane, 19 May.
- Keating, P.J. (Prime Minister) 1992, *One Nation*, 26 February, AGPS, Canberra.
- Keating, P.J. 1994a, 'Industry Commission report into workers' compensation', *Statement by the Prime Minister, the Hon P. J. Keating*, 21 April.
- 1994b, *Working Nation: the White Paper on Employment and Growth*, AGPS, Canberra.
- 1994c, *Working Nation: Policies and Programs*, AGPS, Canberra.

- Kerr, I.A. 1993, 'Taxation Measures to Reduce Vertical Fiscal Imbalance in Australia: A Review of the October 1991 Report of the Working Party on Tax Powers' in Collins, D.J. (ed), *Vertical Fiscal Imbalance*, Conference series no 13, Australian Tax Research Foundation.
- Lee, M. (Minister for Communications and the Arts) and Woods, H. (Convenor, Country Mail Services Working Party) 1994, Country Mail Services Working Party, *Joint Media Release*, 7 February.
- Lee, M. (Minster for Communications and the Arts) 1994a, *House of Representatives Daily Hansard*, 23 March.
- 1994b, 'Austel Report on 'Cot Cases'', *Press Release*, 13 April.
- 1994c, Address to ATUG 94 (Australian Telecommunications Users Group), 3 May.
- 1994d, 'Telecommunications Policy Review Set to Begin', *Press Release*, 31 May.
- 1994e, 'Postal Customers to Benefit from Five Year Freeze in 45 Cent Standard Letter rate', *News Release*, 15 August.
- Manion, V. and Stevens, S. 1974, 'Matching Conditions on Road Grants', Proceedings of the 7th Conference of the Australian Road Research Board, pp.154–180.
- Maxwell, J.A. 1967, *Commonwealth-State Financial Relations in Australia*, Melbourne University Press, Carlton.
- McCarrey Commission (Independent Commission to Review Public Sector Finances) 1993, *Report of the Independent Commission to Review Public Sector Finances: Agenda for Reform*, vol. 1 and 2, Perth.
- McMullan, B. (Minister for Trade) 1994, *Media Release* MT51, 27 July.
- Ministry of Trade and Industry, Republic of Singapore 1994, *Economic Survey of Singapore, 1993*, SNP Publishers Pty Ltd.
- Musgrave, R.A. and Musgrave, P.B. 1976, *Public Finance in Theory and Practice*, second edition, McGraw-Hill Kogakusha, Tokyo.
- New South Wales Government 1993, 'Submission to Industry Commission Inquiry on Impediments to Regional Industry Adjustment', Sydney.
- 1994a, *A Tax Equivalent Regime for NSW Government Trading Enterprises*, Sydney.
- 1994b, *A Social Program Policy for NSW Government Trading Enterprises*, Sydney.
- 1994c, *A Capital Structure Policy for NSW Government Trading Enterprises*, Sydney.
- 1994d, *Guarantee Fees for Commercial Sector Agency Debt*, Sydney.

-
- New South Wales Tax Task Force 1988, *Review of the State Tax System*, Government Printer, Sydney.
- NGMC (National Grid Management Council) 1992, *Network Service Pricing*, Sydney.
- 1993a, *Regulatory Arrangements For a National Electricity Market*, Sydney.
- 1993b, *The Structure of an Interstate Transmission Network for Eastern and Southern Australia*, Sydney.
- 1993c, *Transition to a National Electricity Market*, Sydney.
- Nieuwenhuysen, J. 1983, *Report of the Committee of Inquiry into Revenue Raising in Victoria*, Government Printer, Melbourne.
- Noon, A.K. 1991, 'The Negligible Impact of Specific Purpose Payments and Australia's "New Federalism"', Discussion Paper no 26, Public Policy Program, ANU.
- Northern Territory Government 1993, Submission to Industry Commission Inquiry on Impediments to Regional Industry Adjustment.
- OECD (Organisation for Economic Co-operation and Development) 1993, *Assessing the Effects of the Uruguay Round*, Paris.
- 1994a, *Assessing Structural Reform: Lessons for the Future*, Paris.
- 1994b, *Development Co-operation: Efforts and Policies of the Members of the Development Assistance Committee, 1993 Report*, Paris.
- Office of Regulation Review 1993, *Recent Developments in Regulation and its Review*, Information Paper, Canberra.
- Office of State Owned Enterprises, Department of the Treasury 1994, *Community Service Obligations, Policy Statement and Background to Policy*, Victorian Government, Melbourne.
- Parliament of New South Wales 1992, *Government Pricing Tribunal Act*, no 39, Sydney.
- Parliament of Victoria 1992, *State Owned Enterprises Act*, no 90/1992, Melbourne.
- Pope, J. 1992, The Compliance Costs of Taxation in Australia: An Economic and Policy Perspective, School of Economics and Finance, Working Paper no 92.07, Curtin University.
- Pope, J., Fayle, R. and Chen, D.L 1993, *The Compliance Costs of Employment Related Taxation in Australia*, Australian Tax Research Foundation, Sydney.
- Premiers and Chief Ministers 1991, *Communique*, 21–22 November, Adelaide.
- 1994, *Communique*, 24 July, Adelaide.
- PSA (Prices Surveillance Authority) 1994a, *Discussion Paper on Price Capping: Design and Implementation Issues*, Melbourne.

- 1994b, *Discussion Paper on Pricing Guidelines for Efficiency and Fairness*, Melbourne.
- 1994c, *Monitoring of Movements in Average Air Fares No 9*, Monitoring Report no 20.
- 1994d, *Monitoring of Stevedoring Costs and Charges No 4*, Monitoring Report no 21.
- Queensland Treasury 1994, *Recording and Valuation of Non-current Assets in the Queensland Public Sector*, Brisbane.
- Reece, B.F. 1990, 'State Tax Reform Reports: Retrospect and Prospect on Research Directions', in Walsh, C. (ed), *Issues in State Taxation*, Centre for Research on Federal Financial Relations, ANU, Canberra.
- Rosen, H.S. 1992, *Public Finance*, third edition, Irwin, Boston.
- Samuelson, P.A. 1961, 'A New Theorem on Non-substitution', in Stiglitz (ed) *The Collected Scientific Papers of Paul A. Samuelson*, vol. 1, MIT Press, Cambridge.
- Saunders, C. 1993, 'Vertical Fiscal Imbalance: Constitutional Origins', in Collins, D.J. (ed), *Vertical Fiscal Imbalance*, Conference series no 13, Australian Tax Research Foundation, pp.55–63.
- SCGTE (Steering Committee on National Performance Monitoring of Government Business Enterprises) 1992, *Measuring the Total Factor Productivity of Government Trading Enterprises*, Canberra.
- 1993, *Government Trading Enterprises Performance Indicators 1987–88 to 1991–92*, Canberra.
- 1994a, *Community Service Obligations, Some Definitional, Costing and Funding Issues*, Canberra.
- 1994b, *Government Trading Enterprises Performance Indicators 1987–88 to 1992–93*, Melbourne.
- Smith, J. 1992, *Fiscal Federalism in Australia: A Twentieth Century Chronology*, Discussion Paper no 23, Federalism Research Centre, ANU.
- South Australian Commission of Audit 1994, *Charting the Way Forward, Improving Public Sector Performance*, vol. one and two, Adelaide.
- SSCRO (Senate Standing Committee on Regulations and Ordinances) (various years), *Annual Report*.
- Starkie, D. 1984, 'The Specific Effect of Specific Road Grants in South Australia', *Australian Economic Papers*, vol. 23, no 42, pp.27-37.
- Stiglitz, J.E. 1988, *Economics of the Public Sector*, second edition, W.W. Norton and Coy, New York.
- Stockdale, A. 1994a, *Autumn Economic Statement*, Government Printer, Melbourne.

-
- 1994b, *Budget Paper no 2, Budget Performance and Outlook 1994–95*, Government Printer, Melbourne.
- Sturgess, G. 1994a, ‘Thirty Different Governments’, *Report of the Commission of Inquiry into Red Tape*.
- 1994b, ‘Mutual Recognition — A Status Report’ in *Red Tape — The Inside Story*, Royal Institute of Public Administration, Queensland Division.
- TCFDA (Textiles, Clothing and Footwear Development Authority) 1992, *Annual Report 1991–92*, AGPS, Canberra.
- 1993, *Annual Report 1992–93*, AGPS, Canberra.
- Tasmanian Government 1993, Submission to Industry Commission Inquiry on Impediments to Regional Industry Adjustment.
- Victorian Government 1993, *Reforming Victoria’s Water Industry: A Competitive Future — Water*, Office of State Owned Enterprises, Department of the Treasury.
- Walsh, C.W. and Thomson, N. 1992, ‘Federal Fiscal Arrangements in Australia: Their Impact on Urban Settlement’, Report prepared for the Industry Commission inquiry into Taxation and Financial Policy Impacts on Urban Settlement.
- Wilde, J.A. 1968, ‘The Expenditure Effects of Grant-In-Aid Programs’, *National Tax Journal*, vol. 21, no 3, p.342.
- 1971, ‘Grants-In-Aid: The Analytics of Design and Response’, *National Tax Journal*, vol. 24, no 2, pp.143–155.
- Wilkins, R. (Director General of the NSW Cabinet Office) 1993, Address to the Centre for Comparative Constitutional Studies Conference on Mutual Recognition, 5 November.
- Williamson, D. 1994, ‘Adoption of the Hilmer Inquiry Report’, *Competition and Consumer Law Journal*, vol. 1 (3), pp.278–82.
- Willis, R. (Treasurer) 1994a, *Budget Paper no 3, Budget Statements 1994–95*, AGPS, Canberra.
- 1994b, Premiers’ Conference/Loan Council Outcome for 1994–95, *Press Release*, 25 March.
- Willis, R. (Treasurer) and Beazley, K.C. (Minister for Finance) 1994, *Budget Paper no 1, Budget Statements 1994–95*, AGPS, Canberra.
- Working Party on Tax Powers 1991, *Taxation and the Fiscal Imbalance Between Levels of Australian Government: Responsibility, Accountability and Efficiency*, Report to the 21–22 November Special Premiers’ Conference

List of references for material in Box D1

- Bannon, J. C. (Premier and Treasurer) 1992, *Financial Statement 1992–93*, Financial Paper no 1, Government Printer, Adelaide.
- Commonwealth of Australia 1986, *Statutory Authorities and Government Business Enterprises: Proposed Policy Guidelines*, AGPS, Canberra.
- 1987, *Policy Guidelines for Commonwealth Statutory Authorities and Government Business Enterprises*, AGPS, Canberra.
- Department of Finance 1983, *Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings*, Canberra.
- 1993, *Accountability and Ministerial Oversight Arrangements for Commonwealth Government Business Enterprises*, Canberra.
- Economic and Budget Review Committee (Victoria) 1991, *Out on the Table: The Cost of Community Service Obligations*, Melbourne.
- Government of Victoria 1991, *Corporatisation of Government Business Enterprises: A Policy Discussion Paper*, Melbourne.
- 1992, *The Reform of Victoria's Public Authorities: A Discussion Document*, Melbourne.
- Independent Commission to Review Tasmania's Public Sector Finances, (Curran Commission) 1992, *Tasmania in the Nineties*, Hobart.
- Independent Review of Victoria's Public Sector Finances 1992, *State Finance Victoria*, Melbourne, September.
- Lawrence, C. 1992, *The WA Advantage*, Perth.
- McCarrey Commission (Independent Commission to Review Public Sector Finances) 1993, *Report of the Independent Commission to Review Public Sector Finances: Agenda for Reform*, vol. 1 and 2, Perth.
- New South Wales Commission of Audit 1988, *Focus on Reform: Report on the State's Finances*, Sydney.
- Parliament of Victoria 1991, *Corporatisation of Government Business Enterprises, A Policy Discussion Paper*, Melbourne.
- Public Sector Review Committee July 1987, *Public Sector Review, Report*, Brisbane.
- Queensland Department of Treasury 1990, *A Green Paper on Government Owned Enterprises*, Brisbane.

— 1992, *Corporatisation in Queensland: Policy Guidelines*, Brisbane.

Queensland Government 1983, *Report on Queensland Statutory Authorities*, Brisbane.

South Australian Commission of Audit 1994, *Charting the Way Forward, Improving Public Sector Performance*, vol. 1 and 2, Adelaide.

Steering Committee on Government Trading Enterprises 1988, *A Policy Framework for Improving the Performance of Government Trading Enterprises*.

Walsh, P. (Minister for Finance) 1987, *Policy Guidelines for Commonwealth Statutory Authorities and Government Business Enterprises*, AGPS, Canberra

Index

- adding value to Australia's forest products, 38, 39, 395-6
- Administrative matters, 329-360
- Agreement on Government Procurement (AGP), 244, 258
- agriculture, 239, 240, 263, 268-70, 291-302
 - assistance, 13, 291-302, 312-19
 - commodity assistance, 295-302
 - forms of assistance, 294-5
 - methodology for measuring, 292
 - sectoral assistance, 293-4
- Anti-dumping activity, 279-90
 - Australian Customs Service, 282
 - definition, 279
 - foreign countries dumping, 288-90
 - GATT anti-dumping and subsidies codes, 280-1
 - non-injurious free on board (NIFOB) value, 279
 - number of cases, 282-90
 - goods subject to anti-dumping duties, 286
- Assistance review, 235-326
 - Implications of completion of the Uruguay Round, 235-44
 - agriculture, 239, 240, 297
 - manufacturing, 239
 - benefits of Uruguay Round, 238-40
 - Australia, 238-9
 - the world, 239-40
 - non-tariff barriers to trade (NTBs), 240-2
 - tariffs, 237-8
 - Trade Policy Review Mechanism (TPRM), 4, 242
- Australian Competition Commission, 6, 7, 218
- Australian National Audit Office (ANAO), 109, 362
- Australian Quarantine Inspection Service (AQIS), 252

- bounties, 272
- budgetary outlays to industry, 259-78
 - amounts *see also* individual industries, 261, 268-78
 - manufacturing, 259-62, 264-6, 272-5
 - bounties, 272
 - export assistance, 274-5
 - methodology for estimating, 259-60
 - mining and energy, 259-62, 266, 276
 - primary production, 259-62, 263-4, 268-71
 - selected service industries, 259-62, 266-7, 277-8
- business regulation and administrative law, 213-8
 - primary business legislation, 214-7
 - subordinate legislation, 214, 218

Commission inquiries see inquiry program

Commission

- inquiry activities, 341-5
- internal and external scrutiny, 337
- management issues, 333-5, 338-9
- program performance, 340-1
- reporting requirements, 346
- role, 33-5, 331
- social justice and equity, 335-6
- staff and financial resources, 341
- staff, 347-56
- structure, 331-3

Committee of Inquiry into a National Competition Policy (Hilmer Review), 5-6, 25, 60, 128-29

- implementation, 217-20, 226

commodity assistance, 295-302

Commonwealth budgetary outlays to industry, 259-78

Commonwealth Grants Commission (CGC), 105-108

- financial assistance grants (FAGs), 105-106, 111

Commonwealth-State Committee on Regulatory Reform (CORR), 223

community service obligations (CSOs), 119-125, 191

competition policy, 5-7, 16, 217-20

compliance index, 360

Corporate review, 329-415

- Administrative matters, 329-360

- Financial statements, 361-87

- Inquiry activity and reports of the Commission, 389- 415

Council of Australian Governments (COAG), 6-7

- energy supply and distribution, 135

- Hilmer Report implementation, 217-20

- reform of GBEs, 125

- review of SSPs, 29

- role in reducing overlap and duplication, 23-24

- role in reforming policies, 17

- tax reform, 30-31

- water resources, 143-44, 145

- waterfront and shipping, 147

Developing Country Preferences, 310-11

Development Import Finance Facility (DIFF), 249-50, 257

developments in selected industries, 131-50

Efficiency and equity in State and Territory taxation and Australia's economic performance, 63

employment, 2

enterprise agreements, 8-11, 173-77

environmental waste management equipment, systems and services report, 35, 38, 392-3

- environmental management, 36, 38, 185-89
 - catchment and land management, 187
 - construction industry, 185
 - environmental planning, 188
 - fisheries management, 189
 - mining: environmental impact assessment, 187
 - waste management, 189
 - Water and Forest NSW Resources, 187
 - water resources, 187-88
- equal employment opportunity (EEO), *see* social justice and equity
- export assistance, 245-58
 - Australia's Official Development Assistance program, 245
 - beneficiaries, 252-5
 - difficult to measure assistance, 255-8
 - trends in assistance provided, 245-52
- Export Market Development Grants (EMDGs), 246-7
- exports compared with GDP, 1

- Federal Airports Corporation (FAC), 131-32
- federal microeconomic reform, 22-25
 - reforms implemented in 1993-94, 151-209
 - regulation, 22-23
 - Australian Securities Commission, 22
 - National Food Authority, 22
 - National Road Transport Commission, 22
 - National Registration Authority for Agricultural and Veterinary Chemicals, 22
 - National Environment Protection Council, 22
 - shared responsibilities, 23-24
- federalism and Australia's economic performance, 17-31
 - national infrastructure development, 55-61
 - problems in developing national infrastructure, 56-57
 - specific purpose payments effects, 93-112
 - State and Territory taxation, 63-91
- federalism and competitiveness, 19-22
- Federalism and national infrastructure development, 55-61
- financial statements, 361-87
 - audit report, 363-87
- Freedom of information, 357-8

- GATT *see also* Uruguay Round
 - Agreement on Government Procurement, 244, 258
 - anti-dumping, 279, 280-1
 - Asia Pacific Economic Cooperation (APEC), 4
 - Uruguay Round, 2-4
- government business enterprise (GBEs) reforms, 5, 190-209
 - administrative, 190-97
 - competitive, 198-205
 - ownership, 205-209

government business enterprises (GBEs), 1-2, 25, 117-130
 performance monitoring, 125-27
 Premiers' Conference, 127-28
 reform proposals, 25, 125
 tax reform, 25, 30-31, 117-130

government outlays and sources of revenue, 28-31
 expenditure, 28-30
 revenue, 30-31

government service provision
 performance monitoring, 41-42

government trading enterprises
 performance monitoring, 40-41

government revenue
 sources, 64-65

Hilmer Review, 5-6, 25, 60, 128-29
 implementation, 217-20, 226

horticulture, 414-5

impediments to regional industry adjustment (IRIA), 10, 35, 36, 396-8

industrial relations changes, 8-11
 enterprise flexibility agreements, 8-11

Industrial Relations Commission
 review of Federal awards, 8

industry assistance, 13-15

industry specific reforms, 153-65

Industry Commission, 33-51
 Commission's move, 44-6
 communications and liaison, 49-51
 expenditure, 45
 function, 33-5
 inquiries, 45
 forward inquiry program, 39
 government responses, 37-39, 389-404
 performance, 48
 structure, 45
 technical research support, 42-43

industry policy
 principles, 14

inquiry procedures, 48-49

inquiry program 1993-94, 34, 35-39, 389-415
 economic infrastructure and issues, 35
 Impediments to Regional Industry Adjustment (IRIA), 35
 environmental issues, 38
 government responses to reports from previous years, 413-5
 reports released, 392-404
 terms of reference, 405-13

International Trade Enhancement Scheme, 246, 249

- labour market initiatives, 11-13
 - support programs, 11
- labour market reforms, 171-84
 - award restructuring, 177-8
 - construction industry, 183
 - electricity supply industry, 184
 - employment services, 182
 - enterprise agreements, 173-7
 - industrial relations, 171-3
 - occupational regulation, 179
 - Public sector, 183
 - vocational education and training, 179-81
 - workers' compensation/OH&S, 178
- labour productivity, 2

- mail, courier and postal services, 136-7, 413-4
- manufacturing, 239, 291, 302-311, 320-26
 - assistance, 291, 302-26, 320-26
- management issues, 333-5, 338-9
 - commissioner/SES planning retreat, 334-5
 - maintaining output, 334
 - non-relocatees, 334
 - two-city location, 333-4
- meat processing, 4, 23, 36, 37, 401-3
- microeconomic reform *see also* reform, reform general, 151-209

- National Competition Council, 6-7
- national infrastructure networks, 24
 - electricity, 24, 57-61
 - federal structure as a barrier, 55-7
 - gas, 24, 135-6, 219-20
 - national rail freight service, 24
 - ownership rights, 58
 - pricing arrangements, 59
 - problems, 56-61
 - regulatory arrangements, 59-60
 - water resources, 24
- National Interest Business (NIB), 255-6
- non-tariff barriers, 240-42
- occupational health and safety (OH&S), 47
- OECD structural reform, 4
- official development assistance (ODA), 256-8

- Partnerships for Development, 255, 258
- Passenger Motor Vehicles (PMV)
 - assistance, 14, 302-9
 - Export Facilitation scheme, 246, 250-1, 252, 254
- performance monitoring, 40-2

GTEs, 125-7
government service provision, 41-2
of Commission, 48-9
pharmaceuticals - Factor f program, 246, 249, 254
policy developments
national competition, 5-7
domestic, 5-16
international, 2-4
Prices Surveillance Authority, 6, 50, 118, 131-2, 146
Private Sector Linkages Program (PSLP), 257
public housing, 21, 35, 36, 398-400
publications of Commission, 359
Performance of Australian Industry, 1993-94, vi
Compendium of Reports, 1993-94, vi, 51
IC Bulletin, 51

reform in selected industries, 131-50 *see also* specific industries
aviation, 131-2
broadcasting, 132-4
energy supply and distribution, 135-6
mail, courier and parcel services, 136-7
rail, 137-9
road transport, 139-40
telecommunications, 140-3
water resources and waste water disposal, 143-5
waterfront and shipping, 146-50
reforms implemented in 1993-94, 151-209
competitive tendering/contracting out, 170
general, 166-70
information technology, 169
infrastructure development, 167
local government, 168-69
planning, 169
police, 169
regulatory reform, 166, 213-32
taxation, 166-7
trade, 168
venture capital, 170
regulation review, 15-16, 40, 213-32
agricultural and veterinary chemicals, 220-1
inconsistent and overlapping regulation, 18
issues for reform, 25
mutual recognition, 223-6
National Registration Authority for Agricultural and Veterinary Chemicals (NRA),
220-1
National Registration Scheme for Agricultural and Veterinary Chemicals (NRS),
214, 220-1

- national regulatory standard setting, 230-1
- Office of Regulation Review (ORR), 15-6, 40, 213
- pro-competitive regulation, 217-20
- reforms by other processes, 25
- request and response facility (complaint procedures), 231-2
- smoking, 221-2
- State reform - NSW Sturgess report, 229-30
- Working Nation business regulation reform, 226-9
- reports released, 392-404
 - adding value to Australia's forest products, 395-6
 - environmental waste management equipment, systems and services, 392-3
 - impediments to regional industry adjustment, 396-8
 - meat processing, 401-3
 - public housing, 398-400
 - tobacco growing and manufacturing, 403-4
 - urban transport, 393-5
 - workers' compensation, 400-1
- revenue, 30-31
 - distortionary taxes, 30-31, 63-91
 - State and Territories' taxes, 30-31, 63-91
- review of regulation, 15-16, 40, 213-32
- social justice and equity, 335-6
 - access and equity, 335-6
 - equal employment opportunity, 336
 - status of women, 336
- selected service industries, 259-62, 266-7, 277-8
- specific purpose payments (SPPs), 28-30, 93-112
 - effect on State budgets flexibility, 93, 98-105
 - conditions of payment, 96-102
 - fiscal equalisation, 105-110
 - payments to States, 93-112
- staff, 347-56
 - performance appraisal, 353-5
 - training, 355-6
- State and Territory tax bases, 19, 30-1, 63-91
 - administration and compliance costs, 68-9
 - criteria for assessing, 65-9
 - efficiency of tax collection, 67-8
 - equity of taxes, 66-7
 - major State taxes, 69-85
 - financial transactions taxes, 81-3
 - franchise fees and taxes, 78-81
 - land tax, 75-8
 - payroll tax (PRT), 70-5
 - reform issues, 85-90
- social infrastructure and issues, 20, 35, 36-7
- social issues, 36-7

social justice and equity, 46

tariff reductions, 1, 13-4, 235-40, 291-326

tax reform, 25, 30-31, 85-91, 117-130

- tax revenue sources, 63-91

Textile, Clothing and Footwear (TCF), 14, 246, 250-2, 302-9

- export assistance, 250
- Import Credit Scheme (ICS), 250-2

tobacco growing and manufacturing, 35, 37, 298-9, 403-4, 405-6

Trade Practices Commission, 6, 50, 128, 217-20

unemployment, 2, 11-13

urban transport, 9, 35, 36, 37, 38, 393-5

Uruguay Round, 2-4, 235-44

- benefits of Uruguay Round, 238-40
 - Australia, 238-9
 - the world, 239-40
- key outcomes, 3, 236
- non-tariff barriers to trade (NTBs), 240-2
- tariffs, 237-8
- Trade Policy Review Mechanism (TPRM), 4, 242

waste management, 189, 392-3

water resources, 143-44, 145, 187-8, 193-4

waterfront and shipping, 146-50

wool promotion, 252

workers' compensation, 20, 27, 35, 36, 400-1

Working Nation, 11-16, 23, 40, 132

- assistance to industry, 291
- assistance to manufacturing, 306-11
- changes to social security payments, 12
- National Employment and Training Taskforce, 13
- Performance Bond Facility, 256
- Export Working Capital Guarantee, 256
- privatisation of FAC, 132
- PMV review, 14
- regulation reform, 23, 40, 226-9
- small and medium enterprises, 15, 307-8
- TCF review, 14, 250

World Trade Organisation (WTO), 3, 235-6, 242-44

- environment, 243
- government procurement agreements, 244, 258
- labour market regulations, 243