



SPARK AND CANNON

Telephone:

Adelaide	(08) 8212-3699
Melbourne	(03) 9670-6989
Perth	(08) 9325-4577
Sydney	(02) 9211-4077

TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

INQUIRY INTO THE IMPACT OF COMPETITION POLICY REFORMS ON RURAL AND REGIONAL AUSTRALIA

**MR J. COSGROVE, Presiding Commissioner
PROF J. SLOAN, Commissioner**

TRANSCRIPT OF PROCEEDINGS

AT ADELAIDE ON TUESDAY, 22 JUNE 1999, AT 9.31 AM

MR COSGROVE: I'd like to begin what is the first day of the public hearings on the commission's draft report on the impact of competition policy reforms on rural and regional Australia. For those who are appearing at this hearing I would like to point out that we intend to make the hearings as informal as we can, but we ask participants to be accurate in the information which they provide to us. That's important from our point of view for enhancing the quality of our final report to government. I think in these hearings we're seeking in particular factual evidence on the impacts of competition policy reforms as well as reactions to the assessments contained in the draft report, although of course participants may wish to raise other matters as well.

I will be asking all participants to identify themselves and the capacities in which they are appearing before us today. These hearings are recorded and the transcripts of them are publicly available. Stewart Plane, who is presently at the back of the room, will be able to tell people wishing to obtain a copy of the transcript how they may do so. Our first participants today are representatives of the Local Government Association of South Australia. For the purpose of the transcript would you please identify yourselves and the capacities in which you are with us today.

MS CAMPANA: Thank you. Wendy Campana, director, strategic development, Local Government Association of South Australia.

MR COVENTRY: Ken Coventry, consultant to the Local Government Association of South Australia.

MR COSGROVE: Wendy, we're very grateful to you for helping us at an earlier stage of this inquiry and providing us with a submission this morning and some summarised notes of that a few days ago. Are there any particular aspects of the views that you have in those documents that you would like to mention to us now?

MS CAMPANA: Certainly. One of the things that we found in reading the draft report - which we must compliment you on, actually. It's an excellent document. We've found it to be very useful reading in terms of our understanding and development in terms of competition policy - and also to recognise that there is a South Australian Regional Development Task Force, who has recently also provided a report on the impact of regional development, particularly in rural areas. On several occasions they made comment or at least noted that this inquiry was under way, and in specific areas, so that they would be very interested in hearing the outcomes of the inquiry. Having read that report and the draft report, I think that our state will get a lot of benefit from both of those documents as we look at regional development, so I really wanted to congratulate you so far in terms of what you have gathered.

MR COSGROVE: Thank you.

MS CAMPANA: Our focus is very much on local government, in particular councils, and we'd reiterate what you've already found in your findings so far. That is,

it's a bit early for us to really anticipate what the impact has been - probably from two perspectives. We tend to focus on the impact on a council's operational activities and its governance activities and haven't as yet been able to look at the actual impact of changes in service provision that may have resulted from the national competition policy actually on the ground. Many of our councils, because there aren't a great deal of business activities being identified to fit within our category 1 and category 2, as you understand, under our clause 7 statement - - -

MR COSGROVE: Yes.

MS CAMPANA: For us it's a little bit early days yet, but I think we can provide some anecdotal evidence of the sorts of issues that are arising, through surveys we have conducted and workshops and so on. At the outset, some of the comments, particularly in the local government related issues in the chapters of the report, indicate to us - and again this is anecdotal because it tends to be myself that takes most of the queries from councils when they get lost, about interpretation. Some of the examples that you found in the other states - I wouldn't expect we would have questions or misunderstandings to the extent that may be the case in other areas.

That could be of course for a couple of reasons. Perhaps it could be the sort of support program that the state government has put together, perhaps with the Local Government Association in that state. We have had a fairly extensive program and there's comment about that in the outline submission I provided, and further comment in this one - but also, I suppose, on the basis of the different responsibilities that councils have in the other states that we may not have in South Australia, particularly water and gas, electricity. Those types of areas are not the larger. Most that are captured by NCP activities are not undertaken by councils in the majority here. There's a couple of small country councils that have some responsibilities in that area but tend to be pretty much on their own without other accessible providers, although, with our recently electricity arrangements being debated in parliament, that may change of course in the future, but we don't understand at this stage what the implications in fact might be.

We thought it was useful to highlight the nature of the activities that have been undertaken and what I'd describe as being a very collaborative relationship, at least over the past 18 months, with the Office of Local Government and Department of Premier and Cabinet, who have had the responsibility for administering the legislation related to complaints against state government agencies and local government agencies. I have to also say that there aren't a great deal of complaints either, and the couple of complaints that I have become aware of have been the private sector not understanding the clause 7 statement as it applies here, and particularly probably not understanding up-front the issue of government still having a policy discretion in relation to how the national competition policy will be applied.

The support program, just in brief - because it is outlined in the submission - has involved a series of workshops and training programs, a great deal of development of guidelines, often at a draft stage first, and then later forming up more

detailed

guidelines based on feedback from councils of areas that they were having difficulty understanding. The second round of guidelines on the business activities area has been enhanced with case studies. There have been some really lovely little case studies, particularly in rural Australia, that I wanted to highlight a bit later on, about the way councils are applying it.

We've also had a consultant and, although Ken is with me today, there is another consultant, David Hope, who we have employed jointly through funds from the Commonwealth and state governments. He's been available on a full-time basis if that was required, and it hasn't been required, but available to councils in the state for the last two years, to take inquiries, to actually assist them out in the workplace, either regionally or individually - and certainly the rural councils have sought the largest proportion of support from David's time - and also to help councils with the reporting requirements. We saw the reporting requirements as obviously being a necessity under the clause 7 statement, but also a little bit of an audit and extra training tool, so the audit and reporting requirements that we've put in place have been very much a check list approach so that councils can review again where they're at in relation to the NCP. That's been a fairly extensive program and probably over the last eight to 10 months there haven't been as many inquiries and concerns in relation to NCP, so we think there's a bit of a shift in understanding as a result of that.

The other issue that I haven't actually addressed in the submission because it came to me earlier last night when I was reviewing this is: what I didn't notice in the report was discussion through the other states on the application of the NCP in relation to by-laws. I didn't know whether that was something that was unique to South Australia in terms of our local by-law making or was just something that perhaps hadn't been raised because it's not necessarily a competitive neutrality question, it's rather a local law impacting upon the private sector being able to do their business.

MR COSGROVE: Yes. We went to many places of course during our first round of consultations. I think it did come up. If I heard it, it probably wasn't in this state, because it was Judith who travelled around South Australia. I think it's something that has been raised - not extensively, and perhaps on that basis we felt we didn't need to deal with it.

MS CAMPANA: Sure.

MR COSGROVE: But if you have any further thoughts you would like to put down on paper for us, please do.

MS CAMPANA: I think we'd like to, from the point of view that it was a very legalistic approach that needed to be taken, so therefore it was a very resource intensive and costly activity for councils to assess their by-laws and determine whether they restricted competition in some ways. A couple of the examples that we have had raised with us in relation to the NCP and its application in rural areas has related to itinerant traders and the perception of local business about the impact on

their

business viability on the days that itinerant traders are operating in, particularly, large rural centres. It provides that sort of customer - or the community reaction to an NCP of a slightly different nature to what business activities generally are, so we certainly will provide you with some additional comment in that regard.

The by-laws are quite interesting little things, things like street signs that traders will use and the impact on their business by the sorts of licensing or permit requirements in respect to that, whether that enables them to promote their business or not. There are some funny little different types of implications in that area. We'll provide you that and we'll also provide you with the example reporting format and the guidance we have provided to councils in assessing those by-laws.

In terms of the submission itself, when we consider the impact on councils, again canvassing it from the point of view that it's still early days, it seems that the areas where councils have had difficulty grasping the NCP, and particularly our clause 7 statement, is in the question of whether something is a business activity or not. Of course, you've clearly documented in the report that there are some policy discretions in that, but I suppose it's the issue of - we have a business activity and, yes, it is a user pays arrangement so it does fit within a category 2 from our perspective because we haven't got many category 1s, but it's that question around applying competitive neutrality when a profit-making adventure - if you could even call it that in a local government term - in one area offsets a diminishing income or resources to provide a service in another area, and our view that the NCP seems to isolate the consideration of competitive neutrality to each individual service rather than looking at the income that may be generated from that service on the overall operations of council's activities. That was our understanding. I was interested to see whether you had interpreted it differently.

MR COSGROVE: I must say it is an area of some complexity, but I don't think it's necessary under NCP for a particular council business activity to be required to make a profit.

MS CAMPANA: I understand that.

MR COSGROVE: It does have to present the costs of its operations on a basis which is neutral as compared with the cost structures of a private sector competitor, but what prices it actually sets, what rate of return it might set, I think are matters essentially of discretion.

MS CAMPANA: I think you're right, yes, and I'd agree with that. The question that troubles me is that if it does decide on a certain level of income and its decision is based on using that income in other areas, like it's part of its revenue-raising activities, how you can factor that in in your decision about whether it ought to be a service that ought to be subject to the national competition policy or not - that extension of community service obligation to beyond that particular service. I'm not sure that I'm making myself very clear.

PROF SLOAN: I think the point you're making is that the CN test applies in isolation in a sense to an examination of a particular businesslike activity and the point you are making is that maybe that businesslike activity supports a broader set of activities which fulfil community service obligations.

MS CAMPANA: That's right.

PROF SLOAN: Or provide a benefit to the local community.

MS CAMPANA: Yes, and in practical terms may have no relationship directly to that service activity at all. Like, it could be a service activity in relation to road construction of private works, but any income generated may well be targeted to a community service activity to highly disadvantaged people where there are no income generation activities at all. So it's how you actually make that assessment across the whole arrangements of a council that I think probably needs to be something - - -

MR COSGROVE: I don't think NCP requires an assessment of costs across the whole range of council activities.

MS CAMPANA: It doesn't, yes, and I suppose I'm suggesting that part of the test ought to be thinking through how that income that is generated is actually applied and what the impact would be if council decided that it was going to, for example, competitive-tender an activity, and if it was going to lose that activity potentially to the private sector, what would be the downside of not receiving an income, to the overall - - -

MR COSGROVE: I see.

MS CAMPANA: I think that's where local government, because it is a property taxed arrangement - that's its largest base of revenue. It relies on grants and other activities, and fines and so on, and some of it may be an income generation activity, so it's different to business. "Profit driven" means something very different in a local government context, because the money is reinvested into the community, to what it means in a private sector arrangement. I suppose some of the language around the national competition policy, around competitive neutrality and level playing fields and so on, I personally have difficulty grasping because the mind-set is different.

MR COSGROVE: You are not alone.

MS CAMPANA: The other interesting thing - and this is a really nice little example of it - in one of our rural councils, where there was an operator of a local bus who felt that the council bus services were offering a lesser fee to what he could accommodate in running his own business, and felt that the council ought not be operating its bus in competition to him - and obviously experiencing some benefits and so on. Clearly the council was - with the way it was costing that service - not fully costing the activity. But it was interesting from the point of view that when we

investigated the case we found that the community was really annoyed about it. The community gave the NCP

a really big serve in terms of - the bus was actually provided generally for people who were infirmed in some way during the week, but was available to the local community on the weekend for bus trips for - - -

MR COSGROVE: So you actually had two different types of bus services?

MS CAMPANA: Exactly, two different types of services, but the costings were never differentiated at all. When we actually did the research, because the community got quite uptight about it, and the council wanted to address the issue - although it wasn't significant in terms of its income generation in relation to the whole council budget or in terms of resources it was putting towards that activity, the private person felt rather aggrieved and the council felt compelled that it should look at it. Interestingly, though, when they actually investigated it, the private owner or private driver said, "Well, I don't really want to operate every weekend, it's just occasionally I want to do it, but when I want to operate I want to make sure that you're not in competition with me."

Then it sort of begged all these interesting questions about interpretation from the private sector's point of view about what councils need to do when they're looking at NCP. It also begged the question in terms of what is the appropriate price? Because we are also asked to look at what is the market price in the area, who is to say that the market price of that local provider was, you know, highly profitable or not very profitable and how do you determine the level of profit? It might be quite different from - - -

MR COSGROVE: Yes, I can see what you're saying. Again, I'm not quite sure what the answer to that problem is.

MS CAMPANA: Me neither, and I think they are the things that are sort of exercising people's minds now. It was quite interesting. The community reaction was a negative one. The council resolved it with the local business operator by actually looking at a collaborative arrangement.

MR COSGROVE: I see, yes.

MS CAMPANA: In terms of, "Well, you're available. When you're not available we'll make sure that there are some bus services available." There was a way through that issue, but it was an interesting one because it wasn't a significant business activity, but the council felt concerned enough about it - and the community did, too - that it felt it needed to resolve it. It just raised some really interesting questions around interpretation.

MR COSGROVE: Wendy, you mentioned that there had been a relatively small number of complaints in your state. I take it that means complaints to the competition commissioner.

MS CAMPANA: Yes, it does.

MR COSGROVE: Do you know what they related to?

MS CAMPANA: Yes, I do, but I am not sure that I can actually reveal them because there is a confidentiality around it, and the council chose to speak with us, so it's probably inappropriate for me to reveal what they were about.

MR COSGROVE: Yes.

MS CAMPANA: However, there were only two that I'm aware of and the resolution of both of them was managed by the council. Whilst the complaints commissioner was aware of the complaints under the legislation we have in South Australia, they were to refer that to the councils - which they did - and certainly they spoke to us along the way as well, not revealing the complainant parameters, although the council had spoken to us confidentially to get advice. Clearly, for both those complaints, it was a misunderstanding from the private sector's point of view about what the NCP requirements were for councils. Both the complaints were resolved amicably once those understanding - - -

PROF SLOAN: Were they in the city?

MS CAMPANA: One was in the city and one was in the country areas.

MR COSGROVE: Does the complaints commissioner face a requirement to make public any details of those cases?

MS CAMPANA: It's interesting because we are actually looking at amendments to the legislation at the moment. My understanding at the current stage is that they don't need to make that information publicly available, although I'd stand to be corrected on that because I'm just in the middle of looking at amendments and the current legislation and sometimes you tend to get a bit confused about reality versus what the change might be.

But in terms of the proposed change I am quite clear about what the new arrangements would be and our concerns about that. The new arrangements would suggest that once an inquiry has been made and obviously not dealt with effectively at the local government level so ended - or even state agency level, for that matter - - -

MR COSGROVE: By negotiation, yes.

MS CAMPANA: - - - and ended with the commissioner, the commissioner would be required to do a summary of the outcome or investigation of the complaint and that would be publicly available. The amendments we would be seeking in relation to that would be also to enable the reaction to the investigation and the recommendation that may be made - to enable the council to have their reaction publicly made available as well. We are concerned that you might only tend to hear

one side of the story, although we clearly acknowledge that the complaints commissioner's responsibility is

to talk with both the complainant and the council concerned in exploring a complaint.

I suppose because the complaints legislation is about recommendation rather than "You must apply X competitive neutrality principle in the future," there could be variables that could come into place that may not be evident today in relation to a particular service. Of course, if it's on the public record it's always on the public record so we felt that there needs to be a balance of the views presented publicly. We're yet to formally put that to the premier in terms of the amendments we'd be seeking and clearly we'll obviously have to work that through with the government and see how they feel about it.

MR COSGROVE: Thank you.

MS CAMPANA: I suppose the other point that I was keen to make, and obviously it's been recorded in the report and we've embellished upon that further, is the resources that need to be put in place to establish whether you have a business activity under the definitions as it stands, and then to look at what competitive neutrality principles, if any, ought to apply in then resourcing that arrangement and then recording everything in case there is a complaint. Again, that significance question that I raised before, in terms of councils having difficulty sometimes with that, is still an ongoing issue.

I think the other area is the community service obligations test. I suppose, as I mentioned before, we're wondering about how broadly that needs to be applied; whether it's service specific or implication for service. I suppose the final one that is quite live in local government at the moment - probably a bit more in metropolitan areas than rural areas, although rural areas are looking at this issue - is competitive tendering. I notice that there is quite a bit of discussion in the draft report on this. I suppose that the entry point for councils in looking at competitive tendering here has been a full cost attribution approach, although often we've had to pull them back and say, "Well, under an NCP framework you need to" - especially with payroll tax, and you've got a wonderful example of that in the draft report - that if the organisations that would tend to provide that service in the marketplace don't have 15 employees then your payroll tax questions are a bit different and so on.

So the competitive tendering issue is an interesting one, and I think under our current clause 7 statement there is a suggestion that you would either apply the competitive neutrality principles or advise any potential providers that the principles do not apply. We've tended to take the premise that when a council is looking at competitive tendering it ought to be very clear about the fact that its employees are in competition with another group and it's the private sector. So it is appropriate to consider the application of competitive neutrality. The degree to which you might apply it is a different issue, but to actually find yourself at the end saying there are some competitive neutrality advantages applying, we didn't feel was the best approach to take. We haven't necessarily seen examples where councils have chosen to say, "Competitive neutrality principles are not applying here." We just feel as if that makes things a bit murky.

But I think in terms of competitive tendering, the interesting issue is that people understand the NCP framework in relation to that. Sometimes their selection of what they need to cost in can be a little bit off the mark so work needs to be done there. But I think it's that broader question of whether competitive tendering is the best strategy to use for service provision - that's really where we've been coming from. I think there could be examples in the future - not now, but in the future - if councils haven't thought through what is their role in the community, what is the requirement of this service, and is it best placed for putting something into a competitive tendering environment, because of the nature of the fact that you may not be able to manage that service as effectively in the future, there could be risks associated to you from a liability point of view.

MR COSGROVE: Yes.

MS CAMPANA: Obviously there is a potential employee cost if you find that your employees aren't as competitive as what you can gain in the marketplace, then there are redundancy questions and so on. The tack that we've been taking is trying to get councils to think through what their service provision policy framework is about. What does local employment mean to them? Are they seeing themselves as a contributor to local employment? If they aren't, then they need to think through the issues associated with that and the potential long-term implications of not having a contract awarded internally.

PROF SLOAN: What is driving competitive tendering in this state? It's not an NCP requirement.

MS CAMPANA: No, it's not. I think probably back in 1994 or around that time we had a ministerial advisory group inquiring into local government reform.

PROF SLOAN: Yes, that was about the non-forced amalgamation.

MS CAMPANA: Exactly, but it also addressed a range of other questions as well, and one of them was the question of competitive tendering and whether in fact we should have a compulsory framework - - -

PROF SLOAN: Like Victoria.

MS CAMPANA: - - - like Victoria had. I think that what tended to happen is that councils thought, "Well, we're not sure where we're going to end up being on that when the government considers the final recommendations" - of what we call the Mag report - "so therefore we may need to consider what this might mean in our workplace." I think also, in fairness, looking across the board - as in seeing what's been happening in Victoria - some of our council chief executive officers and elected members thought, "This is something we ought to look at as an option in service delivery."

What did find though, interestingly enough, is that in contracting out terms when competitive tendering was introduced - or compulsory competitive tendering was introduced in Victoria, by percentage we were far more in advance of them in actual contracting out activities. So it was questionable whether you needed to actually go down a CCT path. I think it's also fair to say that our parliamentary arrangements here may have made it difficult, because of the nature of the political positions on compulsory competitive tendering, to have got that through.

So what we will have certainly in our new local government legislation - which is still in parliament - is some facilitative provisions which raise the question of competitive arrangements and service provision, but do not force competitive tendering at all. I think enterprise bargaining agreements have certainly used that as the entry point to have the discussion at the workplace about where the options might lie for introducing competitive tendering, but in no way suggesting that that is the absolute path that will be taken. There are some checks and balances, although the EB agreements are preserving the right for the employer to make the decision in most instances as to whether that will happen or not.

I suppose we've been trying to catch the wave a bit and say it's okay to consider that as an option but you need to think through the long-term implications as part of your assessment of those options. I mean, long term I suppose one of the concerns we have is that if a large proportion of services are found to be more effectively delivered by people other than employees then there is the question of what happens with those employees. Of course, one of the answers is for the council to consider activities it could be doing that aren't traditional local government activities. Then we're raising, "You need to think through what that means for the private sector and what that might mean for your organisation and whether that's the approach that you want to take."

MR COSGROVE: In some areas - I think perhaps mainly in Victoria - there seems to be an emerging enthusiasm on the part of council employee groups to be out there and compete with the private sector. If my memory is right, I think we heard of some cases where they had actually managed to out-compete the private sector to gain some market share for themselves.

MS CAMPANA: Yes, sure.

MR COSGROVE: In a related aspect of Judith's question, do you have the impression that the existence of national competition policy is one of the factors leading councils to think about competitive tendering? You were saying earlier, though, that the understanding was now better than it had previously been.

MS CAMPANA: I think the word "competition" in national competition policy has had people rethink what service provision means in a local government context. I don't think it would be fair to say NCP has driven that absolutely, but I think the context of changes in other states, looking at efficiency and so on that the NCP does provide, if a council wants to go down that path and wants to use the policy to do

that, it is a tool that can be used for them to look at introducing things like competitive tendering. But I think the view that we've held at the LGA, and I would hope that the state council holds as well, is that the councils are all autonomous bodies and will make their own decisions about how services ought to be provided.

So if a council determines that it does have opportunities to work in competition with the private sector and that provides some benefits or they believe that's the appropriate approach to take, then that would be - you know, we don't have a policy position on that.

MR COSGROVE: So be it, yes.

MS CAMPANA: Certainly in rural areas, some of the work that rural councils do is actually competing for contracts for the Highways Department and others, and many of them would see that as being a guarantee that there is employment for people in their local areas. So to take a policy perspective from our point of view is dangerous because each locality has its own set of demographics and economic profile and so on, and needs to respond to that as best it can, and deal with the fallout, if there is any, at the local level.

Just quickly, the other point that I think we've made in our submission and probably expanded on a bit further is this question of purchaser-provider split. I suppose that seemed to be the approach that was being taken in Victoria, or at least that was the impression that we were gaining in South Australia. We have done some very extensive work on having councils think through the implications of purchaser and provider split and when it's necessary and when it's not, so they've got some other options to look at rather than saying, "We need to have an organisation change if we move into a competitive environment."

I suppose I have some personal views and some professional views about this, so I am being careful in the way I express them. I suppose what challenges us at the moment is under a transparency arrangement, which the NCP would call for, particularly in a bidding process, there needs to be transparency in the time you determine that there's a contract and the assessment of the best provider for that contract. The purchaser-provider split provides that transparency very appropriately but I suppose if the contract is award in-house, then the necessity to continue to organisational structures is something that we're probably thinking through a bit more. I think it became a little bit flavour of the month, I suppose, purchaser-provider split.

So we're doing a lot of work at the moment to help councils think through what are the long-term implications of organisational breaks like that, and do you need to have that long-term or do you not, and it's largely driven by the nature of how many services I suppose they believe are best delivered through a competitive tendering, or even for that matter, a contracting-out activity. There's a lot of work going on in our state about that. In fact we've used some Commonwealth funds in some initial stages to look at visions of councils and what is their strategic plan focus and what does

service provision mean to them, and consistently with our Local Government Act

that's hopefully going to come in soon, if it's not changed dramatically in parliament - I don't expect it will in these areas - we're certainly promoting a service provision policy framework that has councils think a little bit further than the next 12 months in terms of their implications for service provision choices, and then sort of considering that from an organisational structure point of view.

Clearly we're working with the unions and at times, as an employer, we have some very different views to what the unions might have on this issue, however - in fact after this meeting we've got a meeting with them again to consider some of these points. But we're trying to put on the table what are the implications industrially and what are the ways of managing those implications rather than suggesting up-front that it can't happen. We're trying to get behind that to see what are the real reasons where people feel uncomfortable about it and are those reasons manageable in some way so that the employees' perceptions of what it might mean for them can be attended to appropriately during the process. Industrial unrest is not the best way to go, in our view, if you can avoid it. Clearly in the country regions it can be much more dramatic if industrial unrest takes place than it can be in metropolitan areas, simply because people may not be living in the same area for which they're working.

There is a whole range of questions around that that we see as an NCP issue because it's about transparency, but then there are costs associated to that that you would need to work through.

PROF SLOAN: Can I just go back to that point - I think you've got it there in your submission - about the resources required to apply NCP and indeed a whole lot of other policy changes, really. I mean, are those essentially short term as opposed to sort of ongoing?

MS CAMPANA: I would suggest they are.

PROF SLOAN: I suppose that point 1 - and it sounds as though your organisation has played a sort of important brokering information role in that.

MS CAMPANA: Yes.

PROF SLOAN: The second thing I would like to address is in some ways it sounds as though, notwithstanding the cost of it, there obviously have been some positive impacts in terms of the thinking of - you know, that sort of big picture thinking of, "Well, what do we do? We are there to provide services but how do we provide the services."

MS CAMPANA: Yes, I would suggest that there are some short-term implications. When councils first had to identify their business activities that was a massive task for them. Now they need to just add in new ones as and when they arise, so we encourage them annually to have a look at their listings and adjust them as required. But certainly the first time was the hardest.

In relation to the positive impacts I think - although not all local government authorities would agree with me - there have been some very positive impacts, and I think that was largely driven by the reform process that we were involved with. We had an excellent opportunity to reconsider how the new councils that resulted from amalgamations - because they were in a state of flux in bringing three councils together, having to review the different approaches and determine a new approach for service provision in particular, and elected structures and so on - provided a nice place for the NCP in relation to consideration of all those matters. Even if your council hadn't amalgamated, most of those councils were involved in reviewing their services. So for South Australia, I think because of the nature of the reform, we could find a nice safe and relevant spot to place the NCP as another set of considerations.

MR COSGROVE: Could you give some examples of those benefits you thought came out of that process?

MS CAMPANA: Sure. I think again competitive tendering is probably one of them, where councils could make a nice correlation between the NCP and competitive tendering, so they could actually look at all of the elements of a competitive tendering environment and overlay that with the NCP arrangements quite nicely. I think the other area was just the amalgamations themselves where they had to sit down and say, "Well, there might be three councils in this group now. We've all delivered similar services but we've done it differently. Some of us have done it from a user-pays point of view, some of us haven't" and what might have been the reasons why one felt users-pays was the way to go when another didn't, what were the organisational structures that sat behind all of that, what were the policy positions that sat behind all of that, and having to understand that environment and the clients that were being served and then think that through with a broader client base - just for me provides a really nice place in the whole reform process rather than sitting back saying, "Well, we've done all this reform and here's another thing coming down." You could actually package it.

MR COSGROVE: So you would say that there has been a tendency towards a more efficient provision of local government services.

MS CAMPANA: Sure.

MR COSGROVE: Any effects on the trend in rate revenue?

MS CAMPANA: It's a bit hard to say at this point again because of the amalgamations requiring rate reductions. So I think councils are now in the - and we have had emergency services levy issues in our state recently which - - -

MR COSGROVE: Yes, I've read about that.

MS CAMPANA: So there has been a whole range of questions in the last couple of years, so the rate revenue issue I think is a bit hard to say at this point. Again you

need to look at it in the broader picture. At the end of the day the rate revenue is

driven by the services and the costs that have been planned for a particular year, so gains in one area offsetting against another, it all comes together in one total picture rather than looking at the specific service area. So that would certainly be my view.

For some of the councils I think who struggled with this from a resource point of view and so on, we encourage them to look at it in the context of their broader reform program and wherever possible reminded them of where the NCP fits in through all of our documentation to just provide a context. I think that probably worked rather than looking at it as an individual issue. It may not have been easy for other states but it was certainly easy for us in that respect.

MR COSGROVE: Earlier on you referred to some case studies of rural councils, how they were coping with NCP. Is that covered in your submission?

MS CAMPANA: It's not. It's actually in the new set of draft arrangements in our new guidelines which, I think, you might be getting a copy of this afternoon, and the guidelines that fit with that - I can certainly provide a copy of those. One of the case studies is actually the community bus issue I talked about earlier and another is related to a council attempting to put in place a policy on how it would apply competitive neutrality within its local area. It was a provincial city and they were keen to make sure that they were very open, and I think they may have been involved in a bus service of a much more commercial nature than the original example I gave earlier on, which was a very small rural council.

PROF SLOAN: Can I just ask - you mentioned before the Regional Task Force Report, whether you had a reaction to that. I mean, if you look just empirically local government is an important part of regional economies, both in terms of activities and in terms of employment.

MS CAMPANA: Yes, I think the Regional Task Force Report - and again I'm drawing on the issues that are relevant to local government - there was a lot of stuff in there that was very much a private sector - water issues and so on. I think one of the key things that has come out of the report is the question around functional reform, looking at what services are appropriately provided by the state and what are appropriately provided by local government and where opportunities for collaboration might assist, and each of those services obviously being assessed in an NCP framework and determining best competitive neutrality principles.

I think what has come out of that for us is that local government's role is very much on the ground out in regional centres, either as individual councils of a large area or a group of councils who work collaboratively anyway, mainly for survival. In the country areas the regional LGAs are extremely active and very strong. In the metropolitan area that's not so much the case. But I think that the task force report is suggesting that there needs to be more collaboration and research on what - particularly dealing with services - services are provided and what the impacts of those services are on regional communities. It's almost like they're suggesting a service impact statement. Whenever you're looking at putting in a new service or

withdrawing or altering a service, you need to look at the community impact statement arrangements. Your report talked about rural decline in some services, and particularly government agencies withdrawing services, and even the private sector in terms of rural banking and so on. Those issues are common in South Australia as well.

One of the strong focuses of the Regional Development Task Force report is to consider that there are operational - that is, how you're going to deliver a service, there are policy questions around who ought to be delivering the service and what the service ought to be trying to achieve, and perhaps there hasn't been the appropriate collaboration between state and local government and the private sector and the community in terms of regional issues. Looking at some sort of - I suppose this is my term, not theirs, but almost like a decentralisation in terms of consideration of services or opportunities for economic development in the rural areas. And probably a little bit of - I think your report is suggesting this as well. When a policy is made centrally, very often there's a perception from the country and rural perspective that the implications of that policy in the rural areas are not very often well considered, and that could be because people are located centrally and making decisions for a broader community, and there needed to be more input from the rural areas.

My experience in each of the LGA regional groupings is that people are very in touch with local issues and very passionate about them, and very willing to talk about them and able to quickly assess where they see the benefits and constraints exist in terms of the private sector being involved, or private sector and local government, or local and state, or local and state and Commonwealth. So I think it's a structural question that they're mainly addressing in my reading.

PROF SLOAN: It seemed to me to be a theme and you made a lot of - it certainly was consistent with a lot of the things I heard of the regional task force's report - was that the state governments have paid to varying degrees, between the states and over time - you know, they paid attention to regional development but by the same token the broader functions of state governments have tended to act at odds to that. They might have a department of regional development but then they've got all these other departments doing things, restructuring things, altering services and the like, which have very adverse implications for the regions, and that seemed to be quite a common theme. I don't know whether that struck a chord with you.

MS CAMPANA: It certainly did. I think the other issue that is interesting in relation to that is the boundaries they put around various departments. For example, health regions are very different to economic regions. There are other examples of that, too. When you overlay that in terms of how the Commonwealth might decide regions exist for the specific issues they're dealing with, it's all over the place. I'm not sure if it's easy to align those regional boundaries better than they are at the moment. I know water is a problem in respect to that. But some of those issues need to be resolved.

I think the other issue that is interesting for local government is that any council

in our state would deal with a large number of cabinet ministers, however, when we want to deal with an issue that is a local government issue we will often find ourselves heading to the local government minister who will say, "That's really not my portfolio area." The new minister that we have now - I suppose not so new now - has been very useful in helping us make connections with other portfolio areas. But because we're dealing with so many different areas and therefore so many different agencies - but as one we're dealing with all of those things locally - it's very frustrating working through the bureaucracy and the political processes to get answers on the ground.

Councils, in some ways, are like little mini state governments out in their areas and have got all the issues and all the understanding and collaboration all there and they find it extremely frustrating to have to work through several ministers who may have a particular expertise in one area but may not have a great understanding of how that works in a local government sense. I don't see any easy way to get around that, quite frankly, but I think when we have a - if we can ever create in our lifetime an opportunity to have agencies easily working across agencies and not sort of building up fences around the areas they have responsibility for, then there will be a real turn, but I'm not sure that will happen in our lifetime.

MR COSGROVE: You hear a fair bit these days about the so-called whole-of-government approach to policy - - -

PROF SLOAN: One-stop shops.

MR COSGROVE: Yes, one-stop shops.

MS CAMPANA: One-stop shops, seamless government, yes.

MR COSGROVE: I think the claims in that area may tend to exceed the achievements, but so far as you can see it's not working that way in South Australia.

MS CAMPANA: I don't think it is. There is an opportunity for us, though. The new Local Government Act is actually suggesting that councils need to give due weight to national, state and regional policy in planning, frameworks and looking at joint service delivery and so on. I think that whilst there is a level of frustration in a provision like that for us, given that we have problems now, I'm hoping that the statutory responsibility to have those debates will actually mean that we can start generating some change from the local level.

I think at the moment what we're finding - or at least councils will suggest to me that when they're sitting down talking about a social planning activity in their particular area and they're talking with state agencies, very often there isn't any strategic focus for that, there isn't any plan of activities, there isn't any opportunity to plan for the long term but there might be grant funds for the short term. Our legislation will - and again, if it's not amended dramatically - encourage us to have that legitimate debate with a statutory background to do so, being the Local

Government Act, and that just may force some level of participation in broader planning from the

state and Commonwealth level, or at least some recognition that that is an important issue. That's what we're hoping for and I think it does - from local government's point of view - give us the status of being a player in relation to policy and planning for our local communities with state and national governments. I mean, there are some opportunities there - yet to see how they will go, of course - but I think there will be some interesting examples in the future.

I think there was probably only one other quick comment that I was keen to make and I'd like to see if there is anything Ken would like to add. There are two things actually. I suppose the collaboration that we've got with the state government at the moment in looking at the issues and looking at a self-management approach seem to be not coming through for me as strongly in the report in terms of the other states. I think that is really positive for South Australia.

In fact, I was thinking only last night that about 18 months ago one of the officers of local government and I sat down at a computer for two days straight going through the clause 7 statement and actually collectively, together, debating the issues and writing up the guidelines. That gave us a real opportunity to work through the issues in a practical sense and then put that out. I think that there is that sort of self-management approach in our state and the legislation for complaints reinforces that. I think that's a positive and it's probably that the size of our state helps those sorts of things happen. Finally, in relation to the legislative review timetable I notice South Australia made some comments about that.

MR COSGROVE: Yes.

MS CAMPANA: I suppose we would need to reinforce those fairly strongly. We have lots of discussion papers that aren't small heading our way on the various pieces of legislation that local government has some interest in, whether that be a formal responsibility or some form of interest. We have about 68 pieces of legislation plus and, of course, all of them are being progressively reviewed. It's a very resource-intensive activity and it's hard sometimes to read legislation and think of the practical on-ground usages of the legislation and then think through what might be NCP issues.

I would probably also say that I think earlier on some of our debates on legislation with state government agencies reflected to me that they did not understand the NCP and some of the things they were wanting to do to the legislation, in my view, was taking the NCP far further than it needed to be taken and we were debating those things. For a little while, I suppose if I'm honest with myself, I was getting the impression that it was being used as an excuse for every amendment I was suggesting. But we worked that through and I think that the quality of the understanding of the NCP in relation to state legislation has come through very strongly and the discussion papers have been really good. But it is resource-intensive and we are a small organisation. As we're a membership organisation the expectation is that we go through it, we identify where we think the key issues are and we consult with our councils to formulate a local government position. It makes it easier for the

state when it happens that way as well without getting 68 submissions.

MR COSGROVE: Yes.

MS CAMPANA: We just feel that that is a very resource-intensive task. I worry about the outcomes of what we're doing sometimes, whether we're actually getting it right. I know our legislation can be amended and so on, in the future, but it concerns me that we don't have the time to spend, nor enough of the experience of what the NCP is really creating on the ground, to actually respond to that effectively. I don't know whether the state would feel the same. I know they're certainly suggesting the time-frame is too tight and their comments about the NCC are comments that we would support as well. But I'm just conscious I might have missed something that is really important that Ken needs to say.

MR COVENTRY: Thank you very much. In putting my comments forward I will only act as a supplement to what Wendy has done. Just to help you understand, my background has been 27 years as a CEO of rural councils, of which 24 were at one specific provincial city. Many of the experiences that are actually contained in that document are experiences that I have gone through.

Let me say that my understanding, on reading that document, is that it is a very valuable document. It has good feel for rural and regional Australia, as it has come forward at this stage. Many of the issues are very real and I would hope in fact that both Commonwealth and state governments would view that document sensitively and gain from that an understanding of where the issues really are. Also, I quite agree with the report that in fact it's wider than NCP. You've gone a long way in addressing the various issues and in my suggestion to the LGA I think member councils should gain a copy of that report and use it as a valuable tool because it will assist in networking and other things as well.

One of the things that I didn't note in there in any great detail was your discussion on the infrastructure commitment of state and local governments. You were talking with the services that they provided but in fact some of the issues that are really being experienced at the council level and the regional development board level is government's commitment to supporting infrastructure to enable industry and other things to happen out there. We've had some very detailed experiences of that in the area where I come from where there is a move backward by government to become involved and yet they've withdrawn the services from the other areas. I can't reinforce enough the statement that Wendy has made with regard to addressing what's going to happen within the community.

PROF SLOAN: Can you give an example of what you're talking about?

MR COVENTRY: A good example at Murray Bridge was that some 10 years ago or so the Education Department had a regional centre out there, quite a significant regional centre serving an area. They made a decision to wind that down to come back to Adelaide. They denied it for some considerable time and yet, at the end of

the

day, it just happened. Yet with technology the way it is things like payroll and those sort of things could be done from anywhere around the state. They were the issues that the community said, "They were the suggestions we would have liked to put to government, to have a look at some other options that might be." They were all the issues that were involved. Of course, the area I came from also dealt with the Monarto satellite city, so there was an issue surrounding that as well. I must keep that in perspective because that's what people were concerned about.

I want to reinforce also the issue about accountability and transparency at all levels of government. That's a very big platform in the process of the local government councils and local government association and it's imperative that it actually happens through the other levels of government as well. You've actually raised that, and I accept that, but it needs to keep being pursued.

I think also there is a tendency that some people will see this as an economic rationale approach rather than the general approach to really what happens. The issue of community service obligations, impact statements that Wendy has actually talked about, the issue about public benefit being measured - and in your recommendation you talk about perhaps there needs to be a review and everybody needs to work together to come up with some definition of what it really means. Can I just suggest very strongly that there is a role for local government to play within that mechanism and within that review structure. The report does not identify that. I'm suggesting here that the report pick up the local government representation on that particular structure if it does proceed - because it's happening at the coalface and it's vital that all parties understand what's happening - otherwise we're only going to promulgate what we've had in the past, that what's suitable for Sydney City is suitable for Coober Pedy.

Local government representation can feed into that system. How that is derived is something that I haven't spelt out in my mind, but you've got the Australian Local Government Association, you've got each state association - and probably that's the vehicle that could be used because then you get a cross-section right across the nation. So those things are absolutely important and we would ask that that be considered within the future referencing of that particular document as you go back to visit it.

My comment on Wendy's comment about what was the trigger for the issues of local government moving in competition - that sort of thing, out in the field - the issues that developed in Victoria were a very strong initiative for councils to say in South Australia, "If this is going to happen, let's be in front of it." The Local Government Association is very strongly in support of being able to address those issues. So out in the field that was one significant trigger - there were a number of other things as well - but that was a talking point amongst provincial cities and others, that these are the sort of things we need to be in front of.

Apart from that the only other comment I wanted to make was the fact that we would have a grave concern, as you've made comment in the report, that other levels

of government don't abrogate their responsibility on community service obligations

and other issues and make decisions blaming those sorts of issues on the NCP. I think that's all I really need to say to reinforce what Wendy has put forward.

MR COSGROVE: Thank you. At a somewhat more general level, have you been able to see any evident effects from reforms to infrastructure services like energy, and transport, and telecommunications? Have any of your councils experienced benefits or disadvantages stemming from those? I realise this is not an easy area to obtain overall aggregate information. We've tried to present as much as we could find in the draft report. We would like a little more if we could get it. Have there been any - perhaps reforms in these areas in South Australia may not have moved as quickly as in some other states.

MS CAMPANA: Many of them are sort of under debate at the moment in parliament. Certainly the ETSA issue is one.

MR COSGROVE: Yes, that's a big one, yes.

MS CAMPANA: The transport issue in terms of - you know, potential rail improvements for rural areas and so on are being negotiated with the Commonwealth and state governments. I think it would be fair to say from a rural perspective that there was a lot of disadvantage in terms of their ability to grow where the transport system and telecommunications systems and energy systems aren't supporting local business to set up in their areas. The regional task force report deals with that quite extensively.

MR COSGROVE: I see.

MS CAMPANA: In terms of the telecommunications area - and I think Ken's comment is quite valid in terms of IT these days - you can actually operate from anywhere and we have had some difficulties in some of our rural areas who haven't been able to access the Internet at the sort of rates that some other regional areas can. So there are some issues around that and we've been accessing the rural infrastructure technology fund - - -

MR COSGROVE: RITF, yes.

MS CAMPANA: That's right, to actually look at building some infrastructure locally. Of course, with the ETSA discussions at the moment there are some issues that we've been pursuing through parliamentary amendments to ensure that questions that are related to competition - that is the payment of rates and so on and some of the collaborative relationships that have been there in the past for councils when they pay for street lighting and feel as if they're not necessarily getting the best service - when those policy changes are actually effected I think that's when we'll start to see councils making some assessments about what is the NCP consideration or how monopolies ought to be dealt with. What does that actually mean for the services that we get on the ground? So there is certainly some angst about quality of service but nothing yet, I think, to demonstrate it because we haven't actually seen that sort of

move. It's a bit early days, I think.

MR COVENTRY: There are a couple of comments I'd like to make, and I'm not sure about the staging of this and the impact of national competition policy on gas supply around South Australia, but within the last two or three years, the extension of natural gas into provincial cities and other places to at least provide some of the infrastructure - the expression of infrastructure I had before was really a lot to do with power supply, power generation in those areas. But the gas supply has moved strategically through a number of places, and I suspect, although I've got nothing that I can give you that's hard evidence, that the NCP has been a contributor within that structure.

In terms of telecommunication, there are many areas in the country, as you've experienced through the discussions you've had, that are still very deficient in terms of communication. Particularly mobile radios are quite inefficient in a major part of South Australia and rural areas, and that's something that needs to be addressed, albeit through some of the funds that might be generated in government decisions of late.

MR COSGROVE: Yes, it does seem as though this new mobile phone - I've forgotten the acronym by which it goes. Judy, is it CDMA?

PROF SLOAN: Is this off the satellite?

MR COSGROVE: I don't know the way the technology works but it is claimed by Telstra, I think, to be likely to provide a much broader range of coverage for mobile phone users. I realise that it is not yet in place but the trials have apparently been very successful.

PROF SLOAN: Is that as long as you're driving down highway number 1?

MR COSGROVE: No, I think it's now better than that. But I'm not fully au fait with it. Is there anything else that you had on your agenda? Are there any what I could loosely call remote area taxation issues that occur to you from the perspective of some of your members? We have wondered sometimes whether these might be adequate to deal with regional development-type concerns in some areas. It's not high on the agenda at the present time?

MS CAMPANA: No, nothing certainly has been raised in that regard, and I don't think the regional task force report has raised that either.

MR COSGROVE: I see. All right. Is there anything in the way of comment that you would like to draw to our attention about adjustment costs and policy issues to address those? I mean, adjustment that might be made necessary by the broad effects of change in general, some of which of course is attributable to NCP.

MS CAMPANA: Certainly we were hoping for several years now to have got some share of these competition payments to the state but have been unsuccessful in

achieving that, although we've tried to package it in a whole range of different ways. We do have a hundred per cent reporting and do all the things that we're supposed to do. So it's disappointing from our point of view that the state has not seen a way clear for that to happen and, interestingly enough, has often raised the level of business activities that we have as a reason why Queensland may get payments but South Australia doesn't. However, we find that to be on one way a fairly slim argument, on the other - well, the NCP is supposed to be catering for all states, and South Australia is getting payments regardless of the nature of the business activities in our state. So there are some difficulties from our point of view in relation to that.

In terms of other adjustments, again I think it's still a bit early days for councils to be really making some assessments about that, apart from some of those issues that we raised earlier on about how do you actually define a business activity, and I think what we haven't explored is how local government could put in some adjustment issues in terms of providing extra resources to a service that may in fact be contracted out. I don't think we have explored that sufficiently at a local level yet, and I'm not sure whether that is going to be an issue even for the future because of the size of the activities that we actually have. They're not big. So there hasn't been a great deal of discussion other than our striving to get a share of the state dollars.

MR COSGROVE: Right. Judith, any more?

PROF SLOAN: No, that's absolutely fine.

MR COSGROVE: Thank you very much for coming along and discussing these matters with us.

MS CAMPANA: I look forward to the final report.

MR COSGROVE: We look forward to taking on board your submission to us. Thank you.

MS CAMPANA: Thank you.

MR COSGROVE: I think we will continue. The next participant is the South Australian Farmers Federation. Would you mind joining us at the microphones, and also if you wouldn't mind for the purpose of our tape-recording state your names and the capacities in which you are with us today, please.

MS O'DEA: Marie O'Dea, executive officer, community services and commerce for the South Australian Farmers Federation.

MR PERKINS: Dale Perkins, and I'm chair of the community services committee of the South Australian Farmers Federation.

MS SMART: Anne-Marie Smart. I'm the research assistant for the community services and the commerce group.

MR COSGROVE: Thank you. If my memory serves me correctly we received a document at an earlier stage of the inquiry, a submission in fact to one of the parliamentary committees looking at some of the matters that we've been looking at, and we have also seen some of the discussion that you had with that committee. But there may be other points that you'd like to raise with us today. Please go ahead.

MS O'DEA: Basically today we'll address some of the points that we've established - I suppose the biggest issue for an organisation such as our own - that in terms of national competition policy we have spent a fair bit of time involved in the review of the various legislations and, given that a number of those have been with statutory marketing authorities and quite important to our membership, the Productivity Commission report in terms of our state organisation having the resources and the time put into it, a lot of that we have, I suppose, handballed to the National Farmers Federation who have taken some serious involvement, and we have been involved with some other research work. In fact I've got a fax on my desk at the moment to try and find somebody that we can use as a case study to look at the impacts of some of the rail reform on wheatgrowers in South Australia. So that has been where we have been supporting in there.

MR COSGROVE: Would that also be an input to further NFF documents?

MS O'DEA: Yes, I do believe so.

MR COSGROVE: Not directly from yourselves.

MS O'DEA: No, that will be going through - - -

PROF SLOAN: They are, I think, at the very end, aren't they, in Canberra?

MR COSGROVE: Yes, that's right.

PROF SLOAN: It's about a month until they will appear.

MS O'DEA: Yes, and there is some research work funded by RRDC that I assume will be coming out at a similar time and that's supporting some of that. I suppose the first thing I should really say is that our membership is extremely sceptical that any benefits that are supposedly there under the national competition policy will be delivered to them in any way, shape or form. If you mentioned some of the terms that have been discussed earlier saying, "user-pays, level playing fields, competitive neutrality, competitive tendering", for a lot of our members those things mean that services get withdrawn and they have to put up and shut up basically. No expectations that the stuff will be delivered to people in rural South Australia. All the benefits will escape to the east coast essentially.

I suppose one of the other important things that I would really like to stress is that in the national competition policy reviews, Australia is divided into two countries really when you talk about how our population is distributed. If you look at the east coast, small communities in New South Wales, Queensland and Victoria, are 10,000 people. In Western Australia - the majority of my working life has been in Western Australia but I grew up in South Australia - and South Australia a town of 10,000 is a very major centre - 5000 people in a town is a major regional centre. That means an awful lot of big differences in terms of having sufficient size of a market to get some of these services to be there, compared with the eastern states with towns such as Warwick in Queensland at 10,000 people, which is about an hour's drive from Toowoomba which is a population of a hundred thousand.

So those population sizes attract services, and you actually have, I suppose, enough market there for the private sector to take up a number of things that in Western Australia and South Australia local government and state government has to take over some of those things because there isn't sufficient market there for the private sector to compete or even to provide those services without some form of subsidy or incentive to be there. So that's probably one of the important things that faces our membership, and why they can't see the NCP actually being of any benefit at all.

One good thing about this draft report is that it does respond to the major focus that our community services committee had, that they wanted to have some proof that benefits did come out of the national competition policy and were being delivered to regional South Australia. They didn't believe that there was, and I suppose there is the issue of getting confused between what is happening under the national competition policy and what is happening externally under the GATT and now what will be the World Trade Organisation talks, separating the two in their minds, that you've got services being delivered by federal and state governments on the one hand that seem to be getting chopped off, and then looking internationally where they are meant to be getting some benefit from the World Trade Organisation. It doesn't show up in the cheque that comes back to them - their wheat cheque or whatever. So there's a lot of stress out there, I suppose, or concern, that anything that's supposed to be improving where they are at isn't delivering to them in any way, shape or form. Somebody else is reaping all the benefits and they're not getting it at all.

In our previous discussions with the commission, we talked about community services obligations and our concerns about that, and I think in just about anything that we have been producing in regard to health, education, telecommunications, electricity, we keep stressing the thing that community services obligations need to be reinforced, and in the case of ETSA here we want to be sure that the community services obligations and a number of things are very clearly established before the lease arrangements go through, and we have been involved in that.

I've spoken about delivery of services. The statutory marketing arrangements: a number of our commodity groups are still within discussions and reviews of their legislation, so there will be, I suppose - well, our wine grape section is actually waiting for the state government to come back with their first draft essentially on the legislation. So that will occupy a fair bit of our time.

MR COSGROVE: Have any reviews actually been completed in products which your members engage in?

MS O'DEA: The fact that I've only been working with the organisation since January is going to show.

MR COSGROVE: There was a joint review of barley I think with the Victorians. That's now - - -

MS O'DEA: Yes, which we're still now going through - and our grains executive officer gets back from overseas essentially tomorrow to be able to comment further on it.

MR COSGROVE: What would you mention as the main reviews on the agenda?

MS O'DEA: Wheat, barley, the wine grape.

MR COSGROVE: Wheat and barley and grapes.

MS O'DEA: Certainly the comment that was made previously, when we discussed things with the Productivity Commission, I believe was the time to go through some of these processes. The local government mentioned about the timing or the amount of effort that is needed to be put into it, and in the time I have been within the organisation some of the legislative review - the time we were given to comment on it, how relatively shallow the discussion perhaps was by the government on the particular legislative review, was a bit suspicious. Most of it was fairly benign and it was relating to some legislation about the rural adjustment scheme. There wasn't any sort of big holes for us because part of the legislation had never actually been enacted because it had been superseded by some other things. But that process or the approach that was taken was a bit concerning that there was that short time period for our comments to come back. That has been of some concern, I understand, for a number of our members, that they have got to get around what does the NCP mean.

PROF SLOAN: Just going back to that factual point, SACBH, there was legislation - and that's the cooperative bulk handlers.

MR COSGROVE: Yes.

PROF SLOAN: I think that is going to be rescinded, that legislation.

MR PERKINS: That's my understanding. Another one of the reviews that's important is the dairy.

MS O'DEA: Yes, dairy is happening, which - - -

PROF SLOAN: I think the interesting thing about South Australia is that a lot of these arrangements have gone. You don't have an egg board or potato board. They really went in the 70s and early 80s.

MS O'DEA: Yes.

MR COSGROVE: This may be dredging people's memories, but the fact that some of these previous marketing arrangements had been disbanded some time ago would lead you to think that you might be able to observe some of the effects of that change. Has your federation done any work of that kind to see what the impacts were in terms of changes in the number of farms, or the incomes or growth of those particular product areas?

MS O'DEA: If somebody pays us to do it we probably will.

MR COSGROVE: Well, maybe somebody else might have looked at it, I don't know.

MS O'DEA: It's nice to consider some of those issues but the time and the resources we would need to actually examine it - and we would have to have a good reason for examining it. They certainly have been the things, I suppose, that we discuss at times and it would be nice to have a better understanding of some of these things, but it gets down to what's the day-to-day response of the things that we need to be doing.

MR COSGROVE: Yes. It's perhaps something we can look at later on.

MS O'DEA: Our attendance here today might have been a little bit in question as well because of some state legislation - the emergency services levy which was mentioned before - that's a fairly important piece, and given that we are a membership organisation and if we don't get the emergency services levy right, or be seen to at least be doing the right thing, then I can kiss my job goodbye, probably, because people won't be signing their cheques to belong to the organisation. It's probably appropriate if I hand over to Dale now, as he has had a little bit more to do in the longer term, and certainly through NFF, with our committees there, and has

probably

read more of the draft report that I must admit to having examined in detail.

MR COSGROVE: I realise it's a big document.

MS O'DEA: Yes.

MR COSGROVE: Yes, please start.

MR PERKINS: Thanks, Marie, and thanks John and Judith for the opportunity. We do certainly welcome the opportunity, and quite clearly we only speak for rural and regional South Australia. That's where our membership base is. We have probably got about half the total members but speak for about 80 per cent of South Australia's rural production. I would compliment you on the draft report document, it certainly gives us an idea of where we are and why we've got there. It was pleasing to note in there that compulsory competitive tendering and privatisation and those sorts of things weren't necessarily an intention, but I suspect it was a bit of a catalyst for some of those things being done, and it certainly got the blame for it; there's no doubt about that.

It is a very, very complex issue, I have extreme difficulty getting my mind around it. We are confined by resources obviously, the three of us, and I'm supposed to be a farmer as well, and the dairy organisation only has one - basically a CEO - so amongst the lot of us there's not a lot of resources to put into this. We represent a fair proportion of the grape industry. The wine industry, which is value-added from the grape industry, would have their own resources.

But quite clearly there are benefits from the competition policy that will come through and maybe time will see more of those. I think your question was very valid, and I'll answer it while I've got it in my mind. I've been around a fair while but I can't sort of remember - I wasn't involved in those industries that have been deregulated in the past, like the potato and that. They are in the area that I come from but I wasn't close enough. Certainly they've continued and thrived and they've come to terms with it. But whether there was an adjustment over time or at the time - it certainly got a lot of media publicity with people being sacked and all sorts of things, but I couldn't really directly answer your question. I don't think deregulation will take our primary industries out but I think there's going to be a bit of pain for a while.

MR COSGROVE: Dale, could I just ask - you mentioned there are benefits. Do you see them mainly taking the form of assistance, lower costs, so that farmers pay for things that they need for their own production, like energy, transport?

MR PERKINS: Yes, most certainly transport efficiencies through our cost of production, which is our forte within the federation, being community services, I think they are definitely some of the strengths. And some of the government's regulations and legislation in there too is quite clearly - well, I think - affecting us. Without being able to give a specific example, there are some things that affect us. But yes, competition in what is our competitive weakness, our fuel, our labour costs -

which

are the two that I usually highlight. I mean we have got huge taxing arrangements on our fuel which in a country as big as Australia with its diverse population - you're just taxing our competitive weakness. Obviously the labour market is another one that we have been focusing on quite clearly.

I guess the overall view I would have taken for Australia is that - if I could broaden it that widely - we either need a larger population or more income from exports. We have clearly got to gather some of the financial wealth that's in the rest of the world. We've got to get it back into this country one way or the other, and obviously our way of doing it is to increase our global competitiveness for our exports. I guess the rural communities for a start, and ourselves as supposed leaders in those communities, had very little understanding of this issue when it first came up. I think we naively probably said, "Yes, the public benefit - obviously we'll pass the public benefits test" without actually understanding it, and we didn't do enough about it early enough, so a lot of things were done, and I think in the statutory marketing area, a lot of it was driven by Victoria, which wasn't necessarily under competitive policy but driven by people over there who have got a clearly economic rationalist view as well.

I think I do understand the World Trade Organisation implications of this and what we do in that, and if we were to try and get short-term assistance or whatever for rural areas - I think I've got a reasonable handle on that, so that's in my thinking. But I think assistance for the adversely affected in the short term would be tremendous if we could do that. I would recommend - and obviously you'll get it in due course - the NFF document - we've had input into it, I'll just get its proper terminology - the Impact of Competition Policy Reforms on Rural and Regional Australia dated November 98. Obviously you'll get that in due course.

MR COSGROVE: November 98, we should have that. We did receive an NFF submission in the first round.

MR PERKINS: I imagine you would have. So we've had input into that. I guess again, in the overview, if this does lead to a wealth transfer from the rural areas to the city areas, then some of the cities in Australia need to understand that they are in the rural area themselves if that flows on. Adelaide is quite clearly rural to Melbourne and Sydney, and on a global scene Australia will be rural to a lot of the rest of the world. So I think we need to just be aware that if there is a wealth transfer trend there, then at the end of the day Australia could suffer significantly.

We already see with the Americans with our lamb imports the potential to put a tariff on our lamb imports, which on our figures doesn't affect their industry at all, and they have admitted to that but quite clearly they're going to put a tariff on it or make some financial benefit to themselves out of it. Statutory marketing authorities - we'll probably come up with more on that. As Marie said, our executive for grains is overseas at the moment, and I suspect we'll have more on that. Particularly for the dairy industry a longer lead time would have been important. I mean we're 12 months away from deregulation of the dairy industry in South Australia. I don't

think that can

be changed but the barley industry and the wheat industry has got till 2001. I think that is going to cause particular pain to the dairy industry.

MR COSGROVE: So you mean the government has accepted the dairy industry should be - - -

MR PERKINS: They've accepted that if Victoria deregulates on 1 July next year, it will only take one tanker load of milk into South Australia and it's all over.

MR COSGROVE: So it's driven out of Victoria rather than by a decision in the state.

MR PERKINS: Yes, they're under review at the moment, the dairy industry. I am a dairy farmer but I'm not directly involved in the - - -

PROF SLOAN: But there had been some previous reforms anyway. They used to have a price equalisation scheme but that has gone. That went some time ago.

MR PERKINS: It has gone in Victoria. I think we still had that here. I'm not - - -

PROF SLOAN: No, I think we had a scheme whereby if you were in Mount Gambier you were paid the same price for your milk as if you were outside Adelaide.

MR PERKINS: Yes, you're right.

PROF SLOAN: That's gone.

MR PERKINS: Yes, there have been various changes.

MS O'DEA: The South Australian dairy industry is effectively the most deregulated, I suppose, outside of - well, one with a substantial market for milk.

PROF SLOAN: There is no retail price.

MS O'DEA: Yes.

PROF SLOAN: There is still some farm gap price regulation. That's the only thing that's left.

MR PERKINS: Yes. But the more lead time for them to come to terms with where they're going to be in 12 months' time I think would have been handy but I'm not sure we can change that. We'd have to change Victoria's view on life.

PROF SLOAN: Not easy.

MR PERKINS: No. I guess the other major commodity groups will retain single

desk export, which is important, and again this is a weakness for the dairy industry because although they have got single desk arrangements into Japan, they haven't in the rest of Asia, and we could clearly come up with probably only anecdotal - but quite clearly we could come up with evidence where particular Asian purchasers have had companies from Australia in their offices, one after the other, all within the same day - in one case three companies all in the same day. We all understand what that achieves. You would love to be sitting in the chair and have three major Australian companies coming in trying to sell you product, wouldn't you? So, yes, we've got some concerns about that.

Obviously an issue of - I can't even read my own writing there. Listening to what the LGA had to say, we'd certainly support their view that the rural impacts have not necessarily been well considered. I don't wish to blame anyone for that, I don't think blame does any good. I suppose we're probably all a bit slow on the uptake of what this meant to us, we didn't understand, so we were a bit slow in reacting. I think we've been playing catch-up. Maybe with this document we've almost got to the catch-up stage. Where do we go to next?

Water is an issue. The COAG agreements with water. Quite clearly if you use the Murray-Darling Basin as an example, most of that water is generated in New South Wales and Queensland. If competitively people could drag it all up and use it all up - and obviously the environment has got to be taken into consideration in that competition agreement, but if there was a tendency to allow the water usage to be dragged to where it's generated from, then South Australia is basically history. Adelaide is anyway at its current population level.

The community service obligations, quite clearly they're important to us, and telecommunications is absolutely critical. I've got a personal example. I've had no telecommunications in my home since 9.30 last Thursday morning and as of 9 o'clock this morning, neither a fax machine or a phone. Obviously we've got a mobile phone but that's our only telecommunications at the moment in running a business.

MR COSGROVE: What is the problem?

MR PERKINS: I don't know. Telstra have got techs working on it. Originally on Thursday when we reported it, they said, "We've had heavy rainfall in Adelaide and we haven't got enough techs around. The techs from the South-East are in the Adelaide Hills and the Adelaide area working." Yesterday, the tech turned up, and my wife was there, and he said, "I'll have it working by the end of the day," and as of 9 o'clock this morning they're still not working. There's not a fax machine or a phone line working, and we have two lines into the house.

PROF SLOAN: Is that a common experience for you - to have faults?

MR PERKINS: The telecommunications network, once you get over about five kilometres from the fibre optic link in the exchange it is pretty ordinary in rural

Australia. It's not just rural, there's some outer metropolitan areas of Melbourne,

again where you've got an exchange, and some of the more urban people are connected to that exchange. But yes, five kilometres within reasonable cost on the copper pair of wires from an exchange - once you get over that five K's, there is either substantial expense or basically the technology is not there to do what you want.

MR COSGROVE: That's always been a problem, I take it.

MR PERKINS: Yes, ever since digital data transmissions came into being, yes, simply because the copper pair just haven't got the capability or the research hasn't been done to give them - everyone has gone to fibre optic - well, my understanding anyway is the research worldwide has gone into fibre optic. The NFF did a study of laying fibre optic to every consumer in Australia, and I wouldn't want to be quoted, but I think it was \$28 billion. Well, this country is not going to spend those sorts of dollars.

PROF SLOAN: No, and we of course don't have Senators Harradine or Colston living in South Australia.

MR PERKINS: Yes. But, I mean, there have been some initiatives there, the RTIF - and there's some initiatives, and I do think Telstra is gearing up their research facility at Clayton in Melbourne at the moment to try and address that, but it gives us a competitive weakness whereby we can't run our businesses if we haven't got the services.

I guess I'd like to read just a couple of sections out of the final - and I would commend the executive summary of this NFF report. On the bottom of page 2 and page 3:

It should be noted that some of the most efficient and competitive markets, for example equities, are in fact heavily regulated to protect the interests of participants. It is also important that reform extends to all areas of anti-competitive regulation in order to generate full measure of benefits to the economy. Should reform address only some areas of competitive failure and not others, then only some industries will benefit, and these may not necessarily be those in which Australia has a comparative advantage.

I think we've discussed the fuel and the labour ones. The final paragraph in that:

The role of national competition policy is increasingly viewed as poorly defined, with benefits that are not always tangible and review processes that are lacking in transparency, therefore it is critical that there is adequate public education and consultation about the reforms and their progress. Such public education arrangements should have been put in place earlier by all agencies involved in implementing the reforms.

I would again have to compliment the report on the draft impact report on the overview on page 37, if I read the Roman numerals correctly in that document, and

do highlight some of the impacts on rural and regional Australia, I think.

MR COSGROVE: Yes, I see what you mean.

MR PERKINS: It was pleasing to see that at least that was acknowledged, I think - yes. One of the dot points there:

In five of 57 regions, five or more years of recent relatively slow growth would be needed to offset job losses from the NCP.

There's one other one-liner I should make in that I think a lot of people and our people have confused low commodity prices with competition policy. I think there's no doubt about that. I probably did for a start, and probably SAFF did - well, I guess SAFF issue in this has been driven to a large degree by me as chair of the committee, but I think we've come to terms with the difference, particularly since Marie has come on board.

MS O'DEA: Just in closing, probably in terms of somebody else that's been looking at the impact of competition policy has been the human rights commissioner in some of his bush talks which certainly impact at a social level. In South Australia they went to Peterborough and Port Augusta and some of the talk there - they raised the issue about part-time positions being offered in country locations and probably viewing them that a person could work in two locations for a job, and it's like - I don't think so. Why would you go if you were a professional to some of those country towns for a part-time position, even if you might have family and only want to work part-time, when there's no other services provided outside what service perhaps you are offering, if it's a specialist service, and some of those things have been ignored, and it's part of that impact of government services being sent back to Adelaide or withdrawn totally, and the comments from the human rights commissioner did document some of those numbers quite clearly, that once you lose that critical mass and you're relying on the farming community, who are shrinking themselves because farm numbers are declining as farms get bigger, there isn't that critical mass any more or we have to review the critical mass needed for providing the services.

MR PERKINS: I think that's a strong point, John. If you look at an example - in the case of Hamilton in Victoria you're in what they call the wool capital of the world, which we know wool is a commodity and yet the services in Hamilton - the access to doctors and lawyers and the high paid professionals - are still pretty good. To me it's all related to the educational opportunities provided in Hamilton where most of the church groups have all got schools as well as excellent public schools as well. To me some of these other issues impinge very seriously on what actually happens, and it has. We were resident in it for 11 years up until just recently and it died - what it was - but it didn't go out like a lot of other strong wool-growing areas did or areas where commodities were badly affected.

PROF SLOAN: What's your local town now?

MR PERKINS: Penola in the South-East is the local area, and we are into dairying, fat lambs, wool, cereal growing.

PROF SLOAN: I think that was a useful point that Marie made. We forget that South Australia and Western Australia - they're not particularly regional anyway. A small percentage of the population live outside the capital cities and of course 25,000 in South Australia for a regional centre is huge.

MR PERKINS: Yes, that's right, Judith.

PROF SLOAN: Whereas in Queensland, you know, there are plenty of large regional centres.

MR COSGROVE: New South Wales too.

PROF SLOAN: It's that critical mass idea, isn't it?

MR PERKINS: I forget the question you asked the local government, Judith, but an answer I thought they might have given and I would have given to the question was that this state is not all that well financially. \$2 million a day interest with a \$7 billion debt I thought might have been a better answer to that. I forget the question you asked but there's an economic reason why we believe things don't happen in South Australia but they might happen elsewhere. Maybe now the privatisation or lease of ETSA and the electricity business - - -

PROF SLOAN: Yes, they've been looking to save money.

MR PERKINS: Yes - could sort of move this state along financially.

MR COSGROVE: Thanks, Dale. I wonder if I could come back to the dairy matter that you raised - the problem you mentioned of a relatively short period within which producers will have to cope with much more competition, especially from Victoria. Are there any ways that you could suggest to us in which that adjustment period might be best overcome - any particular types of government measures that you think would be worth considering? We've mentioned in our draft report that there are already a considerable number of general so-called social safety net arrangements in place. Do you think they are adequate to deal with this problem you perceive or, if not - - -

MR PERKINS: I don't know, John. You've got me a bit there. Although I'm a dairy farmer, they've actually got their own organisation in South Australia - SADA. They're affiliated with us. We don't necessarily speak directly for them. Marie, you've had a fair bit to do with them.

MR COSGROVE: We've had a submission from them, as I recall.

MR PERKINS: I imagine there would be.

MS O'DEA: Probably one of the biggest issues is because the dairy industries, although they're treated in isolation by states at the moment and have a number of schemes or statutory marketing authority arrangements - so you actually end up with all the different states wanting to make sure that, if they can't get it out of the federal one, then they're going to be asking for support from a state government base - the fact that South Australia is further down the deregulation already without the support that say Western Australia where the quota is, that people are wanting or anticipating or hoping that they will get some capital back from the capital they've invested into their quotas and that, if they don't get it out of the federal package, they'll be working like hell to get it out of the state government, South Australia isn't in that same position to do so.

The fact that we are probably closer to Victoria - I don't know, but it's more interchangeable - is a complicated one and I know that it's a case of when government will actually give the nod to the package that they've been trying to develop but the federal government hasn't necessarily said - I mean, the fact that some form of deregulation was likely to happen as a result of the external or international forces has been something of a given for dairy farmers across Australia.

MR COSGROVE: Yes, factored into their decision-making.

MS O'DEA: Yes, they should have been factoring it into their decision-making but, because they were still run under state based systems, enough of them across Australia have thought they could have power to change that or that the argument that the deregulation means that you hand the power to the supermarkets might have meant some regulation would happen. When you've got Victoria based around manufacturing milk, so a very small number of dairy farmers in Victoria or a small portion of the value of their milk is impacted by what Woolworths and Coles do, then it probably has a driving force to where we've ended up.

It's been a case of dairy farmers perhaps hoping that the worst wouldn't happen and then, when the decision has been made, that they actually have some certainty down the track relatively shortly but I think the problem might be that there will only be like six months from when they know what the actual package is until the death knell happens. That's impacting perhaps on the decisions of people like National Foods themselves. They're not about to go out and make promises which will expose them in the marketplace to giving opportunities to the other white milk companies across Australia. I mean, National Foods have a fairly good exposure. They're the biggest market milk processors in Australia and have penetration across most states but they all do have somebody competing with them in various states.

Here it's Dairy Farmers, the cooperative, which is New South Wales based but now has Dairy Farmers involved in it. None of them are about to make decisions about what they're going to go out there on prices when government decisions could change it and make a difference. So there's a lot of uncertainty around a government decision, and the likelihood of a government decision happening shortly is reasonably

slim, I think, because of the legislative agenda they've got with the GST, Telstra, a number of other things, and we won't know what the parliament is going to look like - well, how they're all going to react to such packages as this post the end of this month. That's probably where in terms of the uncertainty the dairy industry is up against this date that has now got complicated by all of the other legislative agendas. I do have a great deal of sympathy for dairy farmers, that they're going to have GST on 1 July and a whole new way of how they might be dealing with - - -

PROF SLOAN: Do they have a GST levy on milk - no.

MR COSGROVE: I wouldn't have thought so. It's a fresh food and under the agreement it's not - - -

PROF SLOAN: But coloured milk?

MS O'DEA: The fact that they still have to have GST as dairy farmers, they will have the bookkeeping required plus they will have this other major impact on their business.

PROF SLOAN: They probably won't get a credit for - - -

MS O'DEA: Yes.

MR COSGROVE: Could I put my earlier question in somewhat different form. To what extent would you say the existing dairy farmers in this state have alternative options for farming activity or other rural activity? Are they more or less locked into dairy farming by virtue of the nature of the land or for other reasons?

MS O'DEA: Once you've established a decent sized dairy - and we're talking like \$300,000 for a dairy which, for your milking system, is a cheap one these days really - - -

MR PERKINS: We have just spent a million dollars on a package but that's a piece of land and a new dairy and all involved but, John, there are options. I think gross margins at the moment - prime lambs - well, again I mean the American thing has put the skids under this to a degree but I think gross margins for prime lambs at the moment - and particularly irrigated which a lot of dairy farmers are - is probably as good or better than dairy farming and you've got a slightly better lifestyle and there's other things that go with it. But of course that's got a lot of them thinking. Any that were going to change now, particularly the smaller dairy farmers who might see that they're under pressure in a deregulated environment, are now on second thoughts because they don't know what President Clinton and the Americans are going to do.

John, to answer your earlier question as to what you would require, and I'm not going to speak against the package that the dairy industry is trying to get up because I've got to be supportive politically, I've got to be supportive of that group of people, but to me as a dairy farmer it's just a loan and it's got a payback and I can go to the

bank and get a loan or I can go to a financial institution - - -

MR COSGROVE: I thought though that that proposal had effectively the consumers paying the levy.

MR PERKINS: Do you understand that that doesn't flow back?

MR COSGROVE: Yes, I guess you could see a higher price as a deterrent to consumption of milk.

MR PERKINS: Yes. Obviously there's a debate in there, but what I would like as a dairy farmer is some independent advice on where my business is likely to go. If the message coming back is the price will drop 10 cents a litre, well, that's fine. I can crunch the numbers and come up with where we're going. We're on a fairly high cost of production, we're large irrigators, and that's being driven by a market signal over the year where we've been given an incentive for February-March-April milk, which has encouraged us into irrigation.

Now, I need to make some decisions and the dairy industry needs to make some decisions: do they stick with that high cost of production or under competition policy be able to sell off their water licence for some money and the irrigation equipment and go back to a low cost of production and just grow the feed naturally, which is where certainly we'll head rather than close the dairy down. So, yes, some independent advice, if there's a given as to how much our product is going to drop - then being able to do some number crunching fairly quickly and say, "Well, what's going to be a viable alternative?" if indeed that's not viable.

MR COSGROVE: That's interesting. Thank you.

MS O'DEA: Probably in South Australia a number of people to make some decisions about shifting - ones that might have less opportunity to change their business operations will be in the Adelaide Hills, but a number of those who have made a commitment to staying in the dairy industry have made those decisions over the last five years. Some might be regretting where they have located because of some other environmental impacts - for those on the swamps, as they're called down at Murray Bridge, where they're actually going to have to be paying some considerable cost for the rehabilitation of those swamps - that's another thing that might be impacting on those businesses more than the actual price.

MR COSGROVE: The risk of government requirements being placed on them?

MS O'DEA: Yes, and I know that that's something they've been aware of, but they don't know when the axe is going to fall on those. Talking to a group of them last year, that was something - does that have an eight-year or a 10-year framework and when does the decision get made as to how it's getting divvied up. But it's now an axe hanging over those businesses. The particular property I'm aware of - they shifted from the Adelaide Hills because that didn't offer too much further expansion

opportunities, and you now have those people in the Adelaide Hills where you've got businesses, and under the by-laws from say the Adelaide Hills Council, if they change their operations from a dairy to some other thing, they have to get council approval and go through all of the bullshit through their neighbours to agree to a change - and that might just be from dairying to beef production that might have people objecting to it and seeing it as an option.

So that probably comes back to some of this discussion with the local government on by-laws and how that's impacting, and the impact there is nothing to do with national competition policy. It has more to do with people believing they have social amenities or environmental amenities that override anything on business, which is what we spent all of last Friday in a Right to Farm Forum debating some of those issues which for some of our producers are probably more important than any impact of national competition policy.

MR COSGROVE: Yes.

MS O'DEA: It's these by-laws that don't actually come under any scrutiny and perhaps should be coming under some form of scrutiny such as national competition policy, because what they're saying is that an individual's social amenity or aesthetic amenity in some cases is far more important than the established businesses that have been there, in cases that we were discussing on Friday, three and four generations and even longer. And talking about changes of production from one horticultural crop to another, for some reason going from potato growing to vineyards is inappropriate, and I'm not quite sure it does require a change of land use particularly, but that is perhaps one of the things within South Australia at the moment, and it's probably not unique. But with the amalgamation of councils, well, we've got people from one half of the Adelaide Hills who are lifestyle people, imposing their views on another half of the council that has always been traditionally rural, and the people who have moved there for the country lifestyle have accepted that that's what it is and are quite happy to reside there, and taking a part in the community.

PROF SLOAN: Their other options have been cut off, haven't they, because the ability to subdivide land up in the Adelaide Hills is now very limited.

MS O'DEA: Yes, under watershed - - -

PROF SLOAN: And that for an ex-dairy farmer might have been the exit option, to subdivide the property and make your return that way. That option has been quite limited, I think, now.

MS O'DEA: Yes, and that mainly environmental - the watershed impact.

PROF SLOAN: They say that, yes.

MS O'DEA: But I think it might depend on who you are perhaps sometimes as well.

MR COSGROVE: Another area of interest to us and of some complexity, I'm afraid, is water reform. We had in the draft report raised a number of matters there on which we were seeking some further help. They are, as I say, pretty technical, things like whether the imposition of a depreciation allowance and an annuity payment into a sinking fund is a fair way of going about charging for the costs of irrigation, and then the question of how you charge according to the distance away from a particular catchment the user of the irrigation water is. There might have been one or two others I've forgotten, but do they raise concerns for you people and have you given any thought to how these matters might be resolved?

MS O'DEA: We're not representing, I suppose, the group that - the natural resources committee are probably more likely to discuss some of the water reform.

MR COSGROVE: Yes.

MS O'DEA: Informal discussions about water and access rights probably around our office would suggest that if you can get it such that cotton has to pay a hell of a lot more than it does now, we'd all be very happy, in terms of how the water systems are working, and for South Australia water is extremely important. Probably the biggest discussion we have is how can we improve what rubbish we end up with at the open end of the sewer, essentially, after Victoria and New South Wales have creamed off their stuff, and for South Australia it's probably fair to say there needs to be something that ensures that New South Wales and Victoria and Queensland don't forget that they do actually have some responsibilities further down the line and that the biggest problem is that they have to face some reform because they've sold off their water far in excess of perhaps what they do have, and my personal judgment and I know a few of our exec officers when we have discussed it, is that cotton is not necessarily the best use of that water, just because they might be able to pay for it at the moment.

MR COSGROVE: Do you mean to imply that the Murray-Darling Basin Commission is not working effectively in terms of water allocation across the relevant states?

MS O'DEA: I'm not sure if they're able - and this is from having spent time across on the other side where the Murray River was a small one that runs south of Perth - when people talk of the Murray River, that's what they're referring to first - but I know there have been concerns and we've had some brief discussions with the deputy premier and we're having regular meetings with him about what is it you can do to ensure that - well, New South Wales plays fair, I suppose, and that you have state governments who have made commitments to their constituents, and that it doesn't necessarily end up being fair for somebody at the end of the line such as ourselves, and I suppose the question you could ask is does the Murray-Darling - do they have the powers to override what state governments say, and one would suggest, no, they don't. They can really only be making recommendations and not necessarily having that power, and I suppose then comes the question: do we give a body such as that

the power to be making decisions over that and is that their ambit?

MR COSGROVE: It's a difficult matter of a constitutional type.

MS O'DEA: A lot of what people would see is that the Murray-Darling Basin Commission is there in raising awareness of the environmental problems that we have, that their scientists should be exposing the issues around salinity, when some of them are concerned about actually raising the real concerns that we might have on water use and things - give them the teeth to actually expose some of those things and have the fights about who's using the water in another forum, because I'm not sure that people involved in the Murray-Darling Basin Commission would necessarily see it as their role and, as I was saying, there are some problems when it would come down to state rights, and essentially New South Wales and Victoria do have the ability, I suppose, to hold it back from us.

MR PERKINS: John, some of those questions you ask are beyond our capability and I encourage you to ask them when you meet with NFF. There are people of the calibre of Bob Douglas who understands very much the financial issues attached, and it's very hard to get a coordinated debate on water in South Australia at the moment because of the issue in the South-East - and there's political implications behind what's going on. It's very hard to get - until that all settles down - - -

MR COSGROVE: What is that issue? I'm not sure - - -

MR PERKINS: There's an issue arisen - the underground water which - we're sitting over a tremendous quality and quantity of it. In certain areas, according to the hydrologists, we've got up to about its potential for recharge, without actually pulling the total down, and so areas have come under - or there's potential to put areas under an allocation-type policy. Now, obviously the economic rationalists just want to hop into it and have an on-demand type policy so we've got an absolute and very divisive split between on-demand and pro rata - the terminology they use - allocation, where the pro rata would just take out the recharge and the on-demand would be basically like a river system, whereas if you could divide off with someone up at Bourke or whatever, you could suddenly start pumping it down here at Tailem Bend, but the underground water is not quite as simple as that, it only moves 130 metres sideways per annum, so basically what you've got underneath you is what you can use.

But it has become divisive. SAFF got in there and tried to sort it out, and we would have been politically crucified. Some of the politicians have got in there and tried to sort it out. I suggest one got elected almost on the pretext of sorting it out, but he hasn't been able to sort it out either yet. But the other issue I wanted to make on the water is that it is one of the opportunities in competition policy, I think, to drive some efficiencies into water. Just to quote a couple of examples - and I don't know whether these are highly accurate, but the source they come from leads me to repeat them: that the leakage out of the irrigation system is not what I would consider a very large area of Victoria, basically the Shepparton-Mooroopna area - the leakage out of the system there is greater than the total South Australian irrigated use

out of the Murray - - -

MR COSGROVE: That's certainly large evaporation

MR PERKINS: So, you know, those sorts of efficiencies. And the other one I would quote, and again without necessarily any accuracy, is that the Rocklands reservoir in Victoria - towards this end of Victoria - which is the second biggest water storage in Victoria - the state government actually or the taxpayer in Victoria recovers 18 per cent of the storage capacity. Now, with those sorts of inefficiencies in there by huge capital investments by our forefathers, if we don't make better use of them, then I suspect down the track when they need major capital expenditure to continue their existence - I would suspect the taxpayer would say, "Well, there's no benefit. What are we going to do it for?", and in the driest continent on earth, if we don't make better use of our water and drive some efficiencies of use into our water, then we're all going to be the loser.

MR COSGROVE: Yes.

MS O'DEA: One of the other things in the water debate that we're having is that it starts to actually get down - I've made some comments about cotton, but we would have debates amongst our membership as to what's the appropriate use - I mean, there's enough suggestions that using water to irrigate grapes is a waste of water that should be for something that's more important. I know there has been some discussion about - are olives the appropriate thing to be irrigating. It will come down to some of our membership being somewhat traditional, I suppose, or long-term farmers who have been involved in wine grapes, dairying, irrigating fruit trees, that they might say that their use is much more important than others and that we're probably trying to avoid some of those debates which could get very - - -

PROF SLOAN: But doesn't the market sort that sort of thing out?

MR COSGROVE: If they all pay the same price.

MS O'DEA: There's other people who would suggest we don't want the market to sort that out - - -

PROF SLOAN: Really?

MS O'DEA: - - - that they should have some - - -

PROF SLOAN: "We think olives are more important than grapes"?

MS O'DEA: Yes, and perhaps there are some arguments that people who have been involved in some of the irrigation schemes across Australia where they've actually been involved in establishing those schemes themselves and can document - although it might be a bit difficult, and I don't know that South Australia is a case in point - where they've actually been paying and have put money in themselves and been

operating those irrigation schemes that now other people are going to reap the benefit and not necessarily see the money go back into their system, though I think you could start getting a few arguments. Wars have been waged over water across the world for a very long time. We probably just have little minor skirmishes in comparison to those that happen in the Middle East.

MR COSGROVE: Yes. Are there any other points you wanted to make to us? I have one other I'd like to - - -

MS O'DEA: No, I don't think we have.

MR PERKINS: No, I think we've exhausted - - -

MR COSGROVE: Well, prompted by what I had read of your appearance at the Joint Select Committee on the Retailing Sector, I'm wondering whether you have anything more other than what is in the transcript of that - - -

MS O'DEA: That's for the supermarket inquiry?

MR COSGROVE: Yes.

MS O'DEA: Yes, we can forward you - - -

MR COSGROVE: There was a lot of focus on this question of market power held by major retailers relative to growers in particular, as I remember, of horticultural products.

MS O'DEA: Yes. We can provide you with our original submission if you would - - -

MR COSGROVE: To that committee?

MS O'DEA: To that committee, yes.

MR COSGROVE: I think we have that. That was done in March of this year?

MS O'DEA: Yes.

MR COSGROVE: Yes, okay. So that's about as much as you can provide. I can't find the pages right now but there were particular instances mentioned of an individual grower who had either had the terms of a contract not honoured or in some other way felt that retailers had been using undue measures over them, and it also seemed to be the case, I think, that the powers of the ACCC to step in in some way to protect these growers from exploitation were seen as inadequate. Is it all there, as much as - - -

MS O'DEA: Yes, I suppose so. Our president has probably been a spud grower

himself - has a bit more experience, but some of the things that we were highlighting with the contracts were some things that - now I've got to remember the term, but basically it's the term - and I can't even think - - -

PROF SLOAN: Unconscionable conduct?

MS O'DEA: No. It's actually in the contract, and what it refers to is water loss, and you can get docked - - -

MR COSGROVE: Ullage. Ullage, I think is the term.

MS O'DEA: Ullage, that's it, yes. It's a wine term and also used in shipping, I think, but moisture loss, and the supermarkets can use that - have got that in their contracts as one of the things they could dock you on, and some of the other comments that have been made by our market reporter who's in the marketplace and has seen what happens in the Pooraka Markets relative to some of the specialising that goes on, not necessarily with Coles and Woolworths, but the third player or third and fourth-level player perhaps when they run some specials, and they use some standover tactics, as Bill would have described them, essentially to play a part in the market over say a two-week period or whatever. But some of the contracts - New South Wales farmers have done a lot more work on the supermarket impact and people with contracts, and you'll have differences between different producers in the site.

Once you get to a certain size and you actually are in a position of power to sell your products to one or the other, and at least in the apple industry there's one producer that's in that position, virtually, but his fellow producers in the same area who are working in a cooperative basis are aware of some of the pressures that have been put on by supermarkets for them to actually pick their - I had discussions later with somebody after we'd been and appeared - where they've asked for fruit to be delivered on a particular date, but it was about two weeks prior to when that fruit was actually ready, so unripe fruit is appearing in the supermarkets because they've required it.

The consumers don't want it, so the message goes back that the consumers don't want this product, and they're sort of like - "Well, that's because you're putting unreasonable - you're trying to push something that you can't push - we aren't talking about glasshouse production and you can predict say when apples are going to ripen. They will be a bit of a time period and we're not going to be able to say that we can provide you with this season's Granny Smiths on this particular date because they might not actually be ready if we don't have the warm weather, or they could be ready a week earlier." So the supermarkets - - -

PROF SLOAN: It's using a sort of manufacturing model to try and contract with the agricultural sector.

MS O'DEA: Yes, in which doing so means that people who go down that line actually have to make considerable investments to ensure that they can do this, and, I

mean, the major grower in South Australia - I suppose the way he's been doing that is buy - well, their family business with land and growing apples in the Riverland - they've got them down in the South-East - - -

MR COSGROVE: Different locations, yes.

MS O'DEA: They have got them in the Adelaide Hills. So going to the non-traditional areas, which for some of his products isn't necessarily - I mean, outside the apples he isn't necessarily always succeeding every year. Brief discussions with some locals about cherries - that you don't always get the cherry crop that you might desire in the Riverland because they don't have the chill factor often enough so they don't get the production of them, so people are trying to make the manufacturing model but we are talking about a biological system that isn't totally able to be manipulated.

If you're talking glasshouses, then you can control that to your heart's content and turn things on and off however you like, but once you start talking about being outside and trying to, as you say, apply a manufacturing model, it doesn't happen, but supermarkets are using the power they have. Once they've got people in those contract systems and once you have committed yourself to - you know, if you blow the deal with that major supermarket, your only other option is the other one, perhaps, and you might have more than they can take on anyway or they've already got contracts established.

MR COSGROVE: What about the normal wholesale fruit and vegetable markets? Are they not a significant alternative again?

MS O'DEA: It depends on which state you're in as to how significant they are and they're becoming - - -

PROF SLOAN: It's a small market.

MS O'DEA: Yes, they're becoming less significant, perhaps, unfortunately. For a lot of those big producers say in apples and pears, their alternative rather than the local market is that they're really gearing themselves up to export markets. So a bit of the decision that people make is either they are going to niche markets into overseas, into Asia, and then their fall-back position is say the wholesale markets or it might be sort of some opportunity contracts with the supermarkets. They have to make that decision and try not to burn their bridges either way.

MR COSGROVE: Yes. Would you say that this may be another case such as the one to which Dale referred a little while ago in respect of dairying, where some expert advice on what's involved in committing yourself to long-term contract supply arrangements might be needed or - - -

MS O'DEA: Yes.

MR PERKINS: You've reminded me that Marie mentioned them. I was at a forum where they were trying to get a handle on where they should go in the future, John. Traditionally they've been against contracts because I've been in other areas. I wasn't quite so much against them. It did come to the fore during the process of that day and that was basically representative of the whole of the South Australian industry, that, yes, they would have to have an understanding of contracts and what was involved, although grudgingly I think they were being dragged along, and some of the more traditional ones, but yes, I think by the end of the day they'd come to the highlight that they will have to deal with contracts, so they will need some help with that, most definitely.

MS O'DEA: Yes.

MR COSGROVE: I wonder if this isn't one of the less obvious perhaps longer-term adverse effects of highly regulated marketing of rural products generally. To some extent you could say that people - producers, that is - have had a fairly simple task of growing a potato or producing milk and sending it off on a truck to the next stage of the production process, whereas if they were operating more directly with the requirements of some of their downstream users they might have been - - -

MS O'DEA: Except I don't know that that argument holds true so much in horticultural products, not in this state necessarily that there has been - - -

MR COSGROVE: There hasn't been any regulation?

MS O'DEA: The market structure - the changes that have probably happened to fruit and vegetable sales across Australia probably have more to do with tax file numbers.

MR COSGROVE: I see,

MS O'DEA: The changes that have come around to the horticulture sector probably have more to do with tax file numbers and the reporting systems required under taxation because - I mean, how right or wrong, but the black market that was going on at Virginia, Pooraka - it's been more serious say in the Sydney and Melbourne markets where there isn't the same reporting system for horticultural products, so when people actually even talk about, "What's the horticultural production in Australia?" sometimes that's an awful big guesstimate because a lot of it, until it has been going through supermarkets, hasn't been recorded or reported under any system that there was. A reasonable percentage was transferring from one truck to another without necessarily any reporting towards the taxation system.

MR COSGROVE: Yes, I see.

MS O'DEA: And now I could probably get shot - - -

PROF SLOAN: That was very tactfully put.

MS O'DEA: - - - shot for saying that. With the GST, although food is not going to be impacted, that might be seen as another reason why people will not necessarily front up to report - - -

PROF SLOAN: Well, they will be paying it as part of their input so they will be wanting credit so they'll - - -

MS O'DEA: They will want to get roped in.

MR PERKINS: But there certainly clearly will be - like the dairy and, I suspect, in grains as well - some benefits in contracts and those sorts of arrangements, our clean green image and our quality and, yes, those sorts of assurances can be driven through a contract. It will be the expertise to help dairy farmers or those who are producing into a contract to see that it's not used to get, as Marie highlighted, a marketing advantage or a financial advantage for another group, because there's a lot of people who don't understand a contract and they're frightened of them, and sometimes they don't deliver. I mean, we've got an issue with Canola at the moment where the contracts are clearly signed but the money hasn't come and we're doing the best we can, but the money is still not necessarily turning up.

MR COSGROVE: I think I've explored what I wanted to.

PROF SLOAN: Yes, thank you very much.

MR COSGROVE: Nothing else from your side?

MS O'DEA: No.

MR PERKINS: Thank you for the opportunity.

MR COSGROVE: Thank you very much for coming along and helping us at this stage. I think we'll take a break now and may resume shortly.

MR COSGROVE: Well, as some other participants who have been expected are unable to be with us today, we're now concluding this hearing in Adelaide.

AT 11.52 AM THE INQUIRY WAS ADJOURNED ACCORDINGLY

INDEX

	<u>Page</u>
LOCAL GOVERNMENT ASSOCIATION OF SOUTH AUSTRALIA: WENDY CAMPANA KEN COVENTRY	2-23
SOUTH AUSTRALIAN FARMERS FEDERATION: MARIE O'DEA DALE PERSKINS ANNE-MARIE SMART	24-46