
C Government commissioned projects

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

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

The Productivity Commission is required to report annually on the matters referred to it. This appendix provides summary details of projects which the Government commissioned during the year and government responses to reports completed in 2006-07 and previous years. It also reports on commissioned projects received since 30 June 2007.

This appendix is structured as follows:

- terms of reference for new government-commissioned inquiries and studies;
- reports released and, where available, government responses to them; and
- government responses to reports from previous years.

Table C.1 summarises activity since the Commission's 2005-06 annual report and indicates where relevant information can be found.

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

<i>Date received</i>	<i>Title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>Major findings/ recommendations</i>	<i>Government response</i>
Inquiries					
6-4-05	Conservation of Australia's Historic Heritage Places	AR 04-05	Report No. 37 signed 6-4-06	AR 05-06	page 171
20-10-05	Waste Management	AR 05-06	Report No. 38 signed 20-10-06	page 172	page 173
23-2-06	Road and Rail Freight Infrastructure Pricing	AR 05-06	Report No. 41 signed 22-12-06	page 174	page 175
21-3-06	Tasmanian Freight Subsidy Arrangements	AR 05-06	Report No. 39 signed 14-12-06	page 176	page 177
6-4-06	Review of Price Regulation of Airport Services	AR 05-06	Report No. 40 signed 14-12-06	page 178	page 179
11-12-06	Australia's Consumer Policy Framework	page 165	in progress	na	na
21-6-07	Market for Retail Tenancy Leases in Australia	page 176	in progress	na	na
17-10-07	Safeguards Inquiry into the Import of Pigeon	page 170	In progress	na	na
Other commissioned projects					
16-3-05	Review of the Australian Consumer Product Safety System	AR 04-05	Report completed 16-1-06	AR 05-06	page 184
2-2-06	Standard Setting and Laboratory Accreditation	AR 05-06	Report completed 2-11-06	page 180	na
10-3-06	Public Support for Science and Innovation	AR 05-06	Report completed 9-3-07	page 181	page 182
11-8-06	Performance Benchmarking of Australian Business Regulation (Stage 1)	AR 05-06	Report completed 19-2-07	page 183	page 184
28-2-07	Annual Review of Regulatory Burdens on Business – Primary Sector	page 166	Report completed 5-11-07	na	na
4-4-07	Assessing Local Government Revenue Raising Capacity	page 167	in progress	na	na
27-7-07	Chemicals and Plastics Regulation	page 168	in progress	na	na
5-9-07	Business Regulation Benchmarking: Stage 2	page 169	in progress	na	na

na not applicable. Note: References are to previous annual reports (AR) of the Productivity Commission.

Terms of reference for new projects

This section outlines the terms of reference for commissioned projects received since the Commission's annual report for 2005-06 which are in progress or for which the report has not yet been released. Full terms of reference are available on the Commission's website and in relevant reports.

Australia's consumer policy framework

On 11 December 2006 the Treasurer asked the Commission to undertake an inquiry on Australia's consumer policy framework and to report within 12 months. Following a request by the Commission, the reporting date was subsequently extended to 28 February 2008.

The Commission is to report on:

- ways to improve the consumer policy framework so as to assist and empower consumers, including disadvantaged and vulnerable consumers, to meet current and future challenges, including the information and other challenges posed by an increasing variety of more complex product offerings and methods of transacting
- any barriers to, and ways to improve, the harmonisation and coordination of consumer policy and its development and administration across jurisdictions in Australia, including ways to improve institutional arrangements and to avoid duplication of effort
- any areas of consumer regulation which are unlikely to provide net benefits to Australia and which could be revised or repealed
- the scope for avoiding regulatory duplication and inconsistency through reducing reliance on industry-specific consumer regulation and making greater use of general consumer regulation
- the extent to which more effective use may be made of self-regulatory, co-regulatory, consumer education and consumer information approaches and principles-based regulation in addressing consumer issues
- ways in which the consumer policy framework may be improved so as to facilitate greater economic integration between Australia and New Zealand and ways to remove any barriers to international trade in consumer goods and services created by the current consumer policy framework.

Annual review of regulatory burdens on business

On 28 February 2007 the Treasurer announced a program of annual reviews of the burdens on business arising from the stock of Australian Government regulation. Following consultation with business, government agencies and community groups, the Commission is to report on those areas in which the regulatory burden on business should be removed or significantly reduced as a matter of priority and options for doing so.

The Commission is to review all Australian Government regulation cyclically every five years. The cycle commenced in April 2007 with a review of regulatory burdens on businesses in Australia's primary sector and the Commission was to report by 31 October 2007.

In subsequent years, the Commission is to report sequentially on the manufacturing sector and distributive trades, social and economic infrastructure services, and business and consumer services. The fifth year is to be reserved for a review of economy-wide generic regulation, and regulation that has not been picked up earlier in the cycle. The Commission's program and priorities may be altered in response to unanticipated public policy priorities as directed by the Treasurer. These reviews are to commence formally at the beginning of February each year and the Commission is to report at the end of August.

In undertaking these reviews, the Commission is to:

- identify specific areas of Australian Government regulation that
 - are unnecessarily burdensome, complex or redundant or
 - duplicate regulations or the role of regulatory bodies, including in other jurisdictions
- develop a short list of priority areas for removing or reducing regulatory burdens which impact mainly on the sector under review and have the potential to deliver the greatest productivity gains to the economy
- identify regulatory and non-regulatory options, or provide recommendations where appropriate to alleviate the regulatory burden in those priority areas, including for small business
- identify reforms that will enhance regulatory consistency across jurisdictions, or reduce duplication and overlap in regulation or in the role of regulatory bodies in relation to the sector under review.

Assessing local government revenue raising capacity

On 4 April 2007 the Treasurer asked the Commission to undertake a research study examining local government's own revenue sources and to report within 12 months.

The Commission is to examine the capacity of local government to raise revenue including:

- the capacity of different types of councils (eg capital city, metropolitan, regional, rural, remote and indigenous) to raise revenue and the factors contributing to capacity and variability in capacity over time
- the impacts on individuals, organisations and businesses of the various taxes, user charges and other revenue sources available to local government
- the impact of any State regulatory limits on the revenue raising capacity of councils.

In undertaking the study the Commission is not to investigate the scope for local governments to borrow.

The market for retail tenancy leases in Australia

On 19 June 2007 the Treasurer asked the Commission to undertake an inquiry into the market for retail tenancy leases in Australia and to report within six months of receipt of the reference.

The Commission is to examine:

- the structure and functioning of the retail tenancy market in Australia, including the role of retail tenancies as a source of income for landlords, investors and tenants and the relationships with the broader market for commercial tenancies
- any competition, regulatory and access constraints on the economically efficient operation of the market
- the extent of any information asymmetry between landlords and retail tenants and the impacts on business operation
- scope for reform of retail tenancy regulation to improve economic performance, including
 - differences in retail tenancy regulation between States and Territories, and the scope for nationally agreed regulations and approaches
 - the extent and adequacy of dispute resolution systems for landlords and retail tenants, including differences in dispute resolution frameworks between the States and Territories

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- the appropriateness and transparency of the key factors that are taken into account in determining retail tenancy rents
 - the appropriateness and transparency of provisions in retail leases to determine rights when the lease ends
 - any measures to improve overall transparency and competitiveness of the market for retail tenancy leases.

The Commission is requested to:

- make recommendations for improving the operation of the retail tenancy market
- identify, and where practicable quantify, the likely benefits and costs of its recommendations for retail tenants, landlords, investors and the community generally.

Chemicals and plastics regulation

On 26 July 2007 the Treasurer announced that the Commission would undertake a research study examining current arrangements for the regulation of chemicals and plastics in Australia and would report within 12 months. The study is to inform the work of a COAG Ministerial Taskforce charged with developing a streamlined and harmonised system of national chemicals and plastics regulation. The study does not include pharmaceutical and medicinal product manufacturing.

The Commission is to:

- Investigate and document the current system of regulation of chemicals and plastics in Australia, including the interrelationships between the Australian, State and Territory government agencies, and local government layers of regulation, and the effect of these relationships on economic, public health and safety, occupational health and safety, and environmental outcomes. In examining these relationships, issues such as duplication and inconsistency both within and across jurisdictions should be identified. In particular, an assessment should be conducted of the impact of regulation on productivity and competitiveness.
- Investigate the degree to which Australian regulations diverge from accepted standards (both international and those applying in similar jurisdictions overseas) and the costs and benefits of those variations. In doing so, the Commission should examine Australia's implementation of the United Nations' Globally Harmonised System of Classification and Labelling of Chemicals, and take into account the work underway to achieve mutual recognition and

harmonisation with New Zealand in relation to industrial chemicals under the Trans-Tasman Mutual Recognition Arrangement.

- Examine the efficiency of existing arrangements for security-sensitive ammonium nitrate, recognising that the requirement to achieve the Government's national security outcomes cannot be diminished, and having regard to the work being progressed by COAG's Review of Hazardous Materials.
- Report on the efficiency and effectiveness of current institutional and regulatory frameworks for chemicals and plastics regulation in Australia in achieving economic, public health and safety, occupational health and safety, and environmental outcomes.
- Make recommendations for reforms to regulations and regulatory arrangements and the establishment of a best practice governance framework including options to enhance national uniformity and consistency, to streamline data requirements and assessments processes to reduce unnecessary compliance burdens, and for alternatives to regulation.

Business regulation benchmarking: stage 2

Consistent with COAG's agreement on 13 April 2007 to the Commission benchmarking compliance costs of regulations in targeted areas, on 3 September 2007 the Treasurer requested that the Commission begin stage two of the study and initially provide a draft and final report on the quantity and quality of regulation, and results of benchmarking the administrative compliance costs for business registrations within 12 months. The Commission is to examine the regulatory compliance costs associated with becoming and being a business, the delays and uncertainties of gaining approvals in doing business, and the regulatory duplication and inconsistencies in doing business interstate.

In undertaking stage two of the study, the Commission is to convene an advisory panel, comprising representatives from all governments, to be consulted on the approach taken in the first year. The panel is to be reconvened at strategic points, providing advice on the scope of the benchmarking exercise and facilitating and coordinating data provision. It must also be given the opportunity to scrutinise and comment on the preliminary results.

Under the framework terms of reference for the benchmarking study, received on 11 August 2006, in stage 2 the Commission is to:

- use the indicators to compare jurisdictions' performance
- comment on areas where indicators need to be refined and recommend methods for doing this

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- provide a final report which incorporates the comments of the jurisdictions on their own performance. Prior to finalisation of the final report, the Commission is to provide a copy to all jurisdictions for comment on performance comparability and relevant issues. Responses to this request are to be included in the final report.

The Commission is to review the benchmarking exercise at the conclusion of year three and report on options for the forward program of benchmarking.

Safeguards inquiry into the import of pigmeat

On 17 October 2007 the Treasurer requested that the Commission undertake an inquiry on whether safeguard action is warranted against imports of meat of swine, frozen, falling within tariff subheading 0203.29 of the Australian Customs Tariff.

The Commission is to report on:

- whether conditions are such that safeguard measures would be justified under the WTO Agreements
- if so, what measures would be necessary to prevent or remedy serious injury and to facilitate adjustment
- whether, having regard to the Government's requirements for assessing the impact of regulation which affects business, those measures should be implemented.

In undertaking the inquiry, the Commission is to consider and provide an accelerated report on whether critical circumstances exist where delay in applying measures would cause damage which it would be difficult to repair. If such circumstances exist, and pursuant to a preliminary determination that there is clear evidence that increased imports have caused or are threatening to cause serious injury, the Commission is to recommend what provisional safeguard measures (to apply for no more than 200 days) would be appropriate.

In addition, the Commission is to have regard to the work being undertaken by the Cooperative Research Centre for an internationally competitive pork industry (Pork CRC) and examine and report on whether:

- there have been any changes that have taken place in the structure or operating methods of the industry since the Commission's August 2005 inquiry into the Australian Pigmeat Industry; and

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- there are any immediate actions that could be taken to complement the work of the Pork CRC to alleviate the impact of changes in the price and availability of feed grains.

The Commission is to provide the accelerated report to the Government by 14 December 2007 and a final report by the end of March 2008.

Commission reports released by the Government

This section summarises the main findings and recommendations of inquiry and research reports which have been released by the Government in the period to 23 November 2007. It includes terms of reference for those projects commenced and completed in that period and, where available, government responses.

Conservation of Australia's historic heritage places

Inquiry Report No 37 signed 6 April 2006, report released 21 July 2006.

The Australian Government's response to the Commission's report was tabled in Parliament on 22 May 2007.

The Government agreed with the Commission that private owners should not have unreasonable costs imposed on them by heritage listing. However, it was not attracted to the Commission's key recommendation that private owners be given an additional appeal right on this basis. Instead, the Commonwealth proposed a range of other measures to minimise the risk of imposing unreasonable costs at all levels of government and to refer the issue of appeal rights to the Environment Protection and Heritage Council so that ministers could consider the best way forward. The Government rejected recommendations that all levels of government recognise and separately fund the heritage responsibilities of non-heritage agencies as community service obligations and for transparency in reporting heritage-related expenditures and costs.

The Commonwealth supported, in whole or part, eight recommendations including improved data collection, maintenance and dissemination as well as the provision of heritage asset management guidelines to encourage best practice management at all levels of government. However, the Commonwealth also noted in response to other Commission recommendations that it was for the States and local government to decide how to balance the rights of individuals with community needs for the conservation and protection of heritage places.

Waste management

Inquiry Report No 38 signed 20 October 2006, report released 19 December 2006.

The Commission's main findings and recommendations were that:

- State and Territory waste management policies contain some inappropriate and inconsistent objectives. These have led to some jurisdictions adopting unrealistic, and potentially very costly, waste minimisation targets.
- These policies are giving rise to some unsound interventions including:
 - using landfill levies to achieve waste diversion targets and raise revenue
 - subsidising waste recovery options, such as alternative waste technologies, that are costly and have questionable environmental benefits
 - introducing mandatory product stewardship or extended producer responsibility schemes, where disposal problems have not been adequately demonstrated.
- Waste management policy should be refocused on the environmental and social impacts of waste collection and disposal, and supported by more rigorous cost-benefit analysis, if it is to best serve the community.
- As a general rule, policy makers should not use waste management policies to address upstream environmental impacts. Where warranted, these are much more effectively and efficiently addressed using direct policy instruments, and often already are.
- Directly addressing relevant market failures and distortions throughout product life cycles will assist markets to achieve the right balance between waste avoidance, resource recovery and disposal.
- Regulation of disposal has improved considerably in recent years, and where complied with, appears to have been very effective. However, compliance with landfill regulations could be improved considerably.
- Waste disposal fees should be based on the full social, environmental and financial costs involved. For landfills, this will require:
 - tightening regulatory compliance so that landfill gate fees include the costs of the regulatory measures needed to address disposal externalities
but
 - abolishing landfill levies (taxes) as these are not based on legitimate costs.
- Basic forms of pay-as-you-throw pricing for kerbside waste and recycling services, should be more widely adopted, with information on the actual costs for these services better communicated to households.

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- In most large urban centres, for reasons of scale and planning (as with sewage and electricity), managing waste disposal is no longer best handled by local governments.
 - The Australian Government should play a leadership role in facilitating (relevant) reforms, and where appropriate, developing sound, nationally consistent waste management policies.

Government decision

The Australian Government's response to the Commission's report was tabled in Parliament on 1 August 2007.

The Australian Government endorsed the overarching principle of subjecting all waste policies to rigorous cost-benefit analysis and other elements of best-practice regulation making. However, it rejected the Commission's broad policy framework recommendations that:

- a focus on upstream resource conservation and environmental protection objectives detracts from a more appropriate focus on reducing risks — to human health, the environment and social amenity — from waste to acceptable levels
- waste management policy should not be used to promote 'resource efficiency' — defined as the value added per unit of resource input — because such measures fail to take into account use of all resources and often aggregate quantities of different materials in ways that ignore their individual market values or environmental impacts
- a waste hierarchy is not a useful tool to guide waste policy
- waste diversion targets should not be set as part of waste management policy.

The Commonwealth noted that the States and Territories have prime responsibility for domestic waste management policy. It would formally raise some Commission recommendations — such as nationally consistent waste classification and data systems — in the Environment Protection and Heritage Council but in other areas — such as landfill regulation — policy action would be left to individual jurisdictions.

The Commonwealth endorsed a range of other recommendations including those on the assessment of plastic bag regulation; to expand terms of reference for the 2008 review of the National Packaging Covenant beyond an assessment of effectiveness; avoidance of mandatory standards for recycled content in products; the supply of factually accurate, relevant and publicly accessible information on the risks, costs and benefits of waste management issues; and leaving the provision of waste-exchange services to private markets.

Road and rail freight infrastructure pricing

Inquiry Report No 41 signed 22 December 2006, report released 13 April 2007.

The Commission's main findings and recommendations were that:

- Efficient freight infrastructure is of particular importance to Australia, given its dispersed population and production centres.
 - Current pricing and regulatory arrangements are hampering the efficient provision and productive use of road and rail infrastructure.
- Maintaining cost recovery for road freight infrastructure is an important objective. Heavy trucks have been more than paying their way in aggregate under the PAYGO system administered by the National Transport Commission.
 - However, cost allocations have been 'conservative' and are being reviewed.
 - The recent surge in road spending makes it likely that heavy vehicle charges will need to rise.
- Competitive distortions *between* road and rail have been limited and not a significant source of market inefficiency.
 - The case that road is subsidised relative to rail is not compelling, even accounting for externalities.
 - And even if network road charges were greatly increased, rail would not derive much benefit given limited substitutability and much complementarity between the two transport modes.
- The main efficiency losses with current road charging arrangements derive from the averaging of costs and charges under PAYGO, and the disconnect between road revenue and spending decisions.
 - These provide poor price signals and distort the incentives needed for efficient road use and provision.
- Developments in road pricing technology create the opportunity for more cost-reflective pricing which, combined with institutional changes to link road supply and demand, offer the potential for substantial efficiency gains.
- Given the costs and uncertainties, and potential distributional impacts, a sequential approach to reform is needed, overseen by COAG.
 - This should begin with improvements to the PAYGO system, coupled with regulatory reform and improved investment decision-making processes.
 - The next phase would involve incremental pricing for trucks currently excluded from parts of the network, and institutional reforms (to help connect

revenues and spending decisions, and reduce political influence), before moving to introduce wider location-based pricing.

- Each step should be preceded by more detailed examination of costs, benefits and distributional impacts, and identification of appropriate adjustment mechanisms.
- Regulatory reforms would have a more beneficial impact on rail's performance than increases in road charges.

Government decision

In its communiqué of 13 April 2007, COAG announced that it broadly endorsed the reform blueprint proposed by the Commission. Further, it accepted the Commission's finding that the road freight industry is not subsidised relative to rail freight on either the inter-capital corridors or in regional areas and that the appropriate focus for policy reform is on enhancing efficiency and productivity within each mode. In brief, COAG:

- endorsed the need for overall cost recovery in road freight, removing cross-subsidisation across heavy vehicle classes, improving the road pricing determination process and undertaking research recommended by the Commission
- agreed with the Commission's phased reform agenda for road pricing, regulation and institutional arrangements (though bringing forward the timing of some research and feasibility studies) and for rigorous of benefits and costs of each implemented reform in Phase 1 before deciding to proceed with subsequent stages
- in terms of road pricing, endorsed the Commission's proposed approach of initially improving the PAYGO system and subsequently developing the building blocks for COAG to assess the merits of mass-distance location-based charging
- committed to a range of reforms to improve investment decision-making processes within existing road funding arrangements and, although not embracing 'road funds', by July 2010 each jurisdiction will consider examining institutional arrangements to better link road freight revenues to investment and enhance decision making
- committed to a nationally consistent approach to rail regulation but deferred to initiatives being progressed under COAG's Competition and Infrastructure Reform Agreement in responding to a number of the Commission's key rail proposals.

Tasmanian freight subsidy arrangements

Inquiry Report No 39 signed 14 December 2006, report released 24 May 2007.

In its draft report, the Commission advised that it could find no sound economic rationale for providing freight assistance to particular Tasmanian shippers. Further, modelling commissioned by the Tasmanian Government demonstrated that the schemes benefit Tasmania, but at a small net cost to the Australian community as a whole. Accordingly, the Commission's draft report contained a proposal that the Tasmanian Freight Equalisation Scheme (TFES) be phased out and the Tasmanian Wheat Freight Scheme (TWFS) be abolished.

In September 2006 the Prime Minister announced that the TFES is an important element of Australian Government programs that equalise cost disadvantages between the States and Territories and stated that both schemes would continue (Howard 2006). The Commission accordingly focused its final report on reforms that would improve the efficiency and effectiveness of the schemes.

The Commission's main findings and recommendations in its final report were that:

- Tasmanian producers rely heavily on shipping to access mainland markets — the cost of shipping a container across Bass Strait can be more than double the cost of road transport for a similar distance on the mainland.
- The operational objective for the TFES is to subsidise individual shippers' sea freight cost disadvantages relative to a road freight equivalent. However, there is no sound underlying economic rationale for the scheme.
 - If a broader objective of regional development is intended, a sea freight subsidy is unlikely to be the most economically efficient way of meeting this.
- The current arrangements do not operate as intended. The different ways of claiming rebates for the same freight task can result in different TFES payments.
 - Part of the land freight cost can be treated as a wharf-to-wharf cost.
 - A higher wharf-to-wharf cost can be reported within an overall door-to-door cost.
- This results in an overestimate of the extent of wharf-to-wharf freight cost disadvantage, payment of higher than appropriate rebates and poor incentives for shippers. These significant problems cannot be eliminated within the current TFES framework.
- As the Government had announced that the scheme is to continue, the Commission focused on ways to improve its operation.

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- For the immediate future, the Commission recommended that TFES payments should continue to be based on the assessed cost disadvantage of individual shipments, but should only be payable on the basis of evidence of actual wharf-to-wharf costs.
 - Parameter adjustments for land components should no longer apply. The administration and auditing of the TFES should focus more intensively on the verification of wharf-to-wharf costs, and transparency should be increased.
 - If there is continued evidence of gaming and overcompensation of freight cost disadvantage, a flat rate of assistance should be introduced from July 2010.
 - Payment of a single flat rate of subsidy per TEU shipped would have significant advantages in overcoming incentive problems and reducing administrative and compliance costs.
 - However, as it would significantly change the current distribution of assistance payments, and possibly involve short-term adjustment assistance, the Commission did not propose such a subsidy at this stage.
 - The TWFS should pay the same level of assistance per tonne to wheat shipped in containers and in bulk. The level of assistance should be based on the disadvantage of the least cost method of shipping wheat across Bass Strait, plus intermodal costs, less a rail freight equivalent cost. Wheat should no longer be eligible for assistance under the TFES.

Government decision

On 21 June 2007 the Government announced that it agreed with the findings of the Commission's final report and would implement its substantive recommendations (Lloyd 2007). In particular, the Government would ensure that the TFES and TWFS would more strongly focus on addressing sea freight cost disadvantage and outlined reforms consistent with the Commission's recommendations to:

- restructure the basis for claiming TFES to minimise adverse incentives in the current scheme
- ensure TFES assistance would be payable on the basis of evidence of actual wharf-to-wharf costs
- revise the methodology for setting and updating the parameters used to calculate TFES assistance
- enhance the administration, auditing and public reporting of the TFES
- monitor the operation of the revised Scheme

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- expand the TWFS to include all bulk and containerised unprocessed wheat, all eligible shipments to be paid at the same rate and not be subject to the current cap on TWFS payments and wheat no longer be eligible for assistance under the TFES.

Review of price regulation of airport services

Inquiry Report No 40 signed 14 December 2006, report released 27 April 2007.

The Commission's main findings and recommendations were as follows:

- Price monitoring, as part of a light-handed regulatory approach, has delivered some important benefits.
 - It has been easier to undertake the investment necessary to sustain and enhance airport services in the face of growing demand for air travel.
 - Airports' productivity performance has been high by international standards, and service quality has been satisfactory to good.
- Moreover, though it is too early to fully judge the effectiveness of the light-handed approach in constraining airport charges, price outcomes to date do not appear to have been excessive.
- However, some non-price outcomes have been less satisfactory and commercial relationships between certain airports and their customers have been strained.
- More generally, some of the 'market' constraints on airports' behaviour — such as the countervailing power of airlines — have not been as strong as was envisaged. Also, some 'systemic' shortcomings have detracted from the effectiveness of price monitoring and the light-handed approach as a whole.
 - Policy guidance on the valuation of airport assets for pricing purposes is lacking.
 - There is no clarity on when further investigation of an airport's conduct is required, and no process for initiating such investigation.
- These systemic shortcomings can be addressed without sacrificing the benefits of a light-handed approach. Hence, a further period of price monitoring would be preferable to a reversion to stricter price controls, with all of its attendant costs.
- However, a recent Federal Court decision that potentially makes the Part IIIA national access regime a more intrusive regulatory instrument, has raised questions about the sustainability of the light handed approach for airports and poses risks for investment in infrastructure more generally. A 'remedial' legislative amendment to Part IIIA should be considered.

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- Provided that Part IIIA does not come to ‘supplant’ the light-handed approach, price monitoring should be extended for a further six years when the current arrangements end in 2007. This new monitoring regime should:
 - apply to Adelaide, Brisbane, Melbourne, Perth and Sydney Airports
 - embody a new process for triggering further investigation of an airport’s conduct where there is prima facie evidence of significant misuse of market power
 - exclude revaluations to airports’ monitored asset bases made after 30 June 2005.
 - Though introduction of an airport-specific arbitration mechanism would be counterproductive, the parties should be expected to negotiate and resolve disputes within an appropriate commercial framework, and be assessed accordingly under the new oversighting arrangements.

Government decision

On 30 April 2007 the Government announced that it supported nearly all of the Commission’s recommendations on a new price monitoring regime for airport services through to 30 June 2013 (Costello 2007a). The Government:

- intends to amend Part IIIA of the Trade Practices Act, as recommended by the Commission, to restore the interpretation prevailing before the recent Federal Court decision upholding the declaration of the domestic airside services at Sydney Airport
- accepted Commission proposals to address systemic shortcomings in the current regime including through establishing a credible threat of re-regulation by incorporating a ‘show cause’ mechanism, strengthening the Government’s Aeronautical Pricing Principles, setting a starting aeronautical asset base at each of the monitored airports as at 30 June 2005, widening the coverage of monitoring largely as recommended by the Commission (but car parking prices at the major airports are to be monitored separately from the aeronautical price monitoring regime)
- in accordance with the Commission’s recommendations, the new price monitoring regime is to apply to Adelaide, Melbourne, Perth and Sydney Airports, and from 1 July 2007, Canberra and Darwin Airports would no longer subject to formal price monitoring
- accepted the Commission’s recommendation that an independent review of the new regime be carried out in 2012.

Standard setting and laboratory accreditation

Research Report completed 2 November 2006, report released 16 November 2006.

The Commission's main findings and recommendations were that:

In general, Australia's standard setting and laboratory accreditation services are effective, but there is scope for improvement. The Australian Government should ensure both Standards Australia and the National Association of Testing Authorities (NATA) serve agreed public and national interest objectives by way of the Memoranda of Understanding, targeted funding, representation on governance bodies of both organisations and by recognising the special status of both bodies.

Standard setting

- Standards Australia should make the following improvements:
 - systematically consider costs and benefits before developing or revising a standard, and publish reasons for such decisions
 - ensure more balanced stakeholder representation
 - reduce barriers to volunteer and public participation
 - improve accessibility, transparency and timeliness, including an improved appeals and complaints mechanism.
- All government bodies should rigorously analyse impacts before making a standard mandatory by way of regulation and ensure it is the minimum necessary to achieve the policy objective. Each Australian Government agency should also provide the funding necessary to ensure free or low cost access to such standards, including Australian Standards.
- The Australian Government should continue to support Standards Australia's role in facilitating international standardisation activities.
- The Standards Accreditation Board should be renamed the Accreditation Board for Australian Standards to better reflect its role and should be recognised by the Australian Government.

Laboratory accreditation

- The Australian Government should continue to progress government-to-government mutual recognition of conformance assessment and NATA should continue to progress voluntary mutual recognition.

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- The Australian Government should continue to support NATA's international roles.
 - NATA's proficiency testing programs should not be funded by the Government unless there are net public benefits beyond those which the market would provide.
 - NATA's prime role with regard to proficiency testing should be to set what is required for accreditation and to accredit proficiency testing bodies.
 - Governments should only impose a mandatory requirement for NATA accreditation, if a comprehensive assessment demonstrates a net benefit to the community.

Public support for science and innovation

Research Report completed 9 March 2007, report released 27 March 2007.

The Commission's main findings were that:

- There are widespread and important economic, social and environmental benefits generated by Australia's \$6 billion public funding support of science and innovation.
 - On the basis of multiple strands of evidence, the benefits of public spending are likely to exceed the costs.
 - But, given a host of measurement and methodological issues, it is not possible to provide anything other than broad estimates of the overall return to government contributions.
- Major improvements are needed in some key institutional and program areas.
- The adequacy of existing program evaluation and governance arrangements is mixed, with some notable shortcomings in business programs.
- The net payoff from the R&D Tax Concession could be improved by allowing only small firms access to the 125 per cent concession, changing the thresholds for tax offsets, amending the base for the 175 per cent incremental concession and considering a narrower, more appropriate, definition of R&D. This should increase the amount of new R&D induced per dollar of revenue and achieve more spillovers.
- Strong public support of Rural R&D Corporations with a public good orientation is justified, but the level of government subsidies for some narrower, industry-focused arrangements is likely to crowd out private activity and produce weaker external benefits outside the supported rural industry. However, industry will need time to adjust to new arrangements.

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- Collaboration can generate significant benefits. The Cooperative Research Centre program is, however, only suited to longer term arrangements. There are complementary options for business collaboration with public sector research agencies and universities that could provide more nimble, less management-intensive, arrangements.
 - There are grounds for dealing with problems in the governance and intellectual property frameworks of universities, weaknesses in their commercial arms and shortcomings in proof-of-concept funding.
 - However, the pursuit of commercialisation for financial gain by universities, while important in its own right, should not be to the detriment of maximising the broader returns from the productive use of university research.
 - The structure of funding for higher education research has increasingly eroded the share of block grants. Further erosion would risk undermining their important role in enabling meaningful strategic choices at the institutional level.
 - The costs of implementing the Research Quality Framework may well exceed the benefits. The benefits from the 2008 RQF round could be improved if its funding scales provide more significant penalties for the poorest research performers than apparently currently envisaged. In the long run, a transition to less costly approaches, such as those that target poor performing areas, should be considered.

Government decision

The Government has not yet formally responded to the Commission's report.

Nevertheless, consistent with the Commission's finding that the beneficial ownership requirement for subsidiaries of foreign-owned firms should be relaxed, the Government's Industry Policy Statement of May 2007 announced that, from 1 July 2007, the restriction disqualifying businesses which hold their intellectual property overseas from the R&D tax concessions would be abolished for the 175 per cent premium concession (Howard and Macfarlane 2007).

As regards public sector research agencies, the Commission found that increasing reliance on external funding sources had the potential to limit CSIRO's strategic research capabilities. Accordingly, the current real level of public appropriation funding for CSIRO should not be reduced. In January 2007 the Government announced a new four-year funding arrangement for CSIRO equivalent to a 2 per cent nominal growth a year to 2010-11 (Bishop 2007). This is effectively a decline in real funding.

Performance benchmarking of Australian business regulation: stage 1

Research Report completed 19 February 2007, report released 6 March 2007.

The Commission's main findings and recommendations were that:

- While much business regulation is essential, it can involve unnecessary compliance costs. Such burdens are compounded for firms operating across Australia.
- Benchmarking compliance burdens could help identify where costs could be reduced, and complement other regulatory reform initiatives.
- Such benchmarking is technically feasible and could yield significant benefits. However, there are methodological complexities and uncertainties about data, requiring a careful, staged approach to implementation.
 - Benchmarking across jurisdictions would need to be confined to areas of regulation with comparable objectives and benefits, and rely mainly on indirect indicators that would not be definitive about performance gaps.
- Benchmarking compliance costs of key regulatory areas should include the costs of:
 - becoming and being a business, arising from one-off activities such as licensing and ongoing activities such as meeting OHS standards
 - the delays, uncertainties and compliance activities associated with obtaining government approvals in doing business
 - regulatory duplication and inconsistencies in doing business interstate.
- In addition, benchmarking the quality and quantity of regulation across jurisdictions and over time (including for specific business categories) would provide complementary insights into cumulative burdens and systemic problems.
- It would be desirable to follow a limited and targeted program over the first three years, that would allow 'learning by doing'.
 - The first year would focus on benchmarking the quantity and quality of regulation, as well as compliance costs for a single area of regulation, and developing data sets for other areas. Progressively more regulation would be benchmarked in subsequent years.
- Based on the likely significance of compliance burdens and other criteria, suggested priorities for inclusion in the initial three year program are OHS; land development assessments; environmental approvals; stamp duty and payroll tax; business registration; financial services regulation; and food safety.

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- Data for many indicators is obtainable from published sources and governments, but face-to-face surveys of individual businesses would also be needed.
 - Survey costs, including for business, can be reduced by targeting ‘reference businesses’ with appropriate attributes.
 - The cooperation and support of governments and business — in advising on indicators and supplying comparable data — would be crucial to the success of any regulatory benchmarking program. Advisory panels would facilitate necessary interaction.

Government decision

Consistent with Commission’s report and COAG’s decision of 13 April 2007 to proceed to the second stage of benchmarking the compliance costs of regulation, on 3 September 2007 the Treasurer requested the Commission to commence stage two of the study extending over the next three years. Stage two of the study is to examine the regulatory compliance costs associated with becoming and being a business, the delays and uncertainties of gaining approvals in doing business, and the regulatory duplication and inconsistencies in doing business interstate. The Commission is to focus initially on the quantity and quality of regulation, and benchmarking the administrative compliance costs for business registrations (see page 169 for details).

Government responses to reports from previous years

Review of the Australian consumer product safety system

Research Report completed 16 January 2006, report released 7 February 2006.

The Commission found that a strong case existed for national uniformity in the regulation of consumer safety and its preferred model was to have one national law (the Trade Practices Act) and a single regulator (the Australian Competition and Consumer Commission). If this is not achievable, jurisdictions should harmonise core legislative provisions, including a changed requirement that permanent bans and mandatory standards should only be adopted on a national basis.

The COAG Communiqué of 14 July 2006 noted the Commission’s findings and COAG requested the Ministerial Council on Consumer Affairs (MCCA) to develop options for a national system for product safety regulation, without increasing the

regulatory burden, and to report back with a recommended approach by the end of 2006.

As part of its Regulatory Reform Plan announced on 13 April 2007, COAG stated that the States and Territories had agreed to develop a *uniform* approach to product safety within 12 months.

Subsequently, the Joint Communiqué of the MCCA Meeting on 18 May 2007 announced agreement to a *harmonised* model in the following terms:

- a draft regulation impact statement be completed, incorporating the effects of the COAG decision, comparing the harmonised model with the status quo and be released by 30 June 2007
- the States and Territories in consultation with the Commonwealth agree on the principles of the new regime and report to MCCA later in 2007
- concurrently, an intergovernmental agreement underpinning the legislation be negotiated and agreed
- drafting instructions be agreed in time to report to COAG in April 2008
- immediate commencement of a review of all existing product safety bans and standards with the aim of achieving greater harmonisation across the Commonwealth, States and Territories.