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TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

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

MR J. COSGROVE, Presiding Commissioner
MR R. BRAITHWAITE, Associate Commissioner
PROF J. SLOAN, Commissioner

TRANSCRIPT OF PROCEEDINGS

AT ALBURY ON THURSDAY, 1 JULY 1999, AT 9.00 AM

Continued from 29/6/99 in Tamworth

MR COSGROVE: Well, ladies and gentlemen, I think we'll begin this public hearing on the commission's draft report on the impact of competition policy reforms on rural and regional Australia. As I've been indicating at earlier hearings, we like to make these proceedings as informal as we can but we do appreciate it if participants can be as accurate as possible in the information which they provide to us. What we've been looking for in particular but not exclusively in the hearings is factual evidence on the impacts of competition policy reforms as well as reactions that people might have to the assessments presented in our draft report.

I'm going to be asking all participants, for the purpose of our transcript of these hearings, to identify themselves and the capacities in which they're appearing before us today. You will have seen already I think that the hearings are recorded and transcripts of them are available to the public in a short period of time. They're also available on the commission's Web site. If any people would like to make arrangements to obtain a copy of the transcripts when they are available then Gary Samuels, sitting at the table on my left, will be able to tell you how to do so.

Now, our first participant today I understand is appearing on behalf of the Watering Australia Foundation and if, as I said, for our recording if you wouldn't mind identifying yourself and the organisation that you're representing.

MR BRIDGE: Thank you, Mr Chairman. My name is Ernie Bridge. I'm the member for Kimberly in the Western Australia parliament and also a president of an organisation which is combing the range of submissions here, namely the Watering Australia Foundation.

MR COSGROVE: Thank you.

MR BRIDGE: It's in that capacity, I guess, more so than being the member for Kimberly that I, along with a number of other speakers, seek your indulgence in discussing a range of issues that surround your draft report but not entirely just the report. If we could seek from the commission our ability to just canvas a few other points which we believe are important in the overall understanding of what the NCP is all about then we would greatly appreciate that. If I may say to the commission that the way the we would seek your permission to operate today is for myself to make some introductory comments and at the end of that period I would ask if you could then invite each of the members that are at the table with me to come forward with their contribution and at the end of that period it would probably be appropriate for us to have an exchange of questions and they will then adjourn - other than myself - and there will be another group that will assemble here.

MR COSGROVE: That sounds fine. I think we should proceed that way.

MR BRIDGE: Yes. Then in regard to the two components, Mr Chairman, we see the first component dealing with water-related issues and the second group dealing with issues to do with local government. I want to say at the outset that I'm particularly honoured to be here today. I'm honoured because of the heightened

degree of compassion that I have about our country and the belief that we really need to be particularly mindful of where we're heading. As such, this to me is almost a last ride. I say that in the context that in August of this year you will be presenting to the parliament of the federal government your completed report. So it's July today and August isn't far away. So in saying to you it's about our last ride or our last stand is not inappropriate in the context of your time-frame and the preparation of your final report. It's in that context that I believe that my presence here in Albury-Wodonga in discussing these points with you are particularly relevant and highly important to the future of Australia.

I would like to think that what we will do is to share in the understanding and the need for compassion to occur within our deliberations. I don't think we ought to be too rigid in terms of pure economics because we have a lot more and many other factors that hinge upon and are directly related with the activities of the NCP and for that reason I would like to go through them with you, I'd like to share them with you, more so than saying to you that this is a clearly defined position, uncompromising, that I have and I want you to accept that. I'm not in that business. I'd like to go through with the commissioners today the general feelings that I have about my presentation.

Can I start off, Mr Chairman, by saying that the other official part of my comments now is to indicate that the Rice Growers Association of Australia, the Lachlan Water Users and the Bourke Shire Council have written formal letters authorising myself to speak on their behalf here today as part of this combined submission. I'll tender those documents for your records.

MR COSGROVE: Thank you.

MR BRIDGE: Mr Chairman and other commissioners, I want to say at the outset that it is my personal belief that the national competition policy can best be described as a fiendishly complicated and unworkable mechanism. I'm using a bit of Banjo Paterson quotation in the reference to it but I believe that history tells me that it is as significant as the days when Banjo Paterson referred to the trains and the trams and the buses in the early days over 100 years ago and the noise and the excessiveness of what those buses were saying to him about the city people. I think it's a highly important position that I should put forward to you at the beginning. In fact, in the document which I will present to you later I conclude by saying that the best advice that I can offer you is to quietly put the National Competition Council to bed, restructure it and preferably put out of existence.

So I just want to tell you that right at the commencement that as far as I'm concerned I have great misgivings about the NCP but having said that to you I'd like to now tell you why. There's been a lot of comment that we've heard about the extent of and the direct relationship between NCP and the activities and the directions of the bush in inland Australia. There's been a strong argument that's been put forward, particularly by people like Prof Samuels that many of the ills of the bush have no relationship whatsoever with NCP. Now, I've got to submit to you as a commission

that in my judgment that is quite false, that, in fact, many countless numbers of the problems of the bush have their origins that stem back to the setting up of COAG and the economic programs that have followed since it's evolution and are being presided upon now by a range of centralised organisations, one being the National Competition Council.

What we've got in the bush, Mr Chairman, can be in some instances described as the cleansing of inland Australia by governments. Not necessarily the NCP but associated with the NCP. I think that because of that term that I apply to the plight of the bush it's important for us to reflect upon where we steer NCP. Now, to give you an idea of why I believe I can say that I'll read to the commission a letter that I got yesterday, quite timely in my opinion in advance of today's hearings. It comes from the Kimberly and it relates to the discontinuation of an airmail delivery service into the towns of Fitzroy Crossing and Halls Creek.

I'd like you as commissioners to just dwell very closely upon the circumstances that one can associate with this decision of Australia Post. It's another one of those decisions that Australia Post has made which has been essentially in the business of cost cutting, cost efficiency, accountability and the need to streamline their operations, in that general category. What we now have in Halls Creek and Fitzroy Crossing, for the first time in almost 100 years, Mr Chairman, is the discontinuation of a mail delivery into those towns. After the scheme was set up in 1921 by the late Horrie Miller and other legendary aviators we find her some nearly 100 years down the track those towns in country Australia are being subject to a position where the service that has been taken as granted for just on all of those years ceases to operate as of today, 1 July.

MR BRAITHWAITE: Ernie, could I clarify that?

MR BRIDGE: Yes.

MR BRAITHWAITE: That's a discontinuation of the aerial service - - -

MR BRIDGE: That's right.

MR BRAITHWAITE: - - - or the Australia Post altogether.

MR BRIDGE: No, the aerial service, the air delivery service. What I would say to you is that epitomises, in my judgment, that general destructive pathway that one - if you could capture a pathway that's been going downwards and we could reterm it the destruction pathway, it is that pathway that this is a part of. We see systematically in inland Australia and country Australia the removal of services once established, clearly necessary and highly efficient and effective, being removed in the name of cost efficiency, cost cutting, greater accountability, which again gets back to this whole obligation that is being imposed upon society and communities to justify the retention of services.

So it's in that context that I say to you that I believe my interpretation of the cleansing of the bush has a relevance. The other issue that comes readily to mind, Mr Chairman and other commissioners, is that about six months ago I had the very unique and special opportunity of being provided with an aeroplane and flying the entire Murrumbidgee scheme, large parts over the Murray scheme irrigation and the entire Lachlan Valley irrigation. It was quite amazing to see these large numbers of blocks of land which represented a family farm in existence. The special nature of that trip was the excitement of that sheer number of blocks out there, each one representing a family, each one representing a farming operation upon which the viability and the economics of those regions depend.

Now, the great problem that I've got now and I want to bring to your attention that with the water reform programs that are being brought into operation systematically there's a great capacity and a great threat that those sheer numbers of individually owned and operated farming units may well disappear progressively. I believe and I say to you as an Australian that it is a non-negotiable position in my view that we should preside over a period of history, a period of economics where there is the likelihood of the reduction of those magnificent farming operations that are currently owned by family farms. What we as Australians must always insist upon is that the inland parts of Australia retain their patronage, retain the families and the members of the communities that have built up these areas and are there to sustain them.

So that's the other point that I think again comes into this equation of the cleansing aspects of what I see are the downsides to our policies that are reforms.

The other matter which is of concern to me - and this is more perhaps in my hat as a parliamentarian - is that in my exchange of letters with, again, Prof Samuels, there appeared to emerge a proposition that many of the decisions that are being driven by the National Competition Council are matters that are outside the jurisdiction of the parliamentary processes of Australia. If you were to take that to its full and final conclusion that effectively disenfranchises Australian parliamentarians, which in turn negates against the public's ability to have representation in the democratic process. So I bring to your attention that concern.

That's a parliamentary concern rather than a general concern and I think that's amply illustrated, Mr Chairman, where in the Hansard in the Queensland parliament, which is available to us, the then premier of Queensland, Mr Borbidge is being reported in Hansard as having said that in a letter which he received from Prof Samuels it went in these sorts of terms, "How dare you, premier, how dare you commit your state to the sovereign funding of your state in terms of infrastructure programs when you have not first of all identified up front the full cost recovery component within that investment?" Now, I submit to the commission today, Mr Chairman, that that is no place and right of Prof Samuels to be putting that proposition to a premier of a state.

It's my view that if the premier and the state wants to embark upon expenditure

in infrastructure for the long term they are perfectly at right and under law and under democratic processes entitled to make that decision. Furthermore, if it so happens that they're not able to indicate in advance of that decision the full cost recovery component, so be it, because if you think about it, Mr Chairman, no-one in their wildest imagination could have ever associated full cost recovery in the investment to do the Snowy Mountains scheme, the C.Y. O'Connor pipeline or the Ord scheme. So it is just wrong, it is just silly economics, to be putting to state governments around Australia that you need to establish that criteria before you are justifiably entitled to expend funding in terms of infrastructure development.

PROF SLOAN: I should point out though that his government did agree to the policy.

MR BRIDGE: Beg pardon?

PROF SLOAN: His government did agree to the policy in the first place.

MR BRIDGE: I'm not disputing that. But as far as I'm concerned I just - - -

PROF SLOAN: They signed policies.

MR BRIDGE: Yes, I disagree though and what I want to do today is to put to you my understanding of the sovereignty aspects of state governments performing their functions.

PROF SLOAN: We might get back to that. It doesn't undermine the sovereignty of a state government and they did agree to the policy.

MR BRIDGE: Can I just say to you I think you need to just bear with me on that one because I think that is absolutely critical, because if the parliaments of Australia don't have that final determination - - -

PROF SLOAN: They don't though. There's absolutely no doubt about that.

MR BRIDGE: According to that interpretation of that letter, they don't. "Why do you? How do you?" It doesn't imply that they have the final say, in my judgment, all right?

PROF SLOAN: Anyway we'll come back to that.

MR BRAITHWAITE: Mr Bridge, have you got a copy of that letter?

MR BRIDGE: I do have a copy here which I'll submit to you. I looked - I have a copy here of the Hansard.

MR BRAITHWAITE: No, I was thinking of the letter itself.

MR BRIDGE: No, not of the letter itself. The Hansard presentation is there for you, however. I referred earlier to a letter in respect to the Kimberly air service and what I will do, Mr Chairman, is to tender that, because I had said that I would read it to you and I hadn't discovered it at the point of time that I made reference to it. But that's there and I shall tender that. I suppose in summary, Mr Chairman, the big problem that I have with the NCP is this question of full cost recovery and user pay. It is my judgment, and I submit to the commission here today, that if we seriously contemplate and preside over a economic regime that demands upon the states and the federal government, and indeed the community generally, a requirement to reaching full cost recovery and user pay by a early date in the new century, then it is a impossible assignment to adhere to and it is absolutely false.

It simply means that the necessarily big and long-term investment opportunities for this country that need to be pursued by government won't materialise because they simply will not be able to do so - and particularly in the context of how your terminology refers to it, Mr Chairman. You speak in terms of justification being robustly applied and sought. Now, you would appreciate from that, that most agencies in local government for example would not be able to have the funds to do that. Most business organisations would not necessarily have the funds to do that and state governments would find it very difficult as well. So I believe that there is no place in Australia's economic policy to very seriously contemplate and consider the maintenance of inland Australia on the basis of full cost recovery and user pay.

Every opportunity of the cities, Mr Chairman - no difficulties whatsoever. The casinos will come up in their scores. The major business entities of the capital cities will occur and will probably have the ability to be able to meet those requirements, but not inland Australia because of the vastness of the geographic considerations, the small population that exists out there, but remembering, Mr Chairman, that the resources remain untouched, untapped essentially. So we've got to be going into policies that develop them in the year to come.

So in conclusion I say that full cost recovery and user pay is a totally unachievable objective in the good sense of continuing the development of inland Australia - very achievable if we want to walk away from inland Australia and hand it over to a few green frogs and a couple of wombats or something. Okay, you can insist on that criteria. But if you're talking about the continued projection of population, the retrieval of the downward spiral, then don't, I submit don't, adhere vigorously to full cost recovery and user pay. It just isn't a scenario that has a relevance in inland Australia.

Secondly, I just want to repeat, as I said before at the commencement, it is my personal judgment that no matter what the genuine intent and desire of your inquiry is, Mr Chairman, to me you will not alter the situation that I believe that the national competition policy is fiendishly complicated and a mechanism that is unworkable. So therefore I don't give it much countenance. Thirdly, it is my advice, my submission to the commission, that in the good of all Australians, particularly the

retention of inland

Australia, you would be wise to put it to bed. Tell it that it has had its run and whatever the virtues that one might associate with it or against it, that it's past its use-by date and that we ought to be looking at another process that deals with the fundamental obligations of keeping inland Australia in place, because I've got to tell you that the example of Halls Creek is but one of countless, countless illustrations of the systematic demise that's going on in the bush.

That has to be brought to your attention, it has to be understood by you, and I would submit to you finally, do not tell me, Mr Chairman, that that's only a perception and it's not a real fact. I would ask you please to think twice about your interpretation of the issues of the bush as being perceptions, but in fact to take on board that there are serious worries we've got out there. There's a lot of pain, there's a lot of hurt, and in our last stand or last ride today that is my final plea to you. I would now like to ask if you would now allow speakers in sequence to present their submissions to you which relate to essentially water-related matters in the first instance. Then we'll have a pause and then there's another group that I shall bring on afterwards. But at this point of time, thank you, and I now would ask you to invite the other speakers to participate.

MR COSGROVE: Thank you, Ernie. As I said, we'd be happy to proceed on that basis and if each of them could, as you did, identify themselves and the organisations which they're representing.

PROF SLOAN: Can I just pick up on one point about your objection to full cost recovery and user pays. Who then does bear the cost, because the costs are incurred?

MR BRIDGE: What will come out of it is as we've done for 200 years. This nation's history has been built through the provisions of infrastructure, through governments being prepared to invest in advance of establishing full cost recovery, in advance of establishing user pay, and yet - - -

PROF SLOAN: So - - -

MR BRIDGE: Let me finish. Yet look what that has positioned Australia - if you look at those particular unique projects, like your Snowy Mountains scheme, like your C.Y. O'Connor pipeline into Kalgoorlie and your Ord, I mean, they are special areas of our heritage today. They are particular areas of contribution that the nation was able to make. All I say is that was a pretty good economic process. So the ability to pick up on the cost recovery will come out, as it does now. For example with the Snowy Mountains scheme it pays its way, it's established. It pays its way and Ord River pays - - -

PROF SLOAN: Others would disagree.

MR BRIDGE: Well, you might but I mean, that's a reality and I think there's support - - -

PROF SLOAN: Well, others would disagree strongly. So really you're saying the taxpayer must pay.

MR BRIDGE: If it's part of - - -

PROF SLOAN: So the people in the city - the poor people in the city too.

MR BRIDGE: Well, not necessarily the poor people, the poor people of the bush. I mean, there are poor people in the bush.

PROF SLOAN: No, but I mean, my point is that the costs have to be recovered in some way. So I'm just asking you, if it's not the people in the country it's the people in the city then?

MR BRIDGE: Why does the cost have to be recovered necessarily?

PROF SLOAN: Because the costs are incurred.

MR BRIDGE: Hang on, in the placement of infrastructure that brings about wealth, generates jobs, creates opportunities and a developmental process within a region, so invested by state government, why does it have to be simply on full cost recovery? Why can't that investment be the basis upon which other investment is then derived, is promoted and developed? So it doesn't necessarily follow - - -

PROF SLOAN: We'll come back to that.

MR BRIDGE: - - - that every dollar that we commit of taxpayers' money has to only be on the basis that we've identified full cost recovery.

PROF SLOAN: Well, the costs are incurred; they have to be covered.

MR BRIDGE: That's what we are saying here.

PROF SLOAN: But in business you'd realise that - all right.

MR BRIDGE: Mr Chairman, we are saying that in the context of this downward spiral, that's the difference. If we were saying that in the context of maintaining the status quo and in fact progressing upwardly, I would agree with your fellow commissioner. But in the context of the downward spiral I say I question that method of economics.

MR COSGROVE: Yes. I think that's another matter which we will probably come back to. It is important in trying to understand why it is that inland Australia's fortunes have not been as robust as those of city and coastal areas, to try to understand why that is so, and we need to be careful if we're going to provide governments with sensible advice to analyse as best we can what are the main forces

at work. So that's another point you touched on in your earlier remarks and we should come back to it. But why don't we continue now with your colleagues? We'll be glad to hear from all of them. Who would like to be first?

MR ARTHUR: I would like to thank you for the opportunity to talk to you today. My name is Laurie Arthur. I'm the chairman of the Southern Riverina Irrigation Districts Council. I represent 2400 family farm areas that have now consolidated into 1600 irrigation businesses. These people are also encompassed by the irrigation corporation Murray Irrigation Ltd and we are the biggest diverters as a group in New South Wales. We actually divert 1500 gigalitres of water over an area of 800 hectares. My organisation has problems with some of the elements of water reform. I suppose we could summarise them basically to say the rate of change that's being pushed on our community. The other thing is, I think there are a lot of unforeseen impacts of the reform, things that haven't really been considered, and you really need to be on the ground in the area to see the impacts of them.

I'd like to start with property rights. I dispute the assessment in table 5.3 that it's progressing well in New South Wales and I think it goes further than just talking about separation of water and land title. On the steps of the Griffith RSL I was talking to Minister Amery and he's quite point blank refused to commit to implementing property rights in the current parliament. We believe the government's intention is very clear: "We'll allocate water to increase environmental flows, we'll send it to the Snowy, we will cap diversions, and then the water that's left, then we'll think about issuing that under a property-right regime to irrigators." There is absolutely no talk whatsoever of compensation.

If we go further we then talk of sleeper and dozer issues. Now, the position you've put by MacPhillamy and Caldwell is very correct and we can demonstrate it quite easily with what's happening within Murray Irrigation Ltd. I'll just give you a few figures here. Murray Irrigation Ltd, licence entitlement at 100 per cent, that equates to 1450 gigalitres of water. Our average use over the last 10 years has been 1620 gigalitres of water and we're told we'll be capped at 92 per cent, and that's a figure of around 1300 gigalitres. So the water that will not be allocated to our community - and that stretches from Swan Hill to Berrigan - is 290,000 megalitres of water. Now, the New South Wales government, we believe - and I think you can demonstrate it - the government with budgetary restrictions, they're determined to base the water reform process on avoiding taxpayers' contributions to compensation.

Now, I've got a letter here - and I can table it if you like - it's from Minister Amery, it's dated 20 April, and in the light of what I've told you, he's suggested to us:

As previously unused licence entitlements are developed, those users with a high history of use -

and that's MIL -

will need to invest in water-efficiency measures or purchase additional water

on the existing permanent or temporary water markers.

So we now have that as the solution to our problem. We're not going to be allocated this water as we were in the past. We go to the market and we invest in water-efficiency measures. Sounds reasonable.

So then we proceed to the water-trading situation, and I'll demonstrate to you that that's not particularly reasonable and there are problems there that I'll highlight that just have not been considered. Now, SRIDC and the irrigators in this region are very progressive irrigators and we're not the laggards we're painted in the urban media, and to give you the example, my organisation is in conjunction with Murray Irrigation Ltd, we saw the need for water trading in our region and we realised that under these scenarios our irrigators must get hold of the water traders, they must confront the water trade, and a lot of them are absolutely opposed to doing this. They see water trading as something that shouldn't be done. So there's that feeling out there. But against this feeling we've set up a water exchange and we now operate the largest water exchange in Australia in the space of two years.

Now, Kim Alvarez of the Department of Land and Water Conservation tells me this is the fact. Last season we traded 52,000 megalitres of temporary water on our exchange. That came from a base of 10,000 megalitres the year before. So what we're attempting to do with setting up our exchange, is enable our irrigators to grasp the trading opportunities so that they can get access to this water, as we've been told we must do in this letter. Now, one of the major problems we have in setting up and operating our exchange is just basic government inefficiency in handling the water-transfer market. Now, I'll give you examples. We've had a situation whereby to transfer water from the lower end of the river to the higher end - that's down at the lower Murray down around Renmark for example - to do that an irrigator from the Dareton office will send an application to the Deni office, it will go back to the Dareton office, then it will go back to Dubbo to be approved. It will go from Dubbo, it will go to Dareton and it will go back to Deniliquin, and at the end of that it will be approved. Some offices will take faxes, some won't. It's not very good.

Now, that's not 10 years ago. That's last season. We've also had a situation whereby Murray Irrigation have been trying to run an efficient transfer system so it's one bulk licence, 1500 megalitres of water, and so at the office at Leeton there's a pink strip put on the transfer sheet to say who amongst that 2000 irrigators is going to get this transfer water. We had operatives in the DLWC decide, "That's not one of our official forms," off it goes, throw it out. So then it arrives at Murray Irrigation with nothing on it. This is the sort of mentality we're struck with and yet the irrigator is being told - and we're doing it - we must proceed to the next decade, tackle water reform, and we're doing it, against these things. Another example is just the last season. We realise it can take - and nobody will dispute it in the DLWC - up to seven weeks to transfer water from Murrumbidgee to Murray.

Now, what that means is, if somebody wants to sell water from Murrumbidgee, a lot of things can happen in seven weeks, and I can demonstrate with a graph I've got

here where the price of water can drop from \$70 a megalitre to, say, \$20 in the space of seven weeks. Now, that's the time it's taking. I mean, it's just not satisfactory whatsoever. We're being required to proceed and it's not proceeding at an institutional level. The other thing that's been very underestimated - I'll actually walk you through that graph in a little moment because it highlights another issue - as we've been told, we must get our water on the market. Now, imagine all the different regions that have their water resource and their whole communities are based on it. The suggestion is that a very productive profitable region like the one I come from - it's broad-acre irrigation, we're operating very profitably - but they're just going to let us transfer their water just on into time.

Now, what we're seeing at the moment, and it's really starting to happen, is water allocations are being fenced-off to their regions. There's rules. For example, you can't transfer water out of West Carrugan. It can go in but it can't come out. And when you think of it, that is happening up and down the valleys. So the further it goes and the more the local government areas and the local people see the impact of the loss of that water resource out of their districts, this is going to become a continual problem, and you can see why they're looking at it because they've got a situation; they've got the infrastructure there, they might be involved, they might have had their irrigation based on watering fat lands and because those industries are in the downturn there will be pressure for that water to just flow out of those districts, and it is something that is happening now and it is going to become more and more prevalent, where water is going to be fenced off to the localities.

MR COSGROVE: Who sets those restrictions?

MR ARTHUR: They will have a water board or they will have a trust body and they will set, as I just said, a basic rule and it might be that, "We'll vote on whether or not members can actually transfer water out." And that's quite common. You'll have Moira, West Carrugan, Eagle Creek pumpers, and the suggestion will be that they will just pass a motion saying that no water may be transferred out of the district.

PROF SLOAN: Is there not a state government policy that would override that?

MR ARTHUR: I don't know but it's happening. It's there and - - -

MS: No, there isn't.

MR COSGROVE: I'm sorry, we can't really take contributions from the floor here. If you'd like to make some clarifying remarks we'll need to have you at a microphone.

MR ARTHUR: Okay. I'm talking about what's happening on the ground now. And when you look at the community as to why they're putting up these fences, I can see why they're doing it, and because the region I'm with - we're net importers of water - it tends to flow into our region, and I think more water flows into our region than anywhere else in New South Wales, and we've been told we must do that to get our water resource, then it's going to be a big problem to us.

MR BRAITHWAITE: Could I just clarify your position as a council. Do you have any of these powers given to you by the government or are you just a council operating or are you - - -

MR ARTHUR: No, we are a group. We have 1800 members. They pay subs to us to represent their interests.

MR BRAITHWAITE: Right. So you're not a board.

MR ARTHUR: No. We are just a political organisation and we have 1800 members. Now, I'd like to move onto this graph up here, if I may.

PROF SLOAN: We can move it that way. It's just that it was in my way.

MR ARTHUR: Now, if you have a look here.

MR COSGROVE: Get near a microphone as well, please.

MR ARTHUR: All right. Now, if you have a look here, the top line there are the allocation announcements. Now, how they arrive is that the Murray-Darling Basin Commission. They will look at the resource set, how much is flowing into Dartmouth, etcetera etcetera and then they'll notify the New South Wales department of DLWC and they will make an allocation announcement. If you look at the date on the bottom you'll see all the best we can have, despite our years of protestation, is monthly allocation announcements. So the top line goes to show that at one stage we were on a 70 per cent allocation announcement. Then all of a sudden we get an announcement - bang - an extra ten per cent. Can you see where it's gone to 80? Now, have a look at the impact that's had on the price of our water exchange where the price has all of a sudden gone 'bang' from \$40, collapsed to around \$15.

Now, to me, that's just not on because there's whispers around the corridor that, "Yes, I think there's more water up there," but we haven't got a system from the commission where we can get a daily readout. They've got monitoring measuring of all the inflows and all the rest but we haven't got a system whereby we can have a daily input to our allocation. I mean, I cannot see the reason for it, and you can see that the impact that chunky announcement has on the water trade. And we're talking here, you know, a lot of water. From that period to that period we'd be talking about the trade of 30,000 megalitres of water. Now, that is absolutely not satisfactory in today's - - -

PROF SLOAN: But that's exactly what you'd expect, isn't it? Exactly.

MR ARTHUR: What we would expect - yes, we would - but imagine somebody that's in the know in the department and they know, they suspect, and there's whispers that there's going to be an allocation announcement, and look at the amount of money being traded on the strength of that. Irrigation - - -

PROF SLOAN: So there's insider trading, is that what you're telling me?

MR ARTHUR: Well, you know, why not? I mean, some people in the know would know that there's whispers - I've heard it - there's whispers there's another 10 per cent available for allocation and then all of a sudden, "bang".

PROF SLOAN: Except the price looks as though it adjusts very quickly.

MR ARTHUR: It does, and you think of the person up the top - - -

PROF SLOAN: No, but you'd have to have a lag if there's going to be gains from insider trading.

MR ARTHUR: The point I'm making here is, imagine the people that purchase water here. Now, if they'd known, if they'd suspected that there was a drop about to come, they'd have been buying here. So what I'm saying to you, the more informed, the more in the know have purchased here and those less informed have purchased here. And what we're suggesting to you, there is no reason whatsoever that we can't have a continual readout from gauging stations giving us a daily report on allocation announcements. We've asked for it for years. And the other implication of that is, we've got a short amount of water in the dams, people want to make their planning decisions in October, and they have got to wait for this monthly allocation. It's not on, and yet we cannot move institutional groups - MDBC, DLWC - to give us a proper allocation announcement system. So that's that.

PROF SLOAN: But, I mean, if we had those people there, they might tell us why.

MR ARTHUR: Yes, I'll confess - I'll continue with this microphone - we've asked them, we've gone right to the top. We've asked them why and the reason it can't be done is that it's too hard. It's too hard because they have to talk to the other states and they might be able to go - and the other thing is, "If we go giving you more information on allocation, on river flows, it might confuse the poor old cocky," because it's very complicated. We have sophisticated models and we don't want to confuse your farmers out there - very patronising attitude and it's not adequate.

We also - something that really hackles - really gets us going - is this simplistic suggestion that water will flow from low-value crops to high-value crops. We will sometimes get an economist that will arrive and give all the assembled irrigators this revelation: you can get a \$5000 return if you grow squashes instead of \$30 return on fat lamb. I mean, it's a ludicrous suggestion. What irrigators do, they will look at the crop with the most profitability which takes into account market stability; all the rest. There will be a tendency for water to go to high-value crops if the market and the other things are intact.

So we don't really need this - we hear it from people we are really surprised to. You know, we hear it from Cowan and all the rest that it's just a natural thing. Now,

to illustrate what is happening today on the ground, water is flowing from horticultural areas to this area and we have got all the figures to show it. So it's not going - you would expect it would be going from this area into the horticultural areas. It is just not happening. It is flowing the other way. The reason it is doing that is because of the efficiencies of broadacre irrigation. That's where the water is going.

PROF SLOAN: That's consistent with an economist's prediction.

MR ARTHUR: What?

PROF SLOAN: This going to the area where there's the highest return.

MR ARTHUR: No, but we have been told very clearly - and I will drag them out - that water will flow to the high-value crops - just quite plainly stated.

PROF SLOAN: Well, the highest return.

MR ARTHUR: No, they're not saying that. They're saying water will flow to high-value crops. So we have got the glamour crops the governments like to be associated with - horticulture, vegetables - - -

PROF SLOAN: I think it's just sloppy language actually.

MR ARTHUR: I think it is, but it really impacts on us. Then I come to the city media. They are saying, "Look at these fools out there. They're growing rice, fat lambs, and they could be getting a return of \$10,000 a megalitre on their potatoes and how are we going to teach these fools out here?", and I will come to that more. There is an urban myth out there - and it's gleaned from the urban media - and I sort of feel it runs like this. "Poorly educated farmers squander precious resource because they are unaware of true value." Now, does that sort of ring a bell?

MR: It certainly does to me.

MR ARTHUR: I hear it a lot. The answer, very clear answer we are getting from groups are - the answer - punitive water pricing will force farmers into the real world. This is reinforced by comments in your own paper, page 63:

These subsidies have also been associated with excessive irrigation.

The reality is that today farmers are aware of all their input costs, not just water pricing. Water as a cost is just one of them. What farmers are more interested in is the opportunity cost of using a megalitre of water on, say, merino wethers - low return, I will grant - compared to, say, a high-value crop of Koshi Kari rice. That is the thing that's driving farmers today - not just a blunt signal on water costs.

One of the things that does happen and we see it very clearly in our area, is that high water prices, they definitely reduce the farmer's bottom line. There's just no two

ways about it. This really inhibits his ability to address adverse environmental outcomes on the farm. That point has been backed up by recent studies at the NDBC. What we find is when things get tight in farming, a farm will always feed his family, educate his children, and the thing we find that people do next is they improve their farms - laser levelling, recirculation systems. Farmers take an absolute pride in the condition of their country. They don't tend to buy beach houses in Majorca or anything like that. They look at their farms. That's what they want to do.

PROF SLOAN: That's a permanent home I think.

MR ARTHUR: It actually might be. Now, one of the things we have got to point out: if an irrigator is unable to work things out like opportunity costs of using water in one enterprise as against another, he is not going to be in business. A lot of the people in the 80s that couldn't work that out, they are not here today and they certainly won't be here in another five years. So the point I'm making is that the blunt club of water pricing to give farmers the message, it is not necessary and it's counterproductive because it really affects the farmer's bottom line.

I would like to make the point that there is some suggestion - I hear suggestions that the reason farmers are shifting out of irrigation for grazing enterprises to high-value things, as we hear - is because of initiatives on water pricing, because water, let's face it, was very cheap 10 years ago. It hasn't been that. It's been the demise of grazing industries. The parlous state of grazing industries over the last 10 years have pushed farmers to do that. But some people look at the graphs and say, "Ah, water pricing has managed to force people away from that change." I don't believe so.

I would like to conclude by giving you an overview of the progressive MIL irrigator that we represent. They are better educated. They are very prepared to embrace technology if there is a demonstrated financial gain only. For example, with our exchange, people can view the trading board on the Internet and so we have a lot of farmers taking up on-line connections to do that. We also have a lot of farmers taking up GPS-based precision farming techniques. I'd say our area we'll end up with one of the highest uptakes of that technology in Australia.

We also find we have an increased debt burden. Now, that increased debt burden - and it's right out there and you will see figures for it - has really tightened the business focus of our members. It's probably regrettable, but lifestyle as - you know, you've often heard the lifestyle of farmers sort of quoted. That really is now becoming a secondary consideration to maintaining their profitability on their farms.

We are also moving increasingly towards shedding labour which has, as John Lane will point out later - is having a bit impact on our whole communities. The example I've got there is, you know, people don't buy a 36-plate offset any more that cuts 15 foot. They buy an 88-plate offset. The gears are just getting bigger and they are replacing labour with machinery. That's been happening all around Australia, granted, but what I'm suggesting to you, under water reform policy it is incredibly

accelerating the process.

The other thing that needs to be understood is that farmers operate on a five to 10-year planning cycle. They have got to look at that. They can't look at the next season. They have to operate on a five to 10-year planning cycle and this is where we are calling that any reforms in the water reform need to be spread out more - give farmers a chance to adjust to these changes. Can I once again conclude that we don't need these blunt water pricing messages.

An overview too of where our farms are at in this district: if you will have a look at the Murray Irrigation Ltd Environment Report Summary, and I would just like to read you the first paragraph, if I may:

The Murray Irrigation Ltd region continued to improve the level of environmental stewardship in 1997-98. The continued implementation of the Murray land and water management plans resulted in the adoption of many best management practices, including farm plans, farm drainage, reuse, establishment of perennial pastures, improved irrigation layouts and management and extensive tree planting.

An investment of \$30 million was made by the land-holders to environmental management. We have also had a situation where our farmers have voted on a limited on hydraulic loading. That means the amount of water that can be applied to any - that was a peer decision of the farmers. We will limit the amount of water that can be applied on farms. The other thing that I think is particularly missed by city media is the fact that the Murray Irrigation Ltd area are net importers of salts and phosphates. There is a perception out there that a region like Murray Irrigation Ltd applies a lot of fertiliser; ends up in the streams; we're accountable for outbreaks of algal blooms, and we're the bane of South Australia with the sulphurs getting out.

The very extensive water quality monitoring program undertaken by Murray Irrigation Ltd demonstrates - we have the figures - we are net importers of salt and net importers of phosphates. Thank you very much.

MR COSGROVE: Thank you.

MR BRIDGE: Thanks, Laurie. The next speaker that we will present is Mr Bill Hetherington. Bill is the chairman of Murray Irrigation Ltd.

MR HETHERINGTON: Thank you, Ernie. Mr Chairman, commissioners, thank you for the opportunity of being able to speak to you here today. I will elaborate on the detail of how our business operates, together with my colleague, Jenny McLeod alongside me who will follow.

Speaking on behalf of Murray Irrigation, which is also a member of Watering Australia, I fully support the Honourable Ernie Bridge in his condemnation of the present policy and the way it's really affecting Australia at present, and I will give you

detail of our particular business which I know would be of interest to you because we are basically one of the first areas to be privatised and we are the largest.

From the outset I want to say that Murray Irrigation was not formed as a result of COAG. To the contrary, MIL was formed as a result of Murray irrigators demanding a better service and being prepared to accept responsibility for the running of a private company to achieve this aim. We began as an advisory board in 1989 when irrigators rejected a proposed increase of 22 per cent in water prices, eventually achieving a privatised company in 1995. So it was a long, hard road.

The shareholder elected board of MIL had transformed the inefficient commercial arm of government water resources into a viable, efficient business, and our balance sheets will show you that. This has been achieved without substantial water price increases and we have outlined a lot of that in our submission to you last December and it has been updated right to this time now, July 1999.

I put it to you that good economic results can be achieved without implementing the horrendous water reforms being pursued by the NCP. Examples show that as much as MIL tries to implement beneficial changes for the business, the same endeavour is not being undertaken by government agencies. I want to point this out specifically to you. The gains that MIL have made and acknowledged by the Barraclough report as the outstanding operator for irrigation businesses in Australia last year have been burdened by the lack of corresponding reforms in bulk water and delivery infrastructure management.

Pricing reforms that promote economic efficiencies cannot be achieved without institutional reform. Really, the DLWC can simply increase water prices to achieve a full cost recovery but this is resulting in our industry having to support inefficient monopolised service delivery. Really, MIL will seek to collect sufficient funds in water charges to maintain appropriate levels of service and ensure intergenerational equity. We have been able to successfully achieve this, incorporating - we have got a sinking fund for refurbishment of assets, a supply variation fund, a buffer extreme variation resource, as we are in a business that varies with our rainfall of course. NCP water reform promotes higher prices for water. This is one of our concerns with the policy. I quote from the NCP document recently that says:

Higher prices for bulk water are needed to promote better use of scarce water resources and halt the degradation of rivers, rising salinity in ground water and soils in farming areas and depletion of fish stocks.

I put it to you that this is ridiculous. Water policy - so you put the price up so it's uneconomic for irrigators to use it and so you think that will fix everything, particularly the environment - and I quote again from the NCP:

The environment is given explicit consideration in the NCP. Public interest test and ecological concerns are a driving force behind the NCP water reform package.

There is really no mention of productivity and the consequences of this policy. MIL is highly conscious of the environmental needs and we have got a staff of 10 people - 10 people out of 120 - on environmental issues and regarding our EPA pollution control licence. Further, NCP graciously explains that farmers can expand their incomes by trading - as Laurie pointed out, which is quite large - and adjust to higher charges, or be removed from their enterprise by encouraging restructuring schemes to governments. In other words, so, okay, irrigators, we will put you out of business and we will restructure and get you doing something else.

In short, put the price up, reduce farmers, and everything will be okay. I believe this is a totally defeatist proposal. Australia needs increased population. We do need additional storages. We're a young, sparsely populated country. We can do that without increasing irrigation schemes with the present schemes we've got. The needs of the environment will be achieved when the first two are fully supported and I'll elaborate on that a little bit later. Basically, I'm saying that this is a political not economical argument to increase water prices. What is the benefit in high water prices? I suggest the NCP policy is wrong in this area and will be unsuccessful if pursued as it's now structured.

Trade - Laurie mentioned that to some large degree but trade has been promoted as the answer to everything. I just want to reiterate a point Laurie made and from our personal experience in our business. MIL have introduced a very fast low-cost system. By contrast, on the river where transfers take place it takes up to eight weeks to process the transfer from the DLWC. Our MIL internal transfers are done instantly through computerisation. Why does the DLWC take so long? Has the NCC looked at this inefficiency? I'm just pointing out an example in government agency inefficiency. I question again the MDBC and the DLWC are setting up two independent water businesses and has the NCC looked at the wisdom of this? I mean, the user will be paying here again. I'm absolutely certain there will be a lot of doubling-up in these areas.

The environmental users are basically not subject to COAG principles, I just want to reiterate that. I mean, full cost recovery, renewals, NCC and other academics and the media fail to recognise the fact that the long-term average diversion flows in the Murray River system, New South Wales, Victoria and South Australia, is 4085 gLs or 36 per cent of the total inflow. Now, I quote that from the DLWC of 25 August, the Murray Valley's Strategic Water Management Plan 1995-2000, and basically this means, regardless of all the media hype we get about irrigators draining the rivers, using 80 per cent of the water, in actual fact this means that 64 per cent of the water is not diverted and it's used for environmental flows. It never gets out in the media and I'm quoting from the department figures.

Further, the recent Fitzpatrick report acknowledged the importance of irrigated agricultural Australia and environment needs to be gained by efficiency gains in government buyback schemes. Scientists have no clear idea of what levels of environmental flows are needed to achieve the ecological benefits. Dr Stewart Bunn,

the associate professor for Griffith University stated recently - he stated this fact recently and added, "It was like walking toward a cliff in the dark." We really don't know where we're going. The problem lies in how this environmental need has been assessed. From our personal experience we know that there's large funding for research, research, research but really the conclusions that have arisen so far haven't given us any idea of the requirements that will cover the environmental needs. I mean, I see the papers quite often and I just quote a couple, "Rivers sucked dry," "Rivers left to a trickle." Almost every day, promoted by prominent researchers, bureaucrats and the NCC, really without detailed facts and plan management. NCP means you could never have another Snowy scheme.

That was pointed out by my colleague, Ernie. I say the economic rationalist formula is wrong. NCC is not supporting irrigated agriculture. If that's the case, I mean, I haven't read about it. I presented a proposal to an audience of 1500 people at Deniliquin on February 3rd, 1999, this year. The meeting was protesting about water reforms in New South Wales and I called for the establishment of both an inland engineering task force and a regional environmental trust. Now, Australia is fast losing expertise in engineering. We need to look at our aging infrastructure and plan for future needs. No new infrastructure has been built in New South Wales for the past 20 years. Environmental trusts are now spreading successfully across the USA and that puts the environmental care issues in the hands of regional communities, therefore creating a greater sense of ownership and responsibility. I urge the NCC to support this proposal. I'll be handing this document to you, Mr Chairman, at the conclusion.

When will NCC insist on community democratic representation, voting criteria on the innumerable committees on water reform in New South Wales. Government agencies dictate agenda, have voting rights and give community reps little opportunity to implement their proposals. I'll give you two recent examples. The recent voting at the Murray CRC meeting in relation to looking at environmental flows and we've got reps on that - the vote for a very minor issue was 30 votes for, three against for a policy change. The chairman wouldn't allow it because it wasn't consensus.

The second one, the MIA Environmental Flows Committee, which you probably heard about recently. A similar position, votes for a change by the community and enough of the agencies in this case and the vote was similar. The community basically had the majority but it was overruled by the minister. However, I must point out the minister accepts the majority rules both in the caucus and cabinet meetings. Why doesn't it rule in a community committee advisory meetings? Why doesn't it? Why is there two rules, one for government and a different for the community? There's two examples. That one happened two weeks ago.

An interesting comment recently by Mark Vaile, the minister Mark Vaile, said that the national competition policy should not be implemented for its own sake but because there are identifiable and worthwhile benefits and approaches need to be developed which minimise the down side. I hope that you as commissioners have

noted that and I'm sure you have and you're looking at and listening to us today in

relation to that comment.

The NCP water reforms are having a big negative effect in our area and I just want to get to a point that I know that you brought forward in your papers and that was in relation to the sleeper and dozer issue. It's quite an important one that Laurie mentioned and I'll elaborate on it in point of our business. A recent completed analysis of Murray Irrigation customers has revealed that over two-thirds of our customers have an historic use pattern in excess of the long-term cap levels. Average usage within Murray Irrigation is appropriately 111 per cent of allocation but I just want to point out, anything over 100 sounds excessive. Our 100 per cent, these figures compared with another area, is only one-third of the other areas 100 per cent. So in actual volume it's very light in the set a policy thereby you can't use any more than four megs a hectare and the average use over our whole area is 1.5 so we're not a water intensive area.

But this particular cap that's been placed upon us now, after spending our money on developing our areas, is really cutting us immediately 19 per cent loss of our resource. Now, if you did that to any other business, BHP or anyone that produces anything, it's got a big impact on your business and it certainly has on ours. In comparison with this statistic Murray Valley private pumpers up the river have an average of 54 per cent. So we've got a problem with the cabinet decision to allow this underusage to be activated and it's come at a direct cost of two-thirds of our customers within Murray Irrigation Ltd. In actual fact, high-security users have experienced no pain of the cap at all. It's just a big game, just like a big Christmas present. Indeed, the more the cap takes effect, the greater the game. Irrespective of reduced allocations implementation and potential penalties high-security users have and will continue to receive their full entitlement all but in the driest of one per cent of years.

So following on that - that was announced some three years ago, the basic cap for us but we've got a new one now that some you beaut figures man has come up with. So the new cap now for the Murray Valley is 87 per cent not 92 which makes our position five per cent less than before. The MDBC introduced that particular cap in 1994 and introduced it, as I said a moment ago, on a valley basis and, as Laurie said, we're losing something like 269,000 megalitres of water. Just to put it in monetary terms, Mr Chairman, if you value this particular amount of loss that we've had at \$400 of a permanent transfer you're looking at 104 million just to maintain farms at 94 levels - \$104 million.

The cap, in other words, has resulted in a cut for many users in the Murray Valley, most of whom are shareholders and customers of ours, as I said, and the structural adjustment pressures being experienced with MIL region are disproportionately large and potentially catastrophic to the social and economic wellbeing of the southern Riverina community. In effect, really it's transferring wealth from one end of the valley to the other and we've got the problem even to get the water down that end of the valley because we've got a section of the river called the choke and you really can't get it down there. But, as Laurie said before, it's just a

transfer - and I think there was question here from Commissioner Sloan in relation to why is that happening - because some of the horticulturalist people really haven't got a need to use it so it's just an excess water that's being used by people who have got a need to use it and that's the reason.

Each user group, in my opinion, should have their own cap and the economy of each group would have not been affected. The basic problem was with the government issuing too many licences - and I might point out that when that cap came into being there's 300 of those licences weren't even being used. Now, if you check those figures today there would probably be very few that weren't being used because of it being sold. So just to reiterate, our basic problem as a business - and it's a business of all our shareholders and Laurie's members - is that some of the other things that have come on top of the cap issue - I mean, we're not opposed to a cap, we're not opposed to a cap at 94 levels. Not at all. We actually supported it. But to then find out some time later that we've got a cut of 20 per cent and listen to some of these on top after that, after you set up a business plan to set up a business - you know, most of my time is looking at external issues. I'd love to just run the business.

Some of the losses we're faced with, and Jenny will put this forward for you: environment flows, we've got both the governments, the conservationists and scientists together with us - we've got to be part of that committee - are working on proposals to increase flows to the environment. That's taking place right now so there's going to be a certain amount of water lost there. The Snowy River - I just want to put this to you: we love the Snowy River as much as anyone else but that's a decision that was made many years ago. But I just want to put this to you in real terms. If 28 per cent increases in the Snowy is granted that will equate to drying out 475 farms in our area. Shut the gates, no water. That's what it really means. Translucent dams - a great question at the moment, that means the water that flows in a percentage flows out and that was one of the decisions that I referred to a few moments ago that the minister overruled. But it's a proposal to mimic natural flows prior to dams being built. We can't get back to the stone ages. We've got to produce food for our people. The recent example in the MIA in relation to this, 2200 megalitres came into the dam and 1900 went out, in the middle of winter. Do you call that good management?

We've got another problem - additional water for the Barrah-Millewa. We agreed as part with the New South Wales government, the Victorian government originally allocated 50,000 megalitres to this forest. It's quite near us and we acknowledge we want to look after it as best we can. The government then increased that to 100,000 and now the proposal - and I ask you this: how can you run a business when all of a sudden these keep popping up in your set of business plans, not to even anticipate any of these? But now we're asked for 150,000 megalitres and there's a further proposal to store 700,000 megalitres in the dam which could be released in one season that the environment may need. May need. Just work out the cost of that, of taking that dam space.

Right on the agenda right now, Mr Chairman, of course is the Prime Minister's

new group set up to look at dry land salinity and we're as concerned as anyone about that. We're doing a lot of work on our salinity area, which is very minimal as far as degradation goes. But the suggestion is that dry land salinity will increase and have an impact on water quality in the river, then more water will be needed for river flows. I'm just saying we anticipate here we go again. As I mentioned before, some you-beaut mathematician came up and said now the cap is 5 per cent less and we reduced to 87 per cent.

Finally, the 30,000 megalitres to the environment. When we set up our business plan we agreed with government to take responsibility to run these irrigation areas. The government said, "We will help fund some of the infrastructure that we have that we've neglected for 40 years but you must use some of that money to try to seal some of your leaking channel systems," and then after five years, which is next year, you will return 30,000 megalitres for the environment." We said, "Yes, we'll do that." But we don't know what's leaking. We're monitoring and we've gone around to the world on Internet and set our people to try to see which is the best way to seal channels.

We think we're successful in some areas but we can't find any new methods. There's no new methods in the world that tell us what we're doing - there's no better ones. We can't find any better ones. So we've agreed to give the 30,000 but when we gave the 30,000 megalitres we thought that was it. But just start going down the list and seeing what that 30,000 will finish up. There's 260,000 plus 30,000 plus, plus, plus, and that has an effect on our business. So this really all equates to a further 21 per cent in reduction that we didn't anticipate plus the 19 per cent which comes to about 40. We could possibly have 40 per cent reduction that we didn't know we were going to have when we started our business.

I mean, basically this is environmental extremism and economic rationalism gone mad - all of this I might add, Mr Chairman, with no compensation, no mention of compensation. Why wouldn't you think of compensation to people that are going to be affected in this way - and no property rights, as Laurie mentioned, at this stage. This will continue the demise of our most important food producing industry in Australia. It's going to be there in the long term. But in what part I hesitate to think at this stage. I'm saying to you, Mr Chairman, today to make things happen. The New South Wales government have failed to confirm property rights. I therefore contend that the second transfer of competition payments should be withheld until they do, establishing perpetuity property rights in water. You mentioned that in your details of what you need to be done, and the Fitzpatrick Report again said that environment flows should be part of the normal water market and call for farmers to be compensated.

I mean, we're not the only ones saying that we should be compensated. Start listening to some of the academics and they're saying that we should be compensated and that property rights in water was needed urgently to have some security in running a business. Farming is not, you know, "Next week we'll change what we're going to grow." Farming is basically a five-year plan now, I can assure you. It's a big

business if you make one mistake you're really in trouble.

PROF SLOAN: Can I just ask you on that point though if BHP makes a mistake, and they run on five and 10-year plans, then no-one is compensating them. The shareholders just wear that. So why would you compensate in this case?

MR HETHERINGTON: You're taking water from people that have had water, that spent a fortune on infrastructure to use that water.

PROF SLOAN: But BHP spends a fortune on infrastructure.

MR ARTHUR: But BHP had a lease and the government reduced the size of the lease by 15 per cent. I mean - - -

MR COSGROVE: Do you have a lease? What is the basis of the water that you're using?

MR ARTHUR: We've got entitlements and we've had encouragement from the government for years through the ag department and, for example, they will have a field day on a farmer's property and they go to a farmer that uses a lot of water efficiently. He will be - I have never gone to a field day on a farm where there's an irrigation farmer that is a low water user. The profitable farmers are the ones that use a lot of water. Now, we've been encouraged over the years, over the last 20 years, to use more water. Then all of a sudden there's a prevailing wisdom, "Ah, we've made a mistake. We'll have it back now." I believe there's a moral obligation by the community and by the government to recognise the hardship, that maybe a decision's in error made 20 years ago but they're having an impact now, and I believe there's a moral obligation by the rest of the community to assist in the transition period.

PROF SLOAN: I mean, you're saying there was a universal contract, because there are plenty of things that governments do which wrought harm on companies, individual families, for which there is no compensation paid.

MR BRIDGE: There's a big difference in the equation. There's every reason why governments have an obligations to look at compensation to retain 10,000 farmers. There's no obligation, in my view, to a government looking at retaining one BHP operation. It's like chalk and cheese, to be honest, commissioner.

MR McGANN: Could I just say something there about that. The irrigation areas - - -

MR COSGROVE: Sorry, could you identify your name please.

MR McGANN: Jim McGann. Do you want me to continue?

MR COSGROVE: Yes, go on.

MR McGANN: The irrigation areas and district were set up by the governments in the past as family farm units and they were given an allocation of water at the time. Initially it wasn't a set figure for allocation, it was on demand and so forth. But over the years things have changed. 1982 was when allocations came into place. At that time they put allocations on all the farm users, which was your right. There's farms sold on the proviso that they've got X amount of megalitres of water. In my area recently there was one farm advertised for sale at 15 or 16 thousand megalitres of water with the land given in. That's the way it has been traded recently.

MR COSGROVE: Yes. But if I could extend the point that Judith was making, many manufacturing firms have established in this country in past years on the basis that - well, if you go back a number of decades - imports which might compete with their production would have to obtain licences from government authorities before they could enter the country. Then some decades later governments have reviewed that approach, decided they're going to dispense with import licences and to reduce tariffs on imports. The manufacturers have had to adapt to those changes in government policy.

PROF SLOAN: And they weren't compensated.

MR COSGROVE: And they weren't compensated. What is the - - -

MR McGANN: I'm a rice grower as in my farming concept and have been. We export 85 per cent of what is grown in this region and it has got to go overseas. There's no thought of compensation. We have to compete on the market and there's compensation from other countries. We've just had the tariff import put on the rice into Japan by the Japanese government and it has taken a long time for the rice growers' co-op to get into Japan and many other countries are subsidised to sell in the open market, but not the rice industry in Australia.

MR ARTHUR: The government in Geelong, I mean, they've reversed tariff decisions in Geelong, for example, on textiles and - you know, they've been doing it all the time.

PROF SLOAN: They didn't reverse it, they enforced it.

MR BRAITHWAITE: What's the basis for the licence given in the first place? How long is it given for? How much do you pay the government for that licence?

MR McGANN: For the water licence?

MR BRAITHWAITE: For the licence, yes, for the allocations.

MR McGANN: Well, if I could continue, I'm a fifth generation living in the Murrumbidgee Valley before irrigation was ever thought of and my grandparents told me how desperate it was in periods of drought when there was no dams in place whatsoever, and Burrinjuck Dam was built for security of supply for stock and

domestic and irrigation purposes in 1910. The government had the foresight to do that then and at that time people in the irrigation area, which was the Murrumbidgee and Yanco Irrigation areas, were given a water right per property. For a large-area farm it was a 150-acre fee and for a horticultural block it was 75. Now, you got that delivered. That was guaranteed that it would be there and then you'll have water on a pro-rata basis over and above that.

But over the years with development and so forth there had to be an expansion and anyhow I'll speak about ours later on. But that's how it was set up. As I said, in 1982 the government of the day decided to put a ceiling on allocations right across the board and towns were one thing, in my opinion were dealt with severely. Town supplies were on demand in this state. Whatever you used you paid for. In some cases it was just the pumping rights out of the river. In my case in Griffith you paid for the delivery of the water throughout the system at a different tier rate compared to the medium-security and high-security users. But it was there on demand. Well, now all the towns have an allocation and some of them were set too low.

So they have been told that they must go out into the open market to buy water if they've got any future development or whatever and we've got the state government running around saying, "We want regional development," and so forth, and they've got this restriction on the top there. The Griffith City Council, we've put in place if any developer comes into the area and wants to set up for whatever means it might be, whether it's industrial or whatever, he must supply the council with a pro-rata megalitre allocation of water per the development or pay the going price at the moment in the open market for permanent water, so the council can go and buy it, because we haven't got any water there to supplement development and it's a big issue, water in - - -

MR BRAITHWAITE: You haven't really got back to my question. But just following that up, councils now have to compete for a water right?

MR HETHERINGTON: Mr Chairman, my colleague is going to speak on this matter.

MR COSGROVE: Yes.

MR HETHERINGTON: If she would clarify that now. Jenny?

MS McLEOD: Jenny McLeod from Murray Irrigation Ltd. Just with regard to Murray Irrigation's licence, it's a 15-year irrigation licence which we were given when Murray Irrigation was formed. At the time of privatisation the farmers that are now our shareholders gave up a water right which was in perpetuity for the 15-year licence - and it's certainly before my time but I understand that Berriquin Irrigators Council, which is part of Murray Irrigation, have records of complaining to the New South Wales government about them continuing to issue irrigation licences in the Murray Valley because of the risk it placed on their irrigation security. So what we're seeing now was certainly an issue that irrigation farmers recognised some time ago.

MR BRAITHWAITE: Is your licence for a bulk supply of the new - - -

MS McLEOD: That's our bulk supply licence. Our farmers have share and water entitlements in the business which reflects our bulk licence distributed back to those farms and the share in water entitlements that they received were based on the water rights that they held at the time of privatisation.

MR BRAITHWAITE: Your bulk licence has been reduced by the cap?

MR ARTHUR: Yes.

MR BRAITHWAITE: So your cap is - - -

MS McLEOD: The actual volume of water on the bulk licence has not changed. It's the way the water is announced by the Department of Land and Water Conservation that has changed. So the actual volume on the licence hasn't changed. The amount of water we get each year is based on the department's water resource allocation and it varies between years, and that is the volume that has changed.

MR BRAITHWAITE: Out of your bulk supply you're being asked to supply this forest agreement. You know, water to the forest, does that come out of your bulk supply?

MS McLEOD: It comes out of our bulk supply in terms of it comes out of the dams and we have our licences supplied from the dams. But they're not going to reduce our licence by the volume to the forest, with the exception of the 30,000 megalitres which is the volume specified in our deed of separation from government. That volume of water will mean our bulk licence reduces by 30,000 megalitres.

MR BRAITHWAITE: I'm just trying to come to grips with the compensation that you're talking about, because you kept talking about further uses, you know, further environmental flows, further industries being used, and this will reduce your cap - it has reduced your cap, it will reduce your cap?

MS McLEOD: It will reduce the volume of water available to us in seasons, so say if our licence is 1000, instead of in the past we've averaged 1010, the amount of water available to that licence may only be 800.

MR ARTHUR: A good way to think of it is if you imagine a bucket. I mean, as water flows into the top South Australia's bucket must fill first. For example the town supply's bucket must fill first. Once it is full it will flow into the high-security bucket, the high-security water users' bucket. When that bucket is full what flows from there into the bottom bucket - and that's the people we are, the low-security users - we get what ends up in that bucket. So if we've got to have a bigger bucket to supply the Barrah/Millewa Forest that means the less the likelihood that it's going to end up in our bucket to be allocated. One of the points I want to make - - -

PROF SLOAN: Where does the environment come into that bucket?

MR ARTHUR: The environment - as we mentioned, 36 per cent, we extract 36 per cent of the water.

PROF SLOAN: Bear in mind I'm a South Australian and I've quite an interest in the fact that the Murray mouth closes over that one.

MR BRAITHWAITE: That's only a little bucket.

MR ARTHUR: Well, it's interesting you bring up the Murray mouth because I mean, that's an abomination, the fact that we've got barrages and it's something that South Australia really must address, and the reason the mouth - - -

PROF SLOAN: Well, then you wouldn't have the town of Goolwa if you didn't have the barrage.

MR ARTHUR: At Goolwa before 1939 they used to truck in their fresh water. There were porpoises there and with the - - -

PROF SLOAN: Yes, but there were only a couple of hundred people too.

MR ARTHUR: And with the barrages on the Murray, that has completely removed the tidal activity. So I mean, South Australia has got a lot to answer for in that respect.

PROF SLOAN: But that is an important point. I mean, going back to your point - - -

MR ARTHUR: Yes, and to answer that - - -

PROF SLOAN: - - - there must be limits - - -

MR ARTHUR: Yes, to answer that - - -

PROF SLOAN: - - - when you have a system of allowing just local groups to deal with these environmental issues. Because why have you got any interest in looking after the citizens in the south of South Australia?

MR ARTHUR: We're obliged under our licence. The first call on any water is South Australian water, and so be it, and so, as I said, we extract 30 per cent of the water from the Murray. That's extracted and that's DLWC figures, and the rest of that is already going - - -

PROF SLOAN: But is that important here? We don't understand the environmental

science - that's your point - so aren't we going to have to err on the extremely cautious side? We are only temporary custodians of this system and if there is uncertainty about the science, then environmental flows are extremely important, are they not?

MR BRIDGE: No, I again would disagree with you on that scenario. Why err and caution on the side of environmental considerations when the distinct likelihood is that you're going to put farmers out of operation? The net reality here - - -

PROF SLOAN: Well, surely, Ernie, sustainability is the more important issue.

MR BRIDGE: There is no doubting that there is a reduction. The question that the other chairman is seeking is a very valid question and I can understand you're questioning Ian and I understand your search in getting a solution to it, and rightly so. No matter how you talk it, which way you talk it - front, back, sideways or topways - there is an identified reduction in the volume that now accords itself because of the gap and so it is that area of reduction that's identified through the processes of the cap that raises the question of the compensation issue. That's the way I'd describe it to you.

MR ARTHUR: I want to make the point too that we're not talking about a change of policy here. We're talking about a withdrawal of a physical resource.

MR BRIDGE: Yes.

MR ARTHUR: Now, Australia has got a history, if the government withdraws a physical resource, if it takes a part of your land to put a power line through, there's been compensation.

MR COSGROVE: But that's on the basis of an established property right, a land title.

MR ARTHUR: Yes, and we believe what we've had, what people bought farms and traded farms on 10 years was a secure property right, and we've just found - this is why we're calling out for a decent regime now because we've found out it's not.

MR COSGROVE: Yes.

PROF SLOAN: I think it's a very grey issue though and there are plenty of examples where people lose value in their assets because of changes of government policy and there is no compensation made.

MR ARTHUR: Yes, and I think that's an inequity in society when that happens, and the point you are making, if society decides more water must run down the river - and that's a reasonable thing for society to decide - then let's have a situation whereby the people that are going to bear the impact of that, which is going to be the irrigators and the community, get some reasonable compensation to assist in that process. Let's

face

it, I mean, we've got a huge population along the sea border, we've got a limited population out here, you know, really it shouldn't be just this limited group out here in the centre of Australia that's going to bear the impact of perhaps poor sustainability policies from 40 years ago. I think that it should be spread across the entire community and I think it's only reasonable to do so.

MR BRAITHWAITE: But I think your comment at one stage is that you can talk about NCP but you're talking about productivity, and that's basically what we're all looking at, isn't it?

MR ARTHUR: Yes.

MR BRAITHWAITE: It's productivity limited by the use of water.

MR ARTHUR: I'm just not sure what you're saying.

MR BRAITHWAITE: Use of limited water, should I say.

MR ARTHUR: Yes.

MR BRAITHWAITE: Because, you know, that's the scenario, that we're looking at water, an asset, and we're looking at its re-allocation between various uses. We might be cautious in one way in connection with the environmental flows but at the end of the day it's the crops you grow, you know, the productivity of the crops with the use of the water, isn't it?

MR HETHERINGTON: Could I answer that please?

MR BRAITHWAITE: Yes.

MR HETHERINGTON: So that you are limited. I want to point out, you are limited in where you live. We live in a semi-arid zone. You can't grow everything that you'd like, you know, all these high crops, and also if the market is not there you don't grow it anyway. So you've really got to look when Victoria and New South Wales are being compared with water use, intensive dairying is a totally different aspect than some of the hard Riverina plains and the hot summers that you get 40 degrees every day for a week. A totally different situation. Could I carry on and continue, Mr Chairman?

MR COSGROVE: Yes, I'm sorry. Go ahead.

MR HETHERINGTON: I really appreciate that. I hit a chord there, didn't I? And I would like just to mention to you this point and say that South Australia is assured of their water everyday and I want to say, summarising some of the points too in that, everyone out there in irrigation land virtually felt before privatisation in our area we did have a right for water, and on that basis we invested accordingly. And I quote to you in recent times that New Zealand was coming over here before privatisation,

spent huge money - 1, 2, 3 million dollars - these big dairy farms. They're leaving now. They didn't know this was on. They had no idea. I mean, isn't that a plank for some sort of a re-look at the situation? In relation to the other points about the environment and, you know, close down everything and give it to the environment, I say if you're not sure of something, go slow. Let us have a plan whereby it's over a period of time till you develop what comes out and show what is the problem. And basically every irrigator doesn't want compensation. All they want is enough water to be able to make a living and they want to be able to look after the environment as well as anyone else.

Personally my family has been in my district for 130 years and I'm not interested in going. I want to see that thriving environment and everyone else does, I can assure you, but these stories that we're trying to ruin the environment - we're being pressed on one side to produce, produce as much as we can for both our family and our government and on the other side they've sort of said, you know, "From this day on you'll reduce by so much" and we don't know what's going to happen in the future. We want some structure that would give consideration to, yes, if it's needed, we'll put our hand up and say "Okay, it's needed" but let's space it out over a certain period and we can handle it. We can't handle it the way it's going. We're going to finish up - our business is going to go broke and all our customers.

I'll just continue, Mr Chairman, on a couple of other points I've got here, and probably this is throwing one back at the commissioners, or the council, but I say all the points I make, I make them in sincerity, that we get debate up. That's basically all I'm trying to do and if they're hard ones, well, so be it, you know. That's the way I have to use it. But I say to you in sincerity again that the NCC is actually rewarding the very people who are implementing these horrendous reforms. I mean, 640 million will be distributed to the states this year, I read recently in one of your reports, and:

It's lower than the predicted inflation and population growth have kept the dollar value of the incentives much lower than first expected.

So it's going to be 640 million and that's lower than expected, and that was quoted out of the LAWN News of June 99. Early predictions were for a 16 billion payment to the states to the year 2005 but were reduced by the GST, I read recently. All I'm saying to you is, what about using some of that payment to buy back some of this stolen water for MS shareholders? I put the hard question to you. I suggest the NCC should be also proposing in the best interests of Australia, a ministry for water. I mean, every paper you pick up, every day we've got something about water and we've got no department for it. It's unbelievable that when I want to answer a question on water, sometimes I've got to go through seven or eight departments. Everyone is having a bit of a go, and that's why we don't get an answer. I'd like to see a department and I'd like the NCC and your strength to come forward and suggest - - -

PROF SLOAN: Is that a Commonwealth department?

MR HETHERINGTON: It's a Commonwealth department.

PROF SLOAN: Because you don't seem very happy with the state departments.

MR HETHERINGTON: Well, you can make that judgment but the Commonwealth department - - -

PROF SLOAN: Why would you get a better outcome from a Commonwealth department?

MR HETHERINGTON: Well, the Commonwealth are looking after the whole of Australia, aren't they? We're not just looking after New South Wales.

PROF SLOAN: Some people would say that.

MR HETHERINGTON: So I would suggest that we need - I mean Ernie is up in the Kimberleys and we're in New South Wales and you're in South Australia. Why shouldn't we have a ministry for water? Anyway I put that to you.

MR BRIDGE: If I could just interrupt there and support Bill. That was actually a general consensus, Mr Chairman, amongst New South Wales country residents that a ministry for water be established. That was put to the parties in advance of the last federal election and it was then determined that the federal ministry was the preferable approach rather than the state and that is substantiated by a general consensus of country residents, the proposition Bill is just putting to you.

MR BRAITHWAITE: It's interesting you're mentioning all these things because I've got a feeling that what you're complaining about is your state government, not NCC or the Commonwealth or anything like that - - -

MR BRIDGE: Well, not really.

MR BRAITHWAITE: - - - and so, you know, really - - -

MR BRIDGE: Not me. I'm complaining about NCP but the comments here refer to some localised state issues we're dealing with now, aren't we?

MR BRAITHWAITE: Yes, because I understand there have been reports issued by certain people to the department to look at these things. What you're telling us now, there's been little progress, little application of the report. What are they doing about trying to set out secure water property rights? What are they trying to do?

MR: Exactly, yes.

MR: I want you to question that.

MR BRAITHWAITE: I'm sorry, I'm asking the question.

MR ARTHUR: We asked the question - - -

MR: We've asked the question and we got no answer.

MR ARTHUR: We've said to politicians directly, we've said to the minister, "In the term of this parliament" - they've got four years - "could we have a security property right," and we get no commitment whatsoever. That was put by all irrigator groups for a commitment to a secure property right. I mean, from - - -

PROF SLOAN: That's not true in Victoria though.

MR ARTHUR: Sorry?

PROF SLOAN: That's not true in Victoria. There are secure property rights.

MR ARTHUR: I can't vouch for Victoria but we - - -

PROF SLOAN: The point is, there's a model.

MR ARTHUR: Yes, and we're required under COAG and all the rest to proceed down these things and on the federal level - I mean, the MDBC, we just can't get them to adjust their procedures to give us a decent allocation procedure. We can't get these bodies to shift but we're being asked to shift. And we'd like to see some shift on their behalf at the same time.

MR BRIDGE: You're correct in identifying the issues that are causing the uncertainty that's being put forward today essentially surrounding a state jurisdiction and it is in that context that they're being put to you today because we see the relationship between what the activities of the state has been and that the NCP would like to see in fact operational. We see the connection there. So through you, we'd like you to take it back to the Commonwealth and to say through you that the state of New South Wales is doing things that are causing immense confusion and uncertainty, and certainly not putting positivity into the exercise.

MR BRAITHWAITE: Ernie, could I put to you a constitutional reality? To what extent would your West Australian government of any persuasion or any state government of any persuasion transfer rights to water to the Commonwealth? I mean, just trying to be practical about this; you've got a COAG, which is a meeting of ministers, the state ministers with the Commonwealth. They've set out this water reform program before NCP came into place. I just want to know what your chances of success of getting a Commonwealth ministry effective to take over the sovereign rights of the states.

MR BRIDGE: Well, all right, let me tell you my gut feelings as a previous minister. I would be comfortable in that scenario. I found as a minister in the seven

years of my

term as Minister for Agriculture, Minister for Water Resources, Minister for the North-West, Minister for Aboriginal Affairs, Minister for Small Business, that when we dealt with the Commonwealth in areas of public jurisdiction, that there was a comfort zone. That was evident in it. So I don't know. I think there's a bit of a furphy here that we say, "Well, look, you know, constitutionally we're not going to do this and we're not going to do that." The bottom line of what we are looking at, the stark reality what we'd like to convince you of today, is that we've got a big part of the hinterland of Australia that is under siege and because it's under siege, it is important that we take this message to the highest level of government jurisdiction, and that is your Commonwealth government.

So I think that we mustn't be caught up in this thing, this state versus Commonwealth argument and priorities. I think it's a lot deeper than that. We've got a nationhood here at stake. Make no mistake, inland Australia is under siege and as far as we are concerned, and we hope you as three ministers are concerned, you'll identify it in that context in that we don't get hooked up and hung up on what the states might say. Make the states conform if necessary. I mean, if New South Wales is playing the game like it is today, and we feel it's very inappropriate, then there should be some accountability brought into the exercise. We could not see why a minister at the federal level completely assigned with the jurisdiction of water-related responsibilities in Australia ought not have that obligation.

PROF SLOAN: But isn't that totally inconsistent then with what you said before, that the NCC should be abolished and that NCP is undermining the sovereignty of state governments?

MR BRIDGE: No, there's a big difference. No, look at me when you say that. Look at me when you say that because - - -

PROF SLOAN: And Bill's telling me the NCC should - - -

MR BRIDGE: No, a big difference.

PROF SLOAN: - - - hit the state governments over the head for not assigning property rights and dock their compensation payments. I mean, they strike me as being completely inconsistent points of view.

MR BRIDGE: No, well, let me try and clear your mind there because there's no inconsistency.

PROF SLOAN: It's a challenge.

MR BRIDGE: I know. I can see that and that's why I'm taking up the challenge. I've picked that up already in our debate. A minister with jurisdictions at a federal level is a very different situation to the National Competition Council at work - very different - enormous difference. They are out there undertaking a set of tasks so determined by COAG, which doesn't necessarily report back to government nor to

parliament.

MR COSGROVE: No, it does.

PROF SLOAN: It does.

MR BRIDGE: No. Let me again tell you - - -

PROF SLOAN: It absolutely, absolutely does.

MR COSGROVE: It gives an annual report to parliament.

MR BRIDGE: An annual report. I went to many of these. I'm talking from experience here as a minister of seven years, so I happen to know the road that I've trod. You were supposed to go away as ministers and to attend these ministerial council meetings periodically, right? But there was no compulsion on you to ever report back as to the findings and deliberations. So there's an enormous autonomy, commissioner, that exists out there. Now, I tell you that's quite different to having a minister so assigned specifically to be minister for water-related issues in the nation. I think it's a challenge, commissioner, that you should see with considerable excitement.

MR COSGROVE: That may be, but one of the intents at least of the MCP process is accountability. In other words, the National Competition Council has the responsibility to check on how state and Commonwealth governments are implementing national competition policy. So there's the direct process of accountability involved in there. Now, the NCC of course is only an advisory body, as we are. But it does convey to its owner, the federal government, its best assessment of how state jurisdictions, in the case of water, are implementing the agreed policy program. So isn't that something of value in terms of what you people have been putting forward?

MR BRIDGE: I suppose, Mr Chairman, the only thing that I can say to you, and I say it sincerely, I disagree with that scenario. I question mark the reporting and the accountability factor. I find that difficult when I have - getting back to Prof Samuels and his conduct as the chairman of the NCC, I find a grey area there, I've got to tell you. As a politician myself it has occasioned me such concern that I have moved a motion in the West Australian parliament, yet to be debated, that really calls upon the West Australian parliament's removal out of the COAG agreement and its distancing itself from NCP. So I suppose you and I can simply say to each other we've got to agree to disagree, because I find living with - - -

MR BRAITHWAITE: Jim, I'm sorry I raised the subject because it's a very interesting one, we could go on all day. But I just want to go back to Bill, if he could just give me an idea. We talked about the state not having a real good hand on the water property rights. You haven't said what you specifically think it should be, but you've said you want the government to act within the next four-year term. That's

right, isn't it? Have you laid a plan before the state minister as to what you want in state property rights?

MR McGANN: The state government have had a heap of documents out about water reform which involves property rights and a lot of organisations responded to it. There is another paper out on the rounds at the moment, so I believe, that is from - what's the names of these people? Anyhow it deals with property rights and it has been commissioned by the state government and there's a lot of people with concern definitely in my area about the fact that the removal of the water from the property and the rights associated with both should remain as one entity, because that's the way it has been and it's the way it's traded when properties are sold.

MR HETHERINGTON: There's another meeting taking place today, Irrigators Council of New South Wales. It's on the agenda as well and all I want is for, you know, the government to put a line in the sand so we can start getting to the right conclusion. That doesn't seem to want to start to happen, you know, and we've been talking about it now for quite some time. It just is not getting any closer. So we're concerned about it. With all these other issues coming on top of us, you can understand our worry in relation to uncertainty, creating uncertainty so much in our businesses basically.

PROF SLOAN: That's a different issue to the one about compensation, or are you bundling those two issues together?

MR HETHERINGTON: They're two issues that are very - - -

PROF SLOAN: You do want property rights assigned to the water?

MR HETHERINGTON: Yes, that's number 1. That's the number 1 priority.

MR ARTHUR: The point we're putting there, the longer the process is delayed the more what we consider that was our property right is being whittled away. Each time there's a decision on translucency for example that means they let the water go before it will end up in our bucket. The longer that's taking, the longer before that line's drawn in the sand, then the less we're being allocated under the old procedures. So we're asking them to draw a line in the sand and say, "That was your property right," and I'm being cynical here but my feeling is, the longer the government delays drawing the line in the sand - we've asked them to do it now or preferably it would have been better done four years ago - the less ends up being allocated to us. So we've been quite clear that we need the trigger set there for what our allocation is, but it has been delayed, delayed, delayed.

MR BRAITHWAITE: You haven't said anything about - this is all about rights and not about pricing. Have you got anything to say about pricing?

MR HETHERINGTON: Yes, my colleague Jenny will be talking about that. I've just got a couple more points to conclude, Mr Chairman, if I may. I just want to

remind you, commissioners, again that we're not opposed to a cap. We're not opposed to a cap. We're opposed to just this huge reduction overnight of our developers' levels. But I put it to you again that when any business sets up and you sign a contract - we signed a contract with government in 1995 that said our allocation was 105 per cent. Then to be told 12 months later, "Hey, it's 92. Now it's 87. Hey, but you've got environment flows, you've got this, this, this," what is it going to finish up if we haven't got some sort of property right? Where's our equity? It's just fading away almost daily, weekly.

On top of that I want to say to you this: that - please, I want to get this very clear - our people out there are doing their utmost, as much as possible, spending their money to make the environment better. I mean, 10 years ago there wasn't too much talk about the environment. The great issue has developed since and we've become more aware of it, just like everyone else. But what are we doing? Our shareholders committed 380 million over 30 years to do a certain number of works on farms, improve operations, improve their recycling irrigating, the whole lot. Governments have joined us with that, the Commonwealth and New South Wales, to the extent of 120 million. Those funds are in jeopardy even now.

Negotiations even till dark last night on 30 June where one government wouldn't allow it because we've been held up in expenditure on one part of our plans. They've raced into four sections of our plan, and red tape and bureaucracy said because we've had objections to one section of a plan and we're held up and we couldn't spend a certain amount of money on one plan, we weren't allowed to transfer it to another that's overspent because people are taking up initiatives by doing things that you want them to do. Now, Jenny tells me that we think it got through at the last hour last night. If it hadn't have got through last night we would have had to close one plant down for 12 months. That's the sort of pressure we're under.

So we've allocated 380 million out of our own pockets and I can say I've spent heaps over the last 10 years prior to these plans myself, on my own farm. But we also came to an agreement with government when we were privatised for a dowry grant to upgrade the infrastructure. It had been neglected for 40 years and I mentioned that, and that's going to be funded for over 15 years and we're four years into that. We're ahead of schedule. But on top of that - and I know, commissioners and Mr Chairman, you'd be most interested to hear one of our really, really tough problems at the moment is the tax position. I just want to point out to you we're now challenged with the Australian Tax Office.

In good faith we took up the privatisation to look after our own destiny and here we are today, we're going to be taxed on our dowry. Money that has been handed from federal government to state government and now federal government wants 40 per cent of it back in tax. We're battling that one. I mean, it's ongoing. But that's a horrendous task.

PROF SLOAN: Why is that?

MR COSGROVE: Yes, what's involved?

MR HETHERINGTON: Well, they say it's income and "your business receives income" and saying that we're not a state agency. As a matter of fact, as part of the agreement we were handed that money by the state to say, "Hey, we haven't fixed these things. You fix them and here's the money per year." Okay, we're fixing them and now we find the Tax Office is saying that, "The rules are that that's income and income you'll be taxed. You're a company, you'll pay company tax."

MR BRAITHWAITE: That's the grant you get, money that - - -

MR HETHERINGTON: Beg your pardon?

MR BRAITHWAITE: The grant.

MR HETHERINGTON: How much on the grant?

MR BRAITHWAITE: No, you're being taxed on the grant. That's what you're saying.

MR HETHERINGTON: Yes.

PROF SLOAN: But you're not getting an ongoing grant, are you?

MR HETHERINGTON: We're getting this for 15 years, to cover these - infrastructure, I mean, there's bridges there that were in disrepair and there was regulators and I mean, since we've taken the operation over we've contracted to an American company for automation of our main canal and now we've got computerised automation. Prior to that you had big drop boards that people had to go out there every time you wanted to change the system and we're trying to do our utmost with water savings to upgrade our system. With a press button now we can regulate the height of our channels and the saving has been enormous, and were actually using that money to do that and taking responsibility from government to run these businesses that government felt they shouldn't be running and now we find we're going to be taxed.

I mean, no-one seems to be able to do much about it at the moment. I've been speaking to Rod Kemp and Peter Costello and all these people, and MI are placed in the same position. So what I'm saying to you is, you know, we're in somewhat jeopardy, the whole privatisation concept, if this continues.

MR COSGROVE: Do you have significant tax offsets against your liability?

MR HETHERINGTON: Just on that, Mr Chairman, that's the next point. Retrospective tax also, a law amendment bill was passed recently that decreased our asset values and depreciation claimed and it was retrospective. So we've got to - we have 25,000 assets. We've got to review the lot now.

MR BRAITHWAITE: 25 million?

MR HETHERINGTON: Beg your pardon?

MR BRAITHWAITE: You said 25,000.

MR HETHERINGTON: Assets, individual assets, structures and bridges and - - -

MR BRAITHWAITE: What's the value of it?

MR HETHERINGTON: Sorry?

MR BRAITHWAITE: What type of value are we looking at, millions?

MR HETHERINGTON: Probably about 250 million. The tax amendment bill, TLAB, it went to number 4 of the 99, I think it finished up. But we were told that it wasn't the intent for us people to get caught in that but we did. But I can't do much about it. So that means \$2 a megalitre on our water bill next year, just horrendous.

MR BRAITHWAITE: And that's retrospective?

MR HETHERINGTON: Retrospective.

PROF SLOAN: In what sense?

MR HETHERINGTON: So we've got to go do all our tax accounts till when we privatised and we're going to get a tax bill, if this goes through, for \$12 million. I'll just continue - there might be some good news here somewhere.

PROF SLOAN: But I mean, when the farmers buy machinery their supplies are taxed.

MR HETHERINGTON: When farmers buy machinery?

PROF SLOAN: Yes. I mean, if water is an input machinery is an input too.

MS McLEOD: We're not arguing about whether the company should or shouldn't pay tax.

MR HETHERINGTON: No, not at all. No, we're prepared to pay tax, sure, we're private. But just on the way that this has been set up - - -

PROF SLOAN: It's the implementation issue again.

MR HETHERINGTON: But we believe the first part we were a government

agency and government are all saying that, "Oh, well, that's what we meant it was. That's what we thought it was." We got support from New South Wales treasury on this basically and everyone else in the department that signed that agreement. So we're looking at things like rewriting that agreement and sending it to the Tax Office and see if we can backdate it.

MR BRAITHWAITE: Is this a result of a court decision or is it a result of just a change of legislation or the Australia Tax Office direction? What is it?

MR HETHERINGTON: No, the dowry one is based on existing law of income.

MR BRAITHWAITE: So that means the Tax Office has taken another view. Has taken a view - - -

MR HETHERINGTON: I could have a real long debate on this but we were advised and had two opinions - before we privatised of course - that we were okay but now all those people have gone and someone else is giving their opinion and they say it's not okay. It's a draft ruling we had and I was in Canberra last week and the deputy commissioner virtually was saying it was a draft ruling but it's how people are interpreting the law. I respect that those people working for the Tax Office have got to interpret the law but they're keen for us to go to court and we're not keen to go to court. We just came out of one court last year with the Yorta Yorta case. So I'll just continue.

MR COSGROVE: Yes.

MR HETHERINGTON: You'll be able to read this, commissioner, anyway, but just another tax one. We've been told now that we're going to be charged land tax on where our channels take water on our land. That's something we didn't anticipate and you're looking at something like 50 or 60 thousand dollars there tax in addition. So MIL and MIA boards have been to the tax people about that but I just want you to be aware of how the system is breaking down. It needs some sort of restructuring.

I've actually suggested through Tim Fischer, our member - and big headline this morning, poor Tim, in a way. He might have a nice time there hopefully but he's made that decision. But close negotiations with him about this and it was basically part of his idea that we set up a infrastructure fund whereby that - we've got a sinking fund of our own where these moneys can be put to the side and then utilised in that way and the tax people are looking at putting an amendment in the tax bill to probably do this. We've set up a working group now with the Tax Office to look at this. So we haven't been sitting down but most of the time we've been out trying to cover these bush fires.

Jenny, you've got one slide there in relation to the outcomes arising from advancements in privatisation. I've personally covered them but the uncertainty there, I'm sure I covered that in relation - I gave that example about the New Zealand farmers. The reduced farm income, we have a chart here that just - La Trobe

University did this one about 18 months ago and that a totally external group. We use outside consultants, I can assure you, Commissioner Judith, too on issues that we're not making decisions on our own about the environment. But here we go, it just shows a 10 per cent reduction. That's what our people say how it will affect them. I'm up to 40 per cent now so just add to that.

So you're looking at rice production, reduce that by 54 per cent, another 30 per cent reduction in supplies and summer pastures and winter pastures and winter crops. What we're seeing now is that people are that hard-pressed in some areas that whatever the dollar is in they will certainly drop all the other activities, and we're finding that our business has been based too much on one group and it's basically up to about 55, 60 per cent of our water goes to rice. That's a business risk we take. If that market drops all of a sudden we're in a bit of trouble. So we're losing our expertise too in those other farming operations, just as a matter of interest.

Commercial services - the other people will cover that but just an example - six tractor dealers in Deni, now there's two. Reduced ability of irrigators to fund environmental programs - I'm sure I pointed that out to you. If you've got some income you're going to put it back into farms and the figures show us that people are keen to do these land water managements. They're putting money back into their farms as they get it. Just a final one, the Yorta Yorta native title case, just an example of the additional burdens we've had to cover since we were privatised and that cost us \$800,000, that case, to sort of stand up and say it's our water you're taking. Now there's an appeal on at the High Court. What's going to come out of that I don't know but that just gives you an idea of how difficult it's been to try and make a success of privatisation. I believe that we're still successful in that aim but I hope you have a better appreciation of the problems we've been facing.

Just concluding on some issues, really economic rationalism to us is destabilising our communities and I put this to you: our sparsely populated nation requires government investment in existing infrastructure. I'll give you one example. I was seven years on the hospital board now in town and I've been on most other committees and organisations but there's one place not too far from us that had a district nurse looking after a health centre. Because the throughput wasn't sufficient she was told that that job no longer existed and that would be looked after from the Deniliquin hospital some 60 mile away one or two days a week. Okay, the reduction in service to those young mothers with babies and other elderly people particularly was horrendous. So that sister, with her family, left the area. She had four children and when she took the four children from the school that reduced the numbers in the school that then reduced another teacher. I just give you an example of the flow-on effect of how communities are affected in so-called economic rationalism. That happened up Laurie's way.

MR: It happens every week, Australia-wide.

MR HETHERINGTON: I just point out that the regional services minister, John Anderson, stated recently that the bush is dying and the human rights

commissioner said the bush is losing key services. I've got those quotes in Health, Education, Industry, Social and Cultural Rights. Politicians are particularly saying that rural industries have to increase food production. I get that off Tim all the time. On the other hand we're really not getting that much help I can assure you but just getting bombarded with environmental issues continually, not having a look at the real picture and our area.

I was sort of annoyed recently when I saw even Ken Matthews from Minister Vailes' office saying - a big headline in the Weekly Times, "The bush is the leader in growth." In other words, everything is rosy. I really question the accuracy. He hasn't been down there. The way that was presented - also has this fellow take a politician's role, as Ernie said. I mean, politics are the things for the politicians I believe. Just concluding, I'd just like to say that I'd put it to the Productivity Commission to note the willingness of NCC to branch out into - the way I see it anyway, and it's for debate, but truly I put it to you that way - into crude environmentalism and support this area really is a detriment, the way we see it, to irrigation production. We seem to be the big bad guys.

NCC fails to support existing irrigators' rights to water and prioritise the implementation of those rights, which we spoke about and Ian brought forward. The Productivity Commission recognises that prices for electricity and gas can be expected to fall but in the report they say for water it should be put up, increase the price for water. Then I pointed out to you that the taxation provisions should not be biased against privatised initiatives. So I'm just summarising by saying less water, less exports, less people, less services, it really all equates to shrinking rural communities and my family has been part of that for the last 130 years. I say to you that rural Australia is haemorrhaging, in MIA's area particularly, as a result of a lot of these reforms that need to be relooked at.

The opportunity is immense, fantastic, the food that we can produce, the quality we can produce. We've got the best, healthiest, cleanest food in the world and we've got people that want to do it. We want some encouragement that they do it right. We're out there as their overseer in the environmental area to make sure they do it right. We've got the EPA on our shoulder to make sure we do it right. We don't want any degradation of our land, we want good viable land but we need help. We need support from the bureaucratic system and our politicians. Just finally, I picked this up this morning and said, "No, the last icon is gone." Here we go. The last of the country pubs are gone. The licences are all being sold to Sydney. I'll leave it on that note.

MR COSGROVE: Okay. Ernie, I'd just like to take stock at this point. I realise we have two other speakers on the water, as well as your local government group. The simple question is, would people like to take a break now for a cup of coffee? We've been at it for nearly two hours, and then we can come back, say, in five or 10 minutes.

MR BRIDGE: Yes, great thought, Mr Commissioner.

MR BRAITHWAITE: Don't worry about the witnesses, think about the commissioners.

MR BRIDGE: Mr Chairman, Jenny McLeod is our next contributor. Jenny is attached to the Murray Irrigation Ltd and proposes to speak in respect of that organisation.

MS McLEOD: Thanks, Ernie. Jenny McLeod from Murray Irrigation Ltd. My discussion is primarily focused on the water pricing issues associated with the national competition policy for rural water and in the presentation I'll only make sort of passing reference to institutional reform which is actually part of the water-pricing issues. In your draft report you asked for comments on the summary of progress, and I think, rather than take up time today, Murray Irrigation in their response to the draft report will have some comments on that on the table.

MR COSGROVE: That would be helpful, thanks, Jenny.

MS McLEOD: My comments are largely directed towards water pricing for existing water assets. Murray Irrigation's water is supplied out of storages operated by the Murray-Darling Basin Commission and our concerns relate to the COAG full cost recovery for existing water assets, and I think there's different issues in relation to water pricing for new water assets versus existing assets. I want to talk briefly about what the concept of full cost recovery means and some issues like return on capital, depreciation and sinking funds. In sinking funds I've classified what are annuities and what you do with your annuities.

The first point I want to make is that full cost recovery is not a really simple issue and in some ways it's an ambiguous concept when you're talking about existing water assets. In the case of irrigation infrastructure we're talking about existing, very long-lived assets and I think the whole debate about what full cost recovery really means has become quite confused with COAG and SCARM, and I'd like the productivity commission to really look more critically at this issue. Murray Irrigation believes that full cost recovery for water should be based on economically defensible pricing principles. In our original submission to the productivity commission we encouraged you to look at the IPART process and their report, and once again I encourage you to do that.

The point has already been made today that - and I do sort of question this - but the feeling that we get as an irrigation supply company and obviously our shareholders, is that just by increasing the water price it will result in more efficient use. But water is only one input to irrigation farms and product prices are only one determinant of the profitability of irrigation farms, and you really need to look at the operation of the farm as a farm business to start to understand what the derived demand for water is and what the products are going to be. The other issue I'd like to

mention, and it relates to user pays versus beneficiary pays, and there seems to be an overwhelming push that a user should pay but I think when you look at much of the irrigation infrastructure, and particularly the infrastructure in the Murray, there are large numbers of beneficiaries of this infrastructure.

If you look at the tourism industry associated along the Murray River, it just would not exist without a highly-regulated Murray River. We've recently just finished an 18-month review of the operation of the Hume and Dartmouth Dams and one of the driving forces for the review of the operation rules for those dams was flood protection. So we are quite comfortable with the position of the independent pricing tribunal in New South Wales that has said that there are other beneficiaries of the infrastructure that provides regulated water supply, and so the New South Wales government has a responsibility to make some contribution to the maintenance and operation costs of that infrastructure because of this benefit.

I'd just like to once again mention IPART. The New South Wales IPART process, I believe, has made a significant contribution to unravelling what is a lot of confusion over full cost recovery and COAG having expert groups on asset evaluation and I'd like to refer you to their reports. To me the issue in terms of full cost recovery for assets is, we must look at the capital costs of maintaining long-lived infrastructure. Murray Irrigation argues, and were supported by IPART, that the capital cost has already been sunk in that infrastructure. What irrigation schemes cost to create is of historical interest. By and large they have no alternative use and in this case IPART recommended that the proper maintenance of some infrastructure assets will extend their useful life indefinitely and no depreciation charge should be levied against them. They also went on to say that where existing assets have no opportunity cost, no rate of return is warranted in water charges, and Murray Irrigation supports this view and encourages the productivity commission to look closely at what the full cost recovery agenda means, and what discretion COAG actually places on the state is to say, "Well, you've said you can charge a rate of return, so if they want to, they can." If the infrastructure is sunk, there really isn't a rational justification for charging a rate of return except to collect revenue. I mean, it's not related to economic pricing principles.

PROF SLOAN: Does that mean the minute you've spent the money it's sunk?

MS McLEOD: Well, if you look at the Hume Dam and you say it costs - I don't know, how many million - 200 million, it's sunk.

PROF SLOAN: Yes, of money that could be spent elsewhere.

MS McLEOD: But it has been spent. It has.

PROF SLOAN: I wouldn't want to run a business if I were thinking that way.

MS McLEOD: But when you make the decision to invest - - -

PROF SLOAN: But money will have been borrowed and so there are ongoing costs.

MS McLEOD: If the money has been borrowed there's an issuing of servicing that debt.

PROF SLOAN: Yes.

MS McLEOD: But if the money has been invested and spent and not borrowed, then it's sunk.

MR COSGROVE: It could have been used for other purposes. So - - -

PROF SLOAN: I don't understand that these things can have no opportunity cost. They must have an opportunity cost.

MS McLEOD: Well, how are you going to get the capital out?

PROF SLOAN: No, but everything has an opportunity cost. It could have been spent elsewhere.

MS McLEOD: At the time it could have been spent elsewhere but it can't be now.

MR ARTHUR: How far can you go back? I mean, to the 20s? I mean, at some stage a cost is - - -

PROF SLOAN: Then, I mean, there are - I know this area quite well - I mean, I think it's quite confusing. I mean, you might ask yourself the question, "Would you replace this?" If you don't want to replace it you might just run it at variable costs and be done with it.

MS McLEOD: But that's a different issue to what the actual sunk cost is.

PROF SLOAN: But it still has an opportunity cost. No, I don't accept any of that. Keep on going.

MS McLEOD: What I want to say is, we have to look forward. What is it going to cost to maintain this asset and should it be maintained? I mean, this is a really valid issue in terms of the future cost of these assets, and long-lived infrastructure must be maintained to extend its useful life. We have to ask questions like, "Will the asset be replaced? When will it be replaced? How much will it cost? What technology will apply?" Some of those questions are actually quite hard to answer. So what we would advocate was that you actually used a mixture of debt financing and an annuity for planned expenditure. So you'd take the lumpiness out of it but you maintain your infrastructure. I mean, Hume Dam is a good example if we look from now on after they've had the experience of having it failed and not having put aside any reserves.

We really need to look at adequate maintenance and striking a balance between collecting funds for known or predicted future expenditure and the possibility of debt financing which the beneficiaries would then pay for.

The other issue or point I'd like to make is that the funds you collect and the cost of your work should be based on independent engineering assessment of cost and repair and maintenance and not be based on accounting standards; that you really need to look at from an engineering perspective what needs to be done, what's it likely to cost? The other point I wish to make - and it's been very much the approach that Murray Irrigation has adopted - where we've looked for cost recovery of our costs and at the same time, in terms of tackling environmental problems, we haven't tackled it through the water price. We've actually used direct methods of trying to address the environmental issues that our business faces, and I think by trying to separate the two, we actually have better environmental outcomes and we aren't having major impacts on farm incomes.

I suppose, in simple terms, there's sort of a common ethos that's been discussed before that the water price will rise under full cost recovery and Murray Irrigation contends that there's no reason to assume that the government-run bulk water irrigation businesses are particularly efficient organisations, and there are opportunities for those monopolies to become more efficient, and if we have environmental issues as a result of irrigated agriculture, we're better to tackle those directly rather than indirectly through the water price, and that's it.

MR COSGROVE: Thank you, Jenny.

MR BRIDGE: Thanks, Jenny. Mr Chairman, our last contributor to this segment is Jim McGann. Jim's the chairman of the Murrumbidgee Water Users Association. Thank you, Jim.

MR McGANN: Thank you. Thank you for the opportunity. I apologise for interrupting before but water is of grave concern to my group. I'm the president of the Murrumbidgee Valley Water Users Association. It came into existence in 1939 in the height of a drought and the people associated with it are orientated around local government from Gundagai to Balranald on the river, and also in that system there is the Ord River people who receive their water from what was the Southern Riverina County Council and the Northern Riverina County Council before who supplied town water to a lot of towns like Temora and those places, Urana in the south of the river and so forth, that's pumped out at Gudiong and near Wagga and different places. It even gets out to Barellan, and there is stock and domestic supplies in those regions for them, so it's fairly large. People say it's insignificant but it's not in my term of thought on it.

For the last 13 years I've represented the Murrumbidgee Valley Water Users Association on the River Management Board that was set up 14 years ago by the state government then to manage the river in conjunction with the department. We've heard many things here this morning about water. Back in 92-93 the department

came to the river board and suggested on their reckoning that there was 300,000 megalitres of unused water in the system and they intended to hold a sale and we asked them at the board level to prove to us that that water was there before they went ahead with this sale. They proposed to hold the sale at Darlington Point and it went very close to happening, and when they reviewed their figures they come back and they said, "No, there's not 300,000, there's 64,000 megalitres." So someone's sort of buggered-up with their figures along the line somewhere.

The board then passed a resolution that that 64,000 megalitres of water remain in the system for environmental purposes. Later on the board also added water in the river system to the environment and over a period of years from that day on, very little of that water was activated for that purpose until we have reached the stage where we are now. Last year, by the media outlets, it's common knowledge what went down the Murrumbidgee River last season in its operations and South Australia never benefited one iota out of it because there was only 3000 megalitres of it passed Balranald. It got siphoned off along through the system because there's no records there or infrastructure or work force there to check what happens with the water. It's regulated the full length of the river.

The organisation that I'm part of also has been pushing for many years for en-route storages. The department had access to Tom Bullen storage, which is at Gogeldrie Weir where the off-take is into Coleambally irrigation and that was there to take water out of the system in rain rejection periods and so forth but they weren't rolling it over and it became a bit of a cesspool. But over the last two or three years it has been operated in the right fashion and it's turned over at least 12 times a year and supplements the operations down the river. The amount of water in the river, I guess you've had documentation on what is used by water users further down the river and in our system. There's another thing that was suggested at our river board meeting, one of the last ones I attended - because the government were at the point of switching our lights out - they're now bringing in a new committee, a customer-service committee, that will replace the river board.

As far as I'm concerned, there's too many committees associated with the system of water in Australia. You don't see it with anything else. I happen to represent local government on the Total Catchment Management Committee in the Murrumbidgee Valley, and as I said before, I was on the river board committee and there is a few people have suggested that I should nominate for this other committee but that all depends what happens at the next council elections which are approaching in the near future. The people of Griffith might want to cut my head off so - - -

PROF SLOAN: Always a risk.

MR McGANN: So we have put a small presentation to you and I'll hand it in. Our concern is in all this business about the environment and so forth they forgot the people that live in rural Australia or New South Wales. The members of my organisation, as I said, which has been in existence for 60 years, are there to see that the river is managed in the right and proper manner where there is a watching body

over the other people. As I said it's orientated around local government and the members. I suggest we've come to a conclusion there would be 150,000 people that are members of the councils that I represent and we're there to see that their well-being is maintained, and that includes the farmers.

Earlier it was said about high-security water which is horticultural water and town supplies, which people do trade in. Like, to give you an example, the Griffith City Council's allocation is 14,439 megalitres. It is for its present use and future development. It was one of the ones that I spoke earlier, possibly fed better than some other towns in allocations of water because it used to be on demand, not on a fixed figure, and that's where it is. But the horticulturalists trade in their water. Through better farm management with trickle irrigation and so forth - there are some horticulturalists that do still use their full allocations because of their soil types and sandy red loams and so forth, where they've got overhead sprinklers, and they do use the water because they use water on a continuous basis in that system.

They also have an added advantage, high-security waters, that if we have a very dry and cold winter they receive winter supplies and so do the towns if need be, especially Griffith and Leeton, because our reliance for town supplies is on the irrigation system. It doesn't come out of a river or a bore. There are a few other towns in a similar situation, I think Berrigan and a few like that down south. There's very few of them - Rankin Springs, water comes out of the irrigation system. This is forgotten by people who think of water reforms and what it's going to do to the system. We've been informed by Murrumbidgee Irrigation that in the future that the business of keeping the supply canal at a high level in the winter months associated with the town, supply might have to change. That could cause the construction of a major storage dam, another one.

We have one group of the 300-megalitre that is topped up on a regular basis by the Murrumbidgee Irrigation at the moment and paid at a different rate in between the high-security and the low-security users. Any of this thought about removing water, there's an anomaly there. No high-security water is touched. It's becoming a hot issue with the water users in the area because the water that then is removed when allocations are reduced comes from the medium-security people, which is the large-area farmers, and they're the ones feeling the brunt of these water reductions across the board, as was spoke about down in the Murray Valley. It is of great concern.

People had allocations, as I've said, in 1982, and they've been slowly eroded. We've been educated to believe not to expect to receive any more than 85 per cent of our original 100 per cent, which is of concern to a lot of people. You talk about compensation. There is a lot of farmers have spent a lot of money buying heavy machinery and so forth and they have big commitments, and as was stated by the other speakers there's money that is siphoned off for other expenses through the system, not only water. But the independent tribunal, to my understanding, has set the prices for the year we've just completed and for next year. There's a suggested increase there for next year. It's suggested at that stage it will be very close to full

cost recovery, in their opinion. That's the way - and I've asked the question of their report, "Why was the water for Sydney set at the same figure it was?"

It states in their report they believe full cost recovery is obtained there. You don't hear of any environmental releases down the Nepean River, which has been stated by Bob Smith, the director-general of the Department of DWLC. "It's a cesspool," he said that. I was present at a meeting where they presented the Board of Reforms and so forth to us in 97, in October 97 at Leeton, where Bob Smith said he didn't understand the cap. Now, if you've got a director-general that comes out publicly and states something like that in front of 80 or 90 people who happen to be present, and I questioned - he monitored a later meeting and he denied saying it. Well, I stand on my record because I was there when he said it and other people were present too.

But water is a concern and in the whole argument they forgot the people, the people that are in the valley. As I've said before, you can't go back to what it was before European man came to Australia. You've got to live with what's here and we're here for the betterment of the people and the betterment of the country. You only have to take the time - and I'd like to ask a question: do you intend to go to Deniliquin and Griffith and the areas down these rivers to see what is there physically? Because I think it is an advantage if you do that, before any decision or report is made to the government on these issues about future reform or, as Ernie said, the possible removal of some of the reforms that are in place, because they are not working, in my opinion, in some cases with the water users - as I've stated, about the difference of high-security and low-security.

There's becoming a feeling between the groups. High-security water is not of any great major volume but they're the people, as was stated like Laurie, who are selling the water. There's an odd medium-security user who possibly for whether his health or whatever reason sells his water in one given year on a yearly sale of water, not a permanent sale, and that takes place. Really I must emphasise the fact that you must consider the people that live in the valley or live in all the valleys of New South Wales and Australia, and the well-being of these people, because it has been eroded really and there's no way, in my opinion, that the people can accept any increased charges. It was suggested earlier about there should be compensation. I have a view that there possibly should be some because they've taken it off.

I'd like to ask the question, if you people had your salary reduced by 25 per cent how would you feel? Because that is what is happening to a lot of water users. By the reduction of water, their capacity to fulfil their obligations and commitments they've had in their farming operations is being eroded. In my area it's traditional that some of the large-area farms, their highest allocation of water was 1640 megalitres and most of them had access to off-allocation flows, which has now been removed. It's not allowed any more and in an irrigation system it's nearly impossible to benefit from irrigation off allocation flows, because off-allocation flows are rain rejection or water that falls in unregulated streams below the dams.

Over the years I've been involved with the water business there was a push for 15 per cent air space in both dams on the Murrumbidgee River, which a full inquiry was undertaken and it came back that this shouldn't happen because of the well-being of the people that lived in the valley. The environment, in my opinion, gets fairly well rewarded in the Murrumbidgee Valley. There has been some suggestion at the board level that in future if I, for argument's sake, wanted to sell my water I shouldn't sell it upstream to a water user because the fact that the water would not run down to the offtake where I receive delivery from, which is Gogeldrie Weir, the environment would be at a disadvantage because that flow would not be reaching that point by selling off further up.

What they're virtually saying is, "If you want to sell your water you can sell it downstream." Well, that flies in the face of how water is transferred and at the moment it's mainly done through the system up in the Snowy, from the Murrumbidgee allocation to the Murray or to a lesser degree down the Yanco Creek. But the Yanco Creek is fully committed with the users along there, with the change of farming operations in relation to the drop-off in the wool crisis and so forth. A lot of land-holders along the Yanco Creek access and use their right to grow rice and there's a tremendous amount of rice being grown along the Yanco Creek now with the reregulation of the rice industry. The growers have accepted that deregulation. It goes right down to Balranald and in other areas. Of course that puts the operation of the rice growers' cooperative under further stress because they're the ones that have to mill and sell the crop on the overseas market.

So in closing, Mr Chairman, I'd like to say I just hope that you take on board the comments that were made here today. There is concern in the community there about water and the aspect of it, and being a member of local government the other speakers will touch on other issues and our submission does touch on those in general. It's a very short one, but the opportunity is there if you need any more information from us and, as I said, we're big pushers for en-route storages because if you want to operate a river system that's what should be there. But we've failed over the years. In the 16 years I've been involved with this organisation we've repeatedly gone to governments, both state and federal, about it and been rejected - and it's funny, at this very present moment the state government now have it back on the agenda, which is unreal. Thank you.

MR COSGROVE: Thank you, Jim.

MR BRIDGE: Thanks, Jim. Thank you, Mr Chairman.

MR COSGROVE: Sorry, were you wanting to say something, Ernie?

MR BRIDGE: No, I was just simply going to say, Mr Chairman, that now concludes the contributions made by each of the members to do with the water-related component.

MR COSGROVE: Yes.

MR BRIDGE: So I imagine it's in your hands now as to whether - - -

MR COSGROVE: Yes, there are some issues we'd like to discuss with you before we move into the local government area.

MR BRIDGE: Would you like these actual submissions we've referred to handed to you now or later - afterwards?

MR COSGROVE: At your convenience. I mean, we'd like to be able to take them with us today but you can pass them to our staff team when - - -

MR BRIDGE: Okay. If you don't read them right now we'll just pass them on to staff members later.

MR COSGROVE: Yes, that would be fine.

MR BRIDGE: Thank you.

MR BRAITHWAITE: Jennifer, could I ask you in connection with the pricing arrangement - I just want to get things straight. What you're saying, IPART, that's a New South Wales pricing arrangement, has agreed with the principle there should be no value cost recovery on sunken assets. Have IPART actually agreed with you on that?

MS McLEOD: They have agreed that the costs associated with the existing infrastructure are sunk.

MR BRAITHWAITE: Sunk, and there's no rate of return effected on that?

PROF SLOAN: Written off, you mean - written off. They don't have various - the full value?

MR BRAITHWAITE: It's not a factor in the cost recovery as far as they're concerned.

MS McLEOD: Yes, that's correct.

MR BRAITHWAITE: What you're saying is that that doesn't agree with what apparently NCC is saying.

MS McLEOD: Yes.

MR BRAITHWAITE: They want a valuation and they want a cost recovery on it.

MS McLEOD: Yes, and I mean, Don Blackmore from the Murray-Darling Basin

Commission will say, "We don't currently charge a rate of return but we can if we want to, because COAG says we can."

MR BRAITHWAITE: We're talking about water that you take out of the Hume basically, aren't we?

MS McLEOD: Yes.

MR BRAITHWAITE: Is there any cross-subsidisation there between the users, between yourself and anyone else taking water for town supply?

MS McLEOD: I tried to address that issue when they looked at the costs of providing water and the costs incurred by DLWC in providing water, say, to our bulk licence versus providing it to small towns and individual pumpers, and they have struck a different rate for group schemes compared to individual licence holders and, for example, Murray Irrigation has a lower per - well, they've got a fixed charge for Murray Irrigation and a variable charge for water use and the rate that they've struck for their fixed charge for Murray Irrigation/West Carrugan, which is another joint scheme, are different, in trying to remove that sort of cross-subsidisation issue between different users. So they have tried to address it. It is not the easiest thing to address but they have made some movement in that direction.

MR BRAITHWAITE: All right. Now, crossing to the cost of your water in your own system once you buy that.

MS McLEOD: Yes.

MR BRAITHWAITE: That's a fixed cost that gets added on. How do you treat your sunken assets as far as your channels and those other assets are concerned? Do you get cost recovery on them or do you treat those as sunken also?

MS McLEOD: What Murray Irrigation is, it collects a sum which it puts effectively an annuity for the future refurbishment of those assets.

MR BRAITHWAITE: But you don't charge depreciation as a cost on those assets, they're sunken.

PROF SLOAN: It sounds as though you do really. You're using an engineering sense of depreciation rather than an accounting sense.

MR BRAITHWAITE: I understand the sinking fund.

MS McLEOD: Yes, but the intent is to collect funds for their future replacement or repair.

MR BRAITHWAITE: Yes, and that goes in with the cost of the water for (indistinct)

MS McLEOD: Yes.

MR BRAITHWAITE: But you don't double-dip. You don't take depreciation on one end and your sinking fund on the other.

PROF SLOAN: They've got an annuity and a sinking fund.

MR BRAITHWAITE: That's the same thing, isn't it?

PROF SLOAN: No.

MS McLEOD: No, we've got a sinking fund which effectively we're charging some sort of annuity and sticking those funds into our sinking fund for the future replacement.

MR HETHERINGTON: So, commissioner, can I just add that we've got contingency reserves, a general fund, we've got a price we charge - - -

MR BRAITHWAITE: Just on that contingency fund, that set aside out of your profits, that doesn't come out as a cost, that's not a cost in itself?

MR HETHERINGTON: No, that's correct.

MS McLEOD: We call it our supply variation reserve and it's effectively meant to help buffer the business in years of low water availability or low sales because sometimes if we have a very wet year, for instance, our sales would be very low. It's to try and buffer the business because in reality we're really a fixed cost business. I mean, we have fixed and variable charges but most of our costs are actually fixed costs.

PROF SLOAN: You said though that you think different principles should apply to, say, new dams. So all existing dams we assume capital has fallen from the heaven and it's therefore free, whereas for new investments you don't take that point of view.

MS McLEOD: Ernie will disagree with me here - but if you're considering making a new investment, you haven't actually spent the money so you're making the decision about spending the money, it's quite justified to look at whether you can spend the money at a better use in something else and evaluate your decision that way.

PROF SLOAN: Therefore there should be a return on the money?

MS McLEOD: That could be quite a feasible thing to say, what sort of return am I going to get from this money, but once you've actually made the decision to invest and you've put it in there it's very hard to get it out.

MR BRIDGE: The difficulty you have with my scenario - which I find difficult to understand why you do - we are talking about infrastructure investment and the non-identified component of full cost recovery in a process that deals directly with keeping people on the land, putting people on the land, not about BHP's financial or Ernie Bridge's financial capacity or your financial capacity as individual business people. This is what we're saying here. We're saying the NCP as the engine that drives economic policies in Australia has to embrace - I'm saying to you you should embrace this scenario, not question it. You should embrace a scenario that says, yes, we've got a vast continent, it is critically important that we ensure the most flexible, comprehensively achievable methodologies of economics and their application should apply to the means of developing Australia. It's as simple as that. You don't need to be a Philadelphia lawyer to work out the scenario I'm putting to you.

MR BRAITHWAITE: Jennifer, could I just come back because I still haven't got to the bottom of my question. If the state government decided that they wanted to put a sinking aside to replace the Hume in 10 or 20 years' time, you'd accept that as a reasonable cost?

MS McLEOD: Murray Irrigation has reluctantly accepted that, yes, we should share part of that cost. I referred to the point before that there are other beneficiaries. We should share part of that cost. We are concerned that that money will not be there when the dam needs that money to be spent. That is a genuine concern and we would want to see security that those reserves put away are going to be available when they're needed. I think there are examples of funds having been put away to replace assets and the county councils in New South Wales are an example where the New South Wales government took \$100 million of funds invested by electricity councils in New South Wales - when they restructured the county councils they took that \$100 million that had been set aside for line replacement, they took it. In the area that we're from it was \$16 million.

MR BRAITHWAITE: Right, and I think you already made the suggestion that the state could handle its own resources a lot better, they could run it a lot cheaper and that would reflect lower cost to yourself. The last question is that your business wouldn't - unless you're extending the system, which under the cap you wouldn't be doing, it is mainly a maintenance operation more than replacement of capital. Do you replace channels and - - -

MS McLEOD: No.

MR HETHERINGTON: No, they're long term. You're looking at 50, 100 years.

MR BRAITHWAITE: They're the type of thing that with proper maintenance can just keep on going?

MS McLEOD: Yes.

MR HETHERINGTON: Actually, in relation to that, what the existing channels

are to what our allocation is, we won't get any bigger. Do you know what I mean?

MR BRAITHWAITE: How do you price your water to your irrigators? Those that are 50 clicks away from the outlet and going to suffer a lot of the evaporation of water, how do charge the person readily accessible to the source as against those further away from the source.

MR HETHERINGTON: We cover the whole area.

MS McLEOD: We've got a socialist system within our - - -

PROF SLOAN: A socialist system? Okay.

MS McLEOD: Yes, we socialise it.

MR: One I don't disagree with, incidentally.

MR BRAITHWAITE: You don't disagree with it?

MR HETHERINGTON: The difficulty with that, commissioner, you can imagine.

PROF SLOAN: That's not very fair to the people who are close to it, is it?

MR HETHERINGTON: That's a point of view. Can I answer one of your other questions? The government's responsibility in relation to getting their act together much better to manage - getting an infrastructure fund in place to be able to have money to be able to replace infrastructure to manage better and to cover that scenario that you've just put. I mean, how defined do you want to be? If we start looking at identifying someone at the beginning of the system and working out evaporation rates costs in that regard it's just mind-boggling. We're a private company and we're guided in company law. Our shareholders tell us by vote at annual general meetings, with our articles the way it's set up, what they want and that's what they want. We're carrying that out.

MR ARTHUR: A good point there is that there are trade-offs so if there are evaporation loses and it is more expensive to deliver water to people at the end of the system the people at the top of the system tend to get a better service because they're right near it. They're where the head of water is so they are probably provided with a better supply. From our organisation it is never an issue that comes up and we would address it if it came from the floor, saying there's got to be a differential between the top of the system and the bottom of the system. It doesn't come because there are trade-offs.

PROF SLOAN: So you're saying really the price for the service is not actually equal across the areas.

MR ARTHUR: There are trade-offs. The price is the same for a megalitre of water

from one end to the other but there are trade-offs. For example, people at the top of the channel tend to get a slightly more secure service than those at the bottom. So the trade-offs tend to even out and so it doesn't become an issue within the area.

MR McGANN: Could I just comment on that? That does happen in our system, where people up at the beginning have got a more guaranteed access to the water than below and it has become an issue at times but it's been put to rest fairly quickly because they've also turned around and said they shouldn't be paying for the maintenance of the channels further west were the water runs. Now, if they weren't there their water price would be that exorbitant they wouldn't be even in the game. There's another aspect to it when they say they didn't want to pay for the supply channel we turned around and said, "Right, we don't want to pay for the maintenance of the drainage channels up your way either." So that got laid to rest fairly quickly.

MR BRAITHWAITE: I suppose what you're saying is that South Australia should have some empathy with that situation.

MR McGANN: No, I was just relating to our area, in a system where the water is delivered through a channel system. Another thing, you spoke about upgrading systems. In the horticultural area of Griffith and Leeton a lot of the channels now, to save on -evaporation, I guess, to a certain degree - but leaking into the underground aquifers they're being piped, at a high cost to the users. The price that they pay at the moment is a fixed price on their water allocation to supplement that but, as I said earlier, they're the people that are using less water so they sell it on the open market.

MR BRAITHWAITE: John, I don't want to delay the witnesses any more than I have to but I only have one question and that related to something you were saying before, Bill. The dowry that has come to you as is subject to the taxation, I think I also understood you to say it was over a fifteen year period. Is the Tax Office looking at taxing that dowry in accordance to the agreement, that is the full amount in one go, or is it doing it on the basis of the payment as it comes in?

MR HETHERINGTON: As we receive it.

MR BRAITHWAITE: As you receive it?

MR HETHERINGTON: But they're going to backdate it now since we first received it so we get a tax bill of \$12 million.

MR McGANN: That money, it could be technically said was taxpayers' money which was allocated to an upgrade of infrastructure that progressive governments have let fall into disrepair and acknowledge the fact that it had to be upgraded before any handover took place. That's the way I read it.

MR BRAITHWAITE: No, I just wanted to clarify that.

MR COSGROVE: Could I try to distil a little more about the effects of water

reform on you people. I think at one point it might have been - I've forgotten. Bill I think said there might be some good news coming but I didn't really hear any.

MR HETHERINGTON: I was thinking and waiting for you to say, "We're going to take all this up," and someone did say that. I think Commissioner William said, "We're going to take up the infrastructure fund maybe and look at that."

MR COSGROVE: Of course, in this inquiry we've been asked by the government to assess the effects, the economic and social effects, of the various elements of national competition policy. In the water area, in our draft report we cited information which had been given to us up to that point in time by various groups - several I should say - and there there was a bit of good news as well as some concerns of course. For example, the Mallee Catchment Management Authority in Victoria said that water pricing reform had lead to a significant reduction in the irrigation of pasture and that water trading had resulted in an increase in irrigation of what they describe anyway as higher return horticultural crops. Here in New South Wales the Murrumbidgee River Management Board said that you could have more efficient pricing of bulk water delivery if that bulk water were to be made contestable from the private sector. On the other hand we heard from a number of people that water trading, they thought, would have mainly adverse effects on them. Now, are any of those more positive effects evident in your areas at all or not? Have you been able to achieve increased efficiency in irrigation systems, and if so, what has been the driving mechanism for that and in particular have any of these water reforms under the COAG agreement been playing a role in that increase in efficiency?

MR McGANN: Just to say something about efficiency, within my area, being a large area water user, there has been a big change and a big swing, as Laurie said earlier, about land forming and so forth, which is reduced use of water. But also people go for the crops property increase. There is a moratorium on how many acres of rice you can put on any given farm and that has been agreed to by the rice growers across the system. Also in my operation I'm a producer of prime land and I work the two together. Even though the market is depressed at the moment because of what's going on and so forth it still supplements - I haven't got the costs of some others, about artificial fertilisers, because I've got a rotation of pasture and so forth and there is a commitment there. But you still have to - there's people say that it's a wasted effort, watering pastures for prime land production. But you've got to look at the ongoing effect on other operations that you carry out and there's those things.

It's always said that the rice grower is a waster, he's not. I've been one for 48 years. I've had to pay my water bill and it hurts every time you write the cheque out. I've also been in the business of growing tomatoes, rock melons, onions and carrots and they all use a lot of water, under a different program and so forth. Right next to me I have a neighbour who grows nothing else but tomatoes and rock melons and he supplies Woolworths and all the - the tomatoes go to Sedenko down at Echuca, but he's in a big way and he uses his full allocation of water every year. But nothing's ever said about row cropping and the fact that the water's only there for a few hours every eight to 10 days.

But they use the water to grow their crops. It's just because the rice is water-logged and they see it. Ian Causley threw over Griffith in 89 when there was an unusual flood as a result of heavy rain and said, "This has got to stop." I said, "Listen, Ian, that's not all irrigation water. We had seven inches of rain the night before last and that's where it comes from." It's flat as a board out here.

MR BRIDGE: Mr Chairman, directly responding to that query let me put it to you this way. As with any significant reform process, of which NCP is a part of, there will always be aspects of that process where you'll see good things occur and nobody disputes that. There are the checks and balances that would identify. There are measures that can constructively be associated with the reform. But what we are submitting to you as a commission to contemplate in advance of your final report is that the downsides to a number of these measures is far greater than the pluses, and it's those areas of - the negatives that we have endeavoured to try and highlight today to you in the context of the water-related activities that have been triggered under that water process, water reform process.

I think it's better for me to say to you as the chairman of the Watering Australia Foundation that given the range of ideas that have presented themselves to Watering Australia Foundation Australia-wide there are far greater downsides that we see evident than better sides at the moment.

MR HETHERINGTON: Mr Chairman, could I just - - -

MR COSGROVE: Go ahead, Bill.

MR HETHERINGTON: Just briefly, I just want to make the point in relation to this area, saying this is good and that's good, I just want you to always consider the amount of water used in that area, the number of people. It's all right putting a tick, tick, tick and coming to us and say, "Hey they disagree. What the hell? They only use 1.5 million megalitres of water. These use 80,000." Just in relationship with those comments and in relation to what has the water reforms done to us in farm management, I would say very little at this stage even with the best of intentions, because we were set up prior to COAG starting.

All this money we got for land-water management is nothing to do with COAG and all I say is COAG to me, sitting as chairman of Murray Irrigation, is that we're just continually being pressed with, "Hey, the environment, the environment, the environment and these are the ways we're going to do it." I would see that there's quite a possibility of better management in the river system and to be able to give and compromise somewhat, that everyone will be satisfied. But not this cut-off. How are we going to keep cutting off in the meantime? We'll work it out in time, but in the meantime half our people have gone broke.

MR COSGROVE: Bill, I think you mentioned that you'd brought about some significant productivity gains, efficiency improvements, in your delivery system,

which

had the partial effect of laying off some numbers of people. What was the stimulus for that? How did you - - -

MR HETHERINGTON: We had to do it. I mean, we were faced with taking over a position whereby government said, "Okay, there's 22 per cent increase in water charges."

MR COSGROVE: So there was an instance, in other words, of the water pricing reform driving those efficiency gains?

MR HETHERINGTON: I would suggest that initially we said - when Janet Crozier was minister in New South Wales in about 88-89, saying that, "We're just going to put the water price up. We need to put on more staff. We've got to do more things," and irrigators just protested and said, "We can't afford this." "So let's sit down and talk about it," government said. So we talked about it and formed a section 17 committee, and gradually we were advising government. Initially they were taking no notice but eventually we were getting almost, you know, what we suggested as taken and eventually we agreed to privatisation. Well, there's no doubt we saw our position - that if we wanted to retain those services which the government were promising and continue in the same manner, we wouldn't be able to survive.

So, I mean, we were starting to look at our own position and certainly economised and we got savings up in the first year of something like three or four million in the operation. There was a reduction in some areas of starting new structures, but all those people remained within our towns and set up some of their own businesses. But I would say that the service that we give now is equal or better than what it was when we took over and the savings have been continuing to increase and, you know, we'll supply our books to you and show you all that, if need be.

MR COSGROVE: I don't doubt you, but I was really trying to get more of a direct handle on what was it that actually led you to seek those cost savings for your customers.

MR HETHERINGTON: Remaining in business.

MS McLEOD: But basically the government saying that, "You as shareholders are going to have to cover the costs of operating the irrigation system," and I'm not sure - - -

PROF SLOAN: So you become interested in the costs.

MS McLEOD: Yes, so I'm not sure where you draw the line in terms of something that started in sort of the late 1980s versus the COAG agreements.

PROF SLOAN: But it doesn't sound as though you regret that decision to privatise and take this into your own hands, notwithstanding what seems to me a story of ineptitude of the New South Wales bureaucracy.

MR HETHERINGTON: No, not at all.

MS McLEOD: I think the other issue - and I actually sort of cut it out of what I was going to present - is that the privatisation process where you saw the operator being separated from the regulator and our licences that we've now got, which include the pollution control licence and our supply licence, have actually I believe resulted in much better environmental outcomes in terms of the management of a system. It has placed a lot more responsibility on our business and our shareholders to improve the management of irrigation water and drainage water. The separation from government and the clear specification in licences, which never existed when it was run by the DLWC - I mean, they're asking us to do things as a company that they never attempted to do and I think the result for the environment is certainly much better.

MR COSGROVE: Laurie, I think you wanted to say something.

MR ARTHUR: Thank you for raising this question. Unfortunately for my irrigators, water reform is just a dirty word and the reason that is, is because if you go back six years ago you didn't have to buy water. It was allocated to you and if you ran a bit short you might get another 600 megalitres off your next-door neighbour for a box of stubbies. So that was the reality, be what it may. Now, we have the situation whereby - - -

MR McGANN: But you paid for it. You paid for the water.

PROF SLOAN: Paid for the service.

MR ARTHUR: Be that as it may, now we're at a situation whereby to get the same volume of water that's used in the community they're forced to go into the market. So there's quite a significant transfer of wealth out of these communities to get that water. So that's the way it is, so it's not surprising that it is a dirty word to the local irrigators. So we've got a situation whereby for example with sledges and dozers somebody down the river had a licence in his top drawer that he'd had there for 18 years and, you know, what was it? Then all of a sudden we now have a situation whereby if they're smart enough to place it in, for example, our exchange early on in the season that might realise \$60,000. So basically there's a transfer of wealth from my members - and this is the way it is - to another area. So the people that are coping the costs there, they see it as a bad thing. Things that improve the ability to trade water, they don't sort of see it very positively.

MR COSGROVE: But would you say that the increased market in water has enabled people who place a higher value on it than others to gain it more easily than under the old box of stubbies arrangements?

MR ARTHUR: Yes. I suppose we had a situation here where being an established irrigation area - and we've had that high history of use and so we'd sort of optimised our irrigation area. You know, we were not totally optimised but we were getting

close to it and our area has demonstrated - and not only our area - that you can make money in irrigation farming. So obviously as other licences are taken up the under-use that we've thrived on, basically people aren't using their licence so it's reallocated to us, allowing us to go beyond 100 per cent, that's decreasing and it has meant that in other regions it does enable people to source water. But for our region, just as it was, one and a half million megalitres extracted and the level of development we were at the time of reform, it has been unfortunate for us as a group in a parochial sense.

MR COSGROVE: Could I also ask if prices of water in your areas were to rise by more than you think may be necessary, depending on what view you take of appropriate cost recovery principles, would there be much scope for changes in the types of farming activities undertaken? I think, Bill, you might have mentioned in your area there were limited options of that kind. But is that generally the case?

MR HETHERINGTON: Laurie and myself are basically from that area. We are in a semi-arid zone and we haven't got large options there.

MR COSGROVE: I see.

MR HETHERINGTON: I mean, consideration too of the markets before you start, there's a huge input in capital outlay.

MR COSGROVE: Quite.

MR HETHERINGTON: Just on that, we've done work on that and we're doing it right now, and that is that no, there's not too many options where we are. I don't want to be totally negative. There'll be new crops and new ways of growing those crops, and we're going as hard as we can to look at those and there are people looking at those, but such a minute percentage at this stage. I don't know what the future lies there.

MR COSGROVE: Yes. We were told in Tamworth earlier this week - I'm not sure I can remember the precise example, Ray, but it was somebody who had realised that they could grow some exotic type of bean seed I think and export it to Asia somewhere, which they never thought of before.

MR HETHERINGTON: I hope he has got a market.

MR COSGROVE: Well, at least at this stage, according to what we were told, that was the case.

MR McGANN: Growing any crop is a gamble and farmers are the biggest gamblers there are in the world, in my opinion, especially the dry area blokes, because they really have a gamble. When you've got an irrigation area you've got a guaranteed supply of water. Just in relation to some crops, one of my neighbours only a few years ago, he was growing onions in a big way - 100, 120, 130 acres a year - and the

wheel fell off on him and I ended up carting about half his crop. I made more money out of it than he did, only to help him out, and he paid me. But he said, "Jim, next time you see me growing onions, for God's sake come over and shoot me."

PROF SLOAN: Did you?

MR McGANN: That's what you do when you go for these crops that have a big return one year and a slack one the next.

MR BRIDGE: Mr Chairman, a good point you've raised and one that you've sort of sifted out with Jim, with Bill and Laurie - but maybe I just should tell you something that you can sort of equate with that thinking that you're having about that process. Several farmers in the Murrumbidgee area have contacted me this year and have said on their best estimates that if these water reforms were to proceed the way that they are progressing, they could be hit with an impost, a financial impost of between 60 and 70 thousand dollars per year. You can see from that kind of impost that it wouldn't matter what sort of new discovery they found, it would be very hard to offset that kind of increase in terms of viability.

So I think that needs to be understood. It's the nature and the scale of the beast that they're now having to face up to it, and while that may not be necessarily correct that was their best assessment. So an ordinary farming family on one of those blocks up there that produces their wealth simply cannot measure up to dealing with that sort of impost, should it happen. So I think that it's one thing to talk about the diversifications that are capable perhaps of being pursued. It's another thing to say at the end that there is a margin within the economics, that in the end that will be available to the farmer to be able to survive.

MR COSGROVE: Yes. I'm sure there will be cases of that kind, but by the same token we can't expect an existing pattern of industrial production or economic activity to remain in place forever. Obviously people do have to adapt to changes of various kinds and prices of important inputs like water may be one of those things which do have to change.

PROF SLOAN: Can I just ask one question, just going back to that issue of compensation and what that would really achieve. I'll give you an example. I've got a friend who's a pathologist. Now, I'm not sure any one of you are going to feel particularly sympathetic to a pathologist but - - -

MR BRIDGE: That's not true, you know.

PROF SLOAN: Okay. When you need them you might like them.

MR BRIDGE: We need them, and often we do.

PROF SLOAN: Now, he invested \$2 million in setting up a pathology practice, employed about 75 people including in some regional areas, and a couple of months

later the government - for a good reason, I might add, but the government cut the scheduled fee for a pathologist by 25 per cent, just like that, overnight, no compensation. He came very, very close to going bankrupt and everyone losing their jobs. He struggled on and in fact re-engineered the business, did bring in a lot of the automation and the like, and he's now a very wealthy man. But I just want to know, you know - I don't think there'd be many people in the community who would say he deserved compensation. But he'd just spent \$2 million. It was borrowed, \$2 million from the bank.

MR ARTHUR: Let's say the plant he's purchased, the building he purchased to practise that pathology, came about. Now, if the government had reclaimed half that property he no doubt would have received compensation, wouldn't he? Now we're talking about here, a resource. Farmers consider their water the same as their land. It's a resource we have. It's not a change of policy. It's a change of an allocation of a resource and we consider it the same as land.

PROF SLOAN: So it's not the price. You don't want compensation for an increase in the price?

MR ARTHUR: No, I think that's probably anything I - - -

PROF SLOAN: My second question is, what would that compensation then do? Wouldn't quite a lot of people think, "Thank you very much," sell the property and walk away?

MR ARTHUR: All right. If society decides that we've stretched inland rivers too much and that we're just pushing it all too hard, and society decides that some more water should run down the river, there's two ways they can go about it. They can squeeze the existing producers out and boot them out, in which case they're going to get a lot of very poor environmental outcomes, or they can decide to purchase these licences out. I think it would be a regrettable decision but it's a decision they can make.

They can decide to purchase these licences out and allow people to go in some orderly fashion. But that's a decision society would make and I think to just say, "Righto, inland rivers are stretched," that will be borne by a very small number of people in inland Australia. I just think that's totally inequitable. I think it should be borne by the whole of the community. Just to give you an example, if you'd said 30 years ago, "It's a disgrace that 10 per cent of the water is getting out to the mouth of the Murray," people would have said, "Exactly, not one drop should go past," and now we've had a complete community change in perception and now we're hearing - some people would say it's a disgrace that the whole lot doesn't get out of the mouth, and so it's a change in community perceptions that I just don't believe a small group of people in the interior should bear the cost.

I also think it will be a pity if society comes to a conclusion that they should repatriate irrigators off the land as I think they're the best custodians of it. But I think

that's a decision society will make and I think it's only just and right that compensation should be used to get an orderly outcome rather than some one-headed "squeeze them out" because there will be very significantly bad environmental outcomes under that scenario.

MR HETHERINGTON: It's the big picture. You just can't take it in isolation. If you want an environment outcome, the best people to do it are the people that know their land.

MR McGANN: Mr Chairman, I have in my possession a document the Griffith City Council presented to the Snowy Water Inquiry with a lot of figures which could be valuable to you because it was done with access to the Australian Bureau of Statistics and other sources and it's dealing with the commodities in the Murrumbidgee Valley and I'd like you to have that. It's a bit grubby because I've been carrying it around.

MR COSGROVE: Thank you. All grist for our mill. I think I'm gaining the impression that the principal problem which you people seem to see as associated with competition policy reforms and I think - a quick check from our document - it does seem to fit within the elaborated original COAG reforms is this cap on water allocation. Is that a fair impression to draw. I mean, I understand Jenny in particular has drawn to our attention some deficiencies which you see in pricing principles and I don't wish to put that out of sight, but I'm getting the impression that you're really principally bothered by the fact that arbitrary decisions - too frequent I think we would say also - about the levels of water reaching irrigation regions are the principal problem.

MR BRIDGE: I'd like to respond to that, Mr Chairman. You are quite correct in identifying that as the overriding problem Australia-wide, if I could just say as the chairman of the foundation. There are very good reasons why there is that problem. When the decision was taken arbitrarily to impose the cap there hadn't been any scientific data into scope, there hadn't been the sort of detailed analysis by governments that said - - -

MR COSGROVE: But that's right, is it, the Murray-Darling - - -

MR BRIDGE: Back in the days when COAG implemented the cap, when it was first brought in. It was brought in at the time - I suppose the reason why they didn't undertake this scientific study was that it was always intended to be an interim exercise. It was always intended in its origins to be a very interim measure, you see. Probably, if one thinks about the nature of thinking at the time, they probably thought, "Well, because this is going to be an interim exercise we don't need to undertake this fairly major scientific analysis of what the long-term consequences of this decision might well be. But as it's been now a permanency almost, that absence of the early data to establish these parameters and the nature of the beast is now starting to come home to rest, you see. I think it's fair to say that there's a grave problem with the cap because of that Australia-wide.

There are places where people will say the cap - and no doubt, horses for courses. There will be valleys that will perhaps say, "Look, that doesn't greatly concern us," but others will say, "It acutely concerns us," so you've got that variation and that variable between the valleys of New South Wales in particular and you've got the concerns in Queensland about its implications and its application where management strategies are being built and set in place now in Queensland in advance of the actual, the positioning of the cap up there. So you're right, I think you should go away from here as a commission with a clear understanding, in our submission to you as Watering Australia Foundation, that the cap is quite a bogey at this stage, it is of major concern.

MR COSGROVE: I appreciate that reaction. If we now put that big issue to one side - and I look again at the essential ingredients of the COAG water reform package - again what I think I'm picking up from you is that you see a need for some degree of reform of pricing arrangements, although you have some significant question marks about how that should be done properly. In terms of investment in new water storage schemes, I'm not quite sure what your attitude to that is. It is linked in part of course to the pricing issue but when it comes to rates of return and careful assessment of the potential long-run benefits and costs of a particular storage development, do you see the essential ingredients of the reform package there as being sensible or - - -

MR BRIDGE: I'll try and explain it to you this way - and this is myself as the president rather than necessarily taking this advice from Bill and Laurie and others. I view the cap as a very, very dangerous weapon because what the cap is all about is putting the ceiling on the availability of what we would then term a finite resource. The imposition of the cap is about something that's finite, otherwise you don't put a cap on it, okay. That's the fair logic of it. If you've got something that's there and you have enormous capacity, unlimited availability, then no place for a cap. So the cap in itself for Australia is bad news because what it tells government and is being driven, you see, by the COAG concept, ideology, is that you impose the cap because we've got this finite resource out there, the rivers are drying up, too much of the water is being used but don't bring on-stream any additional resources, tamper around with the existing source and the same old dams that have been built a hundred odd years ago, and the way that you deal with that finite resource is to impose these restrictions on the end-user currently.

For a country that's developing like Australia, that is exceedingly bad news because that means that no governments will face up to the reality that the future beyond today has got to be one that we've got to permit to further water provisions, albeit in dams, be it in other forms, I don't know. I mean, I think that's the danger that I see with a cap. The cap implies quite explicitly that the resources and the availability of water in Australia is a finite resource. That is the most diabolically dishonest, incorrect and unsubstantiated position that you can ever get. I think that's what we've got to come to terms with, and you as NCP have got to come to terms with.

MR COSGROVE: We're not NCP.

MR BRIDGE: NCP is under your examination.

MR COSGROVE: Yes. I mean, that's a big issue and obviously there are diverse opinions on it and I'm not sure that we'll be able to arbitrate on the environmental aspect of it.

MR BRIDGE: It is a big issue but it's relevant to these other matters, you see. All the other matters all fit. One of the tragedies of our debate is that we see the small - today's issues as being the area of concern. But you see you can't do that. We're looking at the future. Just take the Murray irrigation, you looking at, as I said earlier, 10,000 farm lots out there whose future in my opinion is greatly under threat. Now, that's a long-term thing. That's not today and tomorrow. So you've got to make that equation.

MR COSGROVE: Well, as I understand the COAG principles, they don't prevent the building of new dams. What they are trying to do is to ensure that new structures are sensibly assessed rather than being put in place because, you know, there happens to be an election coming up in a particular area and, you know, as the old saying goes, "I feel a dam coming on," whether it's a sensible investment decision or not.

PROF SLOAN: But isn't that a good point? I mean, there really haven't been major infrastructure water developments for a very long time and that happened well before NCP - - -

MR McGANN: Dartmouth was the last.

PROF SLOAN: A very long - sorry?

MR McGANN: Dartmouth dam was the last.

PROF SLOAN: Yes, but that was quite a long time ago. The point is, the thinking had begun to change. I mean, capital is not a free good and governments will consider alternative uses of capital.

MR ARTHUR: We do get exasperated. For example, cabinet is considering returning water to the Snowy. Now, we've heard the benefit cost ratio to the return of water to the Snowy. Now, I've heard somewhere between five as to one, or ten as to one against. Have you heard similar figures?

MR COSGROVE: Yes, well, environmental benefits in particular are very difficult to put a price on.

MR ARTHUR: Yes, and so here we've got society now very quickly - and I mean the suggestion is they're going to get water even despite - I mean, the Snowy is there and whether it was a mistake in the past or whatever, the Snowy is there. I mean, it's there and yet society is going to say, "Yes, well, you know, with the cost benefit ratio that bad" - I mean, can you imagine anything getting up out here with a cost benefit

ratio that bad? But it seems quite reasonable as far as society is concerned to go and send this water back to the Snowy. Now, that totally exasperates us out here.

MR COSGROVE: Yes.

MR ARTHUR: That they'd even consider it.

MR BRIDGE: If you take this debate to its fullest conclusion in Australia at the moment, commissioners, we will never ever seriously contemplate another Snowy Mountain scheme. Now, I say to you that as living Australians in 1999 that's an unacceptable scenario to embrace, that there shall never be in the history of this country the likelihood of building another Snowy Mountain scheme because you see what, Mr Chairman, that rules out - another Ord River. It rules out another Burdekin up in Queensland. It rules out another Murrumbidgee irrigation scheme, another Murray scheme, a Lachlan Valley scheme. That's what that does. The picture that we paint of never another Snowy Mountain scheme is absolutely diabolical for this country and all I want to say to you, that you've got to measure the fact of that to the strategies that are being explored at the moment. That's all I say.

It's imperative, because you and I, in 1999, would be in breach, I believe, of the most horrific international covenant if we as Australian citizens today knowingly preside over a possible administration that puts this country into that period in the future. And let's face it, today that is what it is. You couldn't get a dam up in Australia in a fit at the moment, any part of Australia. That's the reality, and I think that we've got to be worried about it.

MR GARDINER: Mr Chairman, that's why I say you should take on board that submission that we put in because it touches on a lot of issues.

MR COSGROVE: I assure you we will. We're very glad to have submissions - - -

MS McLEOD: John, could I just make the point from Murray Irrigation's perspective?

MR COSGROVE: Yes, Jenny.

MS McLEOD: As existing irrigators, our major concern with the national competition policy is the failure to give us a meaningful property right to our existing water resources.

MR COSGROVE: Yes, that was the next issue I was going to come to, Jenny, and I'm sure all of us would agree that laying down clear and secure property rights in this area is as important as in any other but if that were to be put in place - and I think as Judy mentioned, it is in place in one state already, so it seems possible to do it - then you're more likely to see a market in water trades becoming increasingly significant. Now, I've received, I think, some mixed signals on that during our discussion this morning. I think Laurie was saying, I understand, that people who might now see

water shifting out of their areas mightn't see it as a good thing but are there other respects in which you would regard it as a worthwhile development, in fact one that should take place, or not?

MS McLEOD: You mean a water market? Is that what - - -

MR COSGROVE: Yes, water trading in general on the basis of secure property right with separation of water entitlements from land titles.

MR HETHERINGTON: Permanent transfer - - -

MR COSGROVE: Yes.

MR HETHERINGTON: Okay. Just to comment on that, yes, I mean, if you introduce trading people are going to use it, that's for sure. It's a big issue in respect of trying out properties with irrigation areas, and the shires will have a comment about that, I'm sure. So separating water from land is the big issue and the article written recently in The Australian suggests that brokers out there are ready to sort of jump into the scene. So that's an issue that - I mean, there are so many issues, and the one that we want to get hold of is, if we've got a property right we're in a better mind-set to be able to discuss it with government and feel we've got some security in going the next step but while we're so uncertain and we've got all these other issues above it, you know, and we seem to be opposing, say, government policy, no-one seems to be getting anywhere. I just wonder whether COAG in its wisdom or an NCC can move on that debate because if the vote's going to be there we want to be in it but at the moment that's not happening.

MR ARTHUR: Yes, I suppose my irrigators don't have the luxury of thinking whether or not water trading is going to be a good or bad thing but as I've pointed out in this letter from our minister, we've been told, "We're not going to allocate it to you. If you want water you're going to have to go and buy it." In the MIL area we can make two decisions. We can scale back our production. We've got an ongoing program with improving our efficiency. That's been going on for the last 20, 30 years, so that's continuing, but in this short time-scale we don't have the luxury of saying it's good or bad. We're told, "We're not going to allocate it. You'll have to go to the market to go and get it." So I mean, that's the reason, as an organisation, we're embracing water trading because of the imperative there. We have to do it.

So what we don't need is then being told by the government that we've got to embrace water trading and then we've got to go and fight the inefficiencies and the red tape and the junk they put in front of us. We don't need that. So we don't have the luxury of deciding whether we like water trading or not. We've been told, "That's what you're going to do," and that's what we're reacting to.

MR BRAITHWAITE: John, could I just - just taking on other aspects of the reform that we haven't touched on yet; electricity, rail, transport, SMA - - -

MR ARTHUR: With the local government. They're going to touch on that.

MR BRIDGE: That's coming up with the local government - - -

MR BRAITHWAITE: Right, yes.

MR COSGROVE: We'll come to those later.

MR BRAITHWAITE: What about your SMA's then?

MR BRIDGE: Pardon?

MR BRAITHWAITE: You had a major review of an SMA, the Statutory Marketing Authority.

MR: Rice, I guess you're referring to?

MR BRAITHWAITE: Rice, yes.

MR ARTHUR: If I could come in there, that just seems to me to be the - has anybody ever heard anybody walk into a supermarket and say, "The price of rice is a bloody disgrace?" I mean, what was identified, a disbenefit of something like - you might be able to correct me - 2 or 3 million to the consumer?

MR COSGROVE: I can't recall the claim.

MR ARTHUR: I believe that that has been identified, a disbenefit caused by the vesting powers of the New South Wales rice industry, a disbenefit to consumers of 2 or 3 or 4 million, something like that, and when you look around just pragmatically, I mean, you look at cotton, it's got a few problems now, rice, I mean, they're some of the very few. The best arrangements in New South Wales have put the base to this whole community. Bill's pointed out that, what - 70 per cent now, Bill - are looking to rice because of the stable market that's providing. And now we've got a situation where we've got a bunch of entrepreneurs, you know, I don't have to mention John Elliott, just setting up to crack that whole thing open because, we're told, "That's got to go ahead because of a perceived disbenefit of \$3 million to the Australian consumer. They've acknowledged that it has produced net benefit to Australia, in respect of export returns and that, to my members - - -

MR COSGROVE: And that is continuing, as I recall, the - - -

MR ARTHUR: Yes, but I mean, even with a single debt, that's still going to present major problems to us. So not only are my members confronting water reform, also we're getting pressure from Costello to rip the guts out of our marketing system, and that's just another thing for them to worry about. So that is of course a major concern to us.

MR: (indistinct)

MR McGANN: Yes, in a minute.

MR: I think we should continue as is. So it's fairly likely - - -

MR: It will be coming on later on and you might ask the same question.

MR McGANN: Just one thing about water trading, in the irrigation area in the districts it is physically impossible to allow water to go down a certain supply channel because of the capacity of that channel to supply any more water without a major upgrade. It's also physically impossible at the moment, from my understanding of river operations, for them in the Murrumbidgee system to deliver any more water through the weir systems on the river to water users at this period of time unless major infrastructure is put in place.

MR COSGROVE: I see, yes. Do you have any more - - -

MR BRAITHWAITE: No, I got torpedoed on the last one, so I'm not going to - - -

MR: We'll come back to that one.

MR COSGROVE: No, I'm sure we'll have an opportunity to pick up SMA issues shortly. It's 1 o'clock. I think people would probably appreciate a break for some lunch and I think, given our overall timetable, we will probably have to bring to a close now our discussion of water issues. We've been - - -

MR BRIDGE: That's right. Mr Chairman, from our point of view, we'd be happy now to conclude our contribution.

MR COSGROVE: Thank you.

MR BRIDGE: If you're happy with that, that can be the basis of where we end it.

MR COSGROVE: Sure. No, it's been quite interesting for us. It is, we realise, a complicated and important area, particularly for people such as yourselves and we're very glad for the amount of time and effort you've put into coming here to talk to us today and the further pieces of information which we'll be looking forward to read, and I guess we can get back in touch with you on the basis of those, should we wish to.

MR BRIDGE: Sure can, yes. Thanks very much.

MR COSGROVE: Thank you all very much. Now, I think, if possible, I'd like to

try to resume before 2 pm. I'm afraid we do have some time constraints ourselves at the end of the day. So could I suggest we try to get back here around about 1.45 and we'll then continue our discussions with the local council groups.

(Luncheon adjournment)

MR COSGROVE: We'll get back to business now. We have now I think a group of shire representatives. I perhaps should indicate at this stage that Judith Sloan and I have unfortunately a time constraint. Before the end of the day really we have to catch a plane, which means I think that we will effectively need to depart here at about 4 pm. Now, I understand that in addition to the participants at the table now we may also have two others, Towong Shire and Murray Regional Development Board also. I don't like to do this ordinarily but I think I might need to indicate that we probably need to try to wind up this next session in perhaps an hour, an hour and a quarter, something like that if possible. I'm sorry for that. We'll try to keep things moving.

MR BRIDGE: Mr Chairman, we appreciate the time consideration that you need to observe and we don't have any difficulties in saying to you that we will cooperate from this end.

MR COSGROVE: That's very kind of you, thanks.

MR BRIDGE: We've had a particularly long session with you this morning which we greatly appreciate and the water-related issues were so critical in terms of our input you see.

MR COSGROVE: Yes.

MR BRIDGE: So that was something that we recognise. We'll move straight into this segment, Mr Chairman. As I indicated in my preliminary comments, we're breaking it up into two parts, essentially water-related input and a wide-ranging issues input now, in which local government will participate with you. In that context I would like to call on the mayor of the Carathool Shire Council, Athol Roberts, who will start off this particular segment.

MR ROBERTS: Thank you, chairman. My name is Athol Roberts, of course, from Carathool Shire. That's a relatively large local government area north of Griffith which encompasses about 19,000 square kilometres. Unfortunately our population is only about 3 and a half thousand. But I also represent a group of the shires association, a group of about 14 shires that take in an area from there right down to the Murray River and, of course, that takes in a significant part of the irrigation systems that we've been talking about this morning. All I can say is that I believe that water is the lifeblood of this nation and it is something that we should be maximising the return from, rather than trying to dissipate the returns that are a potential for the particular area.

I think if you go back in history and if you looked at this particular oasis now and reflected back on what it would have been if we hadn't have had water, you would have seen a desolate, uneconomic area which has been transformed because of the input of water to a very viable, lucrative area, as far as our agriculture is concerned. I understand that about 60-odd per cent of the agricultural production of this state comes from the Murray-Darling basin which incorporates this particular

area. So the relevance there, of course, is to local government in that the viability of local government really revolves around the viability of the people that live within the area and that is why we are so concerned about the competition policy as it effects local government. Perhaps if I just run briefly through the Carathool Shire submission and then we can go into some of the questions that we would like to ask and some of the responses that we would like to give in relation to your paper.

MR COSGROVE: The draft report, yes.

MR ROBERTS: The realities are that some people say that there is a perception within the national competition policy which is bad for inland New South Wales and inland Australia. What we are saying is it's not a perception, it's a reality. I think some of the things that we talked about this morning really emphasise the reality is a potential as far as competition policy is concerned. A few of the things that we would like to draw attention to is the public infrastructure funding. The very principle of NCP requires full cost recovery on all future public infrastructure development. This, in effect, will prevent further public investment in infrastructure that is essential to this nation meeting its potential to become a greater food producer than what it is at the moment.

There is no doubt that the future of Australia will very much depend on its capacity to achieve food production levels necessary to satisfy the growing demand in Asia. Australia has already demonstrated its capacity to produce substantial food commodities for export markets and I've already referred to the 60 per cent production that the Murray-Darling produces. Given the acceleration of the world population, the demand for the food is increasing at a dramatic rate and Australia will not realise its full potential unless Australian governments, in partnership with private enterprise, invest in infrastructure essential to realising the nation's full potential.

The capacity of this area is very much attributed to government decisions to invest in and to develop the Snowy Mountain scheme, which pays for itself every two years. Likewise, the Ord River scheme, I understand, pays for itself about once in every nine years. These are just a typical example of the production levels that are derived from water being made available to the particular area that wouldn't be derived if we didn't have that resource. Water is the single most important ingredient in the future of Australia and the Snowy and Ord schemes serve notice to us all that further infrastructure investment in water is essential to our nation achieving its production potential. We simply cannot allow NCP to prevent government in participating in private investment in water diversion schemes. Further, the government must become the saviour of the Great Artesian Basin and accelerate beyond present comprehension its investment program to ensure its long-term viability.

The great value of the Artesian Basin is clearly spelt out in the attached paper, which I think has been submitted to you by Prof Lance Heneberry. Heneberry has determined that the wastage from the Great Artesian Basin equates to 13.8 billion of

production annually. The cost to fix the problem is trivial and it must indeed be

scandalous that this precious resource is not protected immediately. Heneberry expects that we will lose the Great Artesian Basin in the next 40 years if strong government action and investment is not made immediately.

National competition policy cannot be tolerated and allowed to stand in the way of Australia reaching its wealth potential. There has been a lot of reference to the rice industry this morning and indeed to orderly marketing and investing of the rice industry and I'd just like to say at this particular point in time it is my belief that we wouldn't have the rice industry that we've got today, had it not been for the investing of the industry in a single desk and the benefits that have been derived from that both internationally and locally.

I refer also to the dairy industry. The council draws the commission's attention to the dairy industry where dairy farmers achieve no monetary gain from their product whilst the large wholesalers reaped substantial financial benefit, all at the expense of a higher commodity price to the consumer. That is the reality of life that was derived from the partial deregulation of the farm gate price of milk. What happened at the supermarts took control of it and I understand drew out profits of something like \$60 million. At the end of the day it was the consumer, which is people like you and I, were paying more for the product, all at the expense of deregulating the dairy industry and a poorer return to the grower. The most recent example of that is the further deregulation and subsidy of the transport industry in relation to milk. We've got there the realities of life where the isolated areas are going to be either jeopardised in their ability to get milk supplies or it's going to be much costlier for them to achieve that valuable resource.

I instance the fact of Hay at the moment. The transporters have indicated that they will continue to provide milk supply to Hay, but Ivanhoe, which is a bit further on, there is no guarantee that they are going to get a supply at all. This is one of the problems that derived from the fact that we've got competition policy, deregulation. The problems that are associated with isolated rural areas is that all of the services and facilities are being taken away in the face of competition and you are losing population, you are losing services. What services remain become more expensive and the whole combination of all of these things are a lack of incentive for anyone to come out and be a participant in those isolated areas.

The electricity industry is another typical example of what goes on. A particular electricity authority that I was associated with had the cheapest electricity in the whole of New South Wales. We had the most efficient organisation which produced and serviced the areas most effectively, most promptly. We were promised, on amalgamation, that we would have a reduction in tariff. The realities of life are that the tariff has increased and I've got the figures here. For the rural and domestic users it has gone from 12.4 cents as the cost of the prime nominated number of units, which is approximately 300 units at that time, to 14.07 cents. All of the rest of the units were at 9.5 per cent after that. The change of policy as a result of the amalgamation has put in another extra stage which says that the next group of units

will be paid at .095 and then there is a third stage which says that any further units used are .0997.

So traditionally there has been an incentive in the past that as you use more of a product then it became cheaper. The net result of this amalgamation of electricity authorities is that the product has become dearer. Not only that, service has become poorer, there are greater delays, greater delays in being able to inform the authorities that you have got a problem in your particular area, particularly when there is a storm situation. Of course, the other impact that it has had on the whole area is that as a result of all of this we have had a huge downturn in workforce and that means loss of jobs, that means that there is a continuing increase in potential unemployment. People are looking at other opportunities, which are not necessarily very easy to come by in these more isolated areas.

So we go onto the next item, which is cross-subsidisation. Under the principles of NCP and the rules appertaining to cross-subsidisation the potential for rural and regional consumers to pay exorbitant additional charges for telecommunication and electricity is a real threat. Telecommunication comes in, in the same particular area and I'd like to refer to a few of the areas there. There is a reduced community service obligation. Additional services are either not available, or if they are available they are far more costly. Access to and the speed of the Internet is a problem in the more isolated areas. Of course mobile phones are a particularly big problem as far as isolated areas are concerned. Under the rules and regulations of the IRC, those people who haven't got a mobile service now have got no hope of getting it in the future simply because we are on a competitive basis and the reason why those areas that haven't got a service haven't got it, is simply because it's not commercially viable. There is no profit in it for the organisation that might be supposed to provide the service and that is where I believe that if you are going to deregulate and create competition, then the government should be standing in and saying there is a community service obligation there to provide the service, although it's not viable in those particular areas because one of the things - - -

PROF SLOAN: They do do that, it should be acknowledged. They have a very substantial USO.

MR ROBERTS: Well, they're not doing it in the isolated areas. It's a fact of life. I happen to be involved in it - and not so isolated. You're only got to go up the road here to Lockhart which is not very far up here, and they haven't got a mobile phone service. So there's lot of areas of potential - - -

MR COSGROVE: You didn't have one before competition policy came into place either, and the chances are - - -

MR ROBERTS: But before competition policy came in, there was an opportunity under the community service obligation that they would give it. Now, because it's got to be viable before a communicator will take it on - - -

MR COSGROVE: No.

PROF SLOAN: No, no.

MR ROBERTS: Yes, it has.

MR COSGROVE: No, the community service obligation in telecommunications, I agree at present, is one which excludes a mobile phone provision.

MR ROBERTS: That's right.

MR COSGROVE: But there is no reason why the government could not mandate the service providers extend mobile phone coverage wherever they think that should be had.

MR ROBERTS: We've been making representation on behalf of local government to the government for quite some time now to make it a community service obligation because probably a lot of people don't realise that a mobile phone is probably equally or more essential in the isolated areas than it is in the more densely populated areas, so there is a need for it. What they serve up to us all of the time is that 95 per cent of the people have access to a mobile phone. But 95 per cent of the people are located in about 10 per cent of the geographic area of Australia and the 5 per cent represent the other 90 per cent of the geographic area and it's a big problem.

MR COSGROVE: Yes.

MR ROBERTS: Just briefly on our part then I'd just like to conclude by saying the fact of the matter is clearly that national competition policy is detrimental to the short, medium and long term of rural and regional Australia and unless it dismantled and abandoned, the existence and quality of life of rural and regional Australia will be lost with Australian governments confronted with the burden that will send this nation to the depths of a banana republic. Australia will never be able to afford the social welfare implications of national competition policy. I think that brings around one of the other subjects that because of the amount of jobs that are being left in the rural and more isolated areas, the greater the need for social service benefits to those particular people.

What we're saying is that if there can some assistance to create infrastructure or provide infrastructure, it will attract people to those more isolated areas and then they become areas of employment; once they become areas of employment then they pay taxation and then they become a profit area as far as the government is concerned and take away the stigma that's there at the moment that the unemployed people in those areas are a burden on the taxpayer. I think there are one or two other gentlemen who would like to follow on with me and then we've got a series of questions and answers that we'd like to address in relation to your publication.

MR BRIDGE: Okay, thanks Athol. Mr Chairman, the next speaker in this segment will be Des O'Shea, the general manager of the Lachlan Shire Council.

MR O'SHEA: Thank you, Mr Chairman. For your information, some of you already know, of course, Lachlan Shire Council is 15 and a half thousand square kilometres located west of Parkes towards Broken Hill. We've got 4000 kilometres of roads in the shire, 800 kilometres that are regional roads and we have seven towns and villages in a population of approximately 8000 and in two of the towns we have two large Aboriginal population centres. Many of the things that have been previously said apply to our similar areas but there are a couple of matters that do make it a little bit different insofar as we operate town water supplies to Lake Jellicoe and Condoblin in the towns themselves. We run a pipeline to Tullibigeal, another outlying centre, approximately 60 kilometres of pipeline. We run a pipeline from Forbes, jointly with Parkes, through three towns and villages in the Forbes shire and two in Lachlan and that pipeline is approximately 150 kilometres. We have two other villages with a bore water dam, supply for gardens and firefighting purposes.

The situation about the mobile phones, I can even quote you as late as last Friday at a meeting in Dubbo with Telstra where they virtually said "forget it", and there's no mobile phone coverage from the Barri Highway south and the Newell Highway west and north from West Wyalong. We've got nothing in that large tract of land. The difficulty of phones, why it's such a very important facet of operations in our area because of the size of it, we border on Cobar shire, and the large bushfires we have from time to time, when the power goes down, of course the phone systems go down. Radio systems can only work so far and this becomes a very, very - what other people take for granted, it becomes a very, very serious life and death situation. To be quite honest, most of the area is dry land farming in that sector and the commodity returns of the last few years, very few of them are going to be able to access satellite farms, they just would be out of the cost factor at this stage and operation.

The other issue that's happening of course is we're concerned as a council because the river runs right through the centre of it - the Lachlan River - and we touched on water issues this morning and we're tied into the same caps as everybody else. But some very interesting facts have come to light in the last couple of months, there was, I suppose, you could say an all-in brawl between farmer and farmer and irrigator and irrigator and government bodies up there. Melbourne University did research on it, and sadly - I spoke at one of the meetings - what really concerned me was that facts finally come to light - that DLWC didn't seem to be able to come up with - was that all the argument and all the fighting was over 11 per cent of the water flow of the Lachlan River. So it was the economic essential of certain people that 11 per cent - what was irrigation and town water supply - comes out of the Lachlan River from Wyanga Dam until it runs into the marshes where they've got four-legged cockatoos down there. So it doesn't get back into the Murray-Darling system. It's a river that doesn't - and I'll argue with anyone that scientific facts prove it, that it is not a river that's part of it. That's why it's said that this is a river that should stand alone. Most of the politicians we attack on it agree with us but no-one is going to pull it out of the system.

The thing is reality, when they talk about user-pays, I don't think the state

government is real keen to be putting in 89 per cent of the river for 11 per cent over that distance. The important thing is - what we've been talking about with DLWC - that it's very, very difficult to find out what is going to be the cost of user-pays - the whole cost of the department, what part of the cost of the river - and listening to the folk here this morning about the privatisation, I don't think I'll be buying into that one - we did think about it - as the possibility of a separate authority of the river because we're lumbered with some of the people that make decisions that are very difficult to understand. I can quote again from - the mentality that's in some of these river decisions and farmer stories - that beautiful new one where everybody is only allowed to have 10 per cent of the water that falls on your property. Well, they worked that one out. But when we said to them, "Hang on a minute, what are you going to do about our way, we get 17 inches a year. We want the first 10 per cent and you take the last 10 per cent if we get it, when we get 13 inches a year." These were people that were advising the powers to be, so they've had to rewrite the act because it was fallacy in the statements. It's pretty hard to overcome those things.

I've probably got off the track but it's a pet subject. One of the other ridiculous things is management of the river. I know I get into trouble with this but can you understand why the average man in the street has lost faith. We had a flood about nine months ago. We have a recreational lake three kilometres out of town that's on the river. We've already gone through one public liability claim because the level of the water wasn't high enough, so we pump out of the river into this thing. We lift the water close on 50 feet out of the river. So we had a flood and the floodwaters were two feet up the bank of the lake and we wanted to top up while this flood was going past. There were people downstream that were ready to strip their crops that were going to lose their crops. We would have only taken a foot of water over 150 acres. We were refused permission because it was for the environment in the middle of a flood. So, I mean, the reality of life doesn't seem to get through.

MR ROBERTS: We have exactly the same thing - we are having difficulty in getting - this was a lake that was put in by volunteers at no cost to government or anyone else and now they're having difficulty - well, they can't, they've got to buy an additional allocation of water if they want to fill the lake and yet we've got this silly situation of floodwaters going past and they won't let them touch it. Theirs is not an isolated case.

MR O'SHEA: Getting back to the NCP and competition etcetera in local government, all I can speak of is our experience - Lachlan shire - and we're about an 18 to 20 million dollar a year business. We already have 42 per cent of our operations under contract. The question that I've raised with bureaucrats and I don't get an answer is, what is a contract or contracting out if you've only got one supplier into the area for the products you require, you don't have an alternative, just doesn't exist, or you can't get it there any cheaper. We own and operate a retirement village because a local committee folded, so that's a good lot - they're a great thing I suggest everyone should have. You lose about \$550,000 a year. But the food comes into the town by the wholesalers. All the meat - deli-type meats - bread comes from out of town, milk comes from out of town, all our laundry processing comes from out of

town, fruit and

vegetables come from out of town. To me, NCP or NCC is not going to change that as far as we're concerned. There's only one supplier. We've got one butcher in town.

MR COSGROVE: The NCP of course doesn't require you to contract out.

MR O'SHEA: No, but I'm just saying this is the thoughts of - local government has got to get competitive in the overall picture. Then you get down to all the other things. We've got one doctor in every town - and because you can't get doctors, we own all the doctors' practices and medical centres and work for getting doctors. We've got 2 million invested in doctors in our shire for three different towns. The services of an RTA agency or through the police stations was pulled out, so the council stepped in and set up RTA agencies in Condoblin and Lake Jellico, otherwise the people would have had to have gone 100 kilometres to Parkes or West Wyalong to get a licence test or anything registered. So councils like us in these isolated areas - what I call, once you're west of the Newell Highway - with due respect to anyone you're in remote - you're rural but you're remote because everything stops as far as any commercial service stops at the Newell Highway, where going to Nyngan, going to us or going to Carrathool.

We've got large mining developments that are on the boil at the moment and because there's a big influx of mineralisation research there's 100,000 being spent on aerial search at the moment by the government. Any of these mining things that come along, they've got a limited life and you can't put the infrastructure in for that from a town's point of view. You can do certain things and you hope to top up what you've got in the town where you've got water and sewerage and all other facilities, but you can't suddenly build a 50-kilometre gravel road into a sealed road. If you try to load that on - the infrastructure of that - the mining project which might have a life of 13 or 14 years - and it's a vital one to Australia because it's nickel and cobalt, the only one on the eastern seaboard.

What do you do? You've just got to put up with it, a gravel road. Now, we are the southern-most point for road trains in New South Wales. The road repair bills that we now get are quite enormous. 12 months, 18 months ago when we had the excess vehicle permit fee, before the government changed the weight of loads, that brought into us about \$78,000 a year from the government for operations in our area. That \$78,000 was ploughed back into road maintenance. Well, the legal limit has been upped. That money has gone, but we have still got the repairs to do. So they're the issues. We already spend close on \$5 million of our budget on roadworks. Approximately 1.75 of that is on the regional roads network, but most of them would be gravel.

MR COSGROVE: Have you made a net revenue loss as a result of the establishment of this mining project? You're getting some rate revenue, I take it?

MR O'SHEA: At this stage it's in development - it's EIS stage, right, and it's most likely going to - - -

MR COSGROVE: But I mean, from your perspective it would be rational to either try to ensure that the mining company itself pays for the necessary road upgrade or at least that you don't come out in the red.

MR O'SHEA: We'll get certain - - -

MR COSGROVE: In effect you pay for it.

MR O'SHEA: We will get certain things, but because they're located on almost our eastern border and the dynamics of which direction the stuff goes out and comes in - like, there are 300,000 tonnes of limestone to come in a year that is not in our area, but it's in the adjoining shire. Suddenly to have those sort of weight loads coming on roads that were probably developed for just local traffic, school bus routes and so forth, it can have a major effect. The argument as to who - we'll no doubt get some effect, but the road network - it also will take workers to work. It is a regional road, or one of the main ones is a regional road, and there is no way we are going to get state government money to put that sort of stuff in, and then if you turn around and say to the mine people, "Well, you foot the bill and do all this," then you get to the balance of the economics of that mine.

Then you get to the balance of the economics of employment, particularly with the high unemployment section, particularly in the Aboriginal workers who we have found that - we have another small goldmine going. Our deals have been more along the lines of saying to the miners, "Look, we won't slaughter you with special mine rates, but you employ as many local young people as you can and train them and you support the local service organisations in town." That takes the load off us for requests and sports bodies, and everybody is a winner all the way round. We've proven it through this one goldmine that the number of young people that have had the opportunity and have gone on and are still in the mining game all over Australia. There has been a benefit to the young people that wouldn't have had that alternative. And similarly this other one. It's not going to be a large mining process. It's the process side of it that has the employment factor.

So they are just issues that come in respect of that. Public transport, there is none, virtually. If you've got to get to medical specialists at Orange you would have to catch a bus that takes you to Parkes Monday, Wednesday, Friday. You change for trains there. So an elderly, disadvantaged or any disadvantaged person socially, which is a fairly high number, has got to have two nights accommodation in a town 200K away to see a specialist. It becomes a little bit questionable as to the fair justice of that type of issue.

PROF SLOAN: But that is in no way associated with national competition policy.

MR O'SHEA: No, but the continuing trend of this economic downturn, we're seeing the downturn of services out of our area.

PROF SLOAN: But you would never have had medical specialists - - -

MR O'SHEA: Yes, we had specialists - - -

PROF SLOAN: Full-time medical specialists?

MR O'SHEA: - - - regularly visiting there, but with the turndown in the hospitals and the cutback on that side of it, the specialists have said it is not economic for them to come on that basis. We've got one specialist surgeon remaining and he has determined to hang in to try and get the change we are trying to process through other sources.

MR BRAITHWAITE: Does the stage trigger the travel and accommodation for the isolated patient scheme in New South Wales?

MR O'SHEA: They have just become eligible for it because it is 200K, 203K or something like that, I think, but processing that through - and there again some of the people getting them to process an application, there would have to be someone that would help them organise it. I suppose the other issues of competition - and answering some of your recommendations, your requests for information - this process, we've got to give fair consideration to competitive tendering in a lot of our roadworks and then council has their own right to determine things, but in areas like this, and I'm speaking for a lot of the areas in that area I spoke of, west of the Newell, it's quite noticeable, and I mean you can't do much about it, but the process of sealing roads is fairly well a closed book. You'll put out a tender, you will get two companies probably put in and one will be twice the other. They have determined the areas they are going to work in and probably for obvious reasons the movement of the plant from one job to another, if they are going 4 or 500K from Bourke to us becomes not a very economical factor in it. So they are virtually looking after areas.

That's in the seamy side of things, but in earthworks and the likes of that, particularly I think with the change to the GST, as I see it at this stage, and from information at this stage, effort-neutrality is going to exist because we're going to pay the GST, we then have to apply for the rebate. We don't pay tax. A private contractor pays GST and inputs in and, you know, reduces it on his taxable income or whatever they do, companies or otherwise. That is the way I understand it. We are going to be nearly on a par and they - "they" being anyone that can contract of a big enough nature - have access to a buying power similar to what ours is, or probably better in some things, in their respect of fuel and equipment. So I don't see that there is any room to move in that format of competitive tendering in the western areas because you are only going to have possibly one. It would be Brambles. We don't see Theiss Brothers out there that would tender for any roadworks. Bridge work is already tendered out. That's in the 42 per cent of our tendering-out process.

PROF SLOAN: Mind you, again, it is important to distinguish what is NCP and what is not, and any requirement on councils to competitively tender their works is not NCP.

MR BRIDGE: But I don't know how you can say that. No, that's not true.

PROF SLOAN: Well, it's just factually true.

MR BRIDGE: You see, this is where I think - I'll throw the onus back on you as a commission. I reckon the perception that is wrong in this whole debate is with you, not with the people of the bush, because how can you say that? You have a look at what you have said in your own report. Your own report says - and this is quoting Prof Samuels:

If it goes (the competition) ahead unless it can be robustly demonstrated that the benefits of the restriction outweigh the cost and that the objective cannot be achieved in other ways.

So you've got Samuels, who is the chairman of the NCC, saying that precise thing. He's saying, "Competition will happen whether you like it or not, Shire of Lachlan, and you go about it in the most robust form possible. Get your act together, put millions of dollars behind your argument to prove to us - we're the judge and jury - that it shouldn't in fact happen in your town." So this is not what you're saying to me, commissioner, that you can't link this back to the policy. It's there as clear as that light that sits above us.

PROF SLOAN: Of course, first of all he is not a professor. It is just Mr Graham Samuel and he is the chairman of the NCC.

MR BRIDGE: Well, I don't know if that's true, is it?

PROF SLOAN: But that quote is referring to something different. That's referring to legislation review. I'm not saying that competitive tendering is not inconsistent with the principles under which NCP operates, but it is not a necessary part. If you take the case of Victoria, the notion that councils were compulsorily required to competitively tender a certain percentage of their work, actually came in before NCP.

MR BRIDGE: All right. Let me just finish another bit here.

MR NCP has been in for - how long has NCP - - -

PROF SLOAN: Well, we really can only date it from 1995.

MR BRIDGE: You go to every debate now within the parliamentary process and in the bureaucratic process and you argue why there is a change of format. Be it to do with water reforms, we are in conformity with the NCC policies now being promoted by COAG. That's water reform. You talk to them about the discontinuation of a mail service into Halls Creek and Fitzroy Crossing. We are in conformity with the NCP policies Australia-wide. You talk to them about us shifting the manure down on the track to do with our cattle, you'll get the same result. Commissioner, everybody and any dog knows, everybody and his dog Australia-wide knows, that all of these

changes which we are finding pain associated with, can be traced back, whether you like it or not, to the origins of this whole process.

So it's better for you, I believe, if I could ask you, please, as an advocate of the bush, it's better for you to say to me - never mind about reading the fine print - it's better for you to say to me, "Look, we hear what you're saying, we take on board what you're saying and we'll try and see if we can address it in the context of what the real issue is," rather than saying defiantly that it has no relevance. It has. We've been told - - -

PROF SLOAN: I'm not saying it's not relevant, but we have to be precise in - - -

MR BRIDGE: And we are being precise.

PROF SLOAN: Well, if you go to page 29 of your overview you will find out what NCP does not require, which is not to say that the commission is not interested in your perceptions of these other changes because that is our task, to look at these other changes. It's just that - let me put it another way. They could abolish NCP overnight and a lot of these things would continue.

MR COSGROVE: This is the real - I think we're really on the nitty-gritty of this one at the moment.

PROF SLOAN: Yes.

MR O'SHEA: This is the problem. I acknowledge today what you have said, yet we get ream after ream of paper from the department and local government, RTA. The government is itself saying its competition policy is all part of this COAG, it's all part of it. Everybody seems to be blaming NCC or NCP - - -

PROF SLOAN: Well, I think that is true. Well, we say that. This is used as a scapegoat.

MR O'SHEA: And we are the last ones that get hit in the chain of government and you can say anything you like, but if someone says to you, as we've now got currently in New South Wales two weeks ago or 10 days ago, all councils were told, "All work on regional roads from the Newell Highway east will be placed out to competitive tendering and councils will submit their tenders if they so wish to carry out the maintenance work for the RTA." Now, I know you can twist words, but if that doesn't say competition is effort-neutral, a level playing field.

PROF SLOAN: No, that's fine. I think it would be more useful for the commission to hear on policies which are specific to NCP, which is not to say we're not interested in others.

MR O'SHEA: There is another one I've got. I'll finish on one if you don't mind at this stage.

PROF SLOAN: Okay.

MR O'SHEA: We have had the GST through, right? Great, finished, everything now gets on to me at work. One of the reasons for the change in the diesel rebate situation or diesel tax was to help the greenhouse effect. We are encouraged to go across to automotive gas and you'll probably rightly tell me this is not within your portfolio, but it gets back to the basic thing of fairness and competition as such. In Melbourne you will pay 19.5 cents a litre - I've taken the trouble, I was down there to look at it. Albury here I see today 31.9 cents. Now recently on a trip from Condobolin to Sydney I wrote them all down. Unfortunately I haven't got everything here, but my memory is not far out: Condobolin is 45.3 cents a litre, Parkes is 39.8, Orange is 35.3, Katoomba is 29.5 and Sydney is 23.8. So over the 500 kilometres, Condobolin to Sydney, the price is almost double. Now, there is no way in the world that anyone can be competitive on those sort of figures, and this highlights the unfairness of what is supposed to be putting us all on a level playing field - unleaded petrol 83.9 when I left there, in the bowser, diesel about the same in the bowser. So 23 cents off that is still going to bring it back to about 60 cents for diesel in the bowser, and our Autogas is 45.3.

So the whole crux of it is - and every time you get to the bureaucrats the attitude is, "Well, you live out there, you ought to put up with it" - but that does not address the issue, bearing in mind that the Lachlan shire, the statistics will show, is the highest cash-producing rural products in New South Wales. We topped the state with wheat just at Condobolin alone last season. The stock figures - we've always been up around the top shire council area producing in New South Wales. Now, you're producing with those sort of disadvantages and its supposed to be competition out there.

PROF SLOAN: But did those disadvantages get any worse as a result of the ushering in of national competition policy, because they're not a national competition policy issue?

MR O'SHEA: In amongst your request for works and so forth - we did a little bit of homework last night on it - and one of the issues was the effect of transport reforms. Now, that's a good one. That's a real classic, transport reforms, right. I'm talking road trains. Now, road trains are not allowed on shire roads unless with a permit. The area we have out there is a huge wheat growing area, grain growing area, and the contractors come down from Queensland with five, six headers, because they're going into 10,000-acre paddocks, and road trains to cart it away. With the introduction of road trains into the area, the statement was - political statement - "There will be great cost savings."

There was no reduction in the freight rates but if you didn't accept to use the road trains you didn't get the contractor, because they were tied. You got a contractor in, it was header and mover of the grain. They were either the same ones or in teams. Athol can back me up on that one - no reduction. You can argue about -

and not so much this year because we got out to them, we did a PR job on the carriers and said, "Look, we've been through a very heavy wet period. We've only just got the roads for youse to move on. Overload and you're gone." But the year before it was a competition, you know, and two semitrailer pulled by road train had got up to carrying 120 tonne of wheat, right and the legal - and at that stage the legal limit wasn't changed.

But we don't get any payment for that. If there's damage to the road, we just tell them beforehand, "Look, damage them this time, fellas, and you'll stay there for the rest of the season. Probably in the middle of summer it might dry out." So they cooperated. But you can't do that all time. That's the problem. There's been no benefit from the large trucks coming into our area to the growers, other than their crop might have got off the paddock quicker.

PROF SLOAN: Ernie, would you like - you probably need to give everyone a go.

MR BRIDGE: Yes, we will, we'll do that.

PROF SLOAN: We haven't got that much time.

MR BRIDGE: I'll just be 10 seconds, because I really want - see, I'm having a difficulty, Judith, with you disassociating yourself from the drift in the bush. That's why I'm trying to keep this as part of our discussions today. It is very important. See, even in your own words - you're saying what I've been trying to say all day.

To date -

this is you, says the report -

many of these reforms have produced greater benefits for large, rather than small businesses, and for business users rather than residential customers. Benefits are expected to spread to smaller users over time.

So you, in your own admission, in your document, are linking those matters which we are raising as concerns with NCP. So that's all I'm wanting to say to you.

PROF SLOAN: Well, that's because benefits are a different issue to costs.

MR ROBERTS: Just could I ask the question, how do you anticipate that the benefits are eventually going to go to the smaller operators? Because our perception of what's happening - there won't be any small operators. That's what our argument is all about. The smaller operators, the individual workers, are not going to be there.

MR O'SHEA: Correct.

MR ROBERTS: You know, you take the RTA tendering - which is going to be compulsory, coming in over the next two years. It's quite easy for a big contractor to

come in, undercut the market, and then they get the job. What does the council do with the workers and the equipment that they have got, that they have traditionally used to carry out similar types of jobs? We certainly believe in benchmarking and that's got to be carried out, but if the contractor can come in for a period of two years, the council has dissipated its machinery and its workers - what do they do then? They just put the price up to where it was or above. That's something that has happened traditionally over a period of time, and it will continue to happen.

PROF SLOAN: I don't think that does happen actually.

MR ROBERTS: What we're concerned about is keeping people in the bush.

PROF SLOAN: Well, because there's no barriers to entry to those industries - that's what keeps prices down. There's a new market born every day. I mean, you really need to read the history and geography, because in fact the proportionate gains in employment have been as good in the country as they have been in the cities. Those are the data.

MR ROBERTS: Well, you read different books to us then, commissioner.

PROF SLOAN: There doesn't seem to be much difference in the growth of small business.

MR O'SHEA: Where it's happening is in the regional centres.

PROF SLOAN: You might be right, and that's why we want to hear. It's probably up the coast.

MR O'SHEA: The regional centres are getting the employment, right. They are sponging off the little towns.

PROF SLOAN: Yes, well, we've got that, the sponge city phenomenon.

MR O'SHEA: That is where the employment figures are. I can assure you in any of our towns - when you live in a town of 3 and a half thousand people you nearly know every baby in the street and you know the unemployment situation. We certainly are not improving. We are losing more and more of our young people because there is no employment. Honestly, I'm afraid I'd have to say, with Athol, we have been down that track of exactly what he said about outside contractors come in and you get rid of your trucks and bang - we've just gone through it again, and we've had to buy trucks. So it's a fact of life in those western areas.

The other problem is with contracting in an area such as Athol's and ours you cannot contract out, with any degree of honesty or safety and accountability, maintenance grading, unless you're prepared to put on, with each grader, a supervisor, because if it gets into hard goings and he has quoted an hourly price which is below, say, what the council's is, he just lifts the blade, so the job doesn't get done. The only

way you can overcome that is you have a supervisor per unit. I've got 10 graders so that's 10 men I'd have to put on to supervise that, and a vehicle. It just doesn't work.

MR BRAITHWAITE: Look, I don't think we're disagreeing with you on the problems in what you're telling us. What we're trying to do is sift, you know, the problems you have and allocate them to the areas of responsibility. That's part of our charge. For instance, a lot of the things you've said is basically a state initiative, not a national competition policy initiative - accrual accounting, competitive tendering, the fact that some states allow their main roads to allocate work in certain regions to local councils, other states don't. They are state government initiatives. They have been mixed in with competitive neutrality. Now, that is certainly a part of what national competition policy is about, but this is the problem that we have had all along. A lot of the initiatives from the state are indicated by the state to be NCP policy, but it's not.

MR ROBERTS: But the states all signed the COAG agreement. It was originally the states and the Commonwealth.

MR BRAITHWAITE: Absolutely, yes, not disagreeing with that.

MR ROBERTS: And it reflects - the states are carrying out the COAG policy and then putting it onto local government. Now, local government wasn't a signatory to the agreement. I'm sure that when the COAG agreement was drawn up, neither the Commonwealth nor the states realised the social and financial implications of what they were trying to do. We all want to be more efficient. There's no doubt about that. But there's another issue there that we're trying to address and it's the impact that these policies are having on the rural communities of - well, we're talking about New South Wales.

PROF SLOAN: Ernie, would you like to keep your group going because - - -

MR BRIDGE: Yes. The next speaker is Brian Sharp. Brian is the mayor of the shire of Murray.

MR SHARP: Thank you. Brian Sharp, mayor of shire of Murray, also chairman of the Murray Regional Organisation of Councils, which is a group of seven New South Wales councils and we have three Victorian councils as associates. I believe that CCT is the child of national competition policy and there's no doubt about that. I'll back up what Athel was saying just a short time ago. The very large Victorian shire of Moira across the river from a part of our border - the general manager stood up at a meeting just recently and held up a shovel and said, "This is the entire plant this shire now owns." They've got five large towns in that shire. Because of CCT - which I believe is the child of national competition policy - introduced by the state governments under pressure, under their own pressure at times but under federal COAG pressure - those towns now have been forced to tender out every service, every roadmaking job. They're not only the one town. There's a number of towns.

Because of that - nearly all of the tenderers and the successful people are from out of town and from out of the area - all of that money, all of the cost of all of those jobs is now leaving the area. Also because of that, now there has been a number of - along the length of the three shires that are associate members of our organisation there has been at least five to seven council depots close down, leaving a population decline in small rural towns which has been devastating to those towns. I think a lot of that then leads to the poverty situation in rural towns of Victoria, which has been addressed very well by St Vincent de Paul Society. I'll quote a couple of things out of that in a moment.

We in our own town of Moama are trying to address population retention, because we don't have a decline. We're very fortunate. But to make sure that we retain that population and retain a growth, we actively seek industries. Recently we had the opportunity and we addressed and spoke to a very large canning industry, which we had the opportunity of putting in our town. We spoke to the minister in relation to getting water into the town supply to supply this industry. He said, "If you want water, get out in the open market and buy it, we're not going to assist you." I said, "What about the opportunity of getting 300 jobs in a town?" He said, "That doesn't matter."

So what happened was that industry went to Victoria, where they didn't have to pay for the water. The water was supplied and they only paid on a usage basis, didn't have to pay the capital costs of water, just the usage base of it. So an industry was lost to our area because of the ridiculous ideas of New South Wales government in relation to purchasing water from the river. I think it's an absolute disgrace.

In relation to the poverty not only in Victoria but in New South Wales, St Vincent de Paul Society in an independent survey - which is an extremely valuable document I think on the decline of rural Victoria and relates directly to the decline of rural New South Wales. I'll just quote just a few things from it and it won't take me long:

Much concern is expressed in relation to the government commitment to principles of globalisation and the impact of such policies on primary production and rurally based manufacturing. Downsizing, regionalisation and closure of services in rural area have a serious effect on rural towns and people. It is felt that the government has made these decisions based on economic objectives, without giving sufficient thought to the social and economic impacts on small communities. The effects of these on rural people and communities have been severe. Rural people are experiencing a loss of influence over decision-making that directly and indirectly affects their livelihoods and their communities. This is particularly in relation to forced government changes and policy directives - as an example, local government amalgamations, primary industry policy, regionalisation of essential services, loss of employment opportunities etcetera, as small rural towns experience population decline which leads to further reduction of services and employment opportunities.

It goes on and on. It also states in one more paragraph:

Of most concern to primary producers, specifically those operating on a small scale, is the government's pursuit of economic rationalist goals through the active promotion of principles of globalisation, of open competition of local produce on world markets. This based on the theory that competition will facilitate the effective allocation of resources, resulting in lower prices for consumers and increased economic growth. According to focus group assistance, this theory is fundamentally flawed, as it is based on an assumption that there is a level playing field. This is seen to be a fallacy because of the relatively high cost of inputs for local farmers and the level of government subsidisation of primary industry in overseas countries, as such local farmers find it very difficult to compete with imported produce. For example, due to the import of cheap orange juice from overseas, which is highly subsidised, orange growers in Mildura are ploughing in their crops because the cost of harvesting and selling would be higher than their prices.

This document goes on and on. It's a document that shows the decline in rural Victoria, and it's almost a carbon copy of what is already happening in rural New South Wales and the rest of rural Australia. It's got very good credentials and I think it's a document that should be read and a lot of notice should be taken of it because we're already in decline and I think national competition policy is going to push us further into decline. Thank you.

MR BRIDGE: Thanks, Brian. Norm Brennan, the mayor of the Conargo shire.

MR BRENNAN: Mr Chairman and commissioners, thank you for spending the time. I'll be succinct, I'll be brief because a lot of areas have been covered. I'd like to present to the commission Berrigan shire's submission. I think it's well worth reading and I'll address it between both that and a few points that I've got. Local government is the closest form of government to the community. We know what's happening out there. We are aware, the community tell us, and please listen. I think whether they are directly responsible for NCP policy or economic factors, environmental factors or whatever it might be, there's a whole range of issues there, but please listen to what's happening out there in rural Australia.

I'm an ex-bureaucrat. I woke up to myself. 20 years as a bureaucrat and got out 10 years ago. I now live in the Shire of Conargo in a village of 41 people. It's 100 K's from the north part of the shire to the closest major town - and I wouldn't call that a major town being Deniliquin, 8000 people. They get used to freezing the bread, freezing the milk. They get used to the power being out for two days at a time. They get used to their phone being out for a day. They get used to the isolation. This isn't regional Australia; Albury isn't. When I read that - and the general manager from Berrigan picked it up too - it's trying to look after rural Australia and regional Australia and I find that a very arduous task to try and accomplish both playing fields because they're totally different to each other. I think that's where we might be having a little bit of difficulty in comprehending. So I've tried to set the scene. There

are a

lot of people out there suffering.

NCP policies I see as a potential to take away that role of local government - not all of it but in some areas, especially when you get into the road side and whatever it might be. Local government have the ability to have their finger on the pulse of what the communities are. If the grader is out there fixing up a road and a culvert needs a bit of work, half the time it would take a quick word to the grader operator, the problem is fixed like that; a contractor just keeps on going. So the service provided, even though it might be economical on the contract and cost benefit and whatever it might be, the true service provided to the community needs to be really examined the right way and I think that's a very critical thing because local government does that.

Then you take one step back, is local government inefficient? Sure there might be some areas that need improvements but not wholesale change. I don't believe that's right. The earlier session this morning was basically on water and as we said over lunch we've only got three problems in the country and that's water, water and water. Someone did say that water is the life blood out there. In my previous bureaucratic life I had the pleasure of working with a senior engineer who was heavily involved with the Snowy Mountains Scheme and what he told me about it was mind-boggling for a young chap at that stage. My perception is if we had these policies before the Snowy we wouldn't have rural Australia as we know it today inland because the Snowy wouldn't have been built. I doubt it very much indeed.

I just see that if that wasn't built and the wealth it has created - the wealth, not only for the region, for the farmers, but for the cities that have developed, the regions that have developed, the export wealth that it's earned by the provision of that life blood, that artery of water to those areas. I really wonder - and you've touched it on a couple of questions - how much is that measured in a macro-economic sense. We can always go down to full cost recovery but what about all the other social community benefits, they don't really seem to be approached or considered in true depth. The comment that I read in the document, "It is a package designed to reinvigorate the water reform process." Well, "reinvigorate" is a very interesting choice of word. I would rather see words, such as "proactive" and "positive" in its method that it goes about. Instead I see "reactionary" and "reticent", seems to be the course that it's going down in regard to the process of water reform.

I just want to touch quickly on two other points. Bill Hetherington raised it earlier. All local councils up here, we've got a duty of concern to listen to our ratepayers. In February this year, as frustration grew, a water reform rally was organised. 1500 people ended up at the Deniliquin RSL. I was fortunate enough - or unfortunate enough - to chair the meeting. We had a variety of speakers - Ernie Bridges was there - to express their concern over how water reform policy is going. The community was talking to us. I'm quite sure in the capital cities that you come from, you never read about it. But probably on the same day there was 10 One Nation people at a meeting and it got front-page exposure or a cat was up a tree and that got front page. But here's 1500 people who travelled from 100 to 200 K's

around, spending half a day to a day concentrating to say, "Hey, we're worried and we will support this process." The community was talking to us very loudly and unfortunately that didn't get around too much. It's a thing that really you should take on board.

You mentioned before about that horrible "C" word compensation. Whenever I hear compensation mentioned, a bureaucrat's previous experience, I tend to cringe and I want to find a corner to hide. The comment was made that currently there's no existing mechanisms or whatever it might be to address compensation. I might draw your attention to the Native Vegetation Act which has been brought in replacing SEP 42 in New South Wales which has in it a component which addresses compensation for farmers who do a certain treatment of their land area. They virtually give up property rights under an agreement and they are compensated for it. So there is an example of principle that might be able to be looked at in regard to compensation. Practical examples - and I don't know first-hand knowledge but I'll read from the Berrigan report.

An ironic example of application of the policy will be seen in the saleyards industry. Quite clearly, saleyards are a commercial operation will all except two in Australia being controlled by the public sector. We have a farcical situation where a whole industry must realign its thinking and operation to benefit a very small majority. It would surely make more sense to change two saleyards than an entire industry.

Here the general manager from Berrigan has obviously picked something up, and I'm not fully aware of the detail but I think it should be pursued to give a classic example if there is reason as NCP has changed the whole industry, whereas only two publicly owned ones benefit.

In summary - and as I said, I'm a little store-holder out in the backblocks there and probably an endangered species myself - I see the NCP as a very inflexible master for rural Australia. It does not adequately consider all the external, extenuating activities and influences that happen and prevail in rural Australia. Unfortunately, NCP policy doesn't seem to be too responsive to fine-tune those anomalies. Thank you.

MR SHARP: Could I just add one in relation to forestry in the small town of Mathoura which is in my shire. In Mathoura, predominantly the income of all of the people there is either working for the shire or working in the red gum industry in the forest. Under national competition policy, the forestry went to full tender. New South Wales government - they told us NCP - this is two years ago, so it is since NCP. So the forestry went to full tender for removal and harvesting of red gum from the forest. We had 25 sleeper cutters in Mathoura. When they put it out to tender to cut all of those sleepers for the Victoria Railways, two people got the tenders, 23 people are now out of work in our town. 23 families - a hell of a decline in the town with 23 families put out of work.

MR COSGROVE: Were there any other new cutters who came in with the contractors?

MR SHARP: Two mills got the jobs - two of the big conglomerate mills got the jobs. They go in, they harvest, they drag it out and cut it out and send it away. They are working in the town, did pick up three of the people from the sleeper cutters as employees but they're fully automated except for the truck drivers. They're totally and fully automated. That is devastating to a town with a population of 600 people. From that town now we've lost those sleeper cutters, we've lost the forestry office, we've lost the RTA road patching gang and because of that we lost one schoolteacher. Just a small example of it, 100 per cent of our police force got transferred recently, just one bloke. He had five children. Because of those five children we lost a teacher. Because of five children leaving that school we lost a teacher. The way people think about us in the bush is quite incredible. I spoke to the police minister in New South Wales recently complaining that we had - in another town in our area Moama, we have a population of four policemen in that town.

We had been without a sergeant for 13 months. I spoke to the minister and I said, "We haven't had a sergeant for 13 months," and he said, "One policeman?" and I said, "Yes, one policeman." He said, "Well, you're only missing one policeman," and I said, "Sir, in your area there's over 120 policemen in the police station in your area. You take 30 of those away for 12 months and see how you go." 25 per cent of our police force was missing for 12 months. They don't consider what's happening this side of the mountains at all. I believe they have no idea what's going on, whether that be federal people or state people. They should look out here and get out into rural Victoria and not just here in these big cities like this - get out into rural New South Wales, rural Victoria, and have a look at what's really going on out there, because what's going on out there is devastating.

MR BRIDGE: Thanks, Brian. Terry, I understood you just wanted to make a couple of comments, did you? Is that correct?

MR BRADY: Thank you, Ernie, if I may.

MR BRIDGE: Terry Brady, Mr Chairman, the mayor of the Lachlan Shire Council.

MR BRADY: I haven't got very much to add. I was taken aback a bit with Judith's statement about the poor city people having to pay for the dams. We had a cake at the country summit last year - a big round cake up on the thing - and I haven't got it with me but I'd like to get hold of it and post it to you and it shows the input of the country to the Sydney government, the percentage of the cake from the country and it's quite a bit more than half, something like two-thirds. The output is about a third. So the poor people in the country are subsidising the city fairly well and City Rail comes to mind. I read a document - Cronulla to Central was one and Parramatta to Central was one - a couple of years old but the ratio is still the same. It was about a \$2 fare. The real cost was 34 bucks. So who is subsidising who? Let's be honest about it.

PROF SLOAN: I agree with that but I think you can't assume that the people in the city will necessarily want to pay the capital costs of infrastructure in the country.

MR BRADY: We all have to pay for the rail. We all paid for the Opera House, we all bought tickets and a lot of the other things. Nothing about bloody Homebush Bay; we'll be paying for that for the next 20 years. The country will be paying for it as well but we won't get the benefit. Just a couple of things that I've picked up that we haven't mentioned - native vegetation is one. We have a weed called lipia and they haven't heard of it down here. But I went over and bought a shoe box of it for a lawn and other people did the same. It's escaped and become a very bad weed. If a property gets infested with lipia you might as well walk off it, for two reasons: to spray it is beyond the value of your property and the only other remedy is to plough it and if it hasn't been ploughed for 10 years you'll go to gaol if you plough it and I know of properties that are in that situation.

With the cap, the Lachlan is a closed valley, it doesn't run anywhere. It runs into swamp down at the end. If you look at a map of New South Wales you think the Lachlan runs into the Murrumbidgee; it does about twice in a hundred years in a very major flood. The Murrumbidgee is more likely to flood over into the Lachlan.

MR ROBERTS: It can't run into the Murrumbidgee.

MR BRADY: It can't, no, but a flood does trickle across the plain.

MR ROBERTS: It used to be able to but it can't now.

MR BRADY: We got the carp out of the Murrumbidgee. But however the Murray-Darling cap was applied to the Lachlan and we jumped up and down. In the early 70s we took the state government to court objecting to further licensing. We had about 150,000 acres or 600 licences issued and our sums said that that's as much as the river would bear. We had a court case at Forbes, one at Condobolin and one at Hillston - we lost the three of them. Within four years the government decided we were right and they were wrong. But in the meantime another 50,000 acres of licence had been issued which reduced everybody's availability. Then the cap comes along. When we had an allocation of 630,000 megalitres they capped us back to 460,000 or roughly a 30 per cent reduction. Now, if anyone should get compensation it should have been the irrigators that were licensed before 72-73, when the government said the river had plenty of water in it and it obviously didn't.

Now, as I say, we've been capped back to that extent and yet we were using about 460,000 megs, we weren't using our 630 full allocation. We reduced back to 74 level, which was that figure. The Namoi and the Gwydir that were using over 100 per cent, they're not capped at all. Now, I suspect that the government has said, "We'll get a couple of hundred thousand megs for the Murray-Darling, it'll look good for them, so we'll knock it off these blokes on the Lachlan. They've got hair on their teeth, they won't miss it."

The mine that my general manager spoke about applied to the government for an allocation of water. They need about 6000 megs a year to earn \$1 billion dollars a year and to hopefully bring gas through Condobolin and employ a couple of hundred people. We have 50 per cent Aboriginal youth unemployment in the district and that would be a hell of a boon to our town, which is going backwards, like all the others have mentioned. The government says, "You've got to go out in the open market and buy it." I was chairman of the River Advisory Committee for about 30 years and we had an environment flow for over 10 years until we had foisted on us a river management committee loaded, as has been said, by government agencies and environmentalists and every other mentalist you can get and the year before last they sent down 370,000 megalitres environmental flow, the year we couldn't get water into our lake, we couldn't have surplus flow and a flood was going past.

Yet our river goes nowhere. It's got a annual unregulated flow our valley of two and a half million megalitres. It's got a regulated flow of 1.2 million megalitres. We're using 11 per cent and they can't give some industry out of that remainder, that 89 per cent of unregulated flow that goes down the river, they can't give an enterprise that's going to employ 2 to 3 hundred people and bring in a billion a year in income - they can't give them a lousy 6000 megalitres. Now, if there's not something wrong with the whole set-up I'm a Dutchman. As far as I'm concerned, I've got a little farm with a thousand megalitre licence and I'm better off to sell the bloody thing to the cotton growers. To sell it, sell the licence, and give the ground back to the Aborigines. So that's all that I've got to say.

MR BRIDGE: Thank you, Terry. Our final contribution is by John Lane, Mr Chairman, and I guess that will just lead us into a brief sort of conclusion there.

MR COSGROVE: Okay.

MR LANE: Thank you, Ernie.

MR COSGROVE: John, we'll need to get you on the microphone.

MR LANE: Thank you, Mr Chair. I represent Murray Valley Voice. My name is John Lane. I'll quickly just give you a background on Murray Valley Voice. It is a community based organisation. It has no affiliations or ties of basically anybody here except that everybody within the certain region which we call or the government has identified as the mid Murray of New South Wales irrigation region which encompasses quite a few different irrigation bodies. MIL is one of those, West Carrugan and there's quite numerous others.

We felt that in the water debate there was no real community input. This might be offensive I think to the shires and LGAs but the complexity of the whole issue at state level - because we do act and reside on a state boundary, therefore it involves the DLWC - complex enormously at a state level and there's no commitment I think, as you found out today, from the New South Wales government to really resolve any

particular issues. So we decided to try and get some involvement of the community which, if you have a look at the demographics of the region, has about 32,000 people in it. We'd estimate 15 per cent of those are actually irrigators or live on a farm, which means that the other 27,200 are actually what you would call urban dwellers or living in villages or towns.

It is our belief that in the water debate in New South Wales that the impost of the cost of water reform - and that also comes back to the NCP and that reform of water, trying to drive water more expensive - is going to be borne by that community. The fact of the matter is as we see it is that the uncertainty of water is actually driving the price of water more expensive, is actually driving the irrigated property to be worth more money and the irrigators in our region, to overcome that problem and that fear that they won't be able to produce in the future, have sought to purchase their neighbour or, I suppose alternatively, sell out to their neighbour.

This is without doubt with the NCP coming in and, as they state in your own report, to drive the price of water more expensive to actually have some positive outcomes, actually is having a negative outcome in our region because what you're actually doing is you are allowing the farmers to, I suppose, become asset rich - the irrigators anyway - and they can actually sell out, even though they don't desire to do that. If they're on a farm that's been in the family for 100 years they really do have an affinity with that, they wish to continue, but they really have the option at the end that they can actually sell out for a fairly capital gain and retire to the coast, buy the motel and live in wealth, rich.

However, the communities don't have that option because basically what you're seeing in rural Australia has been pretty much documented in your own overview, that we live in an environment that has had a revolution, I think you'd say, occurring. It's occurring not just at state level, government level. It's occurring in private enterprise, the deregulation of banks, it's occurring with the privatisation of TABs and the withdrawal of TAB agencies out of the small towns. So the continuation of job losses is seeing that there's little gain for anybody to actually move into a region.

Now, what I hope to do today is actually to paint a quick picture of our region, because that is what I'm on about, and how it's actually come about because we're one of those regions that in your statistics basically has grown. The towns in our region, Berrigan, Jerilderie to some degree, Finley especially, have actually over the past 10 years seen some growth. Probably actually longer, if you go back further Finley has probably come from about 1200 people back in the 1940s to about 2400 people in about 1989. What you must understand is why that's occurred. It has actually occurred because of the take-up of irrigation. As irrigation has developed and the region has actually utilised that resource and let's be honest, it was utilised at the insistence and the encouragement of the then government, then there's been an ability for dairy to enter the area, potatoes, two crops a year, carrots, tomatoes, other alternative cropping to basic broadacre farming.

In 1982, when we saw, I suppose you'd say, a fairly large major drought, what

happened in our region was it culled out that inefficient farmer. We say probably something like 20 to 25 per cent of the people go to the wall. Now, they didn't go out in 12 months, they went out over a period of probably 10 years. In some cases there was arguments with banks that ended up in court cases and some of them were well documented on national TV. But what that left us with was the realisation - or those farmers that are in our region, our irrigators, that they had to become a lot smarter and a lot more business-like. I believe today what we have is a very progressive farmer, a farmer that's taken up technology.

I think today Bill has shown you from MIL and other speakers have also shown you - Laurie Arthur from the irrigators authority - have shown you that they are willing to take on change and willing to adapt to keep their costs down and keep industries going. However, what's the impact upon the communities? The farmers basically, as I said, will be able to sell out of the property. The towns though, like all rural towns and with the advent of the Telstras, the banking deregulations and everything, the last five years the uncertainty has put our region into the same belt as the dry land areas and that is we are losing population through job losses. That is becoming I think a huge concern for us because NCP doesn't offer any salvation. So when you put NCP over the top of what is already occurring - and you've outlined it already quite clearly in your overview - you are further enhancing and further driving that cycle of decline that is happening throughout rural Australia. May we ask Commissioner Sloan there, how many people live in Goolwa?

PROF SLOAN: In Goolwa?

MR LANE: Yes.

PROF SLOAN: I think about 8000.

MR LANE: 8000. So if we remove the barrages off the mouth of the Murray you would say that that township would no longer able to be supported because of the salt infestation up the river?

PROF SLOAN: It wouldn't help it.

MR LANE: No, but I would say that that would cause a fair public outcry, wouldn't it?

PROF SLOAN: You bet.

MR LANE: I would say at the moment in our region of 32,000 in 10 years' time we might have lost 8000 people also and yet that will cause no outcry because it's just part of the rural decline which seems to becoming an acceptance.

MR BRIDGE: If we accept it.

MR LANE: I don't think we will accept it, Ernie.

MR BRIDGE: No, of course not.

MR LANE: I'm one those people that are little bit different here today because I actually own my own business, I don't have a farm. I employ about, in total and between two businesses, about 20 people and I believe I'm having a go. I'm also deputy chair of the BEF which is a rural organisation looking at over three council areas trying to get some affinity in the area because what you must also understand is that our region has no focus. We don't have a regional centre. Can I ask you here today, in Albury here, is this rural or regional?

MR COSGROVE: I'd say it's probably both but people might tend to see it as regional.

MR LANE: Without doubt it is regional.

MR COSGROVE: But it has rural activities around it.

MR LANE: There's rural activities around it but the township or the city of Albury is definitely regional and when you start putting your figures together you always over a region put in Albury or Wagga or somewhere like that, one of these sponge cities which you identify, and they are not only taking away the people but they're taking away the benefits that come down from governments to those regions and those areas.

PROF SLOAN: But again, that's a process that's gone on for quite some time, isn't it. I mean, the growth of this place is not recent. This has been - - -

MR ROBERTS: Why should it be accelerated?

PROF SLOAN: I'm not saying why I'm just - - -

MR LANE: I think what you'll find is that Albury, to some degree, received millions of dollars in assistance to try to grow and it had basically very little effect. It's only been the last 10 years I think the growth has actually re-occurred. But I think what you people have to understand and I think it's in your own interest to understand and you identified I think in page 137 that COAG really hasn't modelled the impacts that some of the policies are going to have on these communities, these smaller communities. I think you have an obligation to look at the social effects in greater detail upon these communities because what you are doing or what, I suppose, the Australian government and governments lower down are doing is actually like ethnic cleansing except it's economic cleansing because what you're doing is you're forcing people out of towns, you're forcing people out of communities. The people that are being lost are like the bank managers, those people that have a higher salary, those people that probably had a higher education, and what you're ending up with is those people that only have skills in their hands.

MR COSGROVE: I think that's probably a little bit of an overstatement. As I think

you were agreeing earlier, John, there are a range of forces at work here. Many of them are not only not initiated by government but they're actually beyond the control of government; things like changes in commodity prices which, you know, I think we've been able to show, have been quite substantial over a period of decades. The advance of technology, as I think it might have been Bill Hetherington was telling us earlier today, has led with wider-cropping machinery and there's not as much need for people. So it's a combination of these factors rather than an explicit result of government action that I would say is responsible for the drift of population away from small rural or remote locations.

MR LANE: That's true to only a point. I think that the obligation of government is to try to understand how - I mean, when you put a policy into place it affects different regions in different ways.

MR COSGROVE: Sure.

MR LANE: And I think that there is a lack of that mechanism being put into place, especially in our region, because I think there is opportunities. One last point that I'll take up - when I say "opportunities", I think there's opportunities for further development of further enhancing the infrastructure that's already there. In a town like where I live in, Berrigan, which is a thousand people, you could put 400 people into that town and you wouldn't have to put any infrastructure in there because you have the skills, you have the sewerage works, you have the fresh water and raw water supply, you have the electricity, the phone system. Everything's there. The land's there. You don't have to actually have a capital investment to develop that. The only thing you've got to do is find the jobs for those people that need them.

The last thing that I have a problem with is full cost recovery because it seems to be that when we talk about irrigators we end it at the farm gate, and there's a multiplier effect upon any dollar that comes into a community; economists talk about six maybe seven times the benefit of every dollar spent. But also the benefit of produce made or produce produced on a farm also then goes into the secondary industries such as the processors who then employ further people. There's dairy production, mainly in Cobram, Strathmerton - it's all over the river unfortunately. There's tomato processing and that at Sedenko and Echuca, and those jobs that are created come from that water that is being used by those irrigators. So there's a benefit.

The potato prices, for instance, at the moment are driven lower because of the volume of potatoes that are produced in our region. So the benefit is to the whole of Australia in the price of potatoes because if there were no potatoes grown by that irrigated water, what would the price be? I mean, it's an interesting thing because it is a flow-on effect. If you keep putting the price of water up to where the farmer probably couldn't make a profit out of it then he won't grow those potatoes and the areas that now grow potatoes or don't grow potatoes at the same time, would actually demand a higher price, and that's a market force, and that's the irrigated water keeps that price down. It does it with other commodities as well. But I'll end there.

MR COSGROVE: Thank you.

MR BRIDGE: Thanks very much, John. Thanks, Mr Chairman. Mr Chairman, we'll now conclude our segment in terms of our contribution excepting that I would like to tender, as the final document in terms of our contribution today, a series of covenants under the Human Rights and International Health Obligations, and I think it's important that I just tender those for your commission's consideration. I'll read two and tell you why.

Providing Basic Health Services. The states, parties to the present covenant, recognise the right of everyone to the enjoyment of the highest attainable standard of physical and mental health. International Covenant on Economic, Social and Cultural Rights, article 12.

I believe we are in breach of that article and I'd like the commission to consider this to be the case because this is what we say about it:

Rationalisation of services continues to be a key strategy of governments to achieve cost constraint reduction, economies of scale and efficiency and effectiveness of delivery service. This has involved the centralisation and the regionalisation of services in rural Australia into larger regional centres. Governments are increasingly locating services in areas of greatest population demand. This strategy is having an increasing detrimental effect on the local delivery of services in small towns in rural communities. The National Farmers Federation 1997.

The next one:

Meeting other essential needs. Everyone as a member of a society is entitled to a realisation of the economic, social and cultural rights indispensable for his dignity and for the free development of his personality. Universal Declaration of Human Rights, article 22.

This is what our summary is:

Micro-economic reform, which has been underpinning policy development at all levels of government in Australia, has had a huge impact on rural communities. As governments seek to use their resources more effectively, they cut costs by closing services such as schools and hospitals which are deemed to be unviable. They do not have enough students or clients to justify their very existence in monetary terms.

We've heard that over and over today.

This becomes a vicious cycle as rural populations are declining which results in the closure of services which in turn make it difficult to attract new population.

Australian Catholic Social Welfare Commission 1998.

So those are just two points, two examples Mr Chairman, of several that I'd like to submit formally. One is called Ensuring Fair Access to Education; Water; Valuing Children and Young People, and Building Communities. I'd like to, with your approval, tender those documents.

MR COSGROVE: Fine.

MR BRIDGE: Okay, thank you. That now completes our contribution, Mr Chairman. Thank you and your fellow commissioners for being prepared to hear and to take our submissions today. We appreciate the long period of time you've given us, we greatly appreciate that, and thank you for enabling us to have our contribution.

MR COSGROVE: We're pleased to have your interest in the inquiry.

MR BRIDGE: Thank you.

MR COSGROVE: Thank you all for coming.

MR COSGROVE: Given the constraints on our time, I think we should move on now and my understanding is that Towong Shire Council is the next participant. Please come forward. As we've had the other participants do, we'd be grateful if you would identify yourselves and the capacity in which you are with us today please.

MS FRASER: Mr Chairman and commissioner, I'm Chairman of Towong Shire Council or President of Towong Shire Council, Mary Fraser, and - - -

MR WEBB: And Lyndon Webb, Chief Executive of Towong Shire Council.

MR COSGROVE: Good.

PROF SLOAN: What area does that precisely cover?

MS FRASER: It's 6000 square kilometres in north-east Victoria just over the border from Wodonga - or there's a shire that intervenes, Indigo - and it has a population of 6000 people and large tracts of native forest as well as pine plantations. Are you right?

MR COSGROVE: Excuse me, could I just ask people to be a little quiet please.

PROF SLOAN: And what's your major town?

MS FRASER: Two major towns, Tallangatta and Corryong. The shire office is in Tallangatta, was in Corryong. We were amalgamated. These two shires were amalgamated in 1996 and they were two viable shires before that - well, when the commissioners came in. So we're largely a rural shire and a beef-dairying shire, and a number of small towns, 10 small towns. We're concerned - and actually I was listening to your comments about competition policy being slightly different to national competition policy or competitive tendering. We've received a payment from the state government saying:

National competition policy payments provide recognition of the efforts of achievement of Victorian local government in implementing competition policy, first under compulsory competitive tendering and more recently under national competition policy.

So we see them as being very similar.

PROF SLOAN: Yes.

MR COSGROVE: They are, yes.

MS FRASER: We're finding the effects on our communities quite serious. Under the commissioners we had competitive tendering and did tender out or the commissioners gave a tender to a group that put in a better tender from outside the shire and it was not a good tender by any means. We lost a lot of money over that.

At that stage they'd sold a lot of our shire equipment, trucks etcetera, and we're now in a situation where we have to rebuild that base because we are trying to employ our own staff again. We see the staff members as being very important. In small communities we need to keep our own employees because once - as the other councillors were saying - once someone comes in, there are no other jobs in our rural shires and we think we're operating very efficiently, but there aren't other jobs available for people if they lose work, and they move to Wodonga and Albury, and consequently this is some of the reason Albury and Wodonga are growing because there is an opportunity for jobs there. So we've listed some of our concerns, which I'm sure you'll read, and I wonder if, Lyndon, you would like to go through those?

MR WEBB: Yes, certainly. Thank you, Mr Chairman. We haven't submitted a lengthy submission, preferring to just give you some brief notes and then speak to them. We're very conscious of your time-constraints so I'll keep myself brief. One of the things that we would reiterate is some of the points made previously about the decline of rural towns and communities as a result of some of the downsizing that has occurred. I note in the summary of the NCP that it makes reference to the over-manning of the government businesses and as a result of the CCT process there has been some reduction in the numbers of staff, and the compounding effect of that has been quite significant, and just as it has been mentioned in other towns, where you get that domino effect of a few people leave and that makes the difference as to whether there's a school teacher and whether there's a bank.

In our case in Tallangatta, perhaps as a combination of factors and not solely due to the NCP but I think it's perhaps exacerbated by it, virtually all our banks have now closed. There's still one that opens part-time but other than that - I think it's three days a week that bank opens. The other banks have all closed and that of course has had a compounding effect in the decline of businesses. There's a lot of shops that are now vacant in the town and so on. So the impact of reducing sizes of businesses - and shall we say that also is like the post office and other government agencies - has had an impact on the town.

MR COSGROVE: When would you say those sorts of impacts commenced or at least became significant? In other words, is this quite recent or has it been happening for some time?

MS FRASER: Yes, I think, having lived in the area all my life, I would have to acknowledge that certainly rural commodity prices have declined. I mean, you say that's not the fault of government. You can look at governments overseas who haven't treated their rural communities quite as harshly. In fact I was reading an English farming magazine just the other day and they were saying how the farmers are more valued in England and they're despairing because their subsidies are going away but they have been acknowledged as being a very important part of the rural community and a part of the structure of England. We don't have that same sort of recognition here. But I would say over the past 15 years I suppose there has been slight decline. That started off with government agencies moving out of town, whether it was the Forestry Commission and the SEC - these various government

bodies moved away from Tallangatta and moved into Wodonga and Benalla. That was the beginning of it.

More recently we've noticed with banks and Telstra - services are much worse in the country now. We're in the same situation with mobile telephones as the people in rural New South Wales. Our problems are exacerbated by the mountain ranges. 15 K's from here you can't get mobile phone. So we're in that situation. Now we find with Telstra the service is much worse, that you wait a week or 10 days to get your phone repaired. I had a situation of someone ringing up, saying to me that they'd tried to ring and report a phone out and when they got onto the service provider the girl said, "Oh, no, the person that owns the phone must report it." This girl said, "Well, they can't, the phone is not working." She was told to tell her to use a mobile phone. "Well, there are no mobile phones working there." "Use your nearest phone box." The nearest phone box is probably 35 K's away.

So these are the things that aren't acknowledged by people in Canberra or Melbourne or Sydney. They're not aware of all those issues. So the decline has been going on. My concern with the policies that have been introduced, particularly by the Victorian state government I suppose over the last few years and with national competition policy, is that the things that have been going badly are going to get worse.

I think a lot of people need to acknowledge the value of small rural towns in Australia. I think that they're there not only to provide an infrastructure for the farming community or the business community but also for tourists, people travelling through. I think if you get large regional centres in vast areas of unpopulated bush around us, it will be blackberries and weeds, you won't have anything else, and I think that's to the detriment of Australia as a whole. So I think that there needs to be a recognition of value and also policies put in place that encourage people to stay in the country. I don't think they need huge subsidies; they just need to be recognised as being of equal value to people in other areas.

MR COSGROVE: Do you have in mind any specific sorts of policies to achieve that purpose?

MS FRASER: I'll have to write some for you. No, I think actually today I'm speaking against anything that forces competition, whereas - as we have pointed out, we're very answerable to the local community in local government, because if they don't like what you're doing with their money, they certainly let you know. So we believe we run our organisations efficiently. I think if we're asked to competitively tender compulsorily - if we're asked to cut back any expenditure that might enhance a position or a job that we see as value for money, we shouldn't be denied doing that.

I remember years ago, when I was on the local hospital board, the nursing staff - and this is 20 years ago - the nursing staff were given free meals if they lived in, which they used to in those days. I thought that was, you know, a waste of money. I thought that wasn't the right way to go. But I learned to appreciate that you didn't

get nursing staff in the country if you didn't give them a few extra things. I think they should be doing that now with doctors actually. I think they should be paid bonuses to go to the country. I see that as a government policy that probably should be taken up, to provide services.

PROF SLOAN: They are.

MS FRASER: Yes, well, they need to be doing it. I think that schoolteachers - you know, there needs to be that encouragement. I know that happened in New South Wales, where teachers in regional areas or rural areas were given points which gave them a better opportunity to get promotion. I think they're positive sorts of things that people need to do. I think you can say people choose to live in the country and if they choose to live there, well, they should suffer some of the consequences. I know we do, you know, and we accept as part of our lives that we're not going to have theatre every night and - - -

MR COSGROVE: No Opera Houses.

MS FRASER: No. We can't go out for dinner. But by the same token, as I said, I think we're needed in the country. Other people have spoken about the productivity of rural Australia and I think that that needs to be recognised. I think it needs to be enhanced, rather than leave people to suffer on their own. I think it will be a huge loss.

MR COSGROVE: As my colleague Ray Braithwaite has been saying a few times during these inquiries - NCP of course has many dimensions, it's a rather complex package of measures - but some of the important areas of intended benefit to the country at large, including rural parts, were reductions in the costs of various services which they use, like telecommunications and power and transport. Has your area seen any of those effects?

MS FRASER: No. I think we've quoted here the cost of fuel, which of course adds on to the cost of transport. Two days ago we were paying 16 cents a litre more in Tallangatta for fuel than you would be paying in Melbourne. That's unleaded I presume.

MR COSGROVE: It's a surprisingly large gap, isn't it.

MS FRASER: It's ridiculous.

MR WEBB: It's a huge gap, yes. I was just going to say, that's \$8 on a tank and in a shire the size of ours, which is probably 120 kilometres each way, people use a lot of fuel very quickly and so it adds up quite significantly.

MS FRASER: And we haven't noticed any improvement in electricity services, certainly in costs. Our telephone service in the valleys in our area are all - I think we have probably local call access to 2000 people. Any other phone call is STD. That is

to our major town which - the major service provider would be Albury or Wodonga, for solicitors and for lots of services that we need. That's an STD call for people out there. But that has been the situation for quite a long time.

MR COSGROVE: Although I guess the cost of STD calls has come down quite a lot as a result of competition.

MS FRASER: Well, I haven't noticed my telephone bill going down.

MR COSGROVE: Your bill may not have gone down but I think the average cost per call might have.

MS FRASER: But it still is a discrepancy when you consider that in the city you can get local call access to, what, 5 million people. So that's another disadvantage. I think one of the other reasons we like to see people employed and the people that we lose out of our local authorities if we streamline any more than we are - is they make up the CFA, the SES, the service bodies, because they're the able-bodied people in the community quite often and those services - I think now the fire truck in Tallangatta - and I'm speaking about that town specifically. The last fire was manned by five people from businesses, and the chemist's wife and someone else. So you know, the people power, the manpower - which to me is very valuable in firefighting - is diminishing. So I think that's another disadvantage.

So although you say that NCP isn't probably doing anything more than things that have happened in the past, I don't see the benefits are going to be there. I think that we're going to suffer more disadvantage. I hope we don't continue down this line, or we will be looking at things in 10 years' time and saying, "There were some serious mistakes made."

MR WEBB: Mr Chairman, I think much of our submission is related to the potential impacts on rural communities of downsizing, through competition and so forth, and I think that's one of the major points we want to make, and that is that consideration of these issues should not be just on the economic basis. It is a very complex relationship, the whole social interaction of small communities such as our own - where we have one person per square kilometre in our shire on average. So an impact that takes one or two people out of that has a very strong domino effect and it affects the whole economy, the health of the community, the interaction with other activities that people make.

Also, that has the on-flow where people perhaps bypass the small community and go to the larger district centres and so on. While that keeps the district centre healthy, it doesn't help the small community. We are I think seeing a gradual decline in areas of Towong shire because of the general loss of numbers and community involvement through a whole range of factors, many of which are related to NCP, we believe, or competition as such. We don't make necessarily the direct link that was being argued here earlier with NCP but more in terms of competition.

MR COSGROVE: Yes. Even looking at it in that somewhat broader way, I wonder if you could give us an impression - this may not be an easy question to answer - an impression of whether, in circumstances where the state or federal government agreed to put back into your shire some of those service centres which have moved out, and let's say the banks did it as well, you know, and Australia Post and all these people - whether that would be sufficient to offset the effects of what we have called in our draft report the longer term adverse influences on many rural areas - not all, but on many, like long-term declines in commodity prices and technological change, people's personal preferences as to where they wish to live? Is it possible for you to say anything about that? It's speculative I realise.

MS FRASER: Yes, I think it would improve. I think if the people were put back into the rural areas - see, we have this ridiculous situation of - what are they - Natural Resources and Environment, a state government body, who were the Forestry Commission, who were the Lands Department, who were something else. They now work out of - or they have over the last few years - worked out of Wodonga, so they spend a lot of time travelling and not actually doing work on the ground. Now, if they were re-situated back in the towns that they generally service, there would be actually a financial benefit in that.

I think people live in small country towns, particularly the ones in our area, because it's such beautiful country. They like to live there for the environment and for the safety and security and a lot of things that you can offer. But their lifestyle is not as good as it can be, because firstly they may lose jobs, or because the services are slowly declining in those towns and there's not the same sort of shopping and things like that. So a small population build-up would make a huge difference to both the major towns, Corryong and Tallangatta.

So if government authorities did reinstate people in those areas - and as someone was saying earlier, the infrastructure is there. There's the telecommunications, the electricity, the roads. There's a lot there that doesn't have to cost, the way it does to develop new housing estates in the cities. So there could be that advantage.

I should also say that one of the towns - or a town in our shire, which has a particular postcode - has been rated as the poorest area in Victoria and the second poorest in Australia. So those people aren't in a position to improve things for themselves quite often and that's why I think government has responsibilities, whether it's local, state or federal, to look after the community of Australia.

MR COSGROVE: Mary and Lyndon, I regret to say that - I don't want to close off your presentation but I'm afraid it's now time for Judith Sloan and myself to head off to the airport. We're going to leave you in the more than capable hands of Ray Braithwaite here. We do, I understand, have one additional participant. We certainly don't want to deny them the opportunity to speak to us. I want to assure both you, in terms of any further remarks that you might make, and the Murray Regional Development Board people, that Judith and I will faithfully read the transcript of the

discussion you have and take all of your points into account in our further development of the report.

MS FRASER: Thank you very much.

MR COSGROVE: Can I just say now as we leave you, thanks very much for coming along and I'm sorry that we have to do this to you.

MS FRASER: That's fine. I hope we haven't held up the people from the Murray - - -

MR COSGROVE: No, not at all. It's a case of us I guess underestimating the amount of time that - - -

MS FRASER: The amount of talking people can do.

MR COSGROVE: - - - people in the Albury area wanted to spend with us, yes.

MS FRASER: Thank you very much.

MR COSGROVE: I'll leave you in Ray's hands.

MS FRASER: Well, commissioner, I think we've probably finished.

MR WEBB: I think we probably have, Mr Chairman, unless Mr Braithwaite wants to - - -

MR BRAITHWAITE: Yes, I just wanted to ask some questions in relation to your state government - - -

MS FRASER: State government specifically, yes.

MR BRAITHWAITE: What has surprised me in this inquiry is the different relationships that local government has with their state government. To a large extent the state governments indicate that a lot of the policies they initiate is NCP, when it's not at all - and also, the lack of consistency between some states that do distribute their competition dividend back to local government and some that do not. Another thing too - that the Main Roads in one state will indicate that councils in a certain region, ie those more remote and more rural and into the bush, don't have to compete on tenders, they get them of right. That's an arrangement they have - about five years into it. So could you give us an idea of what your relationship is with the state government in each of those three respects?

MR COSGROVE: Before you do, Mary, might I just say one parting word. I think it will be helpful if we also bring to the table here Mr Herb Plunkett, who is an associate commissioner with the Productivity Commission and is in fact our chief

staff

support on this inquiry, so I'll just ask him to sit in with Ray.

MS FRASER: Thank you.

MR BRAITHWAITE: So you're not being neglected altogether.

MS FRASER: That's good. Do you want to answer that?

MR WEBB: Yes, perhaps if I can make a point on that. Perhaps the way to answer the first part of that, that is the basis for payment - the Victorian government provides us with a payment on the basis that we comply with certain requirements. There has to be a statement made in September of each year on that. I think this year we are due for 50,000, rising next year to 100,000, which it remains at for two years and then it goes to 150,000. The issues that need to be complied with there are that we meet the minimum 50 per cent tendering requirement under CCT.

MR BRAITHWAITE: It's interesting it's not a requirement of national competition policy for which you're getting the dividend.

MS FRASER: And I think we're only getting a small percentage of the dividend you pay too.

MR WEBB: But we have to elect to adopt a model policy - either model 1 or model 2. I take it you're familiar with the model 1 and model 2 proposals that apply in Victorian government in relation to corporatisation of in-house business units. So we have to elect there to operate in that particular way. Then we have to determine our own agenda for the implementation of competitive neutrality principles, including undertaking a structural review consistent with our competitive tendering program of it of our ongoing ownership arrangements of our in-house business units and we have to ensure that the benefits we realise from the implementation of the policy outweigh the costs through the application of either one of two of those models.

We have to undertake a review of our local laws to ensure that our local laws don't provide favouritism and we have to submit a report to the minister on time and so on. So that's really the basis for it.

MS FRASER: Yes, but my concern with this has been that we've spent more time filling out forms and reviewing everything that's going on than actually achieve anything. So I think despite the fact that we're getting a payment for complying, I think it's probably cost us more in the long run.

MR BRAITHWAITE: So it doesn't reimburse the cost of doing it.

MS FRASER: That's a pretty rough guess on my part but it has been, in my opinion, an extraordinarily unproductive time for all the staff, and it's particularly noticeable when you have a small organisation that you've got to fit all this into.

MR BRAITHWAITE: But the second question was, do you see state government's initiatives which are put down to NCP that aren't, such as accrual accounting?

MR WEBB: No, I don't know that I can point to anything particularly that strikes me at the moment, other than the issues that you've picked up in here that aren't necessarily - I mean, you highlight those in the summary of your report quite adequately, what is and what isn't technically - - -

MS FRASER: I think the state government says that those are.

MR WEBB: Yes, they use it in a different way.

MR BRAITHWAITE: I think the third one is answered by the necessity to competitively tender.

MR WEBB: Yes. We don't have a specific requirement on roadworks, for example. We do have to maintain at least a 50 per cent tendering rate. We have to competitively - market test, if you like - at least 50 per cent of our operations.

MR BRAITHWAITE: The earlier comment you made in your submission about the difference in the cost of fuel actually points to a lack of competition, not to competition.

MS FRASER: Yes, I think it's one thing that impacts very strongly on our rural community because when Lyndon says it's 120 K's from one end to the other, there are three different valleys that we go in. You go up one and down the other and up another - there's no access across the mountain ranges. It's a very expensive area to get around. When the farmers did put in submissions on prices in rural Victoria, compared to the city I think it was acknowledged that it was something like less than 2 cents a litre could be considered as part of the transport costs of getting it from Melbourne to Wodonga. So it's very hard to justify the difference.

MR WEBB: I think it strikes me more as a lack of enforcement of competition policy rather than lack of competition policy.

MR BRAITHWAITE: There's been about four royal commissions into the oil industry and none of them have come up with an answer or recommendation yet.

MS FRASER: Yes, which is very frustrating when we can see the disadvantage of adopting certain policies and we object strongly but they're enforced, and you see something like the oil industry doing exactly what it likes, as far as I can see.

MR BRAITHWAITE: I was in Shepparton last year and quite remarkable - at the very competitive cost of fuel at Shepparton and yet you only had to move about 10 or 20 kilometres outside and it was back to the old regime.

MS FRASER: Are there any other questions we can answer for you?

MR PLUNKETT: Just a small one. You're one of the few people who have consciously said that they've been through the review of local laws to us. Did you find anything in that review, as opposed to - or as a result of having to review all those local laws?

MR WEBB: No, nothing of any significance really. We found that our local laws - and I haven't brought copies of the review with me but I could easily send you one. There's nothing really of any significance that could be said to be favouring it one side or the other.

MR PLUNKETT: Would you think your review of those would be typical of a lot of other councils' review of - - -

MR WEBB: I would think so, yes, because many councils have in the past used a fairly standardised format.

MS FRASER: We probably all have the same person reviewing it as a whole.

MR WEBB: Many do, yes.

MR BRAITHWAITE: Thank you very much for your perseverance. Right, the Murray Regional Development Board. Again, thank you for your perseverance and if you wouldn't mind giving your names and your submission.

MR TOOHEY: Thank you, Mr Chairman. Dennis Toohey, the deputy chair of the Murray Regional Development Board, and with me is Andrew Wynn, project officer for the Murray Regional Development Board. Our submission today is a joint one with the Riverina Regional Development Board. Because of distance and other factors it was decided that Murray would have the carriage of the regional perspective with respect to the regional development boards. We have a written submission to provide to you, so what I'd like to do is to take some of the essence of that submission and give it some sort of a verbal overview.

The two boards have a lot of similarities in the way they approach things, so it's been common in recent times for efficiency reasons to make joint submissions. These two boards are just copies of a number of boards that exist across New South Wales. They are appointed by the government, the members are appointed for three years and they're charged with the responsibility of leading community economic and regional development. The Murray and Riverina boards, their area embraces 30 local government areas. It's to this very question of the breadth of the coverage of 30 local government areas that brings us to our first point in our supplementary submission. I don't wish to go over the points that we made in our original submission because we're working on the basis that you've already examined them, taken the meat out of it and included it into the draft report.

What we now wish to do is to bring forward some points that we felt may not have been adequately addressed with respect to the draft report. The first of these is a heading called Assessing the Impacts and the Benefits of Competition. Let me preface it by saying that the two boards are very supportive of competition because we've seen already benefits and we enumerated some of those benefits in our earlier submission, for instance, the decrease in the price of telecommunications is an obvious one. But what we're finding now is that with the analysis you were able to undertake that because of the quality of the data that you had to work with that it is in our estimation that because of the quality of that data that you were - this is the statistical data I'm referring to here, not the narrative data and other data - not able to get to the real nub of what's going on in country Australia as you describe.

Let us illustrate it. The Murray-Riverina regions have two very strong urban areas within them - one being Albury, the other being Wagga. Then we have Griffith which is a very bright, growing local government area. But that's only three. There's still 27 others. What we want to say is that there is enormous diversity across those other 27 for varying reasons - they don't have the population base, the natural resources, the infrastructure, the transport and so on, they just don't have them. There's also not the entrepreneurial skills that exist. To us, Griffith is a very good example where all of those natural and built resources can be brought together with strong entrepreneurial business skills and we're seeing that in Griffith - tremendous growth. Unemployment is at a very low level.

We feel that by just looking at that whole region - that's Murray and Riverina - the data that you've got, you're not able to chisel down through to find out what is happening in shires like Carrathool, like Wentworth, like Balranald, like Corowa and so on. You're not able to chisel down, because I think the databases that we've got largely were constructed because of past historical needs for certain types of data. Because of the enormity of social and economic change that has been so well put to you here today, that what we need to come up with - and this is the strength of the board - new data sets, so that not only your commission here but future commissions of inquiry can really start to understand what is happening so that we've got hard data to support the anecdotal or other types of information that is available.

To just look at the Murray-Riverina region - I know you did look at some local government data, you looked at it in various ways. But I think we've got to step back and say, "Can we do better," and our response is, "Yes, we can do better in terms of understanding it," if we go out and ask and have collected data in particular ways to address the sorts of questions that not only governments of today but governments of tomorrow will want. So I think the first thing is we do need to have a really hard look at our data. It's by having this data that we will be able to remove the question of whether Albury is this or that. That seems to have been an issue very much before you, particularly in the early part of the document. What is it we're talking about? How are we to describe it? We're not here to lock us into some rigid definition of what is a region. Let's not be bound by that. But what I'm saying is, let us capture the data to say that we can make the various analyses.

Moving on. We'd now like to turn to one issue which is electricity - the electricity industry. The findings that you've made with respect to the electricity industry in terms of the big picture issues, in terms of the rationalisation, the much stronger commercial focus, by the generators, the transmitters and to a degree by the distributors - you know, we acknowledge all of that. There has been a sea change out there. The board is not wanting to delve into those issues of employment and those matters. But what we want to look at is a thing called service quality. You do have a particular heading in your report on that one.

Unfortunately we don't have the data but there is anecdotal data coming before the boards that the newer utilities - and in here we can probably put a name to one, call it Great Southern Energy - and we don't wish to single it out above or below any of the others. But what we seem to be hearing is that the level of maintenance - or the level of risk they're taking with respect to outages is that they have adopted a higher level of risk of outages than their previous smaller entities, like Murrumbidgee - what's it called - Murrumbidgee Electricity, all the others that were around the countryside. So they seem to have adopted a higher level of risk.

An example of that that we're finding is that a simple thing that strings the wires from one place to another is called a pole. What we're hearing is that the maintenance on that fundamental part of the infrastructure is now afforded a lower risk than the previous entities that were in place. Of course, you can well imagine

that out in

country Australia you have a pole fall down and then you can have all sorts of calamities occur. I might point out that such an event in 1987, say in the Jerilderie area, to the west of Jerilderie, resulted in a very enormous fire out there, burning out tens of thousands of hectares, because of some maintenance issues. So they can have big effects - and costly in terms of insurance.

Another area is in the area of contestability. The entities that are now able to contest are certainly in there and that is one of the benefits, the positive benefits of the competition policy - is contestability. However, the field is not uniform. We would like to bring this time some hard evidence about where contestability, where it should be working, isn't working. The particular case we cite is that of the township of Wentworth. Wentworth is a town opposite Mildura on the New South Wales side. Here we have - and we provide it with our submission - correspondence between the distribution authority, in this case it's Australian Inland Energy, and the local shire, the Wentworth shire. I wish to pull out two points:

The customers located in the Wentworth region, supplied from across border electricity supply, are currently unable to contest electricity purchases as the electricity is not supplied from New South Wales -

an interesting twist, isn't it. Then they go on and say how difficult it has been to negotiate. They're saying - this is Australian Inland Energy are saying - that this problem isn't unique to that area of New South Wales. The same problem in their view occurs with Tweed Heads, which draws its electricity from a Queensland based utility. So we have got some of these border issues with respect to contestability.

The second matter that they raise - and this is also in our opinion getting to be a serious matter - is that we now have a much more transparent pricing structure, where things like transmission losses, distribution losses, all of those things are now categorised. What we have is that we can't get agreement between two distributors as to what should be the losses, in terms of a long electricity line. So they're just two little examples - they might seem little, but when it comes to the town of Wentworth and other towns like that, the recreational clubs, the businesses, all of those organisations are not able to fully enjoy the benefits of the competition policy reforms that many of the rest of the region is able to enjoy.

A third area with respect to electricity is that of disclosure of information. We have information before the boards that when customers go out and seek quotations that all is not level with respect to getting quotations back. The bigger entities - who have, let's say, a full-time energy officer in their employ - they're able to work their way through this mire of uncertainty, of what does something mean in someone's quote and what does it mean in another quotation. But when it comes down to the smaller business organisations, they don't have those specialists and they just throw their hands up. So they're not able to enjoy or potentially enjoy the benefits of contestability, because of the way the information and the transparency of information - it is not fully transparent for them to make accurate comparisons as to what they should be paying or what is the most competitive quotation.

The third area - and I'm rather hesitant raising it - is dealing with water. However, we are boards of a fairly broad church. We have rural people, we have people based from towns, we have people from government agencies on our boards. It's therefore to be expected that matters of contemporary issue will be discussed within our boards. You have raised in your submission the matter of transmission losses with respect to irrigation. Without going into the finer points of it, the conclusion reached is that it's too early to be contemplating the inclusion of transmission losses in the pricing platform.

What we are hearing within the boards is that the owners of entitlements, whether they be towns, industry or irrigators, are looking for certainty with respect to their entitlements to which - they call them property rights. So, Mr Chairman, that's the summary of our supplementary submission and we thank you for your interest in hearing what we have had to say.

MR BRAITHWAITE: Good, thank you very much, because you have taken up some of the challenges of the report in giving us extra information that we were seeking, particularly on the transmission pricing. Maybe I'll let Mr Plunkett deal with the database because it's a little bit - not beyond me, but as I understood, we didn't have a good base to start from. All we can say is those people who understand the data have congratulated us on taking it as far as we have, which in its way serves the purpose that you said. It's a basis on which to build. But it was not possible to go beyond the regions and categorise each separate council. Perhaps, Herb, you would like to comment on that.

MR PLUNKETT: Yes, I mean, improving the statistical base in Australia is a long-term problem with the Australian Bureau of Statistics. They are certainly conscious of the problem. I think what we've tried to do is to use the existing databases as far as we can tweak it so that when we pick up anecdotal evidence, that you're providing and other people have provided, we can put that in context. I think any thought that - and I think you alluded to this in what you said - any thought of improving it beyond what it is at present is a long-term project and we won't see early benefits from that for quite some time. I don't know whether I can add any more than that. I think that we have seen that as a way of intelligently using the anecdotal evidence, because you would need to try and fit the anecdotal stuff into the wider framework.

The other point I would make is that - I think you raised this point when you talked about the three hubs or three nubs - is that a lot of statistical areas is based around having a core centre in the middle of it. The variability you're seeking in the data isn't in the data and that's why the anecdotal stuff is important to flesh it out because, you know, the statistical database we have at the regional level at present has been purposely chosen to have that delineation, because they have chosen in the past to try and get businesses which have a strong relationship with one another and that's what does occur in those hub areas. The hub areas do service the surrounding area. But like you say, it doesn't illustrate the difference between Wagga and one of

the

smaller surrounding towns, which there isn't the statistical data to show and we have to rely on anecdotal comment about.

MR TOOHEY: Our point is that we recognise that, but what we're saying is that we've got to move forward, because the dimensions - the dynamics that are happening out here are so stark in some cases between one area and another that we really do have to go back and ask ourselves, are we gathering the right information to address these questions surrounding social and economic change. If you were looking for me to say, "Well, what should they be," I can't, because really that is in itself a specialist area. But we're wanting to raise the issue because we're looking to the future. We recognise that you have used the best surrogates that are around. We acknowledge that. But what we're saying is, let's see if we can get better at it. I believe your commission can help in the process of encouraging the ABS and the other agencies that we do need to be looking hard at what we're gathering and why we're gathering it and can we gather other information - and sure, we'll have to drop some off as well, I recognise that. It isn't a matter of doing all that.

MR BRAITHWAITE: You have to recognise the deficiencies to understand the data because, you know, you can get that data saying there's a growth in a certain area and you look at that growth and you say, "Well, you know, in these pockets the population and the workforce is decreasing and you've got to look over the whole lot," and then you have to be able to attribute it to the functions of the NCP. While there are a lot of other variables in it, it is only concentrating on that. But anyway, what you're saying is quite true, and it's better than the base on which we started and it's a base which can be further improved.

MR TOOHEY: Sure.

MR BRAITHWAITE: One very interesting thing you did mention, and it's something that worries me, is that the more contestable the market, I think what you're saying is the less the quality.

MR TOOHEY: Well, sorry, we've got to be careful here. I think we've got to be careful in going now and taking that comment of yours too far. We don't have the data - - -

MR BRAITHWAITE: I attributed that to you, not to myself.

MR TOOHEY: Yes, but we don't have the data. I said anecdotal information. We're not able to chisel down through the information of these electricity distributors as to what is going on. But we have some anecdotal data, anecdotal information, that there is potential service quality issues of a negative level around the corner.

MR BRAITHWAITE: You did say that. I think you were saying it appears to be that the level of risk is now a higher level that they're prepared to accept.

MR TOOHEY: That seems to be pretty consistent across all of our samplings in

talking to local governments and just people that either come to the board or in our normal ways of life. That's what we're picking up. There is this higher level of risk. That's not to say that the level of risk before was appropriate because I think you have alluded to in your report that there was some gold-edged - or words to that effect, going on. I think we've got to accept that. But in some fundamental areas, like for instance in pole replacement - I mean, if the thing falls on the ground you've got no power. It's a very observable, very tangible, very demonstrable sort of thing with electricity. If the pole falls down you've got no supply. That's the area we're focusing on.

MR BRAITHWAITE: Your disclosure of information that you mentioned, I can understand where you're coming from but I don't know what the answer is, do you?

MR TOOHEY: A little bit of healthy regulation.

MR BRAITHWAITE: I'll let you answer that, John.

MR COSGROVE: Sorry, I've come in halfway on the discussion and I'm not quite sure - - -

MR BRAITHWAITE: No, we're talking about the levels of disclosure of information to allow people in the also rans of the industry to make an assessment of where the best deal lies. It's often hidden away - - -

MR PLUNKETT: I had a comment and I'll just try it on you because I don't know whether it's true or not. One argument could be that because we haven't done it totally, we don't have the specialist intermediaries developed. For me to purchase electricity, I don't think I'd ever want to go and sign a contract with Great Southern Energy or some other ones. But I could quite envisage myself signing up with an intermediary who does all that fine picking through the details of all the generators and finds a package and sells me that package, then he'll take a margin out of it. Now, we're not far enough down - removing the existing regulation for those people to emerge in the market. Does that sound reasonable to you?

MR TOOHEY: It does to the extent that, yes, those specialist people are starting to emerge in the industry. However, my comment was directed to those businesses where there are two or three or five employees. They don't have a specialist energy officer. It's those people who now want to move into the area contestability and allocate a certain amount of time to it and then throw their hands up and say, "It's too hard because A doesn't compare with B." Sure, they could go to a specialist and say, "Can you sort out A and B for me," they can do that. But my question is, if we could - the national energy market has had a very positive influence on putting some structure into the quotations because I've seen them before, I've seen them after. It's just I think we need to go a bit further, that's all.

MR COSGROVE: As I say I'm coming in halfway through a discussion but many markets are like this. I mean, if you think about the purchase of something as

relatively simple as a personal computer, there are all sorts of permutations and combinations of computers. You might go for one that has a big hard disk drive but a slower processing chip or vice-versa or one that has a bigger screen rather than a smaller screen. In the marketplace there will be some information available to you on those sorts of choices but in the end, with the best information you can get, you've got to ultimately choose and you may not get it right. You might have bought computer X, and when you talk to some other people in two months' time you wish you'd bought computer Y.

MR TOOHEY: I accept the argument has a limit to it. However, it's related to this transmission loss factor which unfortunately you weren't able to be here.

MR COSGROVE: Sorry, yes.

MR TOOHEY: It's becoming a big issue because in some localities, some suppliers put a circle around it and say, "If you're within that circle then your losses are so much; if you're outside that, well, your losses are maybe twice or three times the amount." There isn't that transparency coming down far enough.

MR COSGROVE: Not even through regulators of these bodies?

MR TOOHEY: There's been change in three years, there certainly has been change, but it does appear we could go a little further.

MR BRAITHWAITE: The comment you made on the water and transmission losses that we were asking for, you reflect fairly well what they were saying this morning with the irrigators, except they didn't say it was too early, they were basically saying there are reasons why the pricing should be either the same at the beginning of the chain as at the end of the chain. But they're certainly looking for clarification of the ownership issues.

MR TOOHEY: Why I say "too early" is that it will have to be included, in my opinion, at some stage because for the full market in water to operate there must be some account for losses, and I'll just leave it at that. I think to deny it is not being a realist. Losses do occur.

MR BRAITHWAITE: At the moment cross-subsidisation would apply, wouldn't it? That's where they're absorbed at the moment, in the cross-subsidisation.

MR PLUNKETT: You said you weren't going to dwell on this stuff in the original submission but is there anything in your original submission you would like to re-emphasise again. We appreciate you not wanting to take us back through the original submission again but - - -

MR TOOHEY: I think if I could just go back - the capacity to adjust is not uniform and I think that's acknowledged in your report. There's great variations within a locality, so I think that is all well understood.

MR PLUNKETT: A consequence of that of course is that you're going to be too quick for some and too slow for others.

MR TOOHEY: That's right. I think we've said in our original report there is a safety net out there and it's the rural adjustment package. We've acknowledged that. Within that there are subregional or regional-type programs, like West 2000, like Kick Start Sunraysia. So there are regionally specific programs and the board acknowledges those and it says that that is the way of the future, that is regionally focused adjustment programs. Take the best out of the generics but then shape something to suit a particular region. That's our approach.

MR COSGROVE: Can those sorts of programs distinguish between people who are genuinely experiencing adjustment difficulties of one type or not and other people in the region who might be continuing to operate and earn incomes relatively easily? I mean, are they directed in other words towards individual people as distinct from the region as a whole? Where does the adjustment - - -

MR TOOHEY: They tend to be focused on specific drivers of change. If it's skill development of the people then there are skill development programs that are within West 2000 and in Kick Start Sunraysia.

MR COSGROVE: So they would be generally available to anybody in the eligible region who wished to take advantage of it?

MR TOOHEY: Yes. In some of them there is compliance or cross-compliance. To get a higher level you've got to have done the first one. So there is some internal discipline within those programs that if people want to get a higher level of public support for what they're wanting to do, then they've got to have done some certain things themselves and that, I think, most people would support. Like all of them, they are not 100 per cent publicly funded. The individual components may be 50 per cent. Only 50 per cent of the individual component is funded. The applicant has to provide 50 per cent themselves. Again that tends to sort people out in terms of their involvement in those programs.

The area of education, I think you've gone through our submission - I'm assuming you have. But we have made those positive points that there are benefits of competition occurring. What we would like to see is some of those processes that are impeding the full expression of competition in some localities and some aspects to be addressed. But really it comes back to, we're looking to this commission to take us forward so that when we do this in another 10 years' time we've got a better basis upon which we can examine things. We're dealing with social change now and it's going to intensify. So therefore we need to have a really hard look at how we go about measuring it.

MR BRAITHWAITE: Dennis and Andrew, thank you very much, as I say, for your perseverance. We hope that you did find the other as interesting as we did.

Thank you very much. You had some very positive comment there and we'll take that into account.

MR TOOHEY: We have given our submission - we've got some copies here for you. We spared you the water discussion. We had a feeling that there would be some water discussion here. The board itself has got a fairly controlled input into the water discussions.

MR BRAITHWAITE: Thank you. We understand, and although I hadn't expected to be here I now conclude this hearing. We're commencing again in Launceston on Monday of next week.

AT 4.38 PM THE INQUIRY WAS ADJOURNED UNTIL
MONDAY, 5 JULY 1999

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