



# PC update

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Universal paid parental leave  
Government drought support



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Does Australia face a fertility crisis?
- ▶ **Strong Indigenous organisations show the way**  
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The challenge of population ageing



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The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians.



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| <b>Principal Advisers Research</b>   | Lisa Gropp (Melbourne)<br>Jenny Gordon (Canberra)   |
| <b>Media and Publications</b>        | Clair Angel (Media Director)<br>Ph: 02 6240 3239<br><b>maps@pc.gov.au</b>   |
| <b>Melbourne Office</b>              | Locked Bag 2<br>Collins Street East<br>Melbourne VIC 8003<br><br>Level 28, 35 Collins Street<br>Melbourne VIC 3000<br><br>Ph: 03 9653 2100<br>Fax: 03 9653 2199 |
| <b>Canberra Office</b>               | PO Box 1428<br>Canberra City ACT 2601<br><br>Level 2, 15 Moore Street<br>Canberra City ACT 2600<br><br>Ph: 02 6240 3200<br>Fax: 02 6240 3399                    |
| <b>Website/Email</b>                 | <b>www.pc.gov.au</b><br><b>webmaster@pc.gov.au</b>  |

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# UNIVERSAL PAID PARENTAL LEAVE

**In response to a Government request for options for improved financial support for parents of newborn children, a recent Productivity Commission Draft Report proposes a taxpayer-funded parental leave scheme.**

Last year, around 285 000 children were born in Australia. Of these, 175 000 were born to mothers who were in the workforce prior to giving birth, with at least 80 per cent of those mothers intending to return to work. Around half of employed mothers (and a smaller share of fathers) are currently eligible for paid parental leave as part of arrangements privately negotiated with their employers. Coverage through voluntary private provision is particularly low for casual, less skilled and lower-paid employees (and, by the nature of their employment, all of the self-employed).

A legislated unpaid maternity leave guarantee of 52 weeks, which gives a mother the right to return to her job, has been available since 1979, and in 1990-91, this right was extended to a father taking paternity leave. The Australian Government has recently indicated its intention to extend the right to request an additional 52 weeks of unpaid parental leave through the National Employment Standards.

Against this background, the Australian Government asked the Productivity Commission to consider the design and impacts of providing a paid maternity, paternity and parental leave scheme in Australia. In undertaking this project, the Commission conducted public hearings in all Australian capital cities and sought written submissions from the public – over 250 submissions were received. A Draft Inquiry Report, *Paid Parental Leave: Support for Parents with Newborn Children*, was released in September.



## Babies and parental leave

Estimates based on adjusted ABS figures indicate that 53 per cent of female employees and 50 per cent of male employees currently have access to employer-provided paid parental leave.

Access is higher in full-time jobs (69 per cent for females) than part-time jobs (34 per cent for females).

Only around ten per cent of women on very low wages have access to paid maternity leave compared with around 80 per cent for those on high wages.

While most mothers stayed at home for at least six months after the birth of their child, some returned to work much earlier.

## Taxpayer-funded parental leave has several advantages

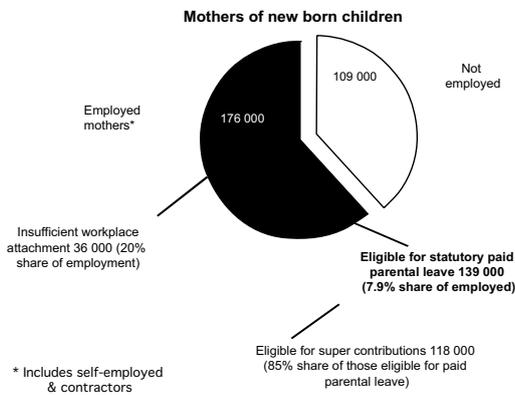
As requested by Government, the Commission considered a range of options for funding paid parental leave, including employer funding (both direct and pooled), portable leave accounts, income contingent loans, concessional tax arrangements and general government revenue (or taxpayer) funding. In its Draft Report, the Commission recommended the introduction of a taxpayer-funded parental leave scheme. A purely government-financed scheme has the virtue of simplicity, spreads the burdens across the whole community, and reduces some of the risks posed by other funding models.

Under the proposed scheme, eligible parents<sup>1</sup> would be entitled to 18 weeks paid leave at the minimum adult wage rate (\$544 per week). Coverage would include part-time, full-time and casual employees, the self employed and contractors. In addition, the scheme would provide two weeks paid paternity leave (which can not be transferred to the mother). A broad range of family types would be eligible, including conventional couples, lone parents and same sex couples.

The Commission estimates that around 140 000 mothers, or 79 per cent of employed mothers of newborn children (figure 1), and up to 225 000 eligible fathers, would benefit from the scheme each year. ►

<sup>1</sup> Eligible parents would be those parents who are the primary carer of a child and who have been employed on average for at least 10 hours per week for the year before the expected birth.

**Figure 1 - Who will be eligible?**



The statutory leave payment, like other income gained while on leave, would be taxable and would be taken into account in calculating income-tested welfare payments, principally Family Tax Benefit A. Recipients would lose eligibility for Family Tax Benefit B for the duration of the statutory leave.

People outside the labour force and employees not meeting the employment test would be ineligible for mandated paid parental leave. The Commission proposes that the existing Baby Bonus be replaced with an equivalent, but non means-tested, 'maternity allowance' only available to those not eligible for paid parental leave. Parents ineligible for paid parental leave would continue to receive other social security benefits. The Draft Report notes that the average family with one 'stay at home' parent receives Family Tax Benefits and other payments – over a lifetime – that exceed those of other families.

Additional features of the Commission's model include:

- Continuation of employer superannuation contributions<sup>2</sup> for certain eligible employees<sup>3</sup> on statutory paid parental leave (as is the case with some other forms of paid leave). The Commission estimates that around 85 per cent of women who would be eligible for paid parental leave would receive the superannuation contribution.
- Payment of parental leave benefits through the employer, with speedy reimbursement by the government.
- Scope for brief interruptions to leave so that employees could keep in contact with the employer or so the self-employed could continue some administrative duties with their business.

<sup>2</sup> At the 9 per cent statutory rate applied to the employee's actual pre-leave wages or the adult minimum weekly wage, whichever is lower.  
<sup>3</sup> That is, employees eligible for these entitlements before taking leave and who are also eligible for unpaid parental leave under the National Employment Standards.

**The impact on businesses would be minimal**

Employers would participate in the scheme by providing superannuation contributions to relevant employees. They would also act as the paymaster for government. Using their usual pay cycle, an employer would initially pay the minimum adult wage to an employee on paid parental leave, but only for those employees eligible for unpaid parental leave under the National Employment Standards and where there was an efficient and timely way for government to reimburse that employer.

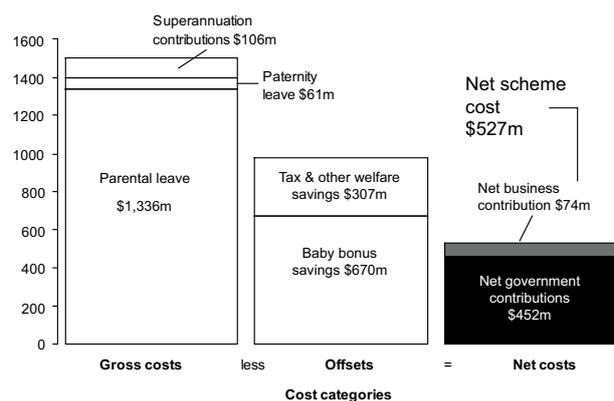
Otherwise employers would have no obligations beyond those already applying under the National Employment Standards. The Commission has estimated that the maximum financial cost per eligible employee for business would be about 3 per cent of their usual annual salary cost (reducing for those on higher incomes). Importantly, businesses would only face additional financial and compliance costs when they had an employee taking paid parental leave. As a result, many small businesses would not face increases in such costs for the vast majority of the time. Moreover, business could benefit from the scheme through higher employee retention rates.

**What are the benefits?**

The Commission's proposed paid parental leave scheme would have several advantages. It would:

- generate child and maternal health and welfare benefits by increasing the time parents take away from work. The Commission estimates that the average leave absence will increase by up to nine weeks, which will allow the vast majority of children to be exclusively cared for by their parents for at least the first six months after birth

**Figure 2 - The net cost of the scheme**



## A snapshot of the Commission's model

|                  |   |
|------------------|---|
| How long?        | 18 weeks of paid parental leave that can be shared by eligible parents. An additional 2 weeks paternity leave.  |
| How much?        | Generally the adult minimum wage (currently \$543.78) for each week of leave (taxable).<br>No access to Family Tax Benefit B while on the scheme, or the proposed maternity allowance.<br>Capped superannuation entitlements for the paid parental and paternity leave period.  |
| Who pays?        | Cash payments for paid parental and paternity leave to be fully taxpayer-financed, but with changes to the Baby Bonus and Family Tax Benefit B.<br><br>Employers to fund 9 per cent superannuation entitlements for long-term employees eligible for these before the statutory paid parental leave period.   |
| Who is eligible? | All those working an average of at least ten hours a week continuous for at least 12 months prior to the date of expected birth.<br><br>Families not eligible for paid parental leave would be entitled to the equivalent of the Baby Bonus (\$5000) through a new maternity allowance and to continued financial support through the social transfer system. |

- stimulate lifetime employment rates of women – potentially contributing around six months of net additional employment per woman
- increase retention rates for business, with reduced costs for training and recruitment
- promote some important, publicly supported social goals, and in particular, the normalcy of combining a caring role for children and working.

### The proposed scheme is in addition to privately negotiated schemes

The Commission does not expect that any employee will be worse off under its proposed scheme. This is because firms currently offering paid parental leave do so to attract and retain employees, and therefore are unlikely to fully withdraw these benefits. Indeed, the Commission expects that many Australian businesses would restructure their existing leave schemes to top up government funded leave to full replacement wages and use any balance to extend the period of leave at full pay.

Evidence from the operation of the taxpayer-funded leave scheme in New Zealand suggests that firms continued to offer their voluntary arrangements after the statutory scheme was introduced.

### What are the overall costs?

The Commission estimates that the net cost of the scheme to taxpayers would be around \$450 million annually, and around \$530 million to the community as a whole, reflecting the net business contribution (see figure 2). Taxpayer funding of the statutory paid parental leave scheme would represent only about a 2 per cent increase in existing outlays by government on family assistance measures.

Offsetting savings arise from taxes on paid leave and forgone Baby Bonus payments and other welfare payments. There may be other tax and welfare savings too over the longer run. These are associated with the greater lifetime employment of women and from better infant and maternal health, but the Commission has not included these given their uncertain magnitude. ■

*The Commission is seeking responses to its draft findings, including through public hearings, before submitting its final report to the Australian Government in late February 2009.*

### Paid Parental Leave: Support for Parents with Newborn Children

Draft Inquiry Report released September 2008

Contact: Ralph Lattimore 02 6240 3242  
rlattimore@pc.gov.au

[www.pc.gov.au/projects/inquiry/parentalsupport](http://www.pc.gov.au/projects/inquiry/parentalsupport)

# GOVERNMENT DROUGHT SUPPORT

**Governments should redirect funding for drought assistance programs to help farmers better manage risks, according to a Productivity Commission Draft Inquiry Report released in October. The report proposes that all farm families facing hardship should have access to temporary income support.**

Droughts have devastating social and financial impacts on many farmers and their local communities, and have long-term environmental impacts. Droughts also affect the broader economy through forgone production, reduced employment and lower exports.

The severity of the current drought compares with the Federation drought and the drought of the 1940s. Unlike previous droughts, the current drought is also affecting many irrigators, especially in the Murray-Darling Basin.

Australia has always had a variable climate, with drought a recurring feature. Climate projections indicate most agricultural regions are likely to face higher temperatures and, for some areas, more frequent periods of exceptionally low rainfall. Against this background, current agricultural practices in some regions may not be sustainable.

All Australian governments have agreed on the need to improve farmers' self-reliance and preparedness for climate variability and change. In this context, the Productivity Commission has been asked to undertake an inquiry into current government drought support arrangements to identify the most appropriate way for governments to assist farmers, farm businesses and farm dependent rural small businesses improve their self-reliance and preparedness for drought events.

The inquiry is part of a national review of drought policy that includes:

- an expert panel's assessment of the social dimensions of the impacts of drought and social support services available to farm families and rural communities; and
- the Bureau of Meteorology and CSIRO's assessment of what a changing climate means for drought in Australia.

The Commission released a Draft Report, *Inquiry Into Government Drought Support*, in October. Public hearings will be conducted in November and December. A final report will be submitted to Government in February 2009.

## Current assistance arrangements

To be eligible for assistance, a farm must first be in an area declared as experiencing Exceptional Circumstances

(EC), and then meet the eligibility criteria of the individual programs. These programs include:

- *EC Relief Payments (ECRP)* – provided to farm households facing hardship
- *EC Interest Rate Subsidies (ECIRS)* – provided to farm businesses and rural small businesses facing financial difficulties, but deemed viable in the long term
- *EC Exit Package* – help for farm businesses deemed unviable and whose owners wish to leave the industry.

Some state and territory governments also subsidise other farm business costs, such as the transport of fodder or shire rates.

## Most farmers manage without assistance

Droughts affect individual farming families and farm businesses differently. The effect depends on factors such as local climatic circumstances, farm management practices, income diversification, and the store of capital farmers can draw on – including human capital and social networks. In 2007-08, only about 20 per cent of all farmers received drought assistance. The majority did not.

Compared with those receiving assistance, farmers in EC declared areas who did not receive support generally had greater off-farm income sources and/or more liquid assets.

## Encouraging greater self-reliance

The Commission's Draft Report notes that most farmers are sufficiently self-reliant to manage climate variability. In 2007-08, only 20 per cent of Australia's 150 000 farms received drought assistance (worth over \$1 billion). Even in drought declared areas, most farmers manage without assistance. From 2002-03 to 2006-07, on average, more than 70 per cent of dairy and broadacre farms in drought areas received no assistance.

The National Drought Policy (NDP) framework aims to encourage self-reliance, preparedness and sustainability, yet, in marked contrast to its objectives, NDP expenditures mainly flow to a minority of farmers in hardship and

### **Some farmers favour existing drought assistance ...**

'The support we have received with Interest Subsidy was vital in assisting us. With this assistance we have utilised the drought as an opportunity ... for without the Interest Subsidy assistance this knowledge gained would not have happened.'

'The existing interest subsidy and household support have been very useful in getting through the difficult time, with our business ready to produce again when it rains.'

### **... other farmers do not**

'The same producers are queuing every time assistance is offered which proves there is no adapting to seasonal variability. ... Those of us who have embraced new technology and diversification are excluded from assistance as [we] are self-sufficient.'

'It is disconcerting to see a number of 'inefficient' graziers ... receiving drought assistance when they have done little to plan and manage the risks of drought ...'

to stressed farm businesses. In its Draft Report, the Commission has recommended fundamental changes to the current suite of drought assistance programs.

### **Exceptional Circumstances declaration is arbitrary and inequitable**

The Exceptional Circumstances application and endorsement process lacks transparency and raises significant equity issues. For example, farmers located outside the EC boundary, who may be experiencing similar conditions to those within the EC-declared area, are ineligible for assistance.

No new areas should be declared. In areas that remain declared, recipients of EC assistance should continue to receive assistance until declarations terminate, but not beyond 30 June 2010.

### **Refocussing relief payments**

EC Relief Payments have higher asset and income thresholds than Newstart, and are limited to those farmers in drought declared areas. The Commission considers that *all* farmers facing hardship should have access to temporary income support, at Newstart levels, designed for farm circumstances, with:

- an overall asset cap, inclusive of the value of the farm house, beginning at \$2 million, with a taper to \$3 million
- a liquid asset sub-cap of \$20 000 (inclusive of bank balances and Farm Management Deposit balances).

Such support would be conditional on the applicant seeking independent financial advice on the viability of the business, and developing and carrying out a plan of action to improve farm viability; and on eligibility being reviewed, payments acquitted and plans updated, every 6 months.

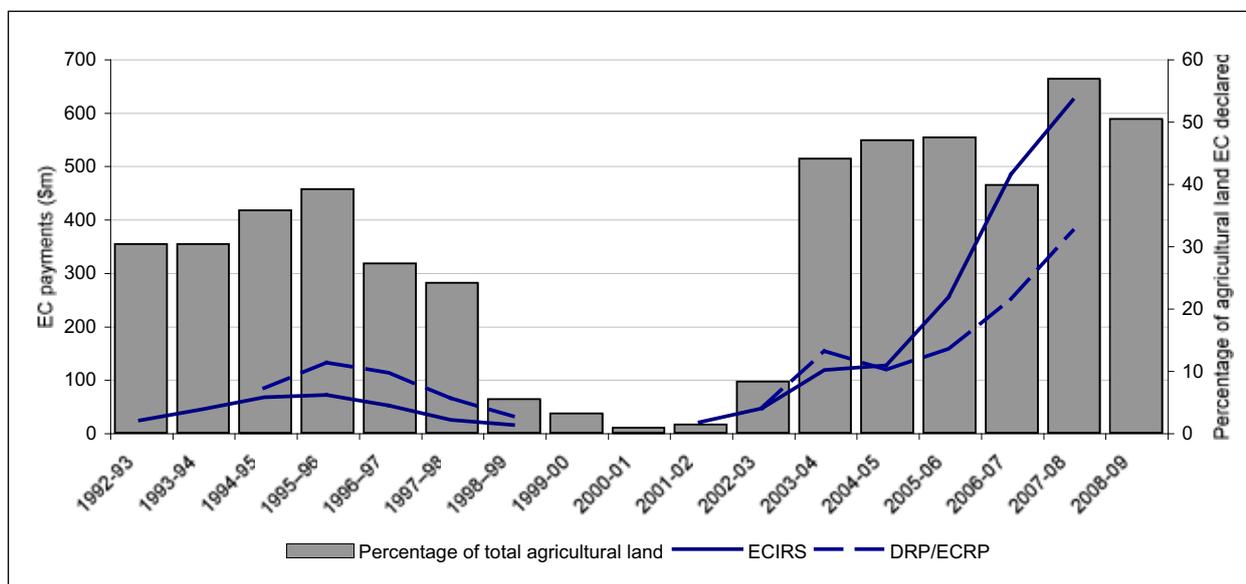
To ensure that dependence on assistance does not become entrenched, assistance could only be accessed for three years out of every seven. At the end of the three years, farmers would be eligible for continued assistance only on meeting the income, assets and activity requirements of other generally available income support programs.

The Draft Report proposes that the new scheme should commence on 1 July 2009.

Governments should ensure that there are adequate programs to assist those considering leaving farming, including counselling, training to increase capacity for earning off-farm income, and the recognition of prior learning. ►



## EC declared area and total EC support payments



Source: Productivity Commission 2008, *Government Drought Support*, Draft Inquiry Report.

### Exit assistance

The Commission considers that the (little used) EC Exit Package is poorly designed (including inadequate recognition of the non-financial factors working against leaving farming) and should not be extended. The recently announced small irrigator exit scheme should be evaluated at the end of its short period of operation.

### Subsidies have sent the wrong signals

EC Interest Rate Subsidy payments have increased rapidly over the last three years, largely due to changes in the scheme criteria. Payments are directed to those relatively more heavily in debt – farmers who have strong balance sheets are ineligible. Recipients are not required to demonstrate that they are improving their farm management practices or in other ways increasing their self reliance. The Commission recommends that interest rate subsidies should not extend beyond 2009-10.

New South Wales, Queensland and the Northern Territory provide subsidies for the transport of fodder, water and livestock for farmers in drought declared areas. This is despite compelling evidence of perverse consequences and the potential for misuse. The Commission recommends that states and territories should, as previously agreed, terminate transactions-based subsidies, no later than 30 June 2010.

### A framework for appropriate government support

The NDP should be replaced with an expansion of the Australian Government's *Australia's Farming Future* initiative, to embrace drought and climate variability more broadly. Expanded objectives of the program would recognise that the primary responsibility for managing risks, including those of climate variability and change, rests with farmers, underpinned by more appropriate forms of government support.

Research, development, extension, professional advice and training to improve business management skills can help build farmers' self-reliance and preparedness. These areas warrant significant government funding provided they are well targeted, area-appropriate and deliver a demonstrable community benefit. ■

### Inquiry into Government Drought Support

Productivity Commission Draft Inquiry Report  
released October 2008

Contact: Rick Baker 03 9653 2146 rbaker@pc.gov.au

[www.pc.gov.au/projects/inquiry/drought](http://www.pc.gov.au/projects/inquiry/drought)

# FERTILITY – RECENT AUSTRALIAN TRENDS

**A new Productivity Commission Staff Working Paper finds that there is no current or impending fertility crisis in Australia.**

Births in Australia are at an historical high – with around 285 000 babies born in 2007. This corresponds to an estimated total fertility rate<sup>1</sup> of 1.93 babies per woman, the highest since the early 1980s.

The key question for Australia's demographic future is whether (business cycle effects aside) fertility levels will stay at roughly their current level, or resume the downward trend apparent before the recent recovery.

## Why has fertility been rising?

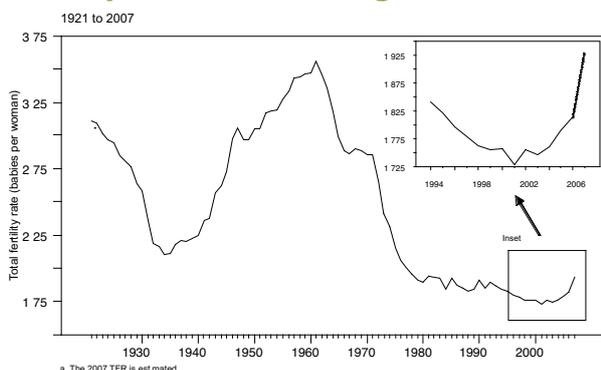
Three distinct, but inter-related, factors have contributed to the rising total fertility rate:

- *Recuperation* – older women catching up on previously postponed births
- *Anticipation* – some women bringing forward babies that they were going to have later, in response to good economic times and family policy incentives
- *Quantum effects* – an increase in the completed fertility (that is, the number of births over a woman's life) above what it would have been otherwise.

Recuperation and anticipation are timing effects that need not affect the total number of babies women have over their lifetime. The long-run demographic effects of fertility are dependent on lifetime fertility rates. Consequently, the presence of quantum effects in the recent fertility increase mean that the increase will have long-run, not merely ephemeral, effects.

It is hard to assess how much each of these factors has contributed to the recent rise in fertility. A small change in one of them is difficult to distinguish from a change in another over short periods. They are also conceptually linked.

## Figure 1 - After a long decline, the fertility rate is now rising



<sup>1</sup> The total fertility rate is the equivalent to the average number of children that would be born to a woman over her lifetime were she to experience current age-specific fertility rates through her lifetime.

That said, recuperation has almost certainly been a major driver of the increase in fertility. The recent period of prosperity experienced in Australia may also have played a decisive role. Increases in household income, relatively low levels of unemployment, flexible labour markets, the growth of part-time and casual work and other factors helped create an environment conducive to childbearing. On the other hand, factors such as greater educational achievement by women, later partnering and rising house prices are likely to have worked against rising fertility.

Increased family payments – including the Baby Bonus and Family Tax Benefit A – over the last eight years are also likely to have played a part, albeit a modest one.

## Is there cause for concern?

There is no fertility 'crisis'. Fertility rates have been generally rising for the last six years, and evidence suggests that after its long downward trend since the Second World War, Australia's fertility rate may have stabilised at around 1.75 to 1.9 babies per woman.

Having babies produces gains for parents and society in many ways, but purely economic arguments based on allaying population ageing or its fiscal and labour market challenges are misplaced. Even if the total fertility rate climbed to 2.1 babies per woman (the replacement level), the proportion of people aged 65 years or more in 2051 would only fall from 26.0 to 24.9 per cent. And over the medium term, increases in fertility actually reduce the ratio of the prime workforce to the number of people aged under 15 and over 64 years – the 'support' ratio. In other words, higher fertility would aggravate Australia's fiscal pressures before it helped them, since the costs associated with raising extra children occur upfront, whereas the fiscal benefits are deferred.

Overall, Australia appears to be in a 'safe zone' of fertility, despite fertility levels below replacement levels. With current fertility rates, Australia's population growth rate is still projected to be one of the highest in the developed world because of migrant inflows. ■

## Recent Trends in Australian Fertility

Productivity Commission Staff Working Paper  
Released August 2008

Contact: Ralph Lattimore 02 6240 3242  
rlattimore@pc.gov.au

[www.pc.gov.au/research/staffworkingpaper/fertility-trends](http://www.pc.gov.au/research/staffworkingpaper/fertility-trends)

# STRONG INDIGENOUS ORGANISATIONS SHOW THE WAY

by Gary Banks, Chairman, Productivity Commission

**Gary Banks serves on the judging panel for the Indigenous Governance Awards. These awards aim to identify, celebrate and promote effective Indigenous governance. This article was first published in *The Australian* on 28 August 2008, just prior to the announcement of the winners for 2008 (Warakurna Artists, WA and Traditional Credit Union, NT).**

There is a good news story about Aboriginal and Torres Strait Islander Australians. But if the past is any guide, you may not get to read much about it or see it on TV. That is partly because it deals with a pretty dry topic, 'governance'. But also because it does not fit with the image of dysfunctional Indigenous communities and organisations that most Australians have been led to believe is the norm.

It has been my privilege to be on the judging panel for the 'Indigenous Governance Awards' sponsored by BHP-Billiton and Reconciliation Australia. The Productivity Commission's research for COAG on Indigenous disadvantage has convinced me of the crucial importance of good governance, and the value of supporting a venture that seeks to promote it.

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This is the third set of Awards and the second with which I have been associated. My experience has been the same on each occasion: I have been bowled over twice. Each time, around 50 Indigenous organisations across diverse areas and functions stepped forward to be assessed. The majority were worthy contenders with important stories to tell. The eight finalists, with which I became more familiar, distinguished themselves as exemplary organisations.

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The best among these Indigenous bodies actually outclass most mainstream organisations or enterprises in Australia. They do everything that mainstream organisations should do to reflect good governance principles and practice. They have strong leaders, clear goals, accountable boards and effective administrations. And they have sound policies for making decisions, strategic planning and dealing with disputes. But they have something more: a profound connection with

community and a cultural fit that makes the best of them truly remarkable organisations.

During the 2006 Awards, Mick Dodson and I visited WuChopperen Health Service in Cairns, an essential healthcare facility established in 1979 to serve Indigenous people in the region. Since that time it has greatly surpassed its humble beginnings, providing first rate services in a first rate clinical setting. It is an Indigenous-run organisation, with a strong Indigenous presence among its medical and other staff. From our initial meetings with the CEO and Board, to those at the end of the day with an assembled throng of stakeholders and clients, it was clear to us that this innovative, caring organisation was achieving excellence at many levels. What stood out was the passion and commitment to serve the community, allied to the highest professional standards and impressive attention to detail in service delivery. People said they felt 'at home', and it was obvious that they did. As one patient put it 'They take the time to listen. We have a beautiful gem'. The judges agreed, awarding WuChopperen first prize.

Another organisation, Murrijabree, at Deception Bay just north of Brisbane, could not be more different. It has only existed for a few years and still occupies a modest house owned by its Chairman, Uncle Allan. It has only a few staff and most are volunteers. In a visit last month with Professor Mick Dodson, and fellow judge Heather Ridout (from AIG), it became clear that this little organisation, whose name means 'gathering together', was achieving something very special. Its mission, to meet the social and other needs of a diverse and hitherto fractured community, was pursued not only with (unassuming) professionalism and dedication, but also with a degree of inclusiveness and community involvement well beyond what could be imagined in any organisation as successful in getting things done. This was all encapsulated for me by one person's heartfelt comment that 'Murrijabree's boomerang is bringing us all in'.

I don't pretend that such organisations have done it easily – on the contrary – or that they will not face challenges in the future. After all, they are seeking to meet a range of objectives in situations far more complex than those faced by most mainstream organisations. Yet, like other organisations, they need adequate resources and the continuing commitment of talented individuals.

What these organisations and others like them have clearly demonstrated, though, is that Indigenous organisations are achieving excellence in governance, providing examples that others can learn from. But for that to happen, the experience of those organisations needs to be accessible and shared. Despite decades of Indigenous policy development, involving a myriad of programs, governments have not done enough to encourage good Indigenous governance. Yet it is the bedrock on which the success of many other actions and policies directed at overcoming disadvantage depend.

Recognition of the importance of good governance is at last gaining momentum, drawing inspiration from the Harvard Project on American Indian Economic Development. Its work is reinforced by the Australian experience that successful institutions generally have much in common, but are also closely attuned to local circumstances and contexts.

It would be gratifying to see this and other Indigenous good news stories actually making the news. I'm not saying that the media should dwell only on the positives and ignore the negatives. But the public needs a realistic picture of both. If we choose to recognise Indigenous success more, we may just see more of it. ■



Gary Banks (left) with Mick Dodson, Chair of the Indigenous Governance Awards, holding the plate designed by Wathaurong Glass that is presented to the winners.

## Overcoming Indigenous Disadvantage

The Productivity Commission, at the request of the Council of Australian Governments (COAG), produces a series of reports titled *Overcoming Indigenous Disadvantage – Key Indicators*, which present information on a range of outcomes for Indigenous people. The reports include indicators of Indigenous health, education, employment, housing and justice. The objective of the reports is to inform Australian governments about whether policy programs and interventions are achieving positive outcomes for Indigenous people. The most recent report in the series was released in 2007, the next report is due for publication in July 2009.

## Indigenous Expenditure Report

In December 2007, COAG established a steering committee to produce an annual report on expenditure on services for Indigenous people. In October 2008, the chair requested the Productivity Commission to provide the secretariat for that exercise. The first Indigenous Expenditure Report is due in early 2009. It is expected to outline the principles, scope and framework underpinning the report, with progressive reporting of actual expenditure over subsequent reports.



2008 Indigenous Governance Awards finalists

# PRODUCTIVITY AND INNOVATION

**The Productivity Commission's 2007-08 Annual Report highlights the need to improve Australia's productivity growth rate. Pursuing the right approach to innovation is key to achieving this.**

The pattern of Australia's recent productivity growth and the scope to improve productivity by stimulating innovation is examined in the Commission's most recent Annual Report.

Following a surge over the 1990s, productivity growth has slowed to below the long-term average. The slowdown cannot be fully explained, but is in large part due to the combined effects of the mining export boom (because of strong investment and lower yields) and drought. Compared with the 1990s, more effort in enterprises also seems to have gone into expanding production through investment and new hiring, rather than cost cutting.

While productivity growth in these sectors can be expected to improve, a sustained recovery in aggregate productivity growth will not be automatic, and attaining above-average growth will require improved performance in several key areas.

Productivity growth at the economy-wide level comes from innovation by enterprises, diffusion of these improvements to others and the reallocation of resources from less to more productive organisations and industries. For both the public and private sectors, it is at the level of organisations that innovation and diffusion occur.

International evidence suggests that market competition, rather than government assistance, is the main driver of innovation and its diffusion throughout an economy. Governments can make important contributions through promoting healthy competition, workplace flexibility and careful investments in platform capabilities, such as human capital and infrastructure.

## **Productivity growth provides higher incomes to meet key challenges**

Recent Commission work has highlighted that stronger productivity growth would reduce or negate the adverse impact on living standards of three looming long-term challenges.

### **Population ageing**

An ageing population tends to lower labour utilisation and raises the expenditure on aged care and public pensions. The *Intergenerational Report* estimated that real GDP per person increased by 130 per cent over the 40 years to 2006-07. Given the same rate of productivity growth, slower growth in employment over the next 40 years is likely to see GDP per person increase by only 90 per cent over the 40 years to 2046-47.

### **Sustainable water use**

Pricing changes and investments required to address overallocation of water in some river systems and adapt water policies to drought and the risk of a hotter climate, will be easier to bear with productivity growth.

### **Climate change**

Our capacity to bear the cost of efforts to mitigate climate change without detracting from per capita income levels depends on achieving higher productivity growth.

## **Productivity Commission Annual Report 2007-08**

Released 31 October 2008



# TRENDS IN AGED CARE SERVICES

**Prospective changes in the demand for and supply of aged care services present a number of challenges, according to a new Productivity Commission Research Paper.**

The Australian community values older people having access to high quality and cost effective aged care services. This is reflected in current institutional and regulatory arrangements, which give considerable weight to achieving equity of access and a minimum acceptable standard of service quality.

A recent Commission Research Paper, *Trends in Aged Care Services: Some Implications*, builds on earlier work by the Commission in the areas of demographic change, health and aged care.

The study finds that the ageing of Australia's population will call for the provision of aged care services to a much larger number of people over the next few decades. Services will also need to meet the challenges posed by the increasing diversity of older people in terms of their care needs, preferences and affluence.

The paper notes that the provision of aged care services is shaped by centralised planning and administrative processes, extensive government regulation and high levels of public subsidy which limit the capacity to respond to changing demand. There are also concerns that the system is overly fragmented and difficult to

access and navigate, reflecting multiple programs combined with the involvement of multiple government departments and agencies across different jurisdictions. Fragmentation impedes improvements to service interfaces and can restrict the aged from understanding which services might best meet their needs.

Currently, governments largely determine how many aged care places are provided, where these places are located, the appropriate mix of services, the price of these services and how they are modified in response to changing community expectations. Competition and price play little role in signalling to providers the changing patterns of demand and the need to adjust decision-making accordingly (including the need for new investment).

The Commission paper highlights several areas where further analysis could aid the development of an improved framework for aged care. ■

## Trends in Aged Care Services: Some Implications

Productivity Commission Research Paper released September 2008

### Profile of Australia's aged care sector

|   |   |
|---|---|
| <b>Older Australians</b><br>(aged 65 years or over)                             | 2.8 million in 2007 (13.4 per cent of the population)   |
| <b>Assistance with personal and everyday activities</b>                         | 32 per cent of those aged 65-74 years<br>86 per cent of those aged 85 years and over  |
| <b>Government funded Services</b>   | 144 959 people in permanent residential care<br>69.8 per cent permanent high care residents<br>30.2 per cent permanent low care residents<br>756 855 clients of key government funded community care programs |
| <b>Recurrent government expenditure</b><br>(for clients aged 65 years or older) | Aged care assessments \$58 million<br>Residential care \$5398 million<br>Community care \$2117 million<br>Financial support for carers \$1018 million<br>Total: \$8591 million                                |
| <b>Residential aged care providers</b>  | Private not-for-profit: 61.4 per cent<br>Private for-profit: 26.9 per cent<br>Government: 11.7 per cent   |
| <b>Residential aged care workers</b>  | 156 823 (1.5 per cent of the workforce)   |

Source: Productivity Commission 2008, *Trends in Aged Care Services: Some Implications*, p.xvi

# REDUCING THE REGULATORY BURDEN

**The Commission has released three new reports examining aspects of the regulatory burden on business.**

Inappropriate regulation is costly and undermines the ability of Australia's economy to achieve its full potential. The Australian, state and territory governments, through COAG, have identified the need for regulatory reform in a number of 'hot spot' areas, with a view to reducing costly duplication and inconsistency, and improving regulatory processes.

## Chemicals and plastics

The Commission's final report into chemicals and plastics regulation acknowledges that government intervention to manage risks associated with chemicals and plastics is warranted where benefits materially exceed costs.

Chemicals regulations are generally grafted onto (differing) state and territory acts that deal with public health, workplace safety, transport safety, environment protection and national security. The Commission found that the current institutional and regulatory arrangements are broadly effective in managing the risks to health and safety, but are less effective in managing risks to the environment and national security. Efficiency could be enhanced by national uniformity in some regulatory areas; reducing costs and delays in obtaining regulatory approvals; and attaining economies of scale in regulatory administration.

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Some parts of the regulatory framework were found to be functioning well, and could serve as foundation blocks for building a more coherent and efficient approach. The Commission proposed a suite of inter-related reforms (see box) which would also serve to reduce and simplify the regulatory burden on businesses.

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## The Commission's proposed approach to chemicals regulation

- *Formulation of strategic policy and oversight of the institutional and regulatory arrangements* – a national function, to be undertaken by ministerial councils underpinned by intergovernmental agreements.
- *Assessment of the hazards and risks of chemicals* – a national, science-based function to be undertaken under statutory independence.
- *Risk-management standard setting* – a national function to be undertaken by independent statutory agencies within the policy frameworks of the ministerial councils.
- *Administration of agreed standards and monitoring of their impact* – jurisdiction-specific functions to be undertaken by their own agencies or delegated to other bodies such as national regulators.

## Manufacturing and distributive trades

The Commission's report 'Annual Review of Regulatory Burdens on Business: Manufacturing and Distributive Trades', the second in a 5 year cycle of reports, identified improvements to regulations and their administration that will lower costs and other burdens on businesses, such as the time taken to gain regulatory approval for new products, without compromising underlying policy objectives.

A common concern of businesses, particularly small business, was poor communication by regulators with regulatory information difficult to access, inconsistently communicated or costly to understand.

The report's main recommendations related to:

- *Food regulation*: increasing national consistency of regulation; improving timeliness and transparency of decision making by the Australia New Zealand Food Regulation Ministerial Council; and ensuring public health issues are considered by the Health Ministers' Conference before referring any food regulation-related issues to the Ministerial Council.
- *Approving and registering new medicines and medical devices*: reducing the time and cost, and improving

the transparency, of assessment processes by the Therapeutic Goods Administration (TGA); improving coordination between regulators where regulatory processes overlap; removing the TGA's monopoly on conformity assessment for Australian manufacturers of medical devices; and undertaking a comprehensive review of health technology assessment processes.

- *Improving the compliance and enforcement of environmental regulations* including the Water Efficiency Labelling and Standards Scheme, and energy labelling and minimum energy performance standards.

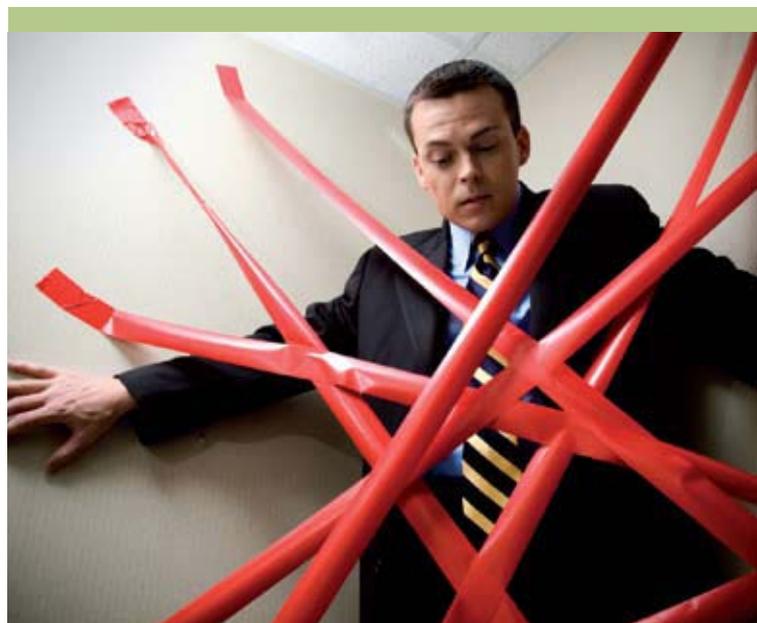
### **Performance benchmarking of business regulation**

In February 2006 COAG agreed to develop a framework for benchmarking, measuring and reporting on the regulatory burdens on business. In 2007 the Commission released a report examining feasible performance indicators and reporting framework options. The report concluded that benchmarking across jurisdictions was technically feasible and could yield significant benefits. COAG subsequently agreed that a study into the compliance costs of business regulation should proceed.

In September 2008, the Commission released two companion draft reports, the first instalment of a series of studies benchmarking business regulation across jurisdictions: one compared the quantity and quality of regulation, and the other the cost of business registrations.

The first report provided indicators of the stock and flow of regulation and regulatory activities, and quality indicators for a range of regulatory processes. Significant differences were found between jurisdictions in the number and size of acts and other regulation; the type of regulatory instruments used; and in the number and size of regulators, the number of business licences issued and the value of fees and charges collected. There are also significant variations across jurisdictions in processes for developing and reviewing regulations and the way regulators interact with business.

The second report provided estimates of compliance costs for business in obtaining a range of registrations including requirements for incorporation, taxation and



business name registrations. Specific registration costs incurred for five types of business (a café, builder, long day child care, real estate agent and winery) were also examined. No patterns of consistently high or low costs of business registration were found across industries or jurisdictions. Most of the differences in costs reflected differences in fees. A final report is due for completion in late November 2008. ■

#### **Chemicals and Plastics Regulation**

Productivity Commission Research Report released August 2008

Contact: Paul Belin (03) 9653 2177 [pbelin@pc.gov.au](mailto:pbelin@pc.gov.au)

#### **Annual Review of Regulatory Burdens on Business: Manufacturing and Distributive Trades**

Productivity Commission Research Report released September 2008

Contact: Les Andrews (02) 6240 3251  
[landrews@pc.gov.au](mailto:landrews@pc.gov.au)

#### **Performance Benchmarking of Australian Business Regulation (2 vols)**

Productivity Commission Draft Research Report released September 2008

Contact: Stewart Plain (02) 6240 3219 [splain@pc.gov.au](mailto:splain@pc.gov.au)

# CLARIFYING TECHNICAL ISSUES IN MODELLING INDUSTRY ASSISTANCE REDUCTIONS

**The Commission has publicly released responses to certain criticisms of its modelling of assistance options for the automotive and TCF industries.**

In May and June the Commission released two studies modelling economy-wide impacts of future assistance options for the passenger vehicle and textiles, clothing and footwear (TCF) industries. Both studies were commissioned by the Australian Government to complement broader reviews of assistance options by the Hon Steve Bracks and Professor Roy Green. Each report was refereed by a panel of three experts and work in progress was discussed at technical workshops. Both studies concluded that implementing scheduled tariff and subsidy reductions would bring net benefits to the Australian community.

The Commission has since released four Technical Supplements in response to a range of comments from consultants. (The Supplements are available from the Commission's website.) A key contention was that reducing automotive tariffs from current levels would reduce rather than increase national income because lower tariffs would, by reducing exporters' costs and encouraging them to export more, reduce export prices and overall export returns. In other words, tariffs could be serving to extract 'monopoly rents' from foreign buyers of Australia's exports.

While theoretically feasible, in the Commission's assessment Australia's international market power is likely to be limited, particularly in the longer term when buyers and rival suppliers have had time to adjust. Even if some Australian exporters did have potential to influence prices, government intervention to control exports is unlikely to be warranted. For instance, where individual firms have market power they extract price premiums themselves. And even if

it could be demonstrated that policy intervention to control some exports would yield net gains, automotive or TCF tariffs would be a very blunt and inefficient instrument compared with targeted export taxes. While acknowledging that modelling cannot capture all impacts, and is sensitive to its underlying assumptions, the Technical Supplements reinforce the Commission's conclusion that reducing sectoral assistance would generate net benefits for the Australian community.

## Modelling effects of future TCF assistance

The Productivity Commission released its study into the economy-wide impacts of various assistance options and scenarios for the textile, clothing and footwear industries in June. The modelling indicated that there would be net benefits for the Australian economy from implementing the current TCF assistance reduction program. The gains are relatively small, and come mainly from the legislated program of reductions in the sector's relatively high tariff rates.

Nonetheless, net economy-wide gains are projected even with quite pessimistic assumptions about re-employment prospects for TCF workers or price benefits for consumers. The modelling also indicated that exchange rate appreciation (since reversed) has much greater impacts on the TCF sector than scheduled tariff changes – but resisting such adjustment pressures through continued TCF assistance would come at a cost to the economy.

## Stop Press: New commissioned projects

### Gambling

#### *Public Inquiry*

Following a COAG decision, the Assistant Treasurer, the Hon Chris Bowen, has sent Terms of Reference to the Commission for a 12-month public inquiry into gambling. A draft report is due by mid-2009 and a final report before the end of next year. Further information about the inquiry, including a link to the terms of reference, is on the Commission's website: [www.pc.gov.au/projects/inquiry/gambling-2009](http://www.pc.gov.au/projects/inquiry/gambling-2009)

### Copyright Restrictions on the Parallel Importation of Books

#### *Commissioned Study*

The Productivity Commission has been asked to report within six months on the current provisions of the *Copyright Act 1968* that restrict the parallel importation of books, and provide advice on the potential for reform in the area. An issues paper was released in November, outlining some key matters to be addressed in the study and calling for public submissions. The Commission is to present its findings to the Australian Government in May 2009. More information is available on the Commission's website: [www.pc.gov.au/projects/study/books](http://www.pc.gov.au/projects/study/books)

# GOVERNMENT TRADING ENTERPRISES – TRENDS IN FINANCIAL PERFORMANCE

**While the overall profitability of GTEs increased in 2006-07, a new Commission report finds that just over half the monitored GTEs still failed to achieve a commercial rate of return.**

Government Trading Enterprises (GTEs) are major providers of infrastructure services and contribute significantly to Australia's international competitiveness and community wellbeing. It is important that they operate efficiently.

In cooperation with Australian, State and Territory Governments, the Productivity Commission has undertaken a series of reports on the financial performance of GTEs. The latest of these reports, covering the period 2004-05 to 2006-07, was released in July. The report also includes an examination of the impact on capital management of inadequate compensation for community service obligations (see box) and of the persistently poor profitability of some GTEs.

The report covers the financial performance of 86 GTEs providing services in key sectors of the economy – electricity, water, urban transport, rail, ports and forestry. In 2006-07, these GTEs controlled about 2.8 per cent of Australia's non-household assets (valued at \$192 billion) and accounted for around 1.7 per cent of GDP.

Overall, the profitability of monitored GTEs increased by 36 per cent in 2006-07, with mixed results across sectors. Profitability increased in the electricity, urban transport and ports sectors, but declined in the rail, water and forestry sectors. For sectors recording a profit improvement, much of this derived from the performance of a single GTE in that sector. Profitability also varied among GTEs – with 40 per cent of GTEs experiencing declining profits. Fourteen GTEs (of which five were in the water sector) reported losses.

## Selected profitability measures 2006-07 (per cent)

| Sector          | Return on operating assets | Return on total equity | Cost recovery |
|-----------------|----------------------------|------------------------|---------------|
| Electricity     | 12.2                       | 16.4                   | 125.6         |
| Water           | 4.9                        | 5.0                    | 150.5         |
| Urban transport | 2.9                        | -22.2                  | 60.5          |
| Rail            | 2.1                        | -3.2                   | 90.7          |
| Ports           | 6.9                        | 3.8                    | 139.0         |
| Forestry        | 5.4                        | 2.2                    | 108.6         |

Source: Productivity Commission 2008, *Financial Performance of Government Trading Enterprises, 2004-05 to 2006-07*, Table 2.3

## Community service obligations

Community service obligations (CSOs) are non-commercial activities undertaken by GTEs at the direction of government to achieve social policy objectives. Examples include transport concessions for pensioners and charges for water or electricity set below cost.

Historically, governments have provided for CSOs by funding the operating deficits of the relevant GTEs. However, current government policy is to make on-budget payments directly to the GTEs for meeting CSOs. In 2006-07, Governments paid monitored GTEs \$3.9 billion in disclosed CSO payments.

The Commission report found that, contrary to stated policies, not all governments have identified all existing CSOs. Governments are generally not reporting funding for CSOs in a transparent manner, and almost no information is reported on the costs of meeting CSOs.

Inadequate compensation for CSOs affects the financial performance of a GTE and impairs commercial viability. Underfunding a CSO could result in under-investment or higher prices for commercial services. Service quality could also be reduced.

Just over half the monitored GTEs failed to achieve a return on operating assets above the risk-free rate of return.<sup>1</sup> Twelve GTEs did not achieve a return on operating assets above zero. The poor financial performance of many GTEs underscores a long-term failure of owner-governments to operate these businesses on a fully commercial basis, in accordance with Competition Policy Agreements. ■

## Financial Performance of Government Trading Enterprises 2004-05 to 2006-07

Productivity Commission Research Paper released July 2008  
[www.pc.gov.au/research/commissionresearch/gte0607](http://www.pc.gov.au/research/commissionresearch/gte0607)

<sup>1</sup> The 10-year Australian Government bond rate is used as the risk-free rate of return benchmark.

# COMMISSION NEWS

## Promoting Better Environmental Outcomes

On 19 and 20 August the Productivity Commission hosted a Roundtable on the theme *Promoting Better Environmental Outcomes*. Highlights included keynote presentations by distinguished US economists Professor Gary Libecap (University of California, Santa Barbara) and Professor Robert Stavins (Harvard University). Proceedings of the Roundtable will be published in early 2009. Introductory comments by Commission Chairman Gary Banks, and presentations by Robert Stavins and Gary Libecap can be downloaded from the Commission's website.



(From left) Gary Banks with Roundtable presenters Professor John Freebairn (Melbourne University), Dr Arlene Buchan (Australian Conservation Foundation) and Drew Collins (BDA Group).



Professor Gary Libecap gave a keynote presentation on 'Promoting better environmental outcomes through property rights and markets'.



Dr Suzi Kerr, Director, Motu Economic and Public Policy Research, New Zealand, spoke on greenhouse gases and nutrient trading systems.



Professor Geoff Brennan (Australian National University) (left), with Professor Robert Stavins, whose keynote presentation was titled 'Getting serious about climate change: Post-Kyoto international climate policy architecture'.

## 2008 Richard Snape Lecture



The Commission's 2008 Richard Snape Lecture was delivered on 18 November by Dr Vittorio Corbo, former Governor of the Central Bank of Chile. Dr Corbo's address was titled 'Latin America in the Global Economy: Challenges and Opportunities'. Dr Corbo is pictured (left) with Commission Chairman Gary Banks.

# RECENT RELEASES

All publications can be downloaded from the Commission's website [www.pc.gov.au](http://www.pc.gov.au)

## November 2008

*Latin America in the Global Economy: Challenges and Opportunities* (Richard Snape Lecture 2008)

*Review of Mutual Recognition Schemes* (Draft Research Report)

*Modelling Economy-wide Effects of Future TCF Assistance* (Technical Supplement)

## October 2008

*Productivity Commission Annual Report 2007-08*

*Government Drought Support* (Draft Inquiry Report)

*Modified Demographic and Economic Model (MoDEM) 2.0* (Technical Paper)

## September 2008

*Paid Parental Leave: Support for Parents with Newborn Children* (Draft Inquiry Report)

*Trends in Aged Care Services: Some Implications* (Commission Research Paper)

*Annual Review of Regulatory Burdens on Business: Manufacturing and Distributive Trades* (Research Report)

*Performance Benchmarking of Australian Business Regulation: Quantity and Quality* (Draft Research Report)

*Performance Benchmarking of Australian Business Regulation: Cost of Business Registrations* (Draft Research Report)

## August 2008

*The Market for Retail Tenancy Leases in Australia* (Inquiry Report)

*Industry Policy for a Productive Australia* (Chairman's speech)

*Chemicals and Plastics Regulation* (Research Report)

*Recent Trends in Australian Fertility* (Staff Working Paper)

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## Industry visit: North West Shelf



The Upstream Petroleum Review team's recent visit to the North West Shelf included a tour of the Stag oil platform, located 65 km off the coast of Dampier, Western Australia. Commissioner Philip Weickhardt (left) is pictured with Aidan Joy, Apache Energy Limited, on the platform.

## Gary Banks awarded IPAA National Fellowship



Productivity Commission Chairman Gary Banks has been awarded a National Fellowship with the Institute of Public Administration Australia, the highest award made by the Institute in Australia. The award acknowledges outstanding and distinguished contribution to the advancement and practice of public administration. (Above) Gary is presented with the award by IPAA President Fran Thorn (Secretary, Victorian Department of Human Services) at the IPAA Annual Dinner in November.

## Current commissioned projects

**Log on to the Commission's website ([www.pc.gov.au](http://www.pc.gov.au)) for full details of all current projects**

### **Paid Maternity, Paternity and Parental Leave – Public Inquiry**

Draft report released September 2008. Final report due 28 February 2009.

Contact: Troy Podbury 02 6240 3257

Email: [parentalsupport@pc.gov.au](mailto:parentalsupport@pc.gov.au) Web: [www.pc.gov.au/projects/inquiry/parentalsupport](http://www.pc.gov.au/projects/inquiry/parentalsupport)

### **Government Drought Support – Public Inquiry**

Draft report released October 2008. Public hearings to be held in November and December with final submissions due by December. Final report due 27 February 2009.

Contact: Rick Baker 03 9653 2146

Email: [droughtreview@pc.gov.au](mailto:droughtreview@pc.gov.au) Web: [www.pc.gov.au/projects/inquiry/drought](http://www.pc.gov.au/projects/inquiry/drought)

### **Review of Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector – Commissioned Study**

Draft report released December 2008. Draft report submissions due by end January 2009. Final report due by 9 April 2009.

Contact: Kate Maddern 03 9653 2209

Email: [upstreampetroleum@pc.gov.au](mailto:upstreampetroleum@pc.gov.au) Web: [www.pc.gov.au/study/upstreampetroleum](http://www.pc.gov.au/study/upstreampetroleum)

### **Review of Mutual Recognition Schemes – Commissioned Study**

Draft report released November 2008. Draft report submissions due by 12 December 2008. Public release of final report 6 February 2009.

Contact: Patrick Laplagne 03 9653 2167

Email: [mutualrecognition@pc.gov.au](mailto:mutualrecognition@pc.gov.au) Web: [www.pc.gov.au/study/mutualrecognition](http://www.pc.gov.au/study/mutualrecognition)

### **Gambling – Public Inquiry**

Draft report due by mid-2009. Final report due before the end of next year.

Contact: [gambling@pc.gov.au](mailto:gambling@pc.gov.au) Web: [www.pc.gov.au/projects/inquiry/gambling-2009](http://www.pc.gov.au/projects/inquiry/gambling-2009)

### **Copyright Restrictions on the Parallel Importation of Books – Commissioned Study**

Draft report expected March 2009. Final report due by May 2009.

Contact: Andrew Irwin 02 6240 3350

Email: [books@pc.gov.au](mailto:books@pc.gov.au) Web: [www.pc.gov.au/projects/study/books](http://www.pc.gov.au/projects/study/books)

### **Business Regulation Benchmarking – Stage 2 – Commissioned Study**

Draft report (2 vols) released September 2008. Final report released November 2008.

Contact: Chris Holder 02 6240 3262

Email: [regulationbenchmarking@pc.gov.au](mailto:regulationbenchmarking@pc.gov.au) Web: [www.pc.gov.au/projects/study/regulationbenchmarking/stage2](http://www.pc.gov.au/projects/study/regulationbenchmarking/stage2)

### **Annual Review of Regulatory Burdens on Business – Commissioned Study**

The Commission is undertaking, over five years, a series of annual reviews of the burdens on business from the stock of Commonwealth regulation.

To be released in 2009: *Social and economic infrastructure services*

[www.pc.gov.au/projects/study/regulatoryburdens](http://www.pc.gov.au/projects/study/regulatoryburdens)