C Commissioned projects

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

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

The Productivity Commission is required to report annually on the matters referred to it. This appendix provides details of projects which the Government commissioned during the year and government responses to reports completed in 1998-99 and previous years. It also reports on commissioned reports released and government responses to reports since 30 June 1999.

This appendix is structured as follows:

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

Table C.1 summarises activity since the Commission's 1997-98 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**

Date received	*Title*	*For terms of reference see*	*Stage of completion*	*Major findings/ recommendations*	*Government response*
Inquiries					
14-2-95	Packaging and Labelling	IC AR 94-95	IC Report No. 49 signed 14-2-96	IC AR 96-97	page 133
31-8-95	Implications for Australia of Firms Locating Offshore	IC AR 94-95	IC Report No. 53 signed 28-8-96	IC AR 96-97	page 134
29-1-96	The Machine Tools and Robotics Industries	IC AR 95-96	IC Report No. 52 signed 13-8-96	IC AR 96-97	page 133
29-1-96	Book Printing	IC AR 95-96	IC Report No. 54 signed 23-10-96	IC AR 96-97	page 134
23-9-96	Private Health Insurance	IC AR 96-97	IC Report No. 57 signed 28-2-97	IC AR 96-97	page 135
17-1-97	Ecologically Sustainable Land Management	IC AR 96-97	IC Report No. 60 signed 27-1-98	page 120	none to date
9-7-97	Telecommunications Equipment, Systems and Services	IC AR 96-97	IC Report No. 61 signed 9-4-98	page 124	page 125
9-7-97	The Australian Black Coal Industry	IC AR 96-97	PC Report No. 1 signed 3-7-98	page 116	page 118
9-12-97	International Air Services	PC AR 97-98	PC Report No. 2 signed 11-9-98	page 126	page 129
26-6-98	Pig and Pigmeat Industries: Safeguard Action	PC AR 97-98	PC Report No. 3 signed 11-11-98	page 114	page 115
13-7-98	Nursing Home Subsidies	PC AR 97-98	PC Report No. 4 signed 13-1-99	page 118	page 120
5-8-98	Progress in Rail Reform	PC AR 97-98	PC Report No. 6 signed 5-8-99	not yet released	na
25-8-98	Implementation of ESD	PC AR 97-98	PC Report No. 5 signed 25-5-99	not yet released	na
26-8-98	Australia's Gambling Industries	PC AR 97-98	In progress	na	na
31-8-98	Impact of Competition Policy on Rural and Regional Australia	PC AR 97-98	PC Report No. 8 signed 8-9-99	not yet released	na
23-2-99	International Telecommunications Market Regulation	page 106	PC Report No. 7 signed 23-8-99	not yet released	na
4-3-99	Broadcasting	page 107	In progress	na	na
12-3-99	International Liner Cargo Shipping	page 108	PC Report No. 9 signed 15-9-99	not yet released	na

Other commissioned projects

23-1-97	Work Arrangements in the Australian Meat Processing Industry	na	PC report released 9-10-98	page 110	page 111
23-1-97	Work Arrangements on Large Capital City Building Projects	na	PC report released 24-8-99	page 130	page 132
31-7-98	Battery Eggs Sale and Production in the ACT	PC AR 97-98	PC report released 3-11-98	page 112	page 113
19-5-99	The Environmental Performance of Commercial Buildings	page 109	In progress	na	na

na not applicable

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

Terms of reference for new projects

This section presents the terms of reference for commissioned projects received since the Commission's annual report for 1997-98 which are in progress or for which the report has not yet been released.

International telecommunications market regulation

On 23 February 1999 the Assistant Treasurer referred international telecommunications market regulation for inquiry and report within six months.

The Commission was asked to examine and report on:

- the various settlement arrangements which exist in the international telecommunications market (for example accounting rates and internet peering models) with a focus on any emerging arrangements in the international carriage services component of that market;
- whether international agreements or asymmetric national policies concerning market conduct and market structure may give rise to distortions or mispricing of the above settlement arrangements, including a discussion of the welfare implications for representative market participants;
- the competitive conduct and investment behaviour of Australian firms in the international telecommunications market both domestically and internationally (for instance their participation in global alliances and new infrastructure investment) and whether any linkages may be drawn with prevailing international settlement arrangements;
- community benefits from reform of settlement arrangements, examining both the domestic and international components of the international telecommunications market, including;
  - benefits attributable to previous reform of settlement arrangements;
  - benefits attributable to increased domestic competition, especially since 1 July 1997;
  - potential benefits from further reforms; and
  - any evidence on the effect of foreign policies on pricing and market access on Australian net traffic flows; and
- options for reform, including those appropriate for consideration in the context of future GATS negotiations for telecommunications from the year 2000.

The Commission was to hold public hearings for the purpose of the inquiry.

The Commission signed its final report on 23 August 1999.

Broadcasting

On 4 March 1999 the Treasurer referred the Broadcasting Services Act and related legislation for inquiry and report within twelve months. The inquiry stems from the Government's commitment under the Competition Principles Agreement to review legislation for its anticompetitive effects and covers the *Broadcasting Services Act 1992* (including the 1998 digital conversion amendments), *Broadcasting Services (Transitional Provisions and Consequential Amendments) Act 1992*, *Radio Licence Fees Act 1964* and the *Television Licence Fees Act 1964*. (The Commission is not examining legislation establishing publicly owned broadcasters.)

The Commission is to advise on practical courses of action to improve competition, efficiency and the interests of consumers in broadcasting services. In doing so, the Commission is to:

- focus particular attention on balancing the social, cultural and economic dimensions of the public interest and have due regard to the phenomenon of technological convergence to the extent that it may impact upon broadcasting markets; and
- have regard to the Commonwealth's analytical requirements for regulation assessment, including those set out in the Competition Principles Agreement, which specifies that any legislation which restricts competition should be retained only if the benefits to the community as a whole outweigh the costs and if the objectives can be met only through restricting competition.

The Commission is to:

- identify the nature and magnitude of the social and economic problems that the legislation seeks to address;
- clarify the objectives of the legislation;
- identify whether and to what extent the legislation restricts competition;
- identify relevant alternatives to the legislation, including non-legislative approaches;
- analyse and, as far as reasonably practical, quantify the benefits, costs and overall effects of the legislation and alternatives;
- identify the different groups likely to be affected by the legislation and alternatives;

- determine a preferred option for regulation, if any, in light of the objectives set out above; and
- examine mechanisms for increasing the overall efficiency of the legislation and, where it differs, the preferred option.

The Commission is to hold hearings and release a draft report. The Government intends to release and respond to the Commission's final report within six months of receiving it.

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

On 12 March 1999 the Assistant Treasurer referred Part X of the *Trade Practices Act 1974* and associated regulations to the Commission for inquiry and report within six months.

The Commission was to report on the appropriate arrangements for regulation of international cargo shipping services, taking into account the following objectives:

- legislation/regulation should be retained only if the benefits to the community as a whole outweigh the costs; and if the objectives of the legislation/regulation cannot be achieved more efficiently through other means, including non-legislative approaches;
- regard should be had to the effects on: the access of Australian exporters to competitively priced international liner cargo shipping services that are of adequate frequency and reliability; public welfare and equity; economic and regional development; consumer interests; the competitiveness of business including small business; and efficient resource allocation; and
- the Government's commitment to accelerate and strengthen the microeconomic reform process, including through improving the competitiveness of markets, particularly those which provide infrastructure services, in order to improve Australia's economic performance and living standards.

In making assessments in relation to these matters, the Commission was to have regard to the analytical requirements for regulation assessment by the Commonwealth, including those set out in the Competition Principles Agreement.

The Commission was to:

- identify the rationale for Part X, quantifying issues as far as reasonably practical;
- assess whether Part X satisfies the rationale identified;
- identify if, and to what extent, Part X restricts competition;

- identify relevant alternatives to Part X, including the authorisation processes in Part VII of the Trade Practices Act and non-legislative approaches, and the extent to which these would achieve the rationale identified;
- analyse and, as far as reasonably practical, quantify the benefits, costs, impacts (including with respect to predictability of outcome on the standards of shipping services provided), and cost effectiveness of Part X and alternatives to it;
- identify the liner cargo shipping regimes of Australia's major trading partners and determine the compatibility of alternatives, and Part X, with those regimes;
- identify the different groups likely to be affected by Part X and alternatives to it;
- determine a preferred option for regulation, if any, in light of objectives set out above; and
- examine possible mechanisms for increasing the overall efficiency of Part X.

The Commission was to hold hearings for the purpose of the inquiry. The Government would consider the Commission's recommendations and announce its response as soon as possible after the receipt of the Commission's report.

The Commission signed its final report on 15 September 1999.

The environmental performance of commercial buildings

At the request of the Minister for Industry, Science and Resources, the Assistant Treasurer asked the Commission to undertake a research study examining the performance of commercial buildings and analyse any impediments to better performance of such buildings and how to overcome them. The study was foreshadowed by the Minister in May 1999 when announcing the Building and Construction Industries Action Agenda (Minchin 1999b).

The Commission is to:

- identify the indicators of building performance used by building owners and/or tenants (such as indicators of the extent to which a building is 'fit for purpose', as well as its environmental performance);
- use case studies to assist in an evaluation of the performance of buildings, as well as the factors affecting building performance within the context of design, construction and subsequent use;
- analyse factors influencing the extent to which environmentally sustainable design features are incorporated at the building design, construction, maintenance and management stages;

- examine the current incentives for developers to incorporate environmentally sustainable building design features and their impact on whole-of-life building costs; and
- identify any impediments to better performance of buildings, including innovation in building design and construction.

The Commission is to report by November 1999.

Reports released by the Government

This section summarises the main findings and recommendations of commissioned reports of the Industry Commission and Productivity Commission which were released by the Government during 1998-99. It includes terms of reference for those projects commenced and completed in the year and, where available, government responses.

Work arrangements in the Australian meat processing industry

Labour Market Research Report released by the Commission 9 October 1998.

Key findings of the report were that:

- Significant changes in work arrangements have occurred in the past few years. Although concentrated among large, export-oriented plants, changes have occurred in all segments of the industry.
- Greater competition, both internationally and domestically, is the major factor driving change. Changes in industrial relations legislation have facilitated improved work arrangements by providing a framework for bargaining at the workplace.
- There has also been a decline in the seasonal nature of the industry, allowing employment to become more permanent, compared with traditional ‘daily hire at the gate’.
- The most important change in work arrangements has been a move away from the highly prescriptive tally systems in Federal and State industry awards. These are complex piecework payment systems based on inputs (number of head for slaughter tallies and weights for boning tallies). They distort incentives to increase throughput (yield), as unit wage costs increase once specified throughput levels are exceeded, and have been a source of friction in the workplace.

- It appears that the tally systems prescribed in industry awards are no longer widely used. Increasingly, firms are basing remuneration on time worked and/or modified incentive payment systems. However, many firms — particularly the smaller ones — still operate tally systems that continue to constrain performance.
- A range of penalties and allowances exaggerate the effects of input-based incentive systems. For example, shift penalties are applied on base rates of pay, which are then compounded by tally premiums. However, there are examples of enterprise agreements where penalties and allowances have been rolled into annualised pay.
- Award restrictions on ordinary hours mean that increasing the range and number of hours worked can involve significant overtime penalties. In many enterprise agreements, ordinary hours of work have now been expanded.
- Traditional seniority determined hiring, firing, and promotion protocols impede management's ability to deploy workers according to ability. It remains an issue in some enterprises, although it is becoming less significant.
- An emphasis on training has not been a feature of this industry. However, it is getting more attention as seniority and daily hire practices become less common, and employment becomes more permanent.
- While there has been significant change in the industry, further improvements will be needed if the industry is to meet the challenge of increasingly competitive international markets.

Government response

The Minister for Workplace Relations and Small Business drew extensively on the Commission's findings when signalling the Government's approach to further changes to the award simplification provisions of the Workplace Relations Act and, in particular, the intention to seek the removal of tallies from the list of allowable matters and to remove the matters of detail and process in the Federal Meat Industry Processing Award 'that are more appropriately dealt with by agreement at the workplace or enterprise level' (Reith 1998).

Battery eggs sale and production in the ACT

Productivity Commission Research Report completed 19 October 1998, report released 3 November 1998.

In September 1997 the ACT Legislative Assembly passed legislation to ban the production and sale in the ACT of eggs produced by hens housed in battery cages and required the labelling of egg cartons sold in the ACT to indicate the production system used to produce the eggs.

One effect of the legislation would have been to restrict competition in the supply of eggs to the ACT. This triggered provisions in the Competition Principles Agreement which require governments to undertake public benefit tests of legislation restricting competition to assess whether the community benefits associated with the restrictions outweigh the costs. The study was undertaken following the Treasurer's agreement to an ACT Government request that the Commission carry out these public benefit tests on its behalf.

The framework for undertaking public benefit tests requires that all relevant factors — not just *economic* benefits and costs — be taken into account. The Commission's key findings were that:

- The ACT legislative amendments would lead to some improvement in layer hen welfare, particularly in the longer term. The extent of the improvement, and the benefits that would be derived by the ACT community and other Australians, was not amenable to reliable measurement. This, in part, reflected the fact that the proposed ban on battery eggs raised ethical, as well as economic issues.
- The implementation of a ban on the production and sale of battery hen eggs in the ACT would give rise to two significant economic costs:
  - costs borne by consumers because of higher egg prices were estimated to be the equivalent of an annual perpetuity of about $650 000; and
  - adjustment costs resulting from the premature retirement of productive assets were estimated to be the equivalent of an annual perpetuity of no more than $290 000.

  There would also be a minor increase in ACT Government administration and enforcement costs.
- The ban on battery hen eggs could result in the closure of the major egg producer in the ACT and an increase in egg production in New South Wales. This would be reflected in higher employment in the New South Wales egg industry and a fall in the ACT. Overall, there could be a small increase in

aggregate employment in the industry because of the higher labour intensity of alternative egg production systems compared with battery cage systems.

- Any consumer health, environmental or occupational health and safety effects stemming from the ban would be negligible.
- As most of the costs would be borne by the ACT, it was appropriate for the ACT Government to judge whether the community benefits from banning the production and sale of battery eggs outweighed the costs. The benefits associated with the restriction to competition resulting from the legislative amendment could be viewed as outweighing the costs if they were assessed to exceed the cost of an annual perpetuity of approximately $940 000.
- Many consumers have a poor understanding of the animal welfare implications of the different egg production systems. Labelling of egg cartons to indicate the manner in which the eggs have been produced would benefit some of these consumers. The extent of this benefit could not be quantified, although the associated costs were likely to be negligible. The Commission considered that the benefits of the legislative amendments relating to labelling outweighed the costs.

The Commission also commented on the desirability of the ACT Government:

- pursuing its layer hen welfare objectives by providing consumers with information about the effects of different egg production systems on hen welfare if the granting of an exemption to the Commonwealth's *Mutual Recognition Act 1992* for the ban was considered problematic, or if the community benefits of a ban were perceived to be insufficient to outweigh the estimated costs;
- if a ban were introduced, considering complementary measures — such as reviewing codes of practice and coordinating relevant research — to maximise the potential for improvements in hen welfare stemming from the ban; and
- seeking to have Section 24A (1) of the *Food Amendment Act 1997* added to the permanent exemptions listed at Schedule 2 of the Commonwealth's *Mutual Recognition Act 1992*.

Government response

The ACT Government concluded that there was a net public benefit in a ban on the sale of battery hen eggs in the Territory, but failed to gain unanimous support from other jurisdictions for its legislation to be exempt from the Mutual Recognition Act (Carnell 1999). Consequently, neither the sale nor production of battery hen eggs is prohibited in the ACT. Although the labelling rules require the ACT producer to disclose how its eggs are produced, egg producers outside the ACT do not have to

meet the additional labelling requirements for eggs they offer for sale within the Territory. The National Competition Council considered that the ACT Government had met its Competition Principles Agreement obligations in respect of these matters (NCC 1999, p. 167).

Pig and pigmeat industries: safeguard action against imports

Productivity Commission Inquiry Report No. 3 signed 11 November 1998, released 25 November 1998.

The Commission found that, in accordance with the WTO Agreement on Safeguards:

- the domestic industry producing like or directly competitive products comprised pig producers as well as producers of primal pork cuts (that is, specialist pig abattoirs and boning room operators);
- imports of frozen, boned pork under tariff sub-heading 0203.29 (statistical code 12) had increased in absolute terms and relative to production;
- the industry had suffered and was suffering serious injury as the result of producer prices consistently and appreciably below average production costs during 1998, leading to significantly reduced profitability for most pig producers;
- serious injury during 1998 had been caused primarily by increased imports which had driven down the price of that part of the pig (legs) which traditionally has delivered a premium to local producers; and
- safeguard measures could be justified under the WTO criteria. The Commission considered that an *ad valorem* tariff (on imports under tariff sub-heading 0203.29, excluding imports from New Zealand) of 10 per cent, phasing to 5 per cent after one year, and to zero after two years, if implemented, would achieve a reasonable balance between the WTO twin requirements of remedying the serious injury attributable to increased imports and facilitating industry adjustment. Quantitative measures would not be appropriate for this industry because they would obscure international price signals, while a higher level of tariff could slow the required adjustment unnecessarily.

The Commission also noted that:

- a safeguard measure would not of itself promote adjustment or exports;
- measures that directly promote industry restructuring and an export focus, while providing assistance to those leaving the industry, might be more appropriate than safeguard measures. Various support measures were already in place;

- import restrictions would raise the price of inputs to the smallgoods manufacturing sector, with possible adverse effects on that industry, and increase consumer prices;
- any import restriction on imports of *frozen* pork under sub-heading 0203.29 had the potential to be undermined by imports of *chilled* pork cuts from Canada or Denmark under tariff sub-heading 0203.19; and
- it had no wish to speculate on the question of any response by the Canadian Government. However, the reduction of existing preferences for trade between Canada and Australia was *not* constrained by WTO agreements, as assumed by some participants, but by the Canada–Australia Trade Agreement.

The Commission found that the following factors would have a significant influence on the profitability and competitiveness of the pig farming and pigmeat processing industry:

- the price of feed, including the effect of single desk selling of grain exports;
- access to genetic material and vaccines;
- product quality and presentation on both domestic and export markets;
- export standard abattoir and boning room capacity;
- the extent of integration with world markets and with world prices for pigmeat and by-products; and
- links between pig farming, pigmeat processing, and marketing.

The profitability and competitiveness of individual pig farmers would depend also on their access to export standard processing facilities and their links into the pigmeat processing and marketing chain.

Government response

On 22 January 1999 the Government announced a revamped adjustment program for the Australian pork industry and that it concurred with the Commission's findings on safeguard action (Vaile and Fischer 1999). The Government agreed that:

- there was no basis for the application of quantitative restrictions on imports of pigmeat;
- only a short-term minimal tariff could be applied consistently with the WTO safeguards provisions;
- such tariff assistance would not promote industry adjustment or exports;

- measures to facilitate the industry's continuing adjustment to the changing world market would be more appropriate; and
- safeguard measures of the extent which could be justified under WTO requirements would not materially address the problems facing the pig and pig-meat industries.

In a subsequent announcement on the Government's National Pork Industry Development Program, the Minister for Agriculture, Fisheries and Forestry announced a review of the Australian Quarantine and Inspection Service's controls on imported uncooked pigmeat (Vaile 1999).

The Australian black coal industry

Productivity Commission Inquiry Report No. 1 signed 3 July 1998, report released 11 February 1999.

The Commission recommended that:

- Governments should facilitate improvement in mine management by increasing the choices available to owners and managers in managing mines. Governments should not prescribe:
  - the management hierarchy at the mine site;
  - the bundle of skills held by mine managers (including management experience); and
  - the functions of mine managers.
- The Coal Mining Qualifications Board (NSW), and the role in the coal industry of the Board of Examiners (Queensland), should be abolished.
- The role of employees in carrying out safety inspections should not be restricted by regulation to union nominees.
- The following should not be included as part of the allowable award matters in the black coal industry:
  - 'custom and practice';
  - retrenchment lists and seniority-based recruitment;
  - provisions which require retrenchment based on seniority alone;
  - restrictions on the use of part-time, casual or temporary employment or on the use of contractors;
  - bonuses;

  - specific demarcation provisions;
  - prescriptive training provisions; and
  - provisions relating to the process of negotiating change.
- The NSW and Queensland Governments should facilitate the early establishment of comprehensive rail access regimes that can be certified by the National Competition Council as effective.
- In New South Wales and Queensland, pricing principles and asset valuations used to determine prices for access to rail infrastructure should be made public. So too should any related recommendations prepared by the NSW Independent Pricing and Review Tribunal (IPART) and the Queensland Competition Authority (QCA).

  Freight customers should have a right of appeal to these bodies regarding the application of the principles on a case-by-case basis. The role of the regulation and arbitration units of IPART and QCA should be clearly defined and delineated.

  Parties should be able to use an independent arbitrator of their choice for dispute resolution.
- The Queensland Government should publish the target rates of return for its port corporations' assets.

  The New South Wales and Queensland Governments should bring their port corporations within the prices oversight jurisdiction of the IPART and the QCA, respectively.
- Workplace parties (principally employers) should be legally responsible for mine safety through their duty of care.

  Underground coal mines should be regulated separately from the open cut coal sector, which should be covered by occupational health and safety legislation governing metalliferous mining or the general legislation governing occupational health and safety in other industries.
- The Joint Coal Board should be abolished and its functions taken over by the NSW Department of Mineral Resources, WorkCover and other public and private providers as appropriate.

  If it were decided to retain the workers compensation role of the Joint Coal Board, Coal Mines Insurance should be corporatised and required to compete for business against other insurance options.
- The NSW Government should adopt an ad valorem royalty system.

Government response

On 11 February 1999 the Commonwealth Government announced that it supported all the Commission's recommendations and intended to work with the New South Wales and Queensland Governments to ensure their implementation (Minchin 1999a).

Nursing home subsidies

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

The Commission recommended that:

- The Commonwealth Government should adopt nationally uniform basic subsidies — that is, a separate nationally uniform basic subsidy for each Resident Classification Scale category — for high care residents, as part of a package of changes to address deficiencies in the current subsidy arrangements.
- The Government should specify its intended outcomes in terms of a standard of care benchmark. The purchase price of care outputs from providers by way of subsidy funding, in combination with funding from residents, should be adequate to meet the cost of providing that benchmark standard of care.
- As a basis for setting the output purchase price, the Government should arrange for a five yearly assessment of the jurisdictional and national average input costs of providing the benchmark level of care using a standardised input mix averaged across a range of efficient facilities (with, say, 40 to 60 beds). These assessments should be set in a broad context taking into account any changes in the residential aged care benchmark and in care expectations, and re-examining the case for nationally uniform basic subsidies. The reviews should be conducted transparently and independently of government.
- Basic subsidy rates should reflect nursing wage rates and conditions applicable in the aged care sector, but only to the extent that these do not exceed the rates and conditions applying in the acute care sector.
- Basic subsidy rates should be adjusted annually according to indices which clearly reflect the changes in the average cost of the standardised input mix, less a discount to reflect changes in productivity. Revised indexation arrangements should be introduced as soon as possible.
- The pensioner, oxygen, enteral feeding, respite and hardship supplements should be retained in their current form at this stage. The rates should be suitably indexed. The appropriateness and adequacy of these existing supplements, and

the justification for any additional supplements, should be re-examined in each five yearly assessment of costs.

- The concessional supplement should be set at a single uniform daily rate.
- The current payroll tax supplement should be replaced by a system of cost reimbursement for payroll tax paid by providers for their employees and for contract nursing and personal care staff.
- The assessment of costs should include a component to reflect the average workers compensation premiums (base tariff plus experience adjustments) incurred by residential aged care providers. This component should be adjusted between the five yearly assessments if indexation of basic subsidy rates fails to cover significant changes in average workers compensation costs.

  In addition, supplementary funding should be made available for individual providers which incur higher workers compensation costs than the amount allowed for in the average cost base, on the condition that those providers bear an excess equal to 30 per cent of that amount.
- Superannuation charges should be included in the assessment of costs, at rates appropriate for each Resident Classification Scale classification.
- The current subsidy reduction for government-run homes and those transferred to the non-government sector should be phased out over a five year period.
- Additional funding support for higher cost homes in special circumstances, such as smaller higher cost nursing homes in rural and remote areas, should come from a special needs funding pool. The Government should add to current outlays to meet this purpose, separate from, and additional to, the funding of the basic subsidy. The new special needs arrangements should be developed and costed in consultation with providers, resident groups and State and Territory governments.
- There should be no requirement for providers to acquit subsidy payments.
- Residential aged care subsidies should continue to be paid to providers rather than to residents.
- There should be greater opportunity for the provision of extra services to residents who wish to meet the relevant costs. In this regard:
  - an extra service should be any facility or service that exceeds standard care as defined under the benchmark level of care required to be provided to all residents irrespective of financial means;
  - the controls on where in a facility extra services are provided, and the price charged for such services, should be abolished;

  - the current reduction in the basic subsidy for residents receiving extra service should be abolished; and
  - the current strict quota on extra service places should be replaced with a lighter-handed approach and a monitoring system aimed at identifying any cases where extra service provision is reducing access to standard care. The Government should also look at the scope to simplify the regional matrix of concessional resident ratios.
- The Government should work closely with providers and other stakeholders to resolve quickly all outstanding concerns in relation to program administration and transparency of information.
- The Residential Aged Care Review should undertake the first assessment of average costs as part of its examination of the adequacy of subsidies for residential aged care (as required by its terms of reference). This should be carried out in accordance with the subsidy methodology set out by the Commission in its recommendations and in the body of this report.
- Subject to any recommendation from the Residential Aged Care Review in relation to the adequacy of funding provided by the Government for residential aged care, funds earmarked for indexing current subsidies should be redirected to progressively increase the basic rates for the low subsidy States until a coalescence (or, if nationally uniform basic subsidies are not adopted, until a revised set of jurisdictional subsidies) is achieved.

Government response

The Government is undertaking a series of consultations with industry and other stakeholders before a whole-of-government response is made to the Commission's report (Bishop 1999).

Ecologically sustainable land management

Industry Commission Report No. 60 signed 27 January 1998, report released 20 April 1999.

The ecologically sustainable management of land — and its associated natural resources of water, flora and fauna — raises many complex issues. There are numerous environmental impacts associated with the use of land and they vary over time and place, and do so in ways that are difficult to predict. Many impacts are specific to particular areas and most are interrelated. Consequently, there is no simple answer or single solution to ensuring ecologically sustainable of land and

associated natural resources — a comprehensive and integrated package of policy measures that accommodates this complexity is needed.

The Industry Commission's package of recommendations was built around three major components. In brief, these were to:

Recast the regulatory regime to ensure resource owners and managers take into account the environmental impacts of their decisions.

- The regulation of land and natural resource management and environmental protection in each State and Territory should be built around a statutory *duty of care* for the environment.
- The duty of care should apply to everyone whose actions could foreseeably harm the environment and should require those people to take all reasonable and practical steps to prevent harm to the environment.
- Existing legislation regulating the protection of the environment and the management of land and natural resources in each State and Territory should be replaced by a comprehensive set of provisions in a single unifying statute.
  - The unifying statute should contain a statement of the principles centred round a duty of care to be applied to the management of land and natural resource and the protection of the environment.
  - The Commonwealth should enact a single unifying statute regulating the protection of the environment and the management of land and natural resources in areas within its jurisdiction.
- A single independent agency in each jurisdiction should be charged with administering the legislation, with the specific responsibilities being devolved as far as is practicable.
- Voluntary standards — codes of practice and environmental management systems of what is reasonable and practicable — should be the principal means of assisting duty holders to meet their statutory duty of care and related legal obligations. As far as possible, the development of voluntary standards should be left to those who have a stake in their application and to independent standard-setting bodies, such as Standards Australia and the International Standards Organisation. Mandated standards should only be used as a last resort — when the risks of environmental damage are particularly high.
- The administering agency should assist the development and application of voluntary standards by:
  - publishing information about significant hazards or risks of which duty holders or standards developers should be aware;

- publishing lists of voluntary standards that it considers conform to all the statutory requirements — and the use of such standards should constitute *prima facie* compliance; and
- accrediting suitably qualified auditors from the private sector to undertake external audits of compliance.

- As far as possible, each jurisdiction should mandate broad environmental outcomes, rather than the inputs or processes to be used in achieving them. Wherever possible, jurisdictions should allow functionally equivalent Australian and international standards to be used to meet the objective. Any new mandated standards should be developed by a transparent process of consultation with all interested parties.

Create or improve the markets for key natural resources

- Action is required to remove specific impediments to the creation or expansion of well functioning markets for key resources such as surface and ground water, farm forestry and native vegetation, native flora and fauna, and to waste or discharges from agriculture. The recommended measures centred on creating or better defining tradeable rights to use these resources and included:
  - separating the ownership of trees from the land on which they are grown and guaranteeing forest harvesting rights prior to planting;
  - removing export controls on plantation-sourced wood;
  - tradeable water entitlements, including for managers of environmental flows;
  - extending the existing tradeable discharge permits to new sources of water pollution;
  - creating new permit systems for agricultural discharges — such as salts and nutrients; and
  - implementing pricing reforms to eliminate subsidised use of resources.

Encourage nature conservation on private land

- Each State and Territory should extend its use of voluntary conservation agreements with selected landholders. The benefits of this approach would be enhanced by removing impediments to the commercial utilisation of wildlife — for example, by lifting export controls where an appropriate management system or code of practice was put in place.
- Governments need to ensure that their tax systems encourage environmental altruism as much as any other form of altruism — at present they do not. In particular, expenditure on private nature conservation should be eligible for the same income tax treatment as applies to heritage buildings and structures; and

the treatment of donations of land to registered charities for conservation purposes should not be dependent on the date of purchase.

Underlying, and fundamental to, the effectiveness of the three major components is a need to ensure that the generation and dissemination of environmental knowledge and know-how is adequate for the needs of policy makers, landholders and other resource managers.

- The Commonwealth, States and Territories should, as a matter of priority, conclude an agreement on the management of spacial data held by their agencies.
- Agencies charging a fee for data provision should review their pricing policies to ensure that, once produced, any additional costs of extracting and formatting data to meet specific user requirements should be recovered from them.
- The Commonwealth should initiate a review of Land and Water Resources Research and Development Corporation's charter with the aim of extending it to incorporate research into the management of on-farm biodiversity. Included in this review should be an investigation of the most effective way of funding this additional research. The Commonwealth should also consider making available funding for a Cooperative Research Centre for the Management of On-Farm Biodiversity.
- The States and Territories should review their extension programs with a view to ensuring that they are capable of advising landholders on all aspects of ecologically sustainable land management.

The focus of the report was on ensuring future decisions more completely reflect the impact of those decisions on ecologically sustainable land management, rather than the issue of repairing the effects of past decisions. For remediation, where worthwhile, it was considered reasonable for beneficiaries to contribute to the costs in proportion to the benefits they derive, as far as is practical.

Government response

There had been no government response to the report as at 8 October 1999.

Telecommunications equipment, systems and services

Industry Commission Inquiry Report No. 61 signed 9 April 1998, report released 12 May 1999.

The Commission recommended:

- Tariff removal scheduled for goods under reference covered by the WTO Agreement on Information Technology (the ITA) should be brought forward and take effect at the same time as the tariff measures announced by the Commonwealth Government in its December 1997 industry policy statement *Investing for Growth*.
- The economic rationales for industry policies which affect the telecommunications equipment industries, such as the Telecommunications Industry Development Plans and the Partnerships for Development/Fixed Term Agreements (PfD/FTA) programs, should be articulated clearly.
- Industry Development Plans should be voluntary for small new carriers. The criterion of 'smallness' could be based on indicators such as capital expenditure, sales revenue, and/or market share.
- Mandatory Industry Development Plans should not be a permanent feature of the carriers' regulatory regime, and should ultimately be made voluntary for all carriers. One option is to do this by 30 June 2002, when all current plans will have lapsed.
- The PfD/FTA programs should be reoriented towards activities such as R&D and alliance formation, where spillovers are most likely, and away from local content for its own sake.
- Greater transparency of individual partner's commitments and achievements should be introduced into the PfD/FTA programs, by requiring partners to publish public versions of their agreements and reports of their achievements.
- There should be a full independent review of the PfD/FTA programs in the year 2000, taking account of the Commission's suggested guidelines for conducting such a review.
- The Commonwealth Government should consider:
  - the merits of replacing the existing general tax concession for business R&D with an incremental scheme;
  - providing the incentive in a non-taxable form instead of a tax concession, at least for firms with tax losses or insufficient franking credits; and
  - the scope in an incremental scheme to increase the rate of assistance to R&D.

- In implementing its plans for an investment attraction program, the Commonwealth Government should minimise the economic risks by following a number of principles:
  - the program should be designed to maximise the extent to which investments are truly new to Australia by, for example, establishing a transparent cap on the maximum amount of financial resources the Government will provide under the program;
  - any proposal should be subject to rigorous cost–benefit assessment, including examination of the sources of spillovers;
  - as the process of discerning beneficial investment opportunities will emerge only after trial and error, the effects of the program should be monitored regularly so that changes in its design can be made to increase its effectiveness early in its life;
  - the Office of the Strategic Investment Coordinator should consult with prospective investors to gain detailed intelligence about inappropriate microeconomic impediments to investment in Australia;
  - it is better to provide subsidies to fund specific improvements of Australian endowments (for example roads, skills, R&D) critical to foreign investments, than to provide subsidies direct to foreign shareholders; and
  - the Office of the Strategic Investment Coordinator should use transparent processes and criteria for decision making.
- Existing venture capital programs should be monitored for some time and then evaluated to determine their effectiveness, before any additional or alternative programs in this area are considered.
- Any modifications to the taxation system to improve the availability in Australia of venture capital should be considered in the context of a wider review of the tax system.

Government response

On 12 May 1999 the Government announced that it 'largely' agreed with the Commission's recommendations and had taken action on most of the matters before release of the Commission's report (Alston 1999).

The Government had removed tariffs on the majority of items covered under the ITA from 1 July 1998. Tariffs on remaining ITA goods would fall to zero on 1 January 2000. In addition, a new Schedule 4 Item in the Customs Tariff to cover a range of inputs to manufacture of information industries equipment not included in

the ITA had been established. This would allow duty free entry for inputs currently subject to a Tariff Concession Order.

Other areas of agreement included:

- the need for clear articulation of economic rationales for such programs as Industry Development Plans and PfD/FTA programs, the reorientation of such programs to where spillovers are most likely, greater transparency of firms' commitments and achievements and a full independent review of the PfD/FTA programs in the year 2000;
- the principles enunciated by the Commission to guide and monitor the Government's investment attraction program;
- the need to monitor and evaluate existing venture capital programs before providing additional funding or developing alternative programs; and
- considering the tax treatment of venture capital in the context of a wider review of the tax system.

The Government did not agree to:

- making Industry Development Plans voluntary for small new carriers;
- removing Industry Development Plans as a permanent feature of the carriers' regulatory regime — the effectiveness of the Industry Development Plan arrangements would be addressed as part of the full review of telecommunications regulation to be undertaken by 30 June 2002; and
- supporting the implementation of an incremental based form of the R&D tax concession 'due to its complexity and administrative cost' and the uncertainty for business already created by the substantial changes to R&D assistance in 1996 and 1997.

International air services

Productivity Commission Inquiry Report No. 2 signed 11 September 1998, released 3 June 1999.

The Commission found that the 50 year old system of bilateral air service arrangements between countries is unable to cope with the ever growing demands for international air services and the system's constraints hurt airlines and their users — travellers and the tourism and air freight industries. The Australian Government, like many others, has been loosening the restraints, but not fast enough. Unilateral 'open skies' are not the solution for Australia as long as the rest of the world remains committed to the bilateral system.

The Commission recommendations covered five key areas.

Further liberalisation

- The Commission recommended that Australia should seek to negotiate reciprocal 'open skies' agreements on a bilateral basis which would remove restrictions on:
  - capacity and frequency to, from, between and beyond Australia and the bilateral aviation partner;
  - codesharing on each other's airlines;
  - routes, including points of access to the Australian and the bilateral partner's markets, intermediate and beyond points;
  - multiple designation of airlines by Australia and the bilateral partner;
  - ownership as a basis for airline designation; and
  - prices.

  Such reciprocal agreements should also contain restrictions on government subsidies where these are significant. Australia should also be prepared to negotiate, on a case by case basis, removal of restrictions on cabotage and the development of 'stand alone' services between the bilateral partners and third countries (so called seventh freedom services).
- Australia should invite like-minded countries to discuss the formation of an open club of nations committed to liberalising international aviation through a common plurilateral 'open skies' agreement.
- The Commonwealth Government should promote discussion within the WTO membership to determine a process for including all air services in the General Agreement on Trade in Services.
- The Commonwealth Government should join with other like-minded governments to have the International Civil Aviation Organization (ICAO) Secretariat's 1994 proposals to liberalise ownership and control requirements for national designation reconsidered for adoption on a plurilateral or multilateral basis.
- In the meantime, Australia's own air services arrangements (ASAs) should be negotiated to incorporate a more liberal means of designating airlines which does not rely on ownership restrictions.
- The Commonwealth Government should invite neighbouring countries to develop, and seek ICAO recognition for, a regional arrangement which would

enable relaxation of ownership and control criteria. Countries to be considered should include New Zealand and the South Pacific Forum island nations.

A regional reform package

As a step towards the further liberalisation of international air services, the Commission recommended reforms to ASAs to benefit regional Australia, encompassing both bilateral and unilateral elements:

- *Bilaterally,* Australia should offer unlimited capacity to fly to all airports other than Sydney, provided that Australian carriers are offered the same routes on a reciprocal basis by their bilateral partners. The Australian Government should take up the British offer of similar opportunities.
- *Unilaterally*, Australia should offer, within negotiated capacity:
  - removal of restrictions on the number of points to be served and designation of all cities in Australia other than Sydney, Melbourne, Brisbane and Perth;
  - unrestricted rights for foreign airlines to codeshare to all points in Australia on Australian domestic airlines; and
  - unrestricted rights for foreign airlines to carry their own-stopover traffic.

International Air Services Commission (IASC)

The Commission considered that the IASC should continue but recommended ways in which its role and processes should be streamlined and simplified.

Australia's aviation policy and processes

The Commission found that more transparent and consultative processes are needed in developing Australia's international air services negotiating framework and, accordingly, recommended that:

- The Commonwealth Government should publish, and keep up to date, a statement of its aviation policy.
- The Department of Transport and Regional Development (now Transport and Regional Services) should develop a formal direct consultation process which encompasses all major interested parties to obtain their views on ASAs being negotiated and ensure that it provides timely and informative feedback on the outcomes of the ASA negotiation process.
- An interdepartmental committee, chaired by the Transport Department, should be established to consider and endorse all proposals relating to Australia's air

services negotiating position. The committee should include the Departments of Prime Minister and Cabinet, Treasury, Foreign Affairs and Trade, and Industry Science and Tourism (now Industry, Science and Resources).

- Confidentiality of ASAs should be limited strictly to those parts of the arrangements specifically required by other governments. The reasons for granting confidentiality of ASAs should be scrutinised closely. All other arrangements should be made public and easily accessible.

Inquiry into airports

The Commonwealth Government should commission an inquiry into airport capacity, access and pricing in 2001. Such an inquiry should, at a minimum, examine:

- constraints that airports are imposing on Australia's air services;
- peak load pricing;
- regulation of aeronautical charges;
- the potential for the introduction of a market for landing slots; and
- legislated access provisions.

Government response

On 3 June 1999 the Commonwealth Government announced substantial agreement with the Commission's recommendations and, in summary, would:

- offer foreign international airlines *unrestricted* access to all Australia's international airports except Sydney, Melbourne, Brisbane and Perth — foreign international airlines operating to regional Australia would have unlimited capacity, codeshare, and own stopover rights [the Commission notes that the offer is not confined to 'within negotiated capacity'];
- seek to negotiate reciprocal open skies arrangements with like minded countries where this is in the national interest;
- propose that international aviation be liberalised on a multilateral basis through the General Agreement on Trade in Services round that begins in the year 2000;
- reform the foreign ownership rules for Australian airlines (but retain the existing ownership restrictions on Qantas);
- offer unrestricted access to all international airports for dedicated freighters;

- in all cases, aim to achieve a more liberal regime for designating international airlines;
- establish a formal consultation process to help develop the Government's position in international air services negotiations; and
- reform the roles and responsibilities of the IASC to simplify the processes for allocating capacity to Australian airlines (Costello and Anderson 1999).

The Government disagreed with certain of the Commission's recommendations. It rejected the recommendations to:

- allow foreign international airlines to carry domestic passengers within Australia on a case-by-case basis;
- bilaterally offer unlimited capacity to fly to all airports other than Sydney (provided that Australian carriers were offered the same routes on a reciprocal basis by their bilateral partners) maintaining that it needed the ability to trade access to Sydney, Melbourne, Brisbane and Perth as leverage to gain access to third country markets [but the Commission notes that the Government decided to offer unrestricted access to all airports other than Sydney, Melbourne, Brisbane and Perth];
- commission an inquiry into airport capacity, access and pricing, because such a review 'had the potential to generate uncertainty amongst bidders for Sydney airport and have a negative impact on its value'; and
- change some IASC processes and administrative arrangements relating to Australia's air services negotiating position.

Work arrangements on large capital city building projects

Labour Market Research Report released by the Commission 24 August 1999.

The report focused on changes in work arrangements on large capital city building projects since the late 1980s, and the scope for further performance-enhancing change. While the diversity of the building and construction industry made it inappropriate to extrapolate the findings of this study to other sectors of the industry, the Commission's key findings were that:

- There has been some improvement in a number of the highly inefficient work arrangements that existed on large capital city building sites in the late 1980s. Nevertheless, not all changes have been positive, nor have improvements occurred consistently across all cities examined.

- Key features which influence work arrangements on large capital city building projects include: the finite duration of each project; the fixed price contracts imposed by clients on head contractors (which are then mirrored along the contractual chain linking the various enterprises on site); the cost and time pressures associated with contracts, which increase the vulnerability of sites to industrial action; and high unionisation rates.
- These features, combined with the critical role of labour in the production process, provide unions with substantial market power.
- Industry/trade and project agreements — where head contractors, employer associations and unions form the negotiating parties — largely determine work arrangements in this sector of the industry. Subcontractors, who can employ up to 90 per cent of labour on a project, have limited control over work arrangements, especially remuneration.
- In the late 1980s, union market power was used to entrench many inefficient work arrangements, including: one-out-all-out, demarcation of work tasks, inflexible inclement weather practices and inflexible rostered days off. Such arrangements, and associated industrial disputes, led to projects being significantly delayed.
- The early 1990s recession was identified by most parties as a catalyst for improvements in work arrangements. The move to fixed price contracts, attitudinal changes by all parties and reduced inter-union rivalry due to union amalgamations, have also been major factors. In New South Wales, the exposure of unethical firm behaviour by the Gyles Royal Commission and the deregistration proceedings against the Construction Forestry Mining and Energy Union gave added impetus to the extent of change.
- Most parties said completion times for large capital city building projects have fallen, particularly in Sydney. This is due to a range of factors, including better coordination on site and improvements in inclement weather practices and other work arrangements.
- There has been a fall in site-specific disputes following the introduction of fixed price contracts, but a commensurate increase in industry-wide disputes has seen the total rate of dispute related delays increase since 1995 to the high levels of the late 1980s.
- There has been a shift to enterprise agreements, but pattern agreements dominate at the subcontractor level. Thus, while there are variations in some work arrangements, remuneration rates appear uniform across all enterprise agreements within a particular trade.

- Employees on large capital city building sites have weekly incomes significantly above the building and construction average. Much of this is due to overtime. However, negotiated wage increases above the economy-wide average are also a factor. As well, payments are made for site or (ill-defined) productivity allowances.
- High rates of fatalities and injuries on large capital city building sites remain a concern, although there has been some reduction in the severity of injuries over the last few years.
- Work arrangements in Melbourne appear less flexible than those in Sydney or Brisbane. For example, the content of pattern agreements is more uniform in Victoria than in New South Wales, and the option of changing rostered days off is used in both Sydney and Brisbane, but rarely in Melbourne.
- The complex nature of large capital city building projects, with head contractors having ultimate responsibility, means that it is appropriate to negotiate some work arrangements at different levels.
  - There are grounds for head contractors having control over some site-specific work arrangements, such as opening hours, site safety and inclement weather procedures and rostered days off, to facilitate coordination.
  - The coordinating role of head contractors, however, should not extend to remuneration of subcontractor employees. Employers, in most cases subcontractors, are best placed to determine remuneration and associated incentives to improve the productivity of their own enterprises.
- The scope for further improvements in work arrangements will continue to be affected by the special economic characteristics of large capital city building projects (including the high cost of delays and the extensive use of subcontractors) which condition the relative bargaining strengths of the parties. However, planned changes to legislation to improve the timeliness of penalties against unprotected industrial action and to address de facto compulsory unionism would facilitate further change.

Government response

The Commonwealth and Victorian governments jointly welcomed the report, and in particular, noted the following Commission findings:

- work arrangements in Melbourne appear to be less flexible than in other competing capital cities, and the cost impact this creates;
- the relatively high level of industrial disputation recorded in this industry in Victoria; and

- an apparent continuation of the unlawful practice of compulsory unionism (Reith and Birrell 1999).

The Commission's report was seen as presenting further support for the views of the Commonwealth and Victorian governments that additional reform is needed.

Government responses to Industry Commission reports from previous years

Packaging and labelling

Industry Commission Inquiry Report No. 49 signed 14 February 1996; report released and initial government response 8 October 1996.

On 6 July 1999 the Government announced that it would remove the tariff on aluminium cansheet — used to make the body, ends and tabs of beverage cans — and steel tinplate from 1 October 1999 (Minchin 1999c). The Commission's 1996 report had recommended that the tariff on tinplate and aluminium canstock be removed from 1 July 1997.

The machine tools and robotics industries

Industry Commission Inquiry Report No. 52 signed 13 August 1996, released 6 August 1997.

The Government announced its decision to terminate the bounty on machine tools and robots from 20 August 1996 (subsequently extended to 30 June 1997) soon after the Commission finalised its report. The Commission had recommended cessation of the bounty on 30 June 1997. Other recommendations remained to be addressed.

In March 1999 the Government announced that it proposed to adopt the remaining Commission recommendations when it introduced the Customs Tariff Proposal No. 1, 1999 in the House of Representatives (Slipper 1999).

From 1 April 1999:

- duty on parts of machine tools classified to certain subheadings in chapter 84 would be reduced from 5 per cent to zero; and
- policy by-law items 48, 49 and 55 in schedule 4 of the Customs Tariff Act would be cancelled.

The Industry Commission's 1996 report had recommended these changes be effected from 1 July 1997.

The Government stated that:

> The recommendations and the advice gained from the Industry Commission's study have been invaluable to the government in determining the best mode of assisting the technological development and encouragement of Australia's machine tools and robots industry (Slipper 1999, p. 4689).

Implications for Australia of firms locating offshore

Industry Commission Inquiry Report No. 53 signed 28 August 1996, report released with an interim response 13 December 1996, final response 28 January 1999.

In its final response to the Commission's report the Government noted:

- it was addressing impediments to Australian industry's offshore investment activities through a range of multilateral, regional and bilateral trade and investment initiatives;
- it was taking action to improve the opportunities for investment within Australia by improving Australia's competitive position and the environment for business. Invest Australia has been established to provide a wide range of services to international companies seeking to invest in Australia;
- it had announced details of its tax reform package in August 1998 (since legislated) and had established a Business Tax Review to facilitate consultation on the design of reformed business tax arrangements. Taxation issues relevant to the Commission's report would be considered as part of that review; and
- the *Native Title Act 1998* had addressed uncertainties about access to land (Kemp 1999).

Book printing

Industry Commission Inquiry Report No. 54 signed 23 October 1996, report released 6 August 1997.

The Government had announced its decision to terminate the book bounty from 20 August 1996 (subsequently extended to 31 December 1997) in advance of the Commission finalising its report. The Commission had recommended cessation of the bounty after the end of 1997. Other Commission recommendations remained to be addressed.

On 16 December 1998 the Government announced its full response to the Industry Commission report to coincide with the introduction of a Printing Industry Competitiveness Scheme to operate from 1 January 1999 (Minchin 1998). The Commission had recommended no other form of assistance replace the book bounty. Under the Scheme, book printers will be able to claim 4 per cent of the purchase price of paper (whether or not imported) to compensate for the effect of duty on their paper inputs. Eligible books would be defined broadly along the lines under the previous bounty scheme. A review of the Scheme is to be carried out by 31 December 2001, or earlier, if relevant paper tariffs change.

The Government rejected the recommendation to remove the tariff on Australian directories and timetables. Consideration of reductions in duties on these goods was deferred until the general review of tariffs at or before the year 2000. (The general tariff review was announced in July 1999.)

The Commission had recommended telecommunications providers such as Telstra be free to determine, on a commercial basis, their own arrangements for supplying directories. However, as part of the telecommunications regulatory regime the Government had decided that Telstra would continue to provide, free of charge, White Pages directories to each customer covering the subscriber area in which the customer was located.

In relation to other recommendations, the Government noted that it:

- was addressing the issue of parallel importation of books separately from the Industry Commission report;
- consults widely and regularly on intellectual property issues with industry and other interested parties, including consumer groups;
- had announced its support for a broad-based transmission right and was preparing an exposure draft of legislation which would allow copyright owners to control online transmission of their copyright material; and
- was pursuing a comprehensive approach to trade policy aimed at maximising market opportunities for Australian exporters of goods and services.

Private health insurance

Industry Commission Inquiry Report No. 57 signed 28 February 1997; report released and government response 10 April 1997.

As part of its response to the report, the Government announced that it was disposed to support the Commission's recommendation for the introduction of unfunded

lifetime community rating but, given the fundamental nature of the change, the Government would conduct further analysis of the economic and other potential consequences. Details of the Commission's other recommendations and the Government's response were provided in IC (1997b, pp. 115–19).

On 2 June 1999 the Minister for Health and Aged Care introduced a Bill into Parliament to require health funds to set different premiums depending on the age at which a member first takes out hospital cover with a registered health fund (Wooldridge 1999a, pp. 5753–4).

Under Lifetime Health Cover, people who take out hospital cover with a registered organisation before the age of 30, and maintain their membership, will pay lower premiums throughout their lifetime relative to people who delay joining. People who join after the age of 30 would pay a 2 per cent premium loading for each year they delayed joining. This loading will be capped at a maximum of 70 per cent above the premium payable by a person who joined at the age of 30.

A range of transitional provisions will apply, including:

- no matter what their age, existing members of private health insurance funds with hospital cover will be treated as if they had joined a fund at the age of 30;
- there is a period of grace to 30 June 2000 for people currently without private health insurance to join and pay the 30 year old rate irrespective of their age, provided they have paid contributions for a minimum period; and
- people born before 1 July 1934 will be able to take out hospital cover at any time in the future without paying a loading for joining late in life — that is, pay the same premium as a 30 year old new member.

Provision is also made for people who discontinue fund membership and for migrants and refugees.

The legislation was passed by the Parliament on 27 September 1999.

There is to be an independent review of Lifetime Health Cover and its report is to be tabled no later than 31 December 2003 (Wooldridge 1999b).