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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

TRANSCRIPT OF PROCEEDINGS

AT CANBERRA ON WEDNESDAY, 21 JULY 1999, AT 9.33 AM

Continued from 20/7/99 in Canberra

MR COSGROVE: Right, good morning everyone. We'll continue our Canberra hearings now. We have a pretty busy schedule on today's agenda so I'll need to keep things moving. Our first participant is Murrumbidgee Irrigation. Gentlemen, could you each identify yourselves for our transcript and indicate the capacities in which you're with us today, please?

MR CHANT: Thank you, Mr President. We represent Murrumbidgee Irrigation Ltd. Dick Thompson, in the centre is our chairman. He's a member of the Murrumbidgee Catchment Management Committee and he's one of their two representatives on the Murrumbidgee River Management Committee and he's an irrigator. Cedric Hoare is our chief executive officer. He is our company delegate to the Riverina Regional Development Board. He is also an irrigator. I'm John Chant and I'm company secretary and I'm not an irrigator.

We thank you very much for the opportunity to make this presentation. When we've finished we will leave you with copies of the original words we cobbled together for this presentation, however, they're not representative of what we're going to deliver. We've taken the opportunity to improve them in our view. Our presentation will basically be an introduction from myself, an address on the key water issues by our chairman, Dick and we welcome your questions, Mr Commissioner.

MR COSGROVE: Thank you.

MR CHANT: This is not our first address to the commission and we suspect on a number of pages per person basis we've probably kept up the Murrumbidgee average. I would like to remind you why we see the work of this commission as a key focus issue where we must participate. The commission is one of the few organs of government involved in national reforms that's prepared to go to the rural and regional areas and invite comments from those who are impacted and we congratulate you for that. We recognise the complexity of your work. Our role is, as the irrigator owned company that operates Murrumbidgee Irrigation Scheme, we service 500,000 hectares, we water 120,000 of those each year. There are 50,000 dependent people. We care for and manage about a million megalitres of water each year and have an overall production of about 400 million annually at farm-gate and to that is added about another 350 million in value adding through local processing.

We like to think that we provide the foundation for our community and that they are only there because of irrigated agriculture. The national competition policy is intrinsically joined with the national water reform process and is having a significant negative impact on our community. We believe it's unwise, unfair and, even more worrying, unnecessary for that impact to be as it is. It's the ineptitude and risk taking with our livelihood by careless agencies, ministers and others who influence and interfere that contributes to the unnecessary level of impact, and that is in their implementation.

Mr Commissioner, you have our latest written submission, and there are six issues that we'd like to highlight from that. The first issue is the progress of the

reform. You'll note from our written submission that we question New South Wales' score card. We also question whether the way they are going about the different reform steps is fair, intelligent, precautionary or sensible. In that respect we've noted the discussions on the public interest test, particularly yesterday. We believe that there must also be a precautionary principle test from a social equity perspective. We remind you that New South Wales is the only state which is reported to have reformed the trading arrangements before specifying what the property is in the resource being traded.

From earlier evidence, the commission may have the view that irrigators in Murray and Lachlan have different views on property rights. In fact all New South Wales valleys have a de facto property right. The problem that Murray were bringing forward is that there is little if any definition or surety in that right. For example it doesn't define reliability, ownership, the rights of the regulator to spirit some of it away, quality aspects, delivery timing or seasonal expectations. It doesn't specify the ability to carry your access right forward from one year to the next or to borrow water from a subsequent year against this year. Let me give you a simple example of the impact. An irrigator who bought a property five years ago with let's say a 900-megalitre licence, paid for the capital value of that 900-megalitre right in the price of their land. What Mr Caldwell was saying yesterday was that half of the right to water has been taken back by the regulator, not by taking the gross allocation back or adjusting the licence, but by reallocating some of the available stored water to the environment and then reducing the right for people to take a hundred per cent on the basis of resources, and they've reduced that from a hundred per cent each year to 50 per cent each year.

So what this imaginary irrigator had bought and had had transferred to them by the regulator has been torn in half without any recognition of the investment in its purchase. The impression that these rights were a gift is very misleading. Let us assure you that the capital value is part of the capital value of the land. Additionally anyone who has permanently transferred water has purchased that right, and that is capitalised into their asset. In respect of our company, we are slightly different in that we have a 15-year licence where normal river licensees have a five-year licence, but exactly the same lack of surety and definition of the qualities of the property right are the issues that we face.

To return to progress of reform, clearly there has not been sufficient time between the announcement of the reforms for irrigators in the community to be able to make the required efficiency savings to offset the negative impacts of the reform. You might note that as a company, we've embargoed permanent trade until the properties of the right are properly understood and protected, and can I briefly finish on the progress of reform by saying that New South Wales is the only state to not only adopt the cap, but then to go below the cap, and they have done that without any credible socioeconomic review.

The second issue is the issue of community involvement in the reform. Can I say that we find it very difficult to rationalise that a state agency, state minister and

the government, the COAG working group and the expert groups that support it, ARMCANZ and COAG, have all come up with reform initiatives including the recent pricing guidelines without talking to price payers. To make matters worse, New South Wales recently formed river management committees and has in the last few weeks overruled one of the majority decisions of those management committees. The National Competition Council comes into this process because they adopted the pricing principles also without bothering to talk to any price payers. We believe it's incumbent in your commission to report on this unreasonably exclusive process, and to help lead the players to an involved process of communication and development.

The third issue that I want to speak about is government's role in investment. Like orphaned children, we will continue to propose that if rural communities are to prosper and be vibrant, government must partner private enterprise and infrastructure investment. We noted that at least two of yesterday's presentations echoed that notion. Government has an enormous range of direct and indirect benefits to factor into its cost-benefit analysis that are not available to private investors, and we believe that this is especially so in irrigation and the related transport and production support infrastructure.

In respect of taxation, tax systems which are biased against the introduction of new water-efficient technology must be removed, and whilst I don't intend to go into the tax issue in detail, I must mention the Ralph review, and we don't want to be unfair and judge the draft Ralph report as final, however the lack of attention to the possible impacts on primary production accelerated depreciation schemes in that draft report is cause for great concern. The simplistic view that if company tax rates are reduced and accelerated depreciation is removed as an offset and that there would be approximate cost neutrality in that is naive. Capital intensive industries, and especially ones like ours with long-life assets, would suffer significant net disadvantages. For us and for many of our irrigators, there is no offsetting tax benefit. We as a company operate within COAG guidelines at a below-taxable profit level.

Mr Chairman, Dick will now continue our presentation.

MR COSGROVE: Thanks, John.

MR THOMPSON: Thanks, John. Let me make it clear from the outset that we are not opposed to change in the water industry. In fact we have encouraged it. What we do oppose is the speed with which it's happening without proper consultation and information. We are arguably the most complex of all irrigation areas, and yet we still separated from government in February this year, signing a deal that will see our irrigators paying for all future operation and maintenance and funding annuities that will cover future replacement needs. I'd like to clear up here some of the misconception about past subsidies. The past subsidies have not gone to irrigators. They have gone to inefficient government departments.

We've been able to show since we became locally controlled in the last 10 years the enormous efficiency gains that are there. Had it been run as efficiently in the past

as it is now, what irrigators were paying would have been sufficient to cover

operation and maintenance and future refurbishment. If you want details on staff numbers and whatever, Cedric can give you those later. In the water transfer area, we supported the concept. In fact I was personally involved in the first transfer from New South Wales to South Australia - temporary transfer. There would clearly be some benefits, but changes on farm to higher value cropping would see the biggest increases in returns from the use of water. Everybody sees water transfers as solving all the problems. Irrigators are not stupid. If they can see a higher value crop they can grow on their land, they'll grow it.

Those who believe the transfer of water is the only way to move water to higher value use need to come and see what is really happening. Farms are changing from pasture to grapes and olives, from pasture to rice. In fact many wool growers are being saved from bankruptcy by this change. While I said we supported the concept of water transfers, and there will be benefits from them, the combination of transfers, the cap and environmental flows are now causing major negative impacts. In 1992, there was no suggestion of the Murrumbidgee River being over-allocated. In fact the DLWC study at that time suggested there was a surplus of some 300,000 megalitres, and they were actually about to auction the rights to 60,000 megalitres. It was only irrigators that stopped that reallocation.

All allocations at that stage could certainly be supplied, and the transferring of water allocations would not have a negative impact on other users. In fact in most years allocations were above a hundred per cent with additional off-allocation. Irrigators invested and developed their farms on that basis. With the introduction of the cap and environmental flows, we are now being told there is some 300,000 megalitres short in the valley. The cap meant average allocation announcements would be about 80 per cent. Environmental flows would see this closer to 80 per cent. Where irrigators could expect a minimum allocation pre-water reforms of about 80 per cent, it could now be as low as 50 per cent.

What we need are trading schemes to encourage efficiency gain investments not for historic under-usage to be activated. Temporary transfers in New South Wales are a perverse mechanism for government to take from one group of users and permit another group to make windfall profits. This happens without moving water to the so-called high value crops and enterprises. Any moves to higher value crops will happen on farm-based, on soil types and other influences. We need to encourage permanent transfers with the base entitlement or allocation transferred. We need to revisit the trading regimes to ensure that permanent transfers are encouraged, not temporary transfers.

Let me explain further: it is noteworthy that the commission made no comment in relation to the negative impacts of water transfers on some communities. Nor did it comment on the aspects of compensation for the reduction in farm viability and value that were a result from activation of sleeper licences when determining property rights and environmental allocations. MIA are large irrigators. Our members face a continuing battle to compete in irrigated agricultural production. The background to their position is that they have smaller farms than those they compete

with and have

paid a relatively high price for their land which included the value of the secure water allocation. They have a higher delivery price than the competitors because of the inherent inefficiencies of the system, and the integration of the community infrastructure like roads and bridges because of the high cost of that, others get a free ride on that. Tourism doesn't contribute. Irrigators pay for all the road bridges in the irrigation areas. Everybody else gets a free ride.

Because of the inherent price handicap, bulk water price should reflect the price that the areas were not built to pay a direct return on capital. Irrigators face unfair and uncompetitive tax treatment of our company and the resulting price they must pay for water. This is in the area of Commonwealth income tax, state land tax and local council rates. By comparison, large river property owners and land-holders in the lower Murrumbidgee and Murray districts have plentiful relatively cheap land, have not had to pay the capital value of water in their land price, and are in a position that even if they produce less per megalitre, they can get our customers for water on the temporary transfer market because of their scale of operation.

Commission members should not allow themselves to get confused like many other economists about the two prices for water: the capital purchase price and the internal delivery price. This inequitable competition is not consistent with increasing the return to the community from water. It is putting in place artificial systems which deliberately or unwittingly favour one group of irrigators at the expense and to the detriment of another group. We've only in the last few weeks been able to obtain DLWC evidence that there is a significant additional impact on general security allocations because of an inconsistency between what New South Wales included in the Murrumbidgee cap for high security allocations, and what they continue to announce as available for use and transfer.

High security inclusions in the Murrumbidgee cap were based on historic average access to 93-94 and were set at 160,000 megalitres. The total issued allocation is something in excess of 310,000 megalitres. Conversions of allocation since 93-94 have increased from 160 to approximately 190,000 megalitres. Under the scheme, high security sleeper and dozer allocation would never have been activated on farm even in a one in a hundred year drought. The unused portion was historically left in the dam and became river environmental flows or was reallocated to general security allocations as additional resource. Because it was not all used in any year, there was no impact from guaranteeing a hundred per cent, nor was the guarantee a large drain on resources.

The introduction of temporary transfers and the extension of the hundred per cent right to use on-farm, to include the right to temporary transfer resulted in a year when resource is not a limiting factor, the transfer activation will break the cap. In fact if general security actually uses its allowed cap, then the cap will be broken by the amount of the high security temporary transfer. As a result of breaking the cap, a payback will need to be made, and this will need to be made by low security irrigators. I repeat that we must be encouraging systems to help efficiency savings be permanently transferred.

In a year of resource constraint, the transfer activation by high security will result in a corresponding decrease in resource available for general security. If these impacts cannot totally be eliminated, then a rolling cap must be implemented as it will help meet cap and environmental flow requirements. In addition to these problems with the cap, the potential for up to 100,000 megalitres of inter-valley temporary transfers was there in the 93-94 year, but not taken into account by the New South Wales DLWC. The actual transfers took place in 94-95, but there's been no allowance for that in 93-94 because of the climatic conditions. It was overlooked at that time that it needed to be included.

We accept that general security sleeper and dozer allocations would eventually have been activated without any changes. People would eventually have taken them up and used them, but the high security was there purely to give guarantees in years of drought. DLWC, regardless of this, continued to announce a hundred per cent access rights for high security because high security allocation holders have unrestrained access to now activate my temporary transfer up to an extra hundred thousand megalitres over and above what New South Wales include in the cap. General security allocations are further reduced. It is incumbent on the state and the ministers to assure that access arrangements for high security are reflective of what DLWC included in the cap including protecting the right to use allocation on-farm, and it is incumbent on NCC to make sure this impact is brought to their attention.

Just before moving on to a quick cover of the environmental flows, I would like to make it clear we welcome the high value the community is placing on the environment. The community that puts this high value on the environment however must pay. The environmental flows, the translucent dam policy that's so attractive to others is having an unplanned additional impact on general security allocation holders over and above that publicly spoken of. The policy, rather than assisting with moving water away from low value crops or practices, attacks the underlying reliable component of the general security allocation, and also primarily impacts on the earlier availability announcements that are made for allocation at the beginning of the year.

Those clearly illustrate what has happened under the reforms. Where people could expect a minimum allocation in the worse year of 80 per cent, their minimum allocation will now be as low as 50. So the reliable portion of their water which they grew the high value crops with or supplied the permanent markets has now been reduced by 30 per cent from 80 to 50. We also note there is little evidence that the release flows contribute to any significant step to environmental health, and even less evidence that they are being best-practice managed to achieve outcomes. It seems to us, and it is the perception of the general community, that it is just letting go water for water's sake to leave less for irrigators. Can we say we have difficulty understanding why it is thought useful to compare the profitability of allocation with its associated level of capital investment in dry land cropping enterprises as the commission as well as the author of that study have a commitment to converting

irrigation farmers to dry land peasants. That's the completion of mine, John. Do you want to just sum up?

MR CHANT: Mr Chairman, in summary it's clear to us that the COAG water reform implementation needs urgent review. This must include users and scheme operators at the highest level. We believe it must reflect the competitive influence of schemes like ours now being in private hands. It must aim to promote the efficient use of existing irrigation investment, and at the same time enhance the development prospects for irrigated agriculture through research, development and a market focus. This commission is renowned for its economic focus. However, we note that you have demonstrated your awareness of the social impacts of reform, and we appreciate that.

Our concerns focus on the lack of inclusiveness for the people impacted by the water reforms, the lack of vision by government and its agencies in their role in rural infrastructure investment, and the adverse and unfair social and economic impacts of the water reform process on our rural community as a result of the speed and the elective nature of the implementation. There's clearly a problem of adjustment in our community because of the speed of reform. Irrigators and the community need time to make efficiency gains. Until adequate time is given, there should be no further interference with water supplies, and as an example we maintain that until the efficiency gains needed to offset the impacts of potential Snowy River releases are able to be made, the water shouldn't be taken from the irrigators.

There needs to be a revisitation of the COAG vision for rural irrigation communities. Surely COAG as a collective of responsible elected ministers were able to paint their future picture for irrigators. We ask where has that picture gone? The technocrats have lost sight of the vision and are obsessed with demonstrating their ability to interfere in people's rights regardless of the outcomes. They even go to lengths to deceive the politicians in our view in the name of COAG. Surely COAG wasn't really a conspiracy of anti-irrigator governments. Thank you, Mr Chairman.

MR COSGROVE: Thank you. Well, there are lots of issues in this whole area as we were discussing yesterday. Let me try to clarify one of them though. Again I'm gaining the impression, as I did yesterday and from some other hearings which we've had, that for you people as irrigators, the principal problem relates to the reduction in allocations available to you as a result of changes in the cap. Is that how you see it yourselves? There are other areas you've focused on which I want to come to, but - - -

MR THOMPSON: No, I would have thought it's not the water off the top of the allocation that we're so concerned with. It's that graph there that highlights - that cost has never been measured. The Department of Ag are now going to take that into their latest study. There have never been any socioeconomic studies done on the water taken from us virtually. The only one I saw was done by DLWC in 96. It started off with figures that were 500 per cent wrong. That's how good it was, but that's where the real cost is going to be. When we have a year where we only get 50 per cent, the cost for the other nine out of 10 years as a result of that - you'll see the big socioeconomic impacts.

MR COSGROVE: That's really what I was trying to clarify. We had a black and white copy of this chart in your submission, but this one comes out a little more clearly. Above the 50 per cent minimum reliable amount after the reform, you have at the top a quantity reduced by the cap which if I'm reading the chart correctly seems to be about 20 per cent, and then you have this red section which you've called - "This quantity is lost to high value crops or to production for secure markets due to lower reliability." Now, is the lower reliability distinct from the cap or is the operation of the cap producing the reduced reliability.

MR THOMPSON: It really is. The cap would have brought it down to a certain level, but that additional impact is the environmental flows that are being let go, and the resulting less availability in high impact years, and the impact of transfers is what's doing that.

MR BRAITHWAITE: So that 25 per cent does include increased environmental flows?

MR THOMPSON: Yes, that includes increased environmental flows, and that's in your highest impact year. So the average of environmental flows is only 4.3 per cent. The highest impact year is 16.8 per cent, and they're suggesting that the model - you could have some outside that. So you've 16.8 per cent just from environmental flows, and you'll get at least another 10 per cent impact from the transfer of high security water which is not in the cap. So the impact of low security - you put the two together in the worst year, and say you come up one year in ten 25 per cent down in reliable water.

MR COSGROVE: Those transfers to high security crops - - -

MR THOMPSON: No, transfers of high security water to - - -

MR COSGROVE: Sorry, okay. That's what you were calling temporary transfers.

MR THOMPSON: At the moment they're just on a temporary basis.

MR COSGROVE: And you referred to this this morning - I've forgotten, John or Dick, but I noticed in your submission to us - your written submission - you've said, "Permanent trade is prevented." Did you in fact indicate today that that was a decision taken by MIL or is that - - -

MR CHANT: Yes.

MR COSGROVE: I see. You can take that decision.

MR CHANT: We did.

MR THOMPSON: We can stop it going outside of our licence. We can't interfere with the trade in the rest of the valley.

MR COSGROVE: You seemed also to say though that permanent transfers of water were to be desired.

MR CHANT: Yes.

MR THOMPSON: Yes, and once the property rights - - -

MR COSGROVE: And you prevented them. Why - - -

MR THOMPSON: When property rights are in place, we will lift that.

MR CHANT: When you know what you're buying.

MR THOMPSON: You can't buy something permanent if you don't know what it is.

MR COSGROVE: But then you go on to say, "Temporary transfers and the inequities they cause are supported by the lack of property rights. I can see the sort of logical link you're drawing now. But what are these inequities? What's bad about a temporary transfer?"

MR THOMPSON: Well, what it is, it's water that wasn't in the cap or is not in the resource that's being activated by people - by the high security users - which brings up that 25 per cent impact. That's what the transfer is causing. You've got environmental flows of 16.8 per cent and the - - -

MR COSGROVE: So it's the environmental aspect, is it, that is concerning you?

MR THOMPSON: No. That 16.8 per cent of the impact is from environmental flows, and on the river committee we're working to try and come up with ways that will - even if it increases the average slightly - will reduce that maximum impact, because they acknowledge too that's where the high cost is. If you get one year in 10 when you can't supply your market, you don't get straight back in the next year. A combination of that, plus this water being transferred - which shouldn't have a right to be transferred - is causing that impact on low security irrigators.

MR COSGROVE: But is a temporary transfer - leaving aside the environmental flow aspect - other than a voluntary transaction between two parties?

MR CHANT: It certainly is but the impact is not borne by those parties, they're borne by a third party. That's the inequity.

MR COSGROVE: You'll have to explain that to me, I'm afraid.

MR HOARE: Perhaps I could just also add, prior to the cap and environmental

flows, DLWC in their allocation process did allow for allocation of some under-utilisation. Because of the transfer policies, that can't continue, because that water by the transfer process can be mobilised. So the allocation process the department uses has been varied. They probably haven't told you, but it has. So where there was an allocation of under-utilised water, that's now not part of it.

MR COSGROVE: I'm sorry, do you mean that the - - -

MR CHANT: The inequity is that if I was, for instance, a high security allocation holder and I only needed to use half of my water, for whatever reason, I am able to activate by temporary transfer the other half and trade that with you, for instance, being a high security irrigator too, or being any other sort of irrigator. But as a high security irrigator only 50 per cent of my allocation was included in the Murrumbidgee cap. So I'm actually activating a hundred per cent of it, using 50 and trading 50. And in any case, under the cap accounting rules high security people don't have a pay back arrangement. The only people who have to pay back overuse are general security irrigators - this third party. So I can sell to you and we can both merrily use it and make this guy pay back, because of the way the cap is accounted for. High security is protected. The whole idea of high security is to give surety year after year for permanent plantings.

MR BRAITHWAITE: But it gives security to the - - -

MR CHANT: To the irrigator.

MR BRAITHWAITE: - - - hundred per cent of allocation.

MR CHANT: Well, that's a moot point, because I think in 82-83, when the allocation scheme was introduced - and that's a long time ago, I know that - there was an expression used, "to give a hundred per cent surety for use," and there was no transfer scheme. But it has been allowed to be implemented, the transfer schemes. As Dick said, until the cap came in we didn't have a problem with that, because there was adequate resource. As soon as the cap came in and that unplanned activation continued, without those people being individually responsible for overuse there's an inequity, there's a shift of cost to the other group.

The second simple chart we gave you suggests how the percentage available - and that's the key column - or the key column there is the one with the percentage in it and if you look at the bottom, you're talking about an 80 per cent inclusion in the cap for general security at the top, resulting in a 67 per cent availability after the other impacts come on board.

MR COSGROVE: 57 or 70?

MR CHANT: 70.

MR BRAITHWAITE: I'm just trying to get a handle on this temporary transfer.

What you're saying, the high security person has a hundred per cent allocation - just assuming it - but in price cap under the cap he only has 50. When he uses his 50 he then transfers his other 50 to somebody else. Is that basically what is happening?

MR CHANT: That's right.

MR BRAITHWAITE: So actually he is transferring in excess of the cap to another user on a temporary basis.

MR CHANT: And it can only come from the people who are liable to pay back cap overuse. That's the general security irrigation, not the high security.

MR BRAITHWAITE: That's right. So the general security is burying not only their own cap, but the hundred per cent utilisation of the - - -

MR CHANT: The activation over and above the 50 per cent.

MR THOMPSON: And even slightly worse than that is the 50 per cent they are using which is the maximum amount they should use in a dry year, when you come into a wetter year or a cooler year when everybody should use less to stay inside the cap because the cap is climatically adjusted, they can also sell their under usage out of the other 50 per cent. That's totally against the concept of the cap; activating additional water because of climatic conditions.

MR BRAITHWAITE: The thing is, if you're in a high security area, if you keep your licence and your allocation, you're only likely to use 50 per cent of it, but you can get 100 per cent utilisation by this temporary transfer means.

MR CHANT: And someone else take the risk.

MR BRAITHWAITE: Yes, as you say the general security people take the risk.

MR CHANT: Take the risk of payback.

MR THOMPSON: And so it's a combination of all those things that are giving you that 25 per cent impact, and if nothing is done about it, that's disastrous for some irrigators.

MR CHANT: Not despite the fact that it's also unfair.

MR COSGROVE: I don't think we disagree with you on the importance of establishing clear property rights in this area. From what people on the other side of the Murray have told us, that seems to have been put in place more satisfactorily in Victoria. Do you people see that as a sensible, workable model?

MR CHANT: I think it's different. I think their situation is different - at least

historically. They predominantly were in the horticultural and dairy situation, particularly in the bigger areas in Victoria, and I think that there's a need for a component of high security water in both those industries where you can't really make your decisions on a year-to-year basis, and the way that they've structured their, in effect, high security in their allocation water rather than their sales water. It seems attractive and it seems to work for them, and I would comment that I think Victoria has a different approach to water resource policy than New South Wales, and I think what seems to me to be a bipartisan approach to planning water resource policy development seems to work relatively well down there. Relationships aren't strained as they are in New South Wales by radical shifts.

I don't know whether it's appropriate for New South Wales to have a similar model, but certainly the surety and the definition that's in their model is a good example. It's just that some people don't see it.

MR THOMPSON: Yes, I think what has happened though historically, everybody down there has had some of this high security water. On top of that they have sales water there. We just have a smaller group that is high security, and everybody else has got water which probably ranks between Victoria and high security and their sales water. That's where our normal security would sit, and so it's not a matter of just having exactly the same property right.

MR BRAITHWAITE: You were saying that New South Wales was the only state that doesn't fit within that cap that was allocated on the 92-93 production. Does that mean to say that Victoria can act within that initial cap?

MR CHANT: No. What we said was that New South Wales took a further step. Not only did it live within the cap, but it then decided to cut irrigators further through the introduction of additional environmental flows.

MR THOMPSON: Yes, the environmental flows at 4.3 per cent below the cap is the impact they have. So we have the cap and New South Wales decided to go a further 4.3 on average below it.

MR CHANT: You see, in South Australia as we understand it, when the cap was introduced, their government showed some leadership in telling people they would be allowed to develop their allocations to 90 per cent. That was the capital, and they made a clear statement to people about that. We know of at least one example in Victoria where people who had 13 megalitres per hectare as an allocation were told that is now just fractionally over nine megalitres a hectare. So the government came out and clearly said, "We have changed your allocation," but in New South Wales they just attacked the reliability underlying it. They didn't change the number, but your 900 megalitres is a mirage. It is the implementation process which is - all those words we used earlier.

MR BRAITHWAITE: Can I just get a handle on your organisation, and I'm trying to assess it in connection with the Murray irrigators. You have a company, and it's a

limited corporation paying its taxes and everything else.

MR CHANT: We would prefer not to pay taxes. As I said, we're structured to be below tax payable.

MR THOMPSON: I think we should explain that. If we were a large company, if a business owned the whole lot of our system, they wouldn't have the tax problems that we have at the moment. They would be regarded as agriculture with the total area, channels and all. At the moment we're having a fight over whether we can get the same depreciation rates even though the farmers own the whole lot, as one farmer would if he owned the whole entire area. So we are being actually disadvantaged in that area.

MR BRAITHWAITE: Yes, but you are a company, you pay taxes. You're a limited liability, but you're almost on a cooperative basis. The people you serve are all your shareholders.

MR CHANT: There are two rules: you cannot be a shareholder without having a water allocation serviced by our company, and you can't have a water allocation without being a member. You can't have a water allocation serviced by the company - - -

MR BRAITHWAITE: It is a bit if a cooperative-based - - -

MR CHANT: It is a cooperative, yes.

MR BRAITHWAITE: You take water out of the - what, is it the Murrumbidgee dam?

MR CHANT: Murrumbidgee River, yes.

MR BRAITHWAITE: You're only one of the off-takes from that.

MR CHANT: We have two major off-takes from the Murrumbidgee River, and there is another group scheme like ours called Coleambally on the south side of the river. We take our water in similar fashion as the Murray does from the Edwards River. We take it through major diversion channels, and then we cart it over the countryside and service the individual farms at their boundary.

MR BRAITHWAITE: So there's a price set at the dam site for your usage?

MR CHANT: We pay a bulk charge to the department to extract water out of the river.

MR BRAITHWAITE: That's a 15-year licence?

MR CHANT: It is.

MR BRAITHWAITE: And then you give licences, as the Murray does, to your irrigators.

MR CHANT: Yes. We have a member contract with them that specifies their rights, particularly their right to take and use water.

MR BRAITHWAITE: How does the government influence the temporary transfers and things like that if they should have no responsibility beyond the bulk price they give you on the allocation?

MR CHANT: The temporary transfers are actually external to our scheme, from our irrigators - to irrigators for instance in the Murray Valley, and they must come through our licence because our irrigators don't have a contract with the government; they have it with us, and we represent them in bulk at the off-take. So if there's a transfer from an individual within our scheme to an individual irrigator in Murray or down the river further, we have to transact the transaction through the department.

MR BRAITHWAITE: So on this stream, you should only be able to get 50 per cent of the allocation because of the reduction, but you can sell that downstream anywhere else, and they can pick up that other 50 per cent as and where they want to.

MR THOMPSON: That's the actual high security hold-up?

MR BRAITHWAITE: Yes.

MR THOMPSON: Yes. In fact he is selling it to some people in the valley, plus to people who have got large property holdings who haven't had to pay for a capital value in their property. They think it's great. They're getting the right to water on a temporary basis. It's permanent each year because they're buying it out of this permanent pool, and they've never had to pay a capital price for it.

MR CHANT: It gives them great advantage in the - - -

MR COSGROVE: Is that changing, the water component or transfer of water component of that land down the river? Is that tending to increase now that people can obtain water through temporary transfers?

MR THOMPSON: They are.

MR CHANT: There is development down the river.

MR THOMPSON: But by the same token, the water they're buying though - the people who are selling it are not losing anything firstly; somebody else is losing out

because of that sale. There's no problem with savings being sold down there or people who have got the right to use the water selling it. We don't have a problem with that.

MR CHANT: Except that we - - -

MR BRAITHWAITE: It's the general security that is suffering.

MR CHANT: Except that we have embargoed, as we've said, permanent transfers until the government specifies what qualities are inherent in them, what property is in them. That's for the protection of our members.

MR BRAITHWAITE: How much of the water that you distribute is general security as against - - -

MR CHANT: How much of it? It's about - - -

MR THOMPSON: 984,000 at about 1.27.

MR CHANT: The allocation - our average usage is about 800,000 megs for general security, and a fraction over a hundred thousand megs for high security.

MR BRAITHWAITE: How much for high security?

MR CHANT: Just over 100,000 megs, it's about 8 to 1 the ratio.

MR HOARE: That's the amount actually delivered, the allocations in - - -

MR CHANT: The allocations. There's about 1,000,000 megs of allocation in general security and 240,000 in high security in our scheme.

MR COSGROVE: You mentioned in your earlier remarks that you'd been able to achieve big efficiency gains over recent years. Could you tell us about that?

MR HOARE: Over about the last 10 or 11 years our staff members have halved. We are doing more in terms of the infrastructure refurbishment and we're giving a greater level of service to our customers because the irrigators are becoming more sophisticated by necessity and improved production. For example, the rice industry in the last 10 years has doubled the amount of rice they produce per megalitre and there's been further enhancements of horticulture, particularly grapes in recent years and conversion of large area properties to grapes means that you go from a steady state supply of rice to flush flows as needed for intermittent watering of vines. So the whole area has become more complex but we've still halved our numbers and doing more.

MR COSGROVE: Quite impressive. This, as you've said, Cedric, has been

happening over a period which pre-dates the introduction of the water reforms by COAG. Would you say that the reforms themselves, notwithstanding the problems you have been drawing to our attention, have had any effect in inducing some of those efficiency gains.

MR HOARE: The reforms themselves?

MR COSGROVE: Yes.

MR HOARE: Well, there are certainly a lot more - it has added to people having a very much greater understanding and appreciation of the environment they're in and I think it's starting to have people think very much more - because the only way we can expand now is on improving efficiency. I think that's fairly difficult to answer because also we still haven't got property rights. So really, what has been the change to an irrigator? He reads a lot in the - - -

MR COSGROVE: Change of price of water as a result of the cost of - - -

MR HOARE: We've managed to keep our prices at or below inflation for the last eight years. I might add that the DLWC has not - the bulk water price has gone up significantly.

MR CHANT: Excuse me, Cedric, if I can add I think much of the work that ABARE has done is simplistic and incorrect in many cases. One of the things they've got right is that trying to use water price increases as demand management tools is ineffective at the levels we're talking of because the games people are in are games of making money, they're not in the very marginal activities. Until water price moves substantially you're not going to get that shift in demand through price.

MR COSGROVE: Is that because water is a relatively small component of irrigators' costs?

MR CHANT: I think that has some impact on it, but I don't know whether that is totally true.

MR THOMPSON: I think where price is driving efficiency is the capital price. That's what I was pointing to, what people are willing to pay for it now on a transfer market is driving efficiency. I believe that's the greatest driver of water efficiency there can be, but we have got to have the property right in place before they can really take place. Otherwise people who have made efficiency gains over the last 10 years, if they're low security people they've just taken off, they've got no benefit from all the efficiency gains.

MR BRAITHWAITE: What's the reason you're not getting a proper security right to your water by New South Wales?

MR CHANT: Because the jurisdictions were permitted their own order of

introduction of COAG desired principles and the hard ones, the ones that didn't involve less water for irrigators or more price for irrigators have been left in the too hard basket. They are difficult issues, but that is no excuse for the jurisdiction to ignore them and that's what's happened in New South Wales. Now they're starting to work on it and we hear continual bleeps that the time-line should be pushed out. Why wouldn't they want that? They're getting the additional revenue, they've taken the water off the irrigators, the game's over for them. If they start signing up to water rights they start taking on liabilities and risks. It's difficult not to be cynical.

MR BRAITHWAITE: The Murray irrigators were saying that the longer time the time-frame the wider the goalposts.

MR CHANT: Exactly, and I think in Robert's delivery to the commission yesterday he explained to you how half of his right to take water has disappeared. No recognition of his investment in his property, potentially he could have purchased that four or five years as 900 megalitres and all of a sudden it becomes 450. No thought of compensation, only the threat of more being taken off. It is totally inappropriate the way it's being implemented and the government is hiding behind it by attacking the liability rather than the quantity.

MR BRAITHWAITE: Your real concern is about reliability.

MR CHANT: The reliable component of general security allocation is the key issue. There's liability and the timing of the availability of it because some of the policies are actually taking some decision-making opportunities away from irrigators, particularly spring waterings. If the resource is not there because it has been let out to do all these wonderful things for the environment, then there is - you would be punting too much at certain levels of allocation to try and water out cereal lines particularly if the resource didn't arrive for later where your key high value waterings are.

MR COSGROVE: This point cropped up again earlier yesterday, as you remember, this issue of what amount of water is required for environmental purposes. I mean, you tend to assume that governments look into these matters carefully and come to a view on the best advice available to them that there has been an inadequate allocation of water for environmental reasons in the past. Do you people feel that process of government decision-making in that area been deficient?

MR THOMPSON: Clearly everybody on the river committee acknowledges that the only basis that water is being taken at the moment is on a precautionary basis, that you can't wait any longer in case you are doing damage to the environment. They will admit the information is not there on what it needs. Our business is actually looking at taking control of part of the river and trying to monitor it better than what has happened, the real needs of it. We were thinking of doing that - you know, it was outside our area but the information is not there.

MR COSGROVE: You mean it's not being provided to you people or is not available to government for its own purchase?

MR THOMPSON: The research has not been going on for long enough to make a decision on what is required and I think Peter Cullen - and it was one of his offsiders here yesterday - but he'll admit that they're still looking in the Campaspe in Victoria, they're doing a lot of work on what is needed, but nobody is claiming the information is there, they're just claiming you must take some water in case.

MR BRAITHWAITE: The Murray irrigators are saying they had 10 people handling the environment on their staff. Do you go to that extent of having people handling the environment on your staff?

MR HOARE: I have an environmental services manager, she has staff. We're not as high as 10 but we are probably four or five but that's because we are still to implement our land and water management plan which we're still negotiating with government. But we monitor chemical releases and all that sort of thing, we monitor salinity, we monitor water tables, we provide an environmental management report that's about a centimetre thick - I'd be happy to provide you with a copy of that. They're requirements that we do as part of our licence condition, we have to manage the wetlands. We have to do much more than just deliver water to farms, we have to consider the environmental issues and that's becoming an increasing part of our activities and as we move into the implementation phase of the land and water management plan we would expect that to become even greater.

MR BRAITHWAITE: Did you say a little while ago that you've been in touch with the Snowy River and there's been no real research done on what would be a maximum release from those dams. Were you saying that?

MR CHANT: Not with the Snowy River. The Snowy inquiry has dealt with some of those issues but one of the uncertainties that we still face is that the corporatisation of Snowy still has the potential to see the departure or loss of some of our water. We're very fearful of that.

MR HOARE: One of the issues that I did raise in my presentation was as an example that the water efficiency savings down river in the west that could be used to provide flow for the Snowy should happen in that order. The savings should be made before the water is taken from irrigators which is very similar to the timing issues that we talk about in terms of the other reforms. It was interesting to note the comment about - particularly from the small business people yesterday - about starting your actions at the right end of the game and unless you do that, then it will just be more social dislocation for irrigators.

MR THOMPSON: Actually on that point we actually took our full board of directors and executive up to the Snowy for our March meeting and looked at the top of both rivers concerned and I think clearly we say until they fix up the willow trees, there'd be a waste of time putting any water down there anyhow.

MR HOARE: You may recall, commissioner, in my letter to you on 2 December I

outlined where some impacts of the electricity industry are inadvertently having some impact on us because of their reluctance to perhaps release flows and go to bare minimum, that cost us 5 per cent of early allocation notification last year, but it's out of our control. But that's another impact on us by other competition policy, electricity, that has a trickle-down effect that I don't think anybody ever even thought would happen, but we proved it by the information we gave you in our letter on 2 December.

MR BRAITHWAITE: One of your recommendations is a call for COAG to assess the process. That was in your second submission. How far should that go and what did you have in mind there?

MR CHANT: We're talking about the implementation being revisited. I just can't believe that elected ministers could have had in their vision the impacts that are being allowed to be put in place by the bureaucrats. I can't believe that. It is incredible in my view that they will continue to allow that to happen. In my view, and clearly in the view of most irrigators, those elected members who came up with all those good words about COAG water reform have now walked away and left it to the bureaucrats. It doesn't work like that. They have to be held accountable.

MR BRAITHWAITE: They're probably no longer there.

MR CHANT: Well, all the more reason why they should be brought together with the people that are suffering the impacts to reconsider, to paint the picture on all of them. Because unless we can understand that picture and unless they understand what's happening to that picture, we will continue to get bureaucratic implementation of their idea of the picture which is carried on irrespective of impact.

MR COSGROVE: I've take it you've drawn your concerns to the attention of New South Wales ministers?

MR CHANT: This is not the only forum we've addressed on this issue. In fact our chairman had a very interesting presentation to a national water forum in Sydney recently where he was part of a group with Prof Cohen and Tim Fischer from OCF and that was an interesting challenge for an irrigator to be in the same company as those two guys, but nobody listens. We've met with our ministers, we haven't met with our premier but we know that he understands our concerns and that's why - - -

MR HOARE: We certainly expressed concerns to the premier when he was there and Prof Cohen asked about socioeconomic studies and all the rest of it but we just seem to be - you've got this consistent story from the Murray, from us, from Lachlan, we're not all stupid.

MR CHANT: That's why I mentioned early in my presentation that we believe the social precautionary principle has got to be introduced. It's all right for the environment to claim that as their wonderful tool, we just want a bit on the social side too. How should COAG be reformed? There is a high-level working group,

Ken

Matthews from Canberra from AFA is the chair of that group. I am sure he would call people together. I'm sure it would help if your report suggested it and it may even be, given the complexities of the water industry and - I'll use that term loosely because I don't think our earth channels at Griffith look very much like the underground pipes in Melbourne. So whether it's really a water industry - although there is international flavour to that, sometimes it can get confusing. But even given that we accept that, there's no reason why people like that can't put this process in place, can't call for a revisiting. It's a long way down the track since that picture was painted.

MR BRAITHWAITE: Just some other questions. You indicated the bulk water pricing had significantly increased, has that transaction been transparent to the extent that you can examine the accounts of the authority or the agency to see what that increase is and what they're making provision for; how that price is arrived at? For instance do they regard that as a sunken asset?

MR HOARE: I part carried out a price determination, and DLWC put up figures. We went through - as part of becoming a separate organisation, we did a similar process ourselves, and we used to pay in excess of \$2,000,000 down to the head office. We went through a very structured process of writing down exactly what each item was. We found we were for instance paying for ministerial correspondence three times. We tried to do the same sort of process through IPART. Two determinations ago they put up some charges. They were asked to redo their accounts so that this could be followed. The last determination they didn't follow the same process as before, so you still couldn't follow it. One of the real problems we have is getting transparency and consistency to really know what is in the charges, and that is a real problem to us. What the - - -

MR COSGROVE: Is IPART concerned about that as well?

MR HOARE: Yes, I think so, and IPART said that they would give them two years. So we got a two-year fixed price determination, and this year we're about to start again. We still have fundamental concerns with this transparency of charges, and we would like to see it done on a very, very simple basis that says what they are and so you really know what your charges are so that you can have some say as to whether it's appropriate that you are paying for that part, but it seems to get all lumped in together, and because we are a fair part of the financing of DLWC, we pay.

MR BRAITHWAITE: So you've got no idea of what charges you're paying for administrative costs of the agency.

MR HOARE: Not sufficiently good enough we believe.

MR THOMPSON: It is indicated what areas are in the environmental research and monitoring. That's one area that's in there. Running the river is another part of it, and it is split up to some extent that we would even argue that the way they decided on the split does not recognise how much the community should contribute to

environmental works. That's suddenly been put into the river charge only in the last three or four years. With no real basis, a lot of it was spent on research. Should irrigators have been funding that is an argument we should be having to start with, but as far as sunk costs, I don't believe they are in the charge at the moment - sunk capital costs, but it is one they're pushing to try and get included. We would suggest they shouldn't be.

MR BRAITHWAITE: In connection with your own enterprise in the implementation of this whole reform, did the government give you a dowry as they did the Murray?

MR THOMPSON: Yes.

MR BRAITHWAITE: You've got the same problems on taxation as they have.

MR THOMPSON: Not as big as theirs but, yes, we have problems.

MR BRAITHWAITE: I understand you don't disagree with a sinking fund where you're on an annuity for replacement. You just had some doubts as to whether the government would be trustworthy enough to put an annuity aside as it should, as anybody else would, to provide that sinking fund at the end of the day.

MR THOMPSON: Now you're talking about the river costs though. Within the system, they're not involved within the river. I think we would have doubts as to whether they contribute or whether they might even raid the fund at some stage in the future.

MR CHANT: There is no doubt. New South Wales treasury has in writing expressed their view on the use of sinking funds to the IPART inquiry, and clearly they have said they will fund the recurring issues from recurrent funds.

MR BRAITHWAITE: They would fund it?

MR CHANT: Yes, but they don't. We know that, but that's not unpredictable.

MR THOMPSON: That's why they don't believe in forward positioning.

MR BRAITHWAITE: Accrual accounting would demand that, wouldn't it?

MR THOMPSON: No, not if you set your own rules.

MR THOMPSON: It should.

MR HOARE: We'd be happy to provide you information in relation to IPART, but perhaps you'd be able to access it by your own staff. We certainly have very ongoing discussions backwards and forwards with them.

MR BRAITHWAITE: And in your own enterprise, are you involved in annuities and sinking funds for future provision for refurbishments?

MR THOMPSON: Yes.

MR CHANT: I think one of the problems we've got at the moment is because we've only just separated from government. We've got a substantial catch-up period, and our plan was that for the first three or four years of the annuities irrigators pay which is slightly in excess of 2 and a half million dollars a year, because of the need to catch up we wouldn't have necessarily been putting those in the sinking fund. We're also marginally different than Murray in that their separation agreement with government required them to have a sinking fund at the end of a certain period of years of a certain amount of money. Ours doesn't; just that we have adequate provisions.

Their cycle of replacement is a little further out than ours. We're at something like an average 70 per cent life expiry of our assets, and they're not quite out there yet, so we've got a hump that we're at. Their hump is about to come in terms of the replacement projections.

MR BRAITHWAITE: Just one final question. Have you any indication from the Tax Office how they're treating the sale of temporary transfers and permanent transfers?

MR THOMPSON: How they're treating the sale?

MR BRAITHWAITE: The sale price?

MR THOMPSON: Well, the actual sales price for temporary transfer is just income in that year to the irrigator. The permanent transfer would depend on whether it was pre-capital gains tax or not. That's how I assume it is. I haven't seen it in writing, but that's how the accountants in our area would be treating it.

MR CHANT: The stamp duties office is stamping the ad valorem right for permanent transfers on the purchase price.

MR BRAITHWAITE: But if those transfers are subject to renewal, wouldn't the old contract fall out?

MR CHANT: If the transfers are subject to renewal?

MR BRAITHWAITE: Yes. You've got a licence. You've got a 15-year licence.

MR CHANT: We've got 13 and a half left.

MR BRAITHWAITE: The allocation you make to the farmer, is that on a basis of a number of years or just the fact they remain a shareholder?

MR CHANT: Their member contract is issued for the same term as our river licence with the department.

MR BRAITHWAITE: How old is your licence now?

MR CHANT: It's about one and a half years.

MR BRAITHWAITE: I won't try to prejudge the Tax Office, but - - -

MR CHANT: We are working with Murray and also with Goulbourn-Murray from Victoria with people in the Tax Office, and can I say that we seem to be making some progress in recognising some of the tax and equities between us and primary producers per se, and that's why our focus on the lack of provision in the Ralph report for primary producers accelerated depreciation, but it's just another exercise.

MR COSGROVE: Thank you all very much for coming to help us understand better this complicated area.

MR THOMPSON: I just have one point. I believe it will be necessary to have a separate inquiry. I believe this water issue is so complicated.

MR COSGROVE: Well, the commission had one in the not too distant past.

MR THOMPSON: We probably have been involved more than most and would offer our services anywhere we could to try and sort it out.

MR BRAITHWAITE: Do you see an inquiry different from a review?

MR THOMPSON: To that extent I'm suggesting somebody has a good look at what's happened.

MR HOARE: Perhaps we can call it a review inquiry.

MR COSGROVE: Dick, in that vein, it may well be as we move towards finalisation of our report to the government that we might have a need to seek some further information from you. In that event, should we approach John or yourself?

MR THOMPSON: Approach John and we'll sort it out from there.

MR COSGROVE: Okay.

MR THOMPSON: Only too happy to help.

MR COSGROVE: Thank you very much. Our next participant is the Honourable Rob Borbidge.

MR COSGROVE: Good morning, Mr Borbidge. I wonder if you would be good enough to just indicate your name and capacity of appearing today for our transcript, thank you.

MR BORBIDGE: Thank you, Mr Chairman. Bob Borbidge, leader of the opposition Queensland. I served as premier of Queensland from February 1996 until July of 1998. Mr Chairman, I would like to present some views to you, if that's okay, and we can take it from there.

MR COSGROVE: Certainly.

MR BORBIDGE: Mr Chairman, I submit that it is now an urgent necessity for the parties to national competition policy to review its operation and its terms. A review of the operation and terms of NCP after five years by the parties to the policy is a requirement of the 1995 agreements. Point 15 of the competition principles agreement signed by the states, the territories and the Commonwealth in Canberra on 15 April 1995 states that once this agreement has operated for five years the parties will review its operation and terms. Point 10 of the competition policy agreements is in the same terms. Point 11 of the competition policy agreements also requires that the party review the need for and the operation of the National Competition Council after it has been in existence for five years and I would hardly endorse that particular requirement as a major issue for discussion by the council of Australian government, notwithstanding the fact that the council was not established until November 1995.

An immediate review by the parties on the operation and the terms of NCP would therefore be only slightly ahead of the timetable originally set by the Council of Australia and although a review of the role of the NCC would be somewhat earlier than was originally intended, I think that it would be commonsense to deal with that issue simultaneously. I think that the very comprehensive report and submissions that will emanate from these proceedings, on the evidence of your draft report, would be an admirable starting point for such a review and demonstrates the need for it. In your draft report you have found considerable ill feeling towards NCP in regional and rural Australia; you have found that the impact of NCP to date has been uneven; you have found that the early benefits are more readily discernible in the cities; you have found that the early costs are more readily discernible in the bush; you have found that there has been uneven performance in implementation.

You have suggested that governments reconsider aspects of the water regime. You have urged government to reconsider some aspects of adjustment assistance. Any one of those factors standing alone, in my view, is ample justification for bringing forward the planned review. Supporters of all aspects and current implementation of NCP should welcome the opportunity to re-establish its credentials as a set of policies with clear and identifiable long-term benefits for the country. Opponents or critics of NCP would achieve the opportunity to put their case directly to those who have responsibility for its implementation which is the parties to the agreement. I submit that one other group should be added to the COAG parties for the purposes of the five-year review and that is local government. I make the

point that the president of

the Australian Local Government Association does attend COAG meetings.

Local government is subject to NCP but had limited opportunity for input in its development. It should have an integral role in the review process. Mr Chairman, I would also make a number of broad comments on your report and on NCP. The first is that I agree unreservedly with your observation of the obvious that the NCP buck stops with government. NCP is a policy of Australian governments, the Commonwealth, the state and the territory governments, not the National Competition Council, not the National Productivity Commission, not the ACCC, are the architects, and at the end of the day, the implementers of NCP. It is high time all parties to the agreement were up front in accepting that responsibility. You, I believe, agree. Your report makes the same point repeatedly.

The best way for the parties to demonstrate acceptance of that responsibility is, I believe, to advance the review of the operation and the terms of NCP by the parties to the agreement which are the governments of Australia with, as I say, the important addition of local government in full partnership in the review process. An important element of that review, as identified in the competition policy agreements, should be in relation to the continued role of unelected bodies, and particularly the National Competition Council. There is no doubt in my direct experience that at times the council has sought to overstep its advisory role. The commission may be interested to know that this is not only a Queensland phenomenon. The premier of South Australia sought to have the role of the NCC dealt with at the premiers' conference last year, but the timing was then deemed inappropriate by the prime minister. I would add that this is not to imply criticism of the prime minister's decision not to consider that issue at the time, but as I say, to emphasise that it is not only the National Party or the government in Queensland that favours an urgent and immediate review of the role of the NCC in NCP.

The second commentary on your draft report I would make is to offer a significant qualification of your view that many other matters beyond NCP are having a negative impact on the regions in the bush and that NCP has therefore become a scapegoat. There is no doubt that income and costs and quality of life for many rural and regional Australians has been under pressure since certainly as long ago as the immediate post-war period when there was a major realignment in markets on which rural and regional Australia, and at the time the nation, heavily relied. These pressures accelerated with Britain's entry into the European market generating a new level of competition for a range of our commodities. From then on the list of factors beyond the influence of municipal governments which have had a major negative impact on the regions in the bush has grown rapidly, as you have identified.

One significant factor which you've not specifically identified in your thorough treatment of these factors is the oil crisis of the 1970s which obviously led to one of the biggest one-off increases in costs for all Australians but particularly for regional and rural Australians. The point at which I lose your interpretation is in relation to the labelling of NCP as a scapegoat via your parallel effort to corral NCP issues into the narrow confines of the issues specifically addressed in the 1995 agreements. The

NCC, in its January 1999 report on NCP impacts, itself indicates that the NCP approach of 1995 puts, "A national umbrella over a number of reforms which government were already in the process of developing or implementing." The NCC identifies that some of these policies date to the mid-80s. Your own report makes similar observations in relation to the national financial sector reforms, among others, from that era as being elements of NCP like responses that governments were making at that time.

There is clearly a continuity between those policies and the formal agreements on NCP which I think very legitimately and understandably blurs boundaries between policies that commenced in the mid-80s and which were brought under an umbrella in the mid-90s in the minds of many Australians, particularly in rural and regional Australia. So I think that there is no mystery at all in the fact that a great many Australians, when they think NCP, think of this whole basket of issues that have been in development as government policy since at least that mid-80s era. I would suggest that there is considerable truth in this comprehension. It may be quite defensible in the bureaucratic or academic sense to draw a line under 1995 and say that was the beginning of NCP but in political terms and in terms of the evidence in your own draft report and in the report of the NCC, it is not the case.

It is also a political nonsense to continue to seek to ram NCP down the throats of those many people, particularly in rural and regional Australia who are so very clearly, based on your own draft and on the evidence of many of the submissions to you, so comprehensively concerned. Certainly governments have to have the courage of their convictions of their policies, but they also have a responsibility to listen to the governed. I suggest that it is the parties to the agreement, not this commission which should be hearing and considering those issues at first-hand. A third observation on your report concerns the issue of compensation or of adjustment payments for those people adversely affected by NCP.

You make the point that there is some need for further consideration of this issue by government and I agree. I disagree, however, with your view that existing social welfare systems provide adequate parameters. There is no doubt that we're entering some uncharted waters in this regard and I think we have to be prepared to consider the questions with considerable sympathy and in their historical context. For example, the commission heard recently at Albury for a range of irrigation interests in the Murray-Darling system. There are people in that region, as you know, who have been having a very difficult time establishing reliable data on the availability in the medium to longer term. Allocations are constantly changing as under the NCP umbrella the New South Wales government juggles the interests of irrigators and local government and the environment.

This is not only impacting very adversely on the ability of farmers to plan, it is playing havoc with pricing mechanisms. As you are aware, the concerns about generally and constantly declining and changing water allocations in the region have attracted submissions concerning compensation for the loss of what has in practice been a property right. The value of farms in that region, and I would suggest to the

commission in similar circumstances right across Australia, has been weighted in relation to what has for a very considerable period been reliable access to particular quantities of water. The relationship between access to water and the value of an irrigated farm is obvious and what was argued before you in Albury was that compensation was appropriate where water rights were arbitrarily reduced. An additional factor in those submissions, I would suggest, concerns the history of that region and indeed of our country as a whole and I think this is an absolutely central point.

What is being contemplated and implemented in relation to water and a whole range of other service issues right around this country under NCP is a dramatic and, in historical terms, a rapid reversal of policies that have been in place in this country for many decades. Communities were born and have been built and have implicitly relied on those policies. Industries were born and built on those policies. Cross-subsidisation or straight subsidisation on a whole range of services in fact underpinned the development of inland Australia and the return to Australia on that investment over a very long period of our history was our national development. It was said that for much of this era we lived off the sheep's back. In reality we lived off the farmer's backs and we lived off those relatively few backs very well. Our living standards through much of that era were among the highest in the world.

In modern terms our economics might not have been particularly rational and they were certainly a long way from being politically correct. So I suggest to the commission that it is one thing to now recognise that many of the policies that generated that wealth, that heritage, that history are no longer sustainable. It is another entirely to say to those people and the descendants of those people that they are now economically redundant and are to be simply swept out of the way. An Australia with a sustainable 4 or 5 per cent growth rate at great social and human and community cost to rural and regional Australia may be an admirable outcome for some but it is not a way of dealing with the issue that I want to have anything more to do with.

I would emphasise to the commission that my comments are directed at politicians, not at the commission or the competition council or the ACCC, they are directed to my colleagues. It is governments which have to take stock of the process to date and to determine that what is needed is a more humane approach. The best way of describing what I believe is the central necessity if this process is to be ongoing, is the way it was put to you by Richard Armstrong of the Queensland Farmers Federation in Toowoomba last week when he spoke of what he called the need for a partnership. I think that that's an admirable way of putting it. Governments have to recognise that in many instances there is the very strong potential, if not inevitability, of significant dislocation in rural and regional areas as a result of national competition policy. Some of it may be unavoidable in delivering wider benefits, but the people of rural and regional Australia deserve far better from government than they have so far received.

Impacts of change need to be determined and taken much more into account

before implementation, during implementation and after implementation, and it is that issue which should be at the core of the five-year review of NCP by the parties to the agreement which I submit to this commission it should recommend be brought forward by COAG immediately your final report is delivered to the Commonwealth treasurer in August.

MR COSGROVE: Thank you, Mr Borbidge. I wonder if I could just pursue a couple of the points you've made to us.

MR BORBIDGE: Sure.

MR COSGROVE: You've rightly I think portrayed national competition policy as part of a continuum of government reforms, and I have no doubt that many of the people whom we've met see it just that way. We felt it was worthwhile nonetheless in our draft report to try to delineate the effects of what is more strictly understood as NCP because that does encompass a discrete set of measures which governments, should they wish to, readdress what they have put in train would need to do. It's no good focusing on financial deregulation, say, if the real source of the problem is rail reform, but that was the logic behind our approach. I thought you seemed to be implying that wider reform process had probably harmed people in communities in rural and regional Australia. Is that how you would see it?

MR BORBIDGE: Yes.

MR COSGROVE: There may have been some elements in that whole process that would fit that description, and I guess a number of people would say for example that financial deregulation might have done so at least in terms of inducing banks to reduce their physical presence as distinct from other types of provision of banking services in the bush, but on the other hand one can point to areas for example like the reduction of assistance to many Australian industries which is I think generally agreed to be a tax on export industries who in the end are unable to pass on their increased costs involved in providing that protection, and you would think that that would have been a really substantial benefit for the major export industries which are located outside the capital cities.

We certainly had people saying that to us during the course of this inquiry and in other inquiries, and also I would have thought that even some of the areas which are now wrapped up with NCP - the so-called related reformed in infrastructure areas - I think have brought benefits to industries and households located outside the capital cities, even though as we've said in the draft report they've had some immediate costs as, for example staff have been laid off from enterprises which needed to become more efficient. I was therefore wondering if we leave financial deregulation to one side, you might say that's an important case, although even there as we have seen, the cost of borrowing from banks and other financial institutions has moved decidedly in favour of the borrower over the past decade.

Of course governments have managed the economy better, they've got inflation

under better control, put budgets into more sustainable positions, and that has helped in this context also, but even apart from that, the margin charged by banks to their customers over the cost of the funds which they have to borrow in the marketplace has significantly declined. So if I'm a farmer, for example - and farmers typically have debt - I can now get a better deal from the banking system than I could in the past. On the other hand, as I mentioned a moment ago, I might not have a bank branch in my nearby town. People can I guess come to different judgments about the outcome of those contradictory developments, but what other elements of that broader micro-economic reform agenda would you say are having adverse effects on these areas?

MR BORBRIDGE: Can I just respond firstly in regard to the banks - and I know that it's a major concern in many rural areas at the moment that the rate of interest charged for a primary producer is substantially above the rate of interest that someone can obtain a home loan for, and there are still - - -

MR COSGROVE: Yes. Well, that's a perception of risk I guess.

MR BORBRIDGE: Exactly, but there's still some very big differences there. I'd just like to comment on a couple of issues where I think that there are some concerns that do need to be addressed, and I'm quite happy to acknowledge that gas for example could well prove to be one of the success stories of NCP, but I know that there was a view I think during the Toowoomba hearings that NCP had facilitated the development of the north-west gas pipeline and the associated benefits to industry. That is simply incorrect.

The market demand justified at the end of the day that north-west gas pipeline, and for example it was government intervention rather than the free market that probably made it viable because some of those potential users of the north-west gas pipeline such as WMC at Phosphate Hill were the recipients of very substantial state government incentives so that that project could proceed, and because that project proceeded and other projects proceeded, the viability of the gas pipeline obviously became better. So I don't think it's correct to say that the north-west gas pipeline in Queensland came about as a result of NCP. I do acknowledge, however, that gas is an area where we are likely to see some benefits.

But power in Queensland is very much a mixed bag, and I'd just like to quote a couple of examples if I could which may be of interest to you. I guess part of the problem with NCP as I see it for Queensland is Queensland is still far more a developing state than, say, Victoria, and the model that may fit Victoria well doesn't necessarily suit Queensland. I mean, Queensland still wants to build dams. It still wants to build power stations. It's still because of population growth addressing an enormous amount of infrastructure from both the private and the public sector, and for example the chief executive officer of one of the power authorities dealing with north Queensland recently made the comments that the north and the far north will not receive any benefits from deregulation certainly in the near future, because in large part, far north Queensland doesn't have at this stage a large power station.

But just some figures that may be of interest: the first and second tranches of contestable customers - and I guess we're talking about the big end of town - have certainly achieved substantial reductions in their power bills; about 20 per cent, and that's been very important in terms of Queensland being competitive. The third tranche for those that have recently become eligible to join is struggling. The government recently received correspondence - and a copy was sent to me - from the national electricity coordinator for Woolworths who complained very vigorously that the pool price set by the government is so high that 55 of the 66 sites eligible in relation to the Energex area will remain on existing tariffs, in relation to the Ergon area, 44 of the 45 sites will remain on existing tariffs.

This leads to one point that I would like to correct or just advise you of in regard to the draft report where it was suggested that prices fell on the Queensland interim market, which preceded the state entering the national electricity market last December, by some 28 per cent. Now, my view would be that this is a fictional number to the extent that trading was not actually occurring. Real trading began with the entry of the state to the NEM last December, even though the interconnector is not yet in place. The market is, and they're trading, and Queensland's prices were the highest by a very long way. We were consistently having weeks where the price per megawatt hour averaged for the week was around \$70 which was two and three times the averages then being recorded in Victoria and New South Wales.

We had several price spikes right up to the threshold of \$5000 per megawatt hour, and a number of other lesser spikes in the thousands of dollars per megawatt hour particularly during the summer period, and Access Economics has in fact recently suggested that Queensland power prices have been on the rise over the past 12 months, so I think electricity - the jury is still out. I think that certainly - well, in the gas area, there will be benefits. I don't think that we should be claiming that no NCP, no north-west gas pipeline. That would have happened anyway. I think that in regard to rail, we have seen in Queensland a steady deterioration of service. We now have Queensland Rail using trucks on rubber tyres to service communities that used to have railway lines and railway stations. So my view is that whilst many of the objectives are admirable, we need to inject the humanity back into the process, and at the end of the day that is the responsibility and the obligation of the political practitioners.

MR COSGROVE: Although in a couple of those cases that you mentioned - electricity and rail - I think Queensland stands out as not really having much competition. So in effect the process hasn't really come into play in those parts of your state's economy system.

MR BORBRIDGE: Certainly in terms of electricity, Queensland has met its obligations.

MR COSGROVE: Yes, that may be, but it remains the case that unlike the situation in Victoria particularly and even now in New South Wales, the pressure of

competition is much less. Another general point I'd be interested in your view on is our assessment in the draft report - and I think you did touch on this in your statement - that those non-NCP factors, and by that I really mean factors outside the strict purview of NCP, have been a more important source of difficulty for the bush, to speak colloquially, than has the NCP agenda itself. Do you agree or disagree with that finding?

MR BORBRIDGE: I would disagree to the point that NCP and the administration of NCP has exacerbated those problems. It's added another tier. It's to a certain extent provided a focus, and I think that it has therefore made the survival of particularly a lot of smaller rural communities all the more difficult.

MR COSGROVE: That may be, but we have seen really big declines in the prices which farmers in particular have received for their products over a lengthy period of time. You mentioned our earlier period of wealth in international terms. Now I think most people would agree that that was, if you go back a long way, importantly a function of the development of gold in this country, and more recently halfway through the century some quite unsustainable prices received for wool - you know, the old pound a pound days - and the price of wool in terms of the currency value of those years is now very much lower, and in fact has undergone a very substantial decline even over the last decade or thereabouts. So that seems a really big influence on some parts of your state and other parts of Australia.

We've seen of course in our country as in others the march of technological progress which clearly means that people can do things in various sorts of industries, but particularly in primary and secondary industries with fewer hours of labour than were needed in the past. They were the sorts of factors together with changes in the way in which people choose to spend their money these days which we thought were really quite strong, long-term influences working essentially to reduce the need for people to be working outside larger urban centres. You doubt that, do you?

MR BORBRIDGE: I'll just give you an example, and I think it's part of the problem and I know that there has been a heavy influence on water and the commission has acknowledged obviously the need for changes there. Last week I was at Dirranbandi in south-west Queensland. Five years ago it was dying. I mean, it was on its last legs. You now have a hotel that is operating on 100 per cent occupancy. You have incredible increase in property values in the town. You have an incredible amount of economic activity going on, and it's going on because of water, and the fact that people have been able to diversify and they've been able to expand into other areas. I met people that had previously been on the dole at Noosa but are now working on cotton farms at Dirranbandi.

I'll give as an example the sorts of problems we're experiencing. I don't think there's the flexibility in the current administration of NCP to fully allow rural communities to grow where they have the opportunity. The previous coalition government in Queensland was proposing essentially a \$2 billion water infrastructure program, some \$1.2 billion from treasury, the balance from the private sector over a

period of time. We had identified a range of major water infrastructure projects throughout the state - two Snowy Mountain Schemes in terms of area. Now, you go to places like Richmond right up in the north-west, magnificent soil. There's no reason why they can't grow sugarcane or probably cotton, a host of other things, and have a real future.

We hit a roadblock with the National Competition Council and with NCP. The current Labor government have also hit a roadblock, and it's based very much on the strict adherence to the doctrine of user pays. I mean, if we want to build a dam, we're told that the people that are going to be the beneficiaries of the dam have to meet a share of the cost which obviously it is beyond their capacity to do, yet in Brisbane at the present time, the government is potentially about to spend \$200 million on a new super sports stadium. Now, no-one suggests that the people that will go to watch the footy in Brisbane will have to contribute to the up-front capital cost of the construction of the stadium, but where you had a situation where government was prepared to invest and provide new opportunities for a whole range of rural communities to get around the problems that you have been referring to, there appeared to be insufficient flexibility in the administration of national competition policy to go ahead and do it, and that's why I referred earlier to the importance of putting the humanity back into the system to acknowledge that large parts of rural and regional Australia that are doing it tough at the moment can have a future, and the last thing that we should be doing is moving away from I guess the historical approach that propelled the development of the inland in the early days anyway.

MR COSGROVE: Yes. It's the case though that if a government wishes to undertake that sort of investment, and believes that in doing so it will be providing growth opportunities for outlying parts of its state, then it's perfectly entitled to do so. The only risk it runs is that if it implements such an investment in a way which is not in accordance with the agreed water reform principles, then it stands to lose some funding from the federal government. That's a matter I suppose for state governments to judge whether they wish to go ahead and possibly forego that payment, but I do think - I have to say I wasn't in Australia at the time when the NCP agreements were put in place, but from my understanding of them, I think governments would say that they weren't meant to be devoid of a sense of humanity, and if you look at the water area in particular, I think what was in mind was that governments realised that we and all other nations have limited resources in comparison with the various good deeds that we'd like to have them do.

So the system I think was designed so that proper account was to be taken of the other uses of taxpayer funds which would have to be foregone if let's say large water storages were put in place without due account of that opportunity cost as it's called, and the human side of that I think as I was saying at a recent hearing is that governments face all sorts of demands on them, and I'm sure you know that better than I do. There are demands for improved medical services, hospitals, demands for better education facilities and so on, and I think the idea of having governments go through a diligent process of assessing as best they can the costs and benefits of a particular investment, whether it be a new hospital or a new dam, is really what the

NCP process was putting in place.

But as I say, at the end of the day if the state government considers that its citizens are really going to gain substantially from a particular investment which might not fit with the COAG principles, then it can do so, and presumably might come to a view that the loss of the competition payment is less significant than the additional gain which that investment in their own assessment is producing.

MR BORBIDGE: But surely it's not acceptable that a government incur a penalty for seeking to undertake a project of national development whereby incurring that penalty there will then be less money for hospitals and schools. I mean, the other point I would raise is that the situation as it applied to us at that time, Queensland has no debt. We have negative net debt. We have a triple A credit rating. We were not having any difficulties funding our hospitals or our schools, but from your remarks you say, "Okay, go ahead and build the dam and lose some national competition payments," but why should you because obviously if you're going to lose some national competition payments, then you may well then be losing some nurses and some doctors and programs that otherwise could have been devoted to the social development and the social welfare of your state.

MR COSGROVE: Well, that's possible only of course if the implementation of these competition principles is deficient in some way, then one would not want to argue as I was doing, but at the same time these were principles which were agreed by governments.

MR BORBIDGE: And they're up for review shortly.

MR COSGROVE: Yes.

MR BORBIDGE: And what I'm saying is that - I think I indicated earlier I'm not arguing that NCP may not have worked well in Victoria, but I think that there is a difference. I can't imagine the Victorian government wanting to build too many more dams. In terms of our nation, Queensland is still very much a developing state, and the other point is Queensland is the only state where the majority of people live outside the capital city, outside the south-eastern corner. So I think - - -

MR COSGROVE: Tasmania might be as well but, yes, you're right.

MR BORBIDGE: But in terms of the distance, in terms of servicing that particular population, I would submit that Queensland has some problems that really are different and do need to be addressed. I mean, obviously in New South Wales there are also some issues, and the premier of South Australia I think has previously expressed some concerns, but I guess what I'm saying is the idea that one size fits all I don't think is one that we should be subscribing to.

MR COSGROVE: I should let my colleague ask you some questions.

MR BRAITHWAITE: Rob, thanks for your comments, particularly the one where you - I thought we were being too subtle by a half by not coming right out and saying it's the governments and the jurisdictions that control the NCP process. The fact that you were able to pick it out refers credit on you or your advisers, and maybe we should make that more obvious. The second one is in Toowoomba. We were told in connection with water that there is a suggestion that the principles of this COAG agreement on water appear to be different to the guidelines adopted by the NCC. Have you any comment on that?

MR BORBIDGE: I have discussed this matter with one of my colleagues who did for a period of time serve as minister for natural resources, and he in turn had had discussions with public servants in Queensland who had been involved in the original agreement and the drafting of the original agreement, and he has come very firmly to that view.

MR BRAITHWAITE: Would there be any possibility of getting advice - direct evidence on that?

MR BORBIDGE: I guess it would depend whether the public servants involved would be prepared to do so, but I'm more than happy to raise it with my colleague, and if his former public servants are prepared to do so, I'd certainly be prepared to follow that up.

MR BRAITHWAITE: It comes back to the difference of opinion between the COAG agreement and the implementation by NCC, and one thing I've been trying to chase for a while is the actual letter that you received from the NCC on that water position. That has not been available to us. Is it not going to be available to us?

MR BORBIDGE: The letter that I would have received from the NCC would be technically now the property of the Premier's Department. It was not something that I had access to take with me when I left, but we could seek to obtain a copy of that from the current government. It would be their decision as to whether they decided to release it. It should still be on file.

MR BRAITHWAITE: Yes. I think we might defend the draft report when you say that we tried to escape the problem of focusing on the NCC and saying it was used as a scapegoat. I don't think as a commission we have done anything but try to get all associated matters into the open and try to make comment on those. So it's not as though they're swept under the carpet of - the NCC is a very narrow process, and those other are matters unrelated. We have I think tried to do it, and on the matter of assistance for instance, your comment in connection that we rely on general assistance overlooked the fact that we have asked for more information on adjustment packages.

MR BORBIDGE: Yes, okay.

MR BRAITHWAITE: And it is a very difficult one. I've got to say I do share your

concern about Queensland - and other people have got pretty sick and tired of hearing of Queensland at times - that we are a developing state, and we're looking very carefully at the public interest test as to ascertain whether in fact if you wanted infrastructure, that you shouldn't be able to share in it, and I think in most of the cases on irrigation, particularly in dams, the recognition that by governments to date, that the asset is sunken would lead me to the conclusion that they would believe that fresh establishments would also have to require some assistance. That's my own view, and my real concern is that if NCP is judged to take the power out of the hands of politicians to be able to place money within their own states as they would want to, and maybe it doesn't do that, but as you say there is the penalty of the national competition payments reduction.

I see that if you take that to its ultimate extent, you could have roads being up for economic appraisal or a rail out west up for an economic appraisal that would not be fulfilled in terms - even electricity.

MR BORBRIDGE: Yes.

MR BRAITHWAITE: So I understand your concern there, and we are looking very carefully at - well, I'd be looking very carefully at the public interest test as to see how it might be - where the guidelines are different from the principles adopted by the NCC, just what that relationship is and so I think it's important. In connection with your review, it will be great to be able to say, "Yes, the review should take place," because it's in legislation that it should and you're always on safe grounds there. But on what basis do we recommend an earlier review than what is happening now, and could I ask in connection with COAG, because I've never been a party to them, is the COAG agreement a matter of consensus or is it a matter of majority rules? I'm just thinking of getting into a COAG meeting with states with different ideas and different principles. What is the process?

MR BORBRIDGE: As I understand it the leaders' forum which is basically the premiers and the territory leaders without the Commonwealth have already initiated a working group about the concerns relating to the administration of national competition policy, so I think probably what's happened - I think Queensland probably started to feel the chill winds a bit earlier than some of the other jurisdictions and as a result I understand the premiers are meeting in Sydney tomorrow where it's likely that some reports or advice from that working group will be considered. So there appears to be at least a consensus amongst the states that there are problems that need to be addressed.

Now, the COAG machinery itself is generally by consensus, although I cannot recall where any issue that any state or territory felt particularly strongly about at any one time was ignored. I mean, if the other states didn't agree, they would at least agree to have senior officials have a look at it or some sort of working group to identify some of the areas and what can be done. But essentially COAG operates on a consensus basis. The other matter you raised was what justification can you have for saying to the federal government that the review should be brought forward. My

view is that you are accumulating a wide body of evidence to justify that and that's evidenced by many of the comments that you've made in the draft report, the fact that the impact to date has been uneven, that the early benefits are more readily discernible in the cities, that the early costs are more readily discernible in the bush, that there has been an uneven performance in terms of implementation.

My view is that the degree of concern that has been expressed in regard to some of the social costs involved with NCP would justify a recommendation to the treasurer, but seeing it's going to happen in the not too distant future now and seeing that you've started the process and the good work that the Productivity Commission has already established, there is a moment there, let's keep it going and then let it roll over into a full review process by COAG.

MR COSGROVE: Although I think some of those points you've been citing from our draft report are right, Mr Borbidge, we've also come to a conclusion that in the longer run country Australia taken as a whole, thought not of course every particular region, is likely to benefit from these reforms.

MR BORBIDGE: That's if there's anyone left.

MR COSGROVE: That, I think, gets back to the question of what particular factors are having adverse effects on people in the country areas. I think it's not uncommon in a reform process to find the costs showing up early and being fairly narrowly focused in terms of who cops them, whereas as the benefits typically take longer to emerge and are spread more diversely across the population. We have done some estimation using modelling techniques of the likely long run benefits and costs of these reforms and interesting what they show is that outside the metropolitan areas the largest - I'll put it another way. I should say that the largest gains and the most sizeable costs, at least in terms of employment, actually are in the country areas, not the metropolitan areas.

In other words, the metropolitan areas are more tightly bunched in terms of a narrow range of effect, still positive, but some country areas actually on the basis of this analysis, and people can dispute it, I guess, but it suggests that the biggest gains are actually likely to be incurred in country areas. Now, whether that's in the state of Queensland, I need to look back at all the figures to be sure, though I think as a general proposition the two states which these estimates indicated would gain most in the long run from these reforms were Queensland and WA.

MR BORBIDGE: Certainly, on the empirical evidence as I move around the state I would have to question those assumptions.

MR BRAITHWAITE: It must be said that that type of graph and evidence is related to NCP influences only.

MR BORBIDGE: Yes.

MR BRAITHWAITE: Nothing else.

MR BORBRIDGE: I think also it would be an extent to which the bigger provincial centres are strengthening to the detriment of the smaller communities and their service areas.

MR COSGROVE: That's possible, yes. Thank you very much, Mr Borbridge, for taking the trouble to come this far south in the middle of winter to talk to us.

MR BORBRIDGE: Pleasure. Thank you very much for your courtesy, Mr Chairman.

MR COSGROVE: Thank you. We will just take a short adjournment.

MR COSGROVE: I think at the outset we need to have each of you identify yourselves for our transcript and indicate the capacity in which you're here today.

MR HAYWARD: Tony Hayward. I'm the general manager of Junee Shire Council.

MS MACAULAY: Jill Macaulay and I'm the deputy mayor on Junee Shire Council.

MR COSGROVE: Thank you. My colleague and I received during the course of the morning the notes but I imagine you'd like to speak to that now.

MS MACAULAY: Well, a lot of them are my notes and as you can see I am on the Junee council but I'm also a farmer and I also belong to an organisation which I believe you've heard from because that's how I know your names, the Country Women's Association. So I've got a few strings to my bow and because of that I'm in touch with people all over New South Wales. At the beginning where I'm - our biggest concern with the whole thing is they keep on talking about rural and regional Australia and we think they're forgetting about the remote areas of - well, New South Wales anyway. There are people who live out there, they're just like you and I and they're just as important as anybody else around and I'm concerned for them.

As far as the council goes we're also concerned. We've seen in Junee just lately several jobs lost, the railway - National Rail they're talking about one driver only and for Junee, well, that - in the last three weeks it looks like we're losing about 18 people just from the different sections of the railway. To Junee, a little town like Junee that's a huge hole in our town if those people have to leave.

MR COSGROVE: What is the population of Junee these days?

MR HAYWARD: The town is about 4000 and the shire is just over 6.

MS MACAULAY: Other things I mention on it are the - well, I put out that point at the beginning - I don't know whether it is on this, I sent it in to the shire and they reprinted it - but one thing I feel, and this isn't so much from the shire, but I feel economic rationalism; that's okay, but you've got to think about the social side of things too and that's something I feel very compassionate about. Now, there is a quote in that paper, "Why should minimum service standards vary. They should vary by geographic areas." Well, once again I think especially for postal and telecommunications I think everybody in this state is entitled to a good service even though it might be - that's where CSOs come into it. I believe CSOs should still be in place and should be compulsory.

Even at home I used to be on the NRCC and it was taken into a bigger - I mentioned here, Great South Energy, and it's just so remote and the little local halls and that, they're slammed with these extra accounts which they never had before and they are an integral part of the community and yet they're going to have to close down because they can't afford to keep them open. Electricity, well, as farmers and little

ratepayers in our area, the bigger areas can do deals and maybe wheel in electricity

from somewhere else, but as far as the farmers and the smaller households, it hasn't done a thing to them and I think Mr Hayward - - -

MR COSGROVE: I think that's intended to gradually improve.

MS MACAULAY: I hope so.

MR COSGROVE: In fact I think already at the beginning of this month - I think in New South Wales, I may be confusing it with Victoria - but anyway, I know even in New South Wales there is a process of progressive reduction of the threshold at which competition in the provision of electricity will come into play. If my memory serves me correct, by about the middle of next year even households are meant to be in a position where they can choose different suppliers of electricity with a view to lowering their costs. But, yes, you're right, the initial gains have come for the larger users.

MR BRAITHWAITE: Is council a big enough user to get a reduction?

MR HAYWARD: Not at this point in time. We participate in a group called REROC, which is Riverina East Regional Organisation of Councils, now as a group we have tendered for electricity providers to supply electricity but it had to be the threshold to qualify. Now, we don't have any entities under our control at this point in time that qualify. We have the Junee Correctional Centre which did, so they are benefiting out of that process. I suppose of concern in relation to electricity and this impacting on everybody in New South Wales, the state government are siphoning funds out of the electricity entities that have been set up in New South Wales and it has had such an impact to the extent that for the last two months of the financial year that ended on 30 June, Great Southern Energy, which is the provider for most of the southern half of New South Wales was unable to carry out repairs and a good example was street lighting.

Now, in their service standard they state that if street lights are reported as out, if they're not repaired within five working days the property owner, in other words the business or the resident is entitled to a \$15 rebate on their next electricity account. It doesn't mention anything about the local authority. We are in dispute with them at the moment because we had some 45 street lights out that weren't repaired within the five working days. We're waiting for a response from them as to what compensation we're going to get. Now, that has huge implications. If an accident occurred and the diagnosis of the police or whoever was investigating that particular accident decided that the lighting was inadequate, who's going to be responsible? It certainly won't be Junee Shire Council because we'd be providing information to our insurer that the lighting was poor. We can prove that we've reported the light out, but the energy authority failed to provide the service.

They didn't have the funds left in their budget to be able to do it because the state government had taken their component out of their operating funds as a return to the government for setting up these energy bodies.

MR COSGROVE: Does that involve any more than the state government, which I take it is still the owner of Great Southern Energy?

MR HAYWARD: They're a part-owner, as I understand it.

MR COSGROVE: Who else - - -

MR HAYWARD: The residents are the other owner because effectively they're shareholders by purchasing the entity.

MS MACAULAY: But it is a government - - -

MR HAYWARD: Because under the old county council arrangements, similar to a local authority, the owners of the county council were the users of that authority, the same as the ratepayers are effectively the owner of a local council.

MR COSGROVE: But I thought that the process of corporatisation of these electricity entities in New South Wales had shifted them away from local government control to a state government owned corporation.

MS MACAULAY: Yes, they did. I was on the board and got sacked.

MR HAYWARD: We've certainly raised this through our local member of parliament, Ian Armstrong, to make representations to Bob Debus, the Minister for Energy, of this situation. Because their primary responsibility is to provide a service to their clients, it's not to provide a dividend to the government.

MR BRAITHWAITE: Did initially the council own the electricity authority in conjunction with other councils?

MR HAYWARD: The boards of the county councils were made of representatives of local government bodies that were serviced by that county council.

MR BRAITHWAITE: They were all local government?

MR HAYWARD: Yes.

MR BRAITHWAITE: That's where the money has been siphoned away from?

MS MACAULAY: Yes.

MR HAYWARD: Yes.

MS MACAULAY: For example, when I was Riverina County Council and I was the Junee shire representative on that we had, I think it was \$11 million just about, to

start replacing poles. When the takeover occurred that was the end of that money. Another thing, each area had workshops, depots there and they gradually trimmed them right down and we can see Junee going because Illabo which is only 15 kilometres east of Junee, if there's an outage there they come from Tumut, the local fellows aren't allowed to go out there and so they can see the writing on the wall for their jobs too. If you get up in the hills up where I live or past they don't know where they are at night, the people from other areas and as a result you've got a much longer outage. Farmers, or even people in villages might have fridges with their valuable goods in them or farmers might have incubators with chickens - I mean, tough luck.

MR HAYWARD: In relation to the energy providers we certainly, as a council, appreciate the determination made by IPART in relation to street light charges and they have set a statutory fee that they're permitted to charge. But what happened as a result of that, Great Southern Energy, as an example, were going to over the next five years, commencing on 1 July that's just gone, replace every fluorescent light in every town in every location that came under their control. They tried to make representations to IPART that, "Be a little bit fairer. We're going to input the capital or the funds to provide this capital upgrade to the street lighting component from Bega to out west." They took no notice of them so the end result was that GSE said, "Why should we do it? They're skinning us to the bone as far as what we can charge for energy consumption, so why should we upgrade the facilities that are there?"

The national standard, as far as street lighting is concerned, is a pretty hard standard to meet. We wouldn't be anywhere within cooee of that, neither would most other locations across the state, let alone Australia.

MR COSGROVE: It seems to be your impression that this situation, this service, if you like, has deteriorated quite significantly.

MR HAYWARD: The service because under the old county councils - and I keep harping on street lights because it is a component of our operation and safe roads are an integral output for local government - but in the old county council situation street lights were regularly inspected, probably three or four times a year. You would see the linesmen, they would go round and turn the street lighting on and check for outages or failures and they would repair them. Now, they have a 1300 number and they rely on the ratepayer or the resident to report those lights out. They don't do any checking and, as I've stated, they don't even come to repair them even when you report them as out because they don't have the funds to be able to send out to do it.

MS MACAULAY: The ratepayers come to the council and say, "You haven't done anything about that street light for years," blaming the council. The county councils - I don't know whether he's here, we were talking about, you know, the old local government, how if you got a job in local government years ago you were there for life sort of thing. Well, county councils used to be a bit like that but towards the end they started a benchmarking scheme which was working very well and then the next thing we know the board was all sacked and everything was bought up and all the

money that was in hand just left us and the service is not nearly as good.

MR HAYWARD: What I'm trying to get at is if the price that you pay for a competitive market, and you have a body like IPART who set a fee structure that they can operate within, but if you lose other benefits - so you get a benefit in one hand but you've got to reduce costs for street lighting consumption and power consumption through the street lighting network. But then on the other hand you lose the advantage that was going to be provided to upgrade that street lighting. I don't think you end up with any advantage at all. You're probably worse off than what you were. There is an advantage with open competition because we've just tendered for upgrade of components of the street lighting that is our responsibility to upgrade, so it's the main through-routes through Junee.

Now, for 31 250-watt high pressure sodium lights, the large orange ones, on 4.5 and 6-metre outreaches, the difference in price between the energy authority and a private provider was 45 per cent cheaper. So we can pick up benefits, but the reality is that when you weigh up any situation, whether it be in your own house or in your own business, you weigh up all the advantages. You don't look at the advantages in isolation of a disadvantage as a result of doing something and I think the outcome of this has to be that it's better for everybody, not some benefit at the others' expense.

MS MACAULAY: That was a quote in that book about the draft that sort of horrified me a bit. I should have written it down. It's something to do with a look at the - whether it will be a benefit for the greater majority or something, it might be to the expense of a few. Well, we might be one of the few and we're here and we're citizens of this country and we feel we're just as important as other people. Have you got anything more to say about the electricity?

MR HAYWARD: No.

MR BRAITHWAITE: Just on electricity, we've heard suggestions that there is a fear that eventually with the restrictions on maintenance and repairs that it might become an obligation of the customer, you know, if they're right out in the bush to supply their own poles or something like. Have you ever had any suggestion like that?

MS MACAULAY: Well, we're going backwards if that's the case because that used to be the case with Telstra. Telecom, as it was those days - we used to have to provide our own poles and our own lines. I can remember we just upgraded ours and about half a year later they came through with cables and we had to pull all our posts out again. So I think that's a backwards step, if we've got to do that again.

MR BRAITHWAITE: But the party line was - - -

MS MACAULAY: Yes, two short rings and a long one.

MR BRAITHWAITE: What you've got might be an improvement on the party line.

MS MACAULAY: Go on?

MR COSGROVE: Yes.

MS MACAULAY: I mention a few things here - well, about the job losses in country towns, I've seen it happen. Like as I say, with Junee, say if all those people left town that have lost their railway jobs, their families go with them. Those houses, well, they're nearly impossible to sell, and if they do sell they're well below market and if they do go to the city they've got to pay about four times as much for a house, or at Wagga or somewhere like that. But then that has a domino effect in that those children leave the school, the school gets downgraded and - it's pretty plain in the paper here, you know - and the banks close etcetera etcetera and your town is just left as a shell. The regional centres are benefiting - you know, the Waggas and the Dubbos - but they're starting to have their crime troubles there too now. They're getting too big. People like to live in smaller towns and they just feel that they're just losing everything.

MR COSGROVE: What has happened to Junee's population, say, over the last decade or thereabouts? Have you declined?

MR HAYWARD: Probably been fairly lucky in terms of when the rail closed in the early 1990s - so the rail halfway house facility between Sydney and Melbourne was shut down - Junee was lucky and they scored a correctional centre. Now, with that correctional centre goes the equivalent of 200 full-time jobs. They don't all live in Junee but they certainly help support some of the local businesses because they have to tender for supply of bread or apples or bananas or whatever. So that has assisted. There is probably a negative decline but not to the extent of some of the other rural towns within the same area. I think it's the gaol that has helped to maintain that.

MS MACAULAY: Junee is a fighting little town and we are close to Wagga. We used to feel that Wagga was taking all our services but now we say that they're our biggest suburb. That's the way we look at it. But the gaol - our population did increase dramatically in one hit. We got 600 new occupants all in the new motel over the hill. Yes, that's what happened, we got that instead of the railway.

MR COSGROVE: Is sheep grazing common around - - -

MR HAYWARD: Yes.

MR COSGROVE: I thought it was, yes.

MR HAYWARD: Sheep, cattle and grain.

MR COSGROVE: The sheep sector at least would have taken a pretty big hit I suppose.

MR HAYWARD: In the last couple of weeks they have.

MS MACAULAY: I can speak for that.

MR COSGROVE: Well, I was thinking over a longer period than that.

MS MACAULAY: Yes, I can speak for that. We used to do a lot of cropping and then when the wool prices were good there was only my husband and I were left on the farm so we sort of stuck to wool for a few years. Then one of our boys came back home and wool was going down, so we went back into farming. We went out of wool sheep and went into fat lambs, and would you believe we sold every fat lamb on the export market last year, just built up a lovely little market to America. Of course, you know what has happened to that.

MR COSGROVE: So it sounds as though within the agricultural activity of the shire there's some capacity to adapt as market circumstances change. You're not, as some more inland locations are, stuck with not much more that you can do than run sheep.

MR HAYWARD: It depends on what you call "adapt" though, because they had two years where they had droughts and then the last season, which would have been harvested like November, December, they got a late frost in October which affected - 50 per cent of the crops?

MS MACAULAY: Yes.

MR COSGROVE: Yes, I remember that frost.

MR HAYWARD: I mean, it had severe impact through that area, right up into the Batlow apple orchard area. So you wonder how long these people can continue with those losses. But Junee from that point of view is probably lucky. We still have four banks. We've just acquired a credit union. So in terms of a rural town, we're very lucky, and we have got Wagga less than half an hour away.

MS MACAULAY: And that's in our favour to some extent because some people prefer to live in Junee. They can get to the university quicker from Junee than they can from the other side of Wagga. But we've got little villages in Junee area too and - one has got an engineering workshop there and it's doing pretty well. But I have just seen, as I said, through the CWA - like out the other side there's a place called Barmedman and it has literally died. What happens is people come in for cheap housing and you get people that really aren't used to those sort of - you know, they don't blend in with the other people, which is sad. But no, just the kind of population - of course, it has got another effect too. Who has noticed the boundary changes are going to change in the Electoral Commission - and we're going to have no voice in government soon, the way things are going.

MR BRAITHWAITE: They can't forget you altogether.

MS MACAULAY: They better not.

MR BRAITHWAITE: You've got to be put somewhere.

MR COSGROVE: Has the council had much experience with the application of the principle of competitive neutrality? Has that had any significant effect in the way you conduct your operations?

MR HAYWARD: We haven't had any requests or any appeals as far as competitive neutrality and from that point of view there are no perceived competitors within our area.

MR COSGROVE: Do you have any - what would be called significant business activities?

MR HAYWARD: No, we don't have any.

MR BRAITHWAITE: Do you compete for main road contracts?

MR HAYWARD: Well, that's an issue that's being looked at at the moment, because up until now the RTA has certainly awarded the main road works - both maintenance, rehabilitation and construction - to the local authority areas. Now, Minister Scully has already announced that from 1 March 2000, 50 per cent of the rehabilitation and construction works undertaken as part of the RTA program are to go to compulsory competitive tendering and from 1 March 2001 it's a hundred per cent. Now, that impacts on local government as well as the RTA, because the RTA have their own construction workforce as well and they're not excluded from that process.

They're probably lucky for the period from 1 March 2000 because most of the councils across the state don't have the ability to do the rehabilitation work themselves. They contract it out anyway. So they go out to automatic tendering and they succeed in achieving a very competitive price to carry out those works. But what will be the impact is that under the proposal the jobs will be of a minimum size of \$1 million, probably 2, and councils like ourselves - will they have the capacity to be able to construct those jobs. Certainly under the awards that the staff work on, when you have to pay travel allowances, meal allowances, away from home allowances and all these sorts of things - the work may not be within our shire boundary. So we might be successful in winning a \$1 million contract but we might have to go to Cowra to do it.

The other thing the minister has stated is that unlike at the present, where a certain amount of rehabilitation and construction works are allocated to each of the regional areas within the RTA, that will no longer apply under this scenario. So as you have on the Pacific Highway if you've been on it in the last two months - it is a potholer's dream. The number of accidents or damage that has been caused to vehicles using that road is horrendous.

Now, if the minister decides that the RTA budget will totally go to that road, where does that leave the rest of the state? It's all areas east of Newell Highway and south of the Sturt Highway but including the shires or the city areas of Griffith, Narrandera and Leeton. All those west of the Newell Highway are exempt because he perceives there's no competitors in those areas anyway. But the minister made a statement at the local government shires conference that he is not in the business of employing people, he is in the business of providing a transport network for the state. That's fine, and I understand that scenario because he's not the employment minister. But the reality is at the end of the day there is a responsibility on a government to provide opportunities in rural and remote areas and they aren't all designed to provide an Olympic facility for Sydney.

MR COSGROVE: You mentioned earlier that your population might have declined slightly in, say, the past decade. What's happening to the level of employment? Is it too more or less stable or different from the population trend?

MR HAYWARD: The level of employment isn't too bad for a rural centre, probably because of the opportunities that are available through the correctional centre.

MR COSGROVE: And I suppose you would have a lot of - well, I don't know - I mean, you might have some people who actually go to work in Wagga, do you?

MR HAYWARD: Yes, quite a number, and there's quite a number of people who come from Wagga who work in Junee, predominantly in the correctional centre. But we also have a private rail provider, Austrack. Austrack have certainly taken up some of the slack that occurred with the removal of the state rail workshop facility in Junee.

MS MACAULAY: The decline in population in the rural areas in the shire, is for two reasons. You've got the huge machines now that can do the job, but another reason is because the family - there were quite a few farms in the Junee shire that were old soldier settlers' blocks from the First World War and they were just too small. So as a result - I don't know who made the famous statement, "Get big or get out," but that seems to be what has to happen. I know ourselves we've got about three or four houses that nobody is in. I mean, they're not worth keeping going.

So the population in the rural areas has dropped and also the employment, and sadly a lot of the sons - I have had a son that was a public servant in Canberra, he was pretty high up actually in the Primary Industries Department - and he came home, but that's the exception rather than the rule. That's the sad part, because a lot of them leave and find - they might even get a job in the Productivity Commission or something eventually. I don't know. But it's just you're backing away there and don't seem to be getting anywhere.

MR COSGROVE: Yes, but it would seem that a number of these - what we would call longer term influences - have had a significant influence on your region, on your

shire area. You mentioned things like technological change, the consolidation of farms because they were too small. That's not to say that national competition policy reforms are not also having effects - areas like rail and maybe some of the other infrastructure reforms. But would you think it's the case that the longer term factors have been more powerful than the policy reforms?

MR HAYWARD: I would probably say that it's an accumulation of all those things. The jigsaw puzzle isn't one piece. The jigsaw has many pieces in it. I think it's a case that as the jigsaws build, all the other pieces are being put in and they're impacting on the total picture.

MS MACAULAY: I mean, with the rural sector of the shire, you know, people have got to be a lot smarter now. Once upon a time if you didn't have any brains they would say, "Go on a farm," but that's not the case now. I'm still there but I mean, I was there forever. But no, I've got on the bottom here - and you probably think it's a pretty preposterous statement - but the words down there now are - like, the people are trying to tell us to be competitive. They have taken away all the boards and everything like that. But yet the Cargills and the Monsantos - I know I had a talk with another gentleman outside, it might have been you out there, and we just feel they in turn are becoming monopolies and they in turn are stifling competition. You know, we're quite frightened about the way they're just monopolising everything, they're taking over the beef industry virtually.

Woolworths and Coles - I mean, we used to sell cattle to them through Cootamundra, the killing works. Now when it comes to buying for Woolworths and Coles one buyer buys for both of them. I mean, is that competition? It isn't. You know, he said, "Well, we'll pay so much today and I'll pay so much tomorrow" - that's what it is. We are price takers, sadly, but everything we buy, we have to say, "How much is it?" That is what I would like to see fixed more than this national competition policy.

MR BRAITHWAITE: Did you say there was one buyer for two companies at the saleyards?

MS MACAULAY: Yes. That's quite common. What do they call that - collusion, don't they?

MR BRAITHWAITE: I'm not sure.

MR HAYWARD: A broker.

MR COSGROVE: Well, it depends whether there are other buyers - potential buyers - competing with you.

MS MACAULAY: No, they go round - - -

MR COSGROVE: One person gets the contract but there may be competition for

that contract.

MS MACAULAY: I have seen them. I used to cart the cattle in and sheep in and I have seen them have their little tete-a-tete before a sale and say, "I'll take that, you bid on that," and that's what happens.

MR COSGROVE: I dare say that has been going on in saleyards for many decades.

MR HAYWARD: I suppose it depends on which way you look at it. Leeton is probably a good example to perhaps closely watch. Up until early this year they had two supermarkets in that town. They now have three. The third player is Woolworths and they're employing somewhere between 40 and 50 jobs, whether they be part-time or full-time. But one of the things that they have done is severely cut the prices of what was being experienced previously within that town. Now, there'd be some residents in Leeton who would argue, "Well, this is good. We can buy our sugar or our Cornflakes or our slice of steak for cheaper," but is it good that at the end of the day there's only Woolworths left in the town?

MR COSGROVE: I'd say that if the citizens of that town are producing that outcome, then it probably is what they want.

MS MACAULAY: But in Cootamundra, I saw it happen. There were two supermarkets there. Woolworths came in - lovely low prices. The other one went out. Virtually the next week all our prices went up - Woolworths prices.

MR COSGROVE: That sounds as though it could be described as a case of predatory pricing, and there are rules in place with the Competition and Consumer Commission which enable an unfairly - - -

MR HAYWARD: A complaint to be lodged.

MR COSGROVE: - - - affected supplier to take a case against Woolworths in that instance. Whether that was the case I don't know.

MS MACAULAY: A lot of people aren't aware of what their rights are when it comes to those sort of things.

MR HAYWARD: But isn't that the issue that you're looking at at the moment? I think that that's the \$64 question at the end of the day. If competition occurs but it occurs with the expense that half the little rural towns across New South Wales and Australia die, certainly some people benefit, but those communities lose severely as an outcome from that. I mean, that's your issue and that's what you're trying to do through the submission.

MR COSGROVE: Yes. Well, I suppose to date you're right. It is on our plate and we've come to the view that it is factors other than competition policy reforms which are the main reason why people are moving out of country areas, gravitating to

coastal towns or bigger urban centres, and that in some respects but not always, those competition policy reforms are actually helping to improve the competitiveness of industries and communities in country regions.

MS MACAULAY: I hope you're right.

MR COSGROVE: Your shire is perhaps an interesting example. I mean, you've had some benefits from competition. At the same time there's the other side of the coin and you've lost some employment, but you are managing, admittedly with the significant added factor of the correctional centre, to let's say remain broadly stable. You're also well located, as you said, with some benefit accruing to you from the nearby centre of Wagga, and that may be an indirect way in which your area may be benefiting from these reforms, because there are larger enterprises in Wagga as we were discussing earlier who would have already had some significant cost reductions as a result, say, of electricity reforms and maybe gaining significantly from transport efficiencies. But the more interesting question I guess is whether some of those other little places that you mentioned - Barmedman - - -

MS MACAULAY: Yes, Barmedman and the - - -

MR COSGROVE: Yes, whether they are experiencing fortunes which are differently affected than the general picture that we've been painting which is that essentially they've been going downhill for a long time, as you were saying, I think, Tony, NCP reforms might have had some adverse effects on them on top of that long-term trend, but the predominant reason why most of these smaller towns are declining I think are due to those long-term factors. The question really then becomes what can national competition policy reforms do to them? Now, that's something I think we're still grappling with. It's not easy to obtain solid reliable information on particularly small towns, but intuitively you might think that the effect of competition policy reforms is not great one way or the other.

MR HAYWARD: To give you an example - and I don't know whether either you watched the Today show this morning, but Alan Jones' comment this morning was about fuel and the price of fuel, and don't quote me on the percentages, but he was stating that 20 years ago in the 1970s, the level of excise collected by the federal government compared to now has risen something like 20 per cent in that period of time.

MR COSGROVE: Over what period?

MR HAYWARD: 20 years.

MR COSGROVE: It doesn't sound much.

MS MACAULAY: It was more than that. 30 to 70, wasn't it?

MR HAYWARD: No, they take 70 per cent I think it is in excise tax on fuel that's

produced. In addition to that in New South Wales, the state government has a tax on it as well which is another 7 and a half per cent, but his claim was has the government just made the petrol outlet a quasi Taxation Office to collect revenue for them? They're claiming that under the goods and services tax, the price of petrol will go down, but if they really mean that they want the price of petrol to go down, maybe they've got to get real with the excise tax they charge. On the other hand, under the state government contracts, we used to purchase fuel under the state government contract, and as I mentioned before, we're a member of REROC, and as a group of 13 councils, we combined together and we said, "Okay, we might be able to get a better deal if we accumulate all our petrol purchases and put it out to tender the oil companies." The oil companies' response was, "There is a state government tender, that's the cheapest price you'll get it for."

However, one of the engineers - I think it was Lockhart council - stated that, "We're smarter than that. What we do, every time we want a fuel delivery, we ring the oil suppliers and we ask them what 30,000 litres of fuel will cost, and we get it for cheaper than the state government contract price." For almost 12 months we've been doing that, and we save usually between 1000 and \$2000 per tanker load of fuel on the government contract price. So I'm not saying that everything is negative. I mean, there's an opportunity for us to get a benefit out of competition or the ability to - - -

MR COSGROVE: This is not related to the fact that people can now go up to refinery gates and fill a tanker?

MR HAYWARD: No, we're not doing that. The oil companies are still delivering the fuel.

MR COSGROVE: I see.

MR HAYWARD: The interesting thing is that 90 per cent of the time, the provider of the fuel is the person we previously purchased from under the state government contract.

MS MACAULAY: It really makes me cry when I pay up to 79, 80 cents a litre for petrol at home and then go down to Sydney last week and it was 68 cents or whatever it was.

MR HAYWARD: It's cheaper out of Binalong which - if you know where Binalong is.

MR COSGROVE: Yes.

MR HAYWARD: Little place just off the Hume Highway, than here in Canberra.

MR COSGROVE: I'm sure you could find suburbs of Sydney where you'd be paying 10 per cent more than the lowest price.

MR HAYWARD: At least 10 per cent. It varies from the North Shore to the western suburbs, and it can be either way depending on where they're putting their prices at that point in time.

MR COSGROVE: What the market will bear.

MR HAYWARD: And it's interesting, the mayor of Eurobodalla was on the radio this morning, and they are sick to death of the price of petrol that's being applied in Bega and Batemans Bay and that area. Now, the cost in transporting that fuel is not recorded accurately at the bowser, because if they're saying that it costs somewhere between 10 and 15 cents a litre to transport it from the refinery, they're having themselves on.

MR COSGROVE: No, there's more involved though than the cost of transporting the fuel. You've got in the city areas in particular very high turnover of your tanks, and that enables them to operate their businesses at a higher level of cost efficiency, whereas if you were in a town such as Junee with a small number of consumers, the local petrol station is not going to be getting nearly that same rate of turnover.

MR HAYWARD: But I suppose one of the impacts on the sale of petrol is the introduction of the Woolworths Plus outlets. Now, it's evident in every location where they have opened one of these facilities that the price drops dramatically when they hit the market, but within a three to six-month period, the price creeps back to where it was before, and they are generally say a cent, probably less than a cent. I mean, it's cheaper than the other outlets within that area. Whether that's appropriate or whether that's fair competition, I don't know, but one example - Port Macquarie was one of the dearest places for petrol in the north coast of New South Wales. When Petrol Plus opened there, they cut 10 cents a litre off the price of the petrol.

Now, the proprietors of the other service stations approached the person who was the manager of the Petrol Plus outlet and said, "How long is this going to go on for?" and the quote was, "That's our rack price," but it's funny that that price is now 9 cents a litre dearer than what their rack price was three to six months ago.

MR COSGROVE: I don't know, there could be other influences on the price.

MS MACAULAY: I don't know why they even dropped the old price parity scheme. I reckon that was the fairest of the lot with fuel. They used to take into consideration what it cost to get it to those different areas, and that was just - it's all deregulated now, and - - -

MR BRAITHWAITE: That parity price reflected the freighting arrangement more than the price of fuel, didn't it?

MS MACAULAY: Yes, that's right. They allowed for what it cost to get it to the areas.

MR BRAITHWAITE: I was just interested in this contemplation of compulsory competitive tendering. What opportunity have you as a region - you belong to a region of councils.

MR HAYWARD: With the RTA.

MR BRAITHWAITE: Yes - of combining to take a contract on the - - -

MR HAYWARD: What we're doing at the moment, there's a group of councils, and we are studying the impact of that proposal on us because we have estimated that we would probably have to shed 10 per cent of our workforce if we don't get these jobs or these projects in the future. We're looking at what opportunities there may be for us to either, as a group of councils, tender for these projects, but remembering at the end of the day - and I've worked in private enterprise for more than half my life - if you take on a tender and you can't perform the task for the price that you submit, in the case of a local council, the ratepayers are the ones who are going to pick up the tab. I know the answer to this, but do you have to go to each of your ratepayers and ask them if they're happy to keep that 10 per cent of the jobs, and maybe at the end of the day running a loss that means that they don't get some other service? So it comes down to that fine line, and I think in the case of our council, if it's to run loss, we won't do it.

MR BRAITHWAITE: Surely that would depend on the business enterprise that the council forms to do that type of work, and while some areas might be acceptable in one job, it's the ups and downs, but as far as I know - I think you're allowed to pass dividends back to the ratepayers, but you're not allowed to - it is something extra that - - -

MR HAYWARD: Yes, but in normal business practice, there's a period of time for which you can make a loss if you start a new project, but it's not fair to make a loss forever. You've got to look at, okay, in five years, three years, whatever, we hope to break even, and from then on we make a profit, but in the case of the RTA project, if the council chooses to go down that track and say, "Okay, well, we're prepared to subsidise the projects," how big a loss or how long can you carry that loss before the council might go broke?

MS MACAULAY: And then we'll get amalgamated.

MR COSGROVE: I don't think we have any further questions, but are there any other points you wanted to draw to our attention?

MS MACAULAY: I did think of something a minute ago, but I've forgotten and so it couldn't have been too important. No, it's just that we are concerned about competitive tendering, and as I said, as far as smaller towns go - I know the point I was going to make; banks. When a bank pulls out of a town, of course, it hurts that town, but what the banks do - and some of us are holding our breath in Junee because they've started to do it. We're farmers, and without our authority, they just moved

our business account to Wagga. So if we want to go and borrow money or talk to anybody, we've got to go to Wagga.

Now, what will happen, if they do that with all the accounts like that, the next thing they'll say, "June is not competitive. We're going to close it down," and that's what they're at there.

MR COSGROVE: When you say they've moved your business accounts to Wagga - - -

MS MACAULAY: I can go and write - my cheque account is written at June, but if I want to talk to a manager about the farm, I've got to go to Wagga, and they've got all my files down there now.

MR COSGROVE: And phone contact is not adequate for that?

MS MACAULAY: It is - well, I'm not clever enough to do banking by that yet.

MR COSGROVE: No, even just picking up the phone and talking to your business manager at your Wagga branch, is that - - -

MS MACAULAY: I like to be able to go and talk to them face to face, and you have to make a special trip to Wagga which is about 90 kilometres away.

MR BRAITHWAITE: You've got a particular advantage, because the last time I asked my local bank for some information on the phone, I had it answered from Melbourne.

MR HAYWARD: Did you get the right information?

MR BRAITHWAITE: After 10 minutes, pressing a lot of buttons.

MR HAYWARD: But that is the issue though; they take the monitoring of those accounts somewhere else and then they can argue that the branch in the remote location doesn't have enough business to warrant being open.

MR COSGROVE: Thank you. Would you like us to treat this page of notes as a submission to the inquiry?

MS MACAULAY: You can if you like.

MR HAYWARD: Thank you.

MR COSGROVE: Thanks, Mrs Macaulay. Thanks, Tony.

MR HAYWARD: Thanks for your time.

MR COSGROVE: We'd like you, as the others, for the purposes of our transcript, to identify yourselves and the capacities in which you're with us today, please.

MR DONOVAN: What we would like to do - Gary Donovan, New South Wales Irrigators Council secretary and Greg Cutbush, economic consultant.

MR CUTBUSH: ACIL Consulting, Canberra.

MR COSGROVE: Thank you.

MR DONOVAN: What we would like to do - we have a written submission there - take you very quickly through that submission and the points we raise in that. In essence, we believe that there's an opportunity for this commission to put the water reform process and the COAG water reform agreements back on track in terms of its implementation and we would urge you to accept that opportunity. We point out in the first page the national competition policy agreement of 11 April 1995, signed by the various Prime Minister and chief ministers, emphasised that the competition policy reform package would enhance the national economic interest by improving international competitiveness as well as enhancing interests of Australian consumers and with respect to water reform the national competition policy agreed to in April 1995 encompassed the 1994 water reform decisions of COAG, that is the water reform agreement, and the April 95 competition principles agreements and conduct code agreement regarding anti-competitive conduct generally and in relation to government controlled service and infrastructure specifically. So that's what we're seeking to address.

What we would urge is that there's a need to perhaps comment to bring it back on track because certain elements of these agreements on water reform have not been implemented in the manner envisaged and important elements have been ignored. This has resulted in unwanted impacts on irrigation water users and unless corrected the reforms will not enhance the national economic interest that is intended as the outcome of the national competition policy. We've included in the dot points there the particular issues that we very quickly deal with in this submission, that is adequate financial resources to facilitate structural adjustment, the secure property right in water entitlements, greater efficiency and service delivery, third party access to water infrastructure, rivers and river systems and also drawn to elements that have been misinterpreted, in our view, in the implementation, that is that water be used to maximise its contribution to national income and welfare, pricing regimes in time fully recoup operating costs and contain a component to enable supply systems to be maintained and refurbished or replaced as appropriate and balancing environment water needs with other uses.

I give in the footnote references to where they appear in the appropriate agreement and documents. Just to give a short background, on the following page, to water, I should say that therefore what we seek from the council is submit that the Productivity Commission needs to report on these matters and recommend appropriate actions to government. In the next page we indicate the historical nature

of water and increasing farm productivity, close to settlement, drought proofing were the three basic principles that have underpinned water management since early this century. That was where the government owned the water and made water available to meet these objectives and that was underpinned by a regulatory structure in both agriculture and water management. There were a variety of water rights issued under a variety of acts.

One point I'll come back to later is that inherent in the various acts and indeed explicit in the Water Act and a common thread through water law right across the world is there's a protection on historic users. In other words, people who have an entitlement to use water would be protected from an impact by the issuing of new entitlements at a later period of time. That was inherent in the Water Act by the introduction of objections to the issue of new licences and the establishment on the land board hearings where people with existing rights could put forward that the issue of new rights would impact adversely on their rights and therefore the land board had the opportunity to say, "No, these rights shouldn't be issued."

Now, the problem has been, and it's historically again right across the world, that governments and land board etcetera have been reluctant to say no, particularly where government agencies have been putting forward that this won't impact on people's rights. But of course has shown that that's often proven to be not that case and indeed Noel Fitzpatrick, the former chairman of the Murray-Darling Basin Commission, has said publicly that most of the problems of the Murray-Darling basin are because of previous government decisions. I don't think the government is necessarily in a better position today than it was previously but it makes the best decision it can at the time. So inherent in that system and underpinned by a whole regulatory structure was the government making decisions about who got water and why and protecting some users in irrigation areas that could grow rice and you couldn't grow rice outside those areas and so on.

So in that sort of system government moves the water around as and when required. Over the last few years licences have been progressively changed to volumetric entitlements, water trading has been allowed in the last few years and most recently restriction on agricultural users of water removed. In a country where there is more land to farm than there is water presently available, demand for water is increasing. We've seen increasing demands from not only existing irrigation interests, people wanting irrigation developments, tablelands farmers and so on and other industries and so on. So claims now exceed the water resources available in most years.

What I have included in attachment 1 are some Bureau of Statistics figures that I've been collecting over the last few years and I draw attention to page 2 of those figures, which include all of the states in these figures for your assistance. If you look at vegetables, fruit and grapes, for example - and if you'll look over the page you'll see a similar story for rice and cotton. These are crops that are predominantly irrigated, as you can see, 80 per cent to 100 per cent irrigated. There have been significant increases in the value of production from 1991-92 to 96-97. In most

states you'll see

that that is replicated.

If you look at the traditional grazing activities, pastoral activities, livestock slaughtering and livestock products you'll find that there has not been a similar sort of increase. So underpinning this increasing claims for water has been an underlying structural change in the nature of agriculture, it seems to me from those figures. If you look at the other states you'll see similar pictures coming through, that the traditional grazing returns are decreasing, therefore people are wanting to get into products which predominantly require irrigation and water. That is partly underpinning this increase for now what's happening is everybody wants to - or a number of people want to be irrigators and get into those products.

The COAG response to this increase in claims has been that the market will be best at determining the allocation of water between competing uses. This represents a significant change from the previous system of where the government was, in essence, a paternal custodian of the water and made the water share around and also protected certain uses as against others. The COAG communique stated - in the next page I point this out - the COAG communique stated that the changes flowing from the water reform framework are extensive and far-reaching in their implications and that the speed and extent of water industry reform and the adjustment process will be dependent on the availability of financial resources to facilitate structural adjustment and asset refurbishment.

There are two reasons why I believe this statement is made by COAG, firstly, that notion that water must be used to maximise its contribution to national income and welfare. There have been some commentators who have talked about moving water to most efficient use and I think that the commission should explain what that means in economic parlance rather than what has often been interpreted by that by some commentators in terms of some products being higher value uses than others and so on. So in that paragraph I've tried to point out what I believe is the proper economic explanation, that is for a given stock of water the social objective is maximise its value. This will be achieved by being efficient - that's an economic term - that is not the same as used by some commentators. In a perfectly competitive market efficiency is achieved if the marginal cost of purchasing water entitlement is equal to the marginal revenue obtained by the use of the water in all its uses. In fact, at any point in time, however, we inherit the baggage of history. We have pre-existing rules, existing water infrastructure and distribution systems, existing allocations of water entitlements and these distort the market.

So if feasible correction of such distortions should increase the value of the resource and therefore make it more efficient. This is the basis of COAGs intention of removing impediments to water being transferred from low-value to high-value uses. It may require structural assistance, as COAG recognised. It must also be recognised that sometimes the price of correction can be greater than the benefit of removing the distortion, so that you don't always get this notion of moving necessarily is a good economic thing, to moving a high-value use in an economic sense. Many commentators have seized upon the notion of water use efficiency in

my belief in

completely the wrong terms and have seized upon the water use efficiency arguments of COAG to increase regulation and propose increasing government water charges beyond recovery of efficient cost.

So we would urge the commission to explain the contradiction inherent in this that it needs to be spelt out that a range of factors determine agricultural production and what is considered high-value on one day may be over-production or overtaken by technology shortly thereafter. I note yesterday's Sydney Morning Herald talking about fears of a wine glut as tax havens spark a \$300 million binge. We see a lot of commentators on water taking about high-value viticulture and so on and we're already seeing what may often boom and bust as people go into oversupply and markets change and so on. So the COAG philosophy is that the principle role of government is to remove impediments but otherwise leave product choice to the market, not to be an excuse for moving into regulation and other things to try and force what government perceive to be high-value uses and I think that's a philosophy that the commission needs to spell out to government.

Then there are notions of equity and justice I put forward. COAG also recognise that fundamental change requires transitional structural adjustment measures. One academic research paper from the University of South Australia on transferable water entitlements - they were looking at early lessons and so on - makes the comment that water being traded is sleeper and dozer elements of entitlements and represents previously unused water. Now, the data that we have from the Murray-Darling Basin Commission and the Department of Land and Water Conservation indicates to me that there never was any unused water. All the water that was available was being used. The trading in under-utilised entitlements have simply lowered the percentage allocation available while the volume use has remained the same. So the effect is a transfer in water from some normal security users to the purchasers, part new users and part existing users, and a transfer of money from the purchasers to the sellers of the sleeper and dozer entitlements.

The transfer is not a simple transfer of water from A to B with consideration being money from B to A but rather it's the sale of entitlement from A to B for monetary consideration from B to A with water being transferred from B to C. Murray Irrigation is an example of a group of irrigators that have had their historic levels of water reduced in this way and they were a group that previously had entitlements under the Irrigation Act, not under the Water Act, where their right to be supplied with water was a very secure right which they have traded in going to - or led to believe in going to a privatised corporation that their water right under the Irrigation Corporations Act for a 15-year licence. The notion was that that would be maintained and now their seeing it reduced because of the trading in water coming in.

I point out also and leave with you a copy of a paper by Prof Percy on the new water legislation in Alberta in Canada that was introduced in 1996. The reason I point that out is that inherent in most water law across the world is this recognition of pre-existing rights in any change. Interestingly enough, as I read from his paper, this act was introduced on 27 August 1996, so it's only a relatively recent change. With

respect to existing licencees he says:

As the discussion earlier in this article showed, water rights have vested in licencees for over a century and have been treated as perpetual in nature.

Now, that's true of both the licencees under the Water Act, which have simply been renewed and conditions have more or less remained pretty much the same, and they were certainly the rights that were enjoyed by irrigators under the Irrigation Act, a right to be supplied with water. From the beginning of the reform process the government emphasised that existing water rights would be protected. This commitment is carried out by section 18 of the Canadian act which states that all existing licencees are deemed licencees under the new act and carry their original priority number.

Deemed licencees can continue to divert water in accordance with their original priority, the terms and conditions of their original licence. However, if there is a conflict between a deemed licence and the new act, the terms of the licence prevails over the act.

Thus for example many licencees on the South Saskatchewan River are subject to a requirement that the diversion of water shall not be permitted unless a minimum residual flow of 1500 cubic feet per second is maintained in the river. The licensee is entitled to observe this minimum flow requirement specified in the licence even if the minister were to require a minimum flow in the river under the new act at a higher level. So existing licencees are thus amply protected.

So correspondingly, the inability to interfere with deemed licencees. So that protection of existing entitlements is very strongly spelt out in the Canadian Alberta legislation. What we would also say is, going back to the Water Act, that it's inherent in the way the licencees were administered and the land board system under the Water Act - of protecting those previous uses against an impact from new users that might come on down through the system. So that is a reason why there is such a change from what the previous system was, and therefore again for equity and justice purposes will require, as COAG recognised, some adjustment measures - and indeed makes the comment that the extent and speed of reform will require the financial resources.

So what I say is that perhaps the commission should cast an orthodox economic ruler across the meaning of removing impediments to water moving to high value use, to get away from some of these more strange notions of government interference to make water move and across the need for adequate structural adjustment assistance, which appears to me to be missing at the moment and therefore not allowing resolution of the conflicts that are occurring. That leads me on to secure property rights and water entitlements:

A fundamental of the COAG water reform agenda was the introduction of

secure water property rights. The term "property" was in fact a term of the COAG documents itself -

and I give the footnote to where they actually use that term.

Given the competition policy reforms and the deregulation of water and agricultural controls, then it's important that these property rights are introduced without delay. Property rights in water were to be introduced I believe, by the original agreement, by 1998. The rights existing and those proposed in New South Wales fall far short of the competition policy agreement to secure water property rights.

I demonstrate that by two things. Firstly, in attachment 2 I provide you with copies of what the department has indicated are graphs of the impact of environmental flow rules that they have introduced on rivers. Whilst the dotted and solid wavy lines are representations of historic and future river flow patterns, the dotted line going horizontally across the page is the Murray-Darling Basin cap diversion level. The solid line is the reduced level of diversions that will result from the flow routes that have been introduced in those rivers. So firstly the environmental flow rules have not only not honoured perhaps existing entitlements but have in fact reduced them below the Murray-Darling Basin cap level, and there is no guarantee that those flow rules will not be again adjusted to reduced extractions further.

Secondly, the farm dams policy which the government announced last December will allow new water harvesting for free irrigation. Indeed, this will be - farm dam entitlements are without licensing, without metering and without enforcement. I note that in the government's report on progress of the farm dams policy it says the following:

There is significant concern in the Murray-Darling Basin Commission, as with licensed water users and conservation interests, that the farm dams policy will result in significant growth in water use and therefore could impact on either the cap, the security of supply to other users and/or downstream flows. While New South Wales has not reserved volume for this purpose, the paper -

that is the paper they were referring to in this report -

indicates that if growth occurs then New South Wales will maintain the cap by adjusting licence diversions as necessary.

So in other words, "Well, we'll simply take it away from the existing entitlement holders." So there's increasing evidence, including recently published reports by the Australian Bureau of Agriculture and Resource Economics, that the most secure right - and certainly one that would improve operating efficiencies - is a system of infrastructure access rights or capacity sharing as it's sometimes called.

To facilitate further efficiency gains in water use, river management authorities

we say should replace the existing system of annual allocations with a system which provides tradeable infrastructure access rights to storage and delivery systems where the water users in those valleys agree. Irrigators in the northern irrigation valleys of New South Wales requested the then minister, the Honourable Kim Yeadon, to adopt capacity sharing in their valleys. Despite the minister's agreement to trial capacity sharing, the Department of Land and Water Conservation has refused to implement this system.

The Centre for Water Policy Research at the University of New England, which I might say has designed and implemented a capacity sharing arrangement in a major multi-use valley in South America, supports the introduction of capacity sharing and indicates that it would give water users a transparently secure water right. We suspect that one of the great reasons why the department is reluctant to introduce capacity sharing is in fact it would give the type of property right that the COAG envisaged.

So it is any wonder that irrigators are reluctant to accept that competition policy is being implemented, when the reality is that water rights continue to be eroded regardless of the commitment given by COAG. This perception of a trail is reinforced by other elements in the competition policy that appear to be worthless because COAG and the other decisions have fundamentally changed the rules without regard to the previous negotiations and assurances concerning close consultation and planning for change and adequate adjustment assistance. We believe that the COAG outcomes will only be achieved by the establishment of a genuine right -

and explain the reason why -

and we recommended that the commission should report on the nature of a genuine water property right and recommend that the New South Wales government deliver on its obligation and introduce such a right without further delay.

I turn now to an element that seems to be greatly and sadly missing in New South Wales and that is greater efficiency in service delivery, separation of transport of water per se from storage, and regulation of water and third party access:

At present, farmers consider that water policy in New South Wales is unduly concentrated on water usage. More needs to be done to improve the infrastructure and the operating rules so that supply efficiencies can be achieved. Dr Terry Heiller from New Zealand - a renowned water commentator - made the point at a ministerial water forum a few years ago that because it is driven by the private sector, on-farm efficiency has outplaced the efficiencies that are possible from improvements to storages and delivery infrastructure, that is those that are in public sector management.

The executive director of the Murray-Darling Basin Commission, Don

Blackmore, explained to irrigators in a 1997 meeting at Griffith that the Murray-Darling Basin cap on water extractions was not meant to be an absolute cap on the volume of water flowing through water meters. Rather, it was to be an incentive for investment on improving system efficiencies, reducing system losses, and from those savings that would be the water for further extractions, not simply taking more water out of the rivers with the existing infrastructure and existing rules.

However, it's pointed out that the same incentive principles underpin the 1988 salinity and drainage agreement, and we believe this totally failed because there has been no devolution of salinity credits below state level and therefore there has been no creation of any market in salinity credits and therefore no investment in salinity work. We believe that similarly the incentive implicit in the cap is being ignored.

We say that under the current arrangements, how can private sector firms offer to invest in and manage headworks and rivers? How can private sector firms offer to manage wetlands so as to reduce wetlands or use wetlands as natural conservative storages that can be filled as part of a wetting cycle and then water delivered downstream to productive use as part of a managed dry-out cycle?

We use the example of the Moira wetlands and the Murray Valley as one where a regulator has been built but not by the private sector.

How can private sector firms use the river systems to deliver water downstream from privately owned storages?

We even see a problem now in farmers who own two properties, in moving water from one on-farm storage down onto a property on the other. Once it reverts to the river it becomes public ownership again of the water.

And how can firms invest in salinity reduction works and obtain salinity credits that can be traded? We say that fundamental reform, including devolution and decentralisation of water management functions, separating transport of water use per se and providing for third party access to river and delivery systems, is an important part of the reform process that is sadly lacking at the moment. We also say that it is around the world a distinct trend towards watershed-based management of river systems.

We have seen this partly adopted in Victoria, in moving away from a single government monopoly of a bulk supply agency and breaking that up into more catchment-based authorities. We would go further and say that that should be devolved to a community-driven watershed-based management system. So again the commission we say should note -

and we urge the commission to note -

the current absence in New South Wales of sufficient public sector reform, especially with respect to decentralisation and devolution of water management functions and third party access to the transport of water through river systems, and draw attention to the benefits of community-based valley management authorities.

I turn now just simply to the point of healthy rivers, because certainly the COAG water reform put forward the need for more consideration for the environmental. However, it appears to many water users that this element has become the only reason used by bureaucrats for the COAG agreement. In essence the bureaucracy, we say, has gone feral, but claiming that this is the priority enforced on them by the COAG water reforms in the national competition agreement. So it's important to note the Healthy Rivers Commission, an independent commission in New South Wales, and I note the draft report of June 1999 of the independent Healthy Rivers Commission:

where it defines a healthy river right throughout its inquiries as encompassing a broad range of physical, economic and social characteristics, which includes the river's environmental status and the river's ability to support patterns of commercial activity and social amenity to which the community aspires.

We say that this approach of the Healthy Rivers Commission is consistent with the United Nations convention on the non-navigational use of the waterways adopted by the United Nations as recently at 1997 and to which Australia is a signatory. The convention lists a number of factors to be considered in managing, extracting and using water from rivers. The convention states that no one factor is most important than any other. This recognises that the economic, social and environmental purposes all are equally important objectives.

So we urge the commission to endorse the concept of the Healthy Rivers Commission and contrast that with the approach adopted by the bureaucracy in the management of inland rivers of New South Wales where the environment is given superordinate priority and, despite no scientific justification to water users, has been reduced by so-called natural flow rules -

and again the attachment 2 on those diagrams indicates by how much that impacts on water users even now -

and that these feel-good natural flow rules really have no scientific basis.

In fact the Healthy Rivers Commission had this to say:

As previously noted, there are some circumstances in which flow conditions are not the major source of river stress and where changes in flow access rules are less important than changes in other activities affecting river health. However, in such circumstances flow management may be an important means to a

desired

end. For example, where protection of low flows is a lower priority than other river health measures the commission recommends a system of flow access rules in which irrigators could face less severe restrictions on their access to water if they contribute to river health in other specified ways.

Indeed the commission then went on to say that where best management practice were adopted then restrictions on the extractions from rivers because of these flow rules - the farmers would be exempted from those restrictions if they adopted best practice management. So again the Healthy Rivers Commission is taking a very practical forward-looking approach, taking the river as it is, with a broad range of objectives to be achieved, and looking at specifically - and identifying where real river health can be achieved without necessarily undermining the security of water availability to existing users.

Therefore this approach adopted by the Healthy Rivers Commission would appear to be more consistent with the COAG's intention. It seemed to favour more market-based solutions and secure property rights in necessarily looking at environmental matters. So that we urge the commission to correct the bureaucratic perception that the competition agreement requires that the environment be given an superordinate priority. It should once again, we say, cast an orthodox economic ruler across the COAG and competition principles and that would prefer market-based solutions that are forward looking and recognise existing level of development and infrastructure and we encourage the commission to consider endorsing the healthy rivers commission's concept of a healthy river and a forward looking approach adopted to encouraging environmental enhancement.

I just make some final comments very, very briefly on water pricing regimes where the COAG said:

Water pricing and pricing regimes in time fully recoup operating costs and contain a component to enable supply systems to be maintained and refurbished or replaced as appropriate.

In New South Wales there is the Independent Pricing and Regulatory Tribunal and we support the sensible, forward-looking economic approach to recovery of efficient costs of supply that's been adopted by the IPART. However, we draw the attention of the commission to the threat of the ridiculous notions of full economic cost recovery put forward by both the environmental organisations and by a number of government agencies. I attach as the last attachment to the Sydney Morning Herald from Hassall and Associates which is rejecting the interpretation placed on a report prepared by Hassall and an interpretation given by the Nature Conservation Council and which gained much publicity and it says:

The company rejects in particular the following statements that appeared in his forward that the New South Wales is a \$700 million a year burden on the taxpayer. The decision by government not to recover costs of water supply infrastructure is equivalent to Qantas not recovering the cost of its aeroplanes

from travellers.

They point out that following delivery of their report their executive summary was replaced by another forward and they say:

In fact this infrastructure expenditure was historical in nature and made for a number of reasons unrelated to irrigation. To use the same Qantas analogy, is equivalent to asking current Qantas passengers to pay for the investment by Qantas in aircraft purchased and worn out prior to World War II and the total operating costs of airports servicing the needs of all airlines and freight users.

So that is just an indication of how it gets out of economic sense. We also point that bureaucracy is not without blame in this context and I note that in the competition policy agreement itself it has taken us three years with ourselves, amongst others, complaining that the report of an expert committee on asset valuation and cost recovery had never been endorsed by COAG and yet this was put forward by the standing committee of agriculture and resource ministers and even up to ARMCANZ itself as being the justification for putting forward a range of initiatives instituted by the bureaucracies to support that agency. Because if you look at an attachment to the competition agreement, in the second transfer of payments it says:

Implementation of the strategic framework for the efficient and sustainable reform of the Australian water industry and the future processes as endorsed at the February 1994 COAG meeting -

and then adds the words -

and embodied in the report of the expert group on asset valuation methods and cost recovery definitions.

Now, we note that the premier, Bob Carr, certainly said that he agreed to no more than what Greiner had already previously agreed to and he was unaware of any things that got slipped in behind the scenes. But secondly, we note that from our recent meeting with the National Competition Council that COAG has now agreed that they never did endorse that expert committee report. So we point that out to the commission because we believe it is important to support the approach adopted by IPART as a proper approach to COAG cost-recovery principles and that we urge the commission to report on this matter to prevent unnecessary costs being imposed at some future time on water users as a result of these matters continually attempting to be raised by the bureaucracy and others as being the intent of the national competition policy agreement.

So they are the matters that we would like to draw to your attention and I would like to ask just for a brief comment, as it were, by an independent raconteur, I suppose, on what we've said in Greg Cutbush.

MR CUTBUSH: Thank you very much, Gary. By way of emphasis, I think, I

would like to make a few remarks about what this submission is intending to say. The main message is that the promise that COAG and the NCP appeared to hold for a more rational water allocation system has not been delivered upon and we think or the Irrigators Council believes that the commission can help get the process back on track by elaborating in a number of areas on some matters in a draft report which is already a very useful document for reminding people what their obligations are and what governments have signed on for.

We think the commission could be helpful principally by articulating some of the economic implications of the words of the original agreements that were signed in relation to water. This articulation is a role that the commission, I think, is expected to fill by the community at large and we'd like to see them take this initiative in relation to water particularly. In New South Wales there appear to be four economic imperatives that have not been seized upon that we believe the commission could well urge governments, and the New South Wales government in particular to get on with. The first, and I would say unquestionably the most important, is the need for a convergence of entitlement allocation types to occur into one coherent form of right for water with, as necessary, a compensation package to lubricate the initiative; that's the adjustment assistance that COAG referred to in the first place, of course.

Secondly, without delay we think the economic imperative is that a capacity sharing or capacity entitlement or, as Gary calls it, an infrastructure access right approach be adopted to the definition of rights. That seems to me to be a very important corollary to the first imperative. The third imperative, and the commission touches on some of these matters already in its draft on pages 132 to 133, is better accounting. Better accounting that's most sorely needed, we think, is in the areas that IPART has already pinpointed in its excellent report of bulk water- water termination or bulk water most recently. But it should include the accounting for transmission losses but an emphasis on determination of efficient cost principally and cost attribution. Let me explain briefly what I mean by that: it seems to me that the water bureaucracy and the environment in which it's worked over the years in New South Wales and also in other jurisdictions have been working in an environment which has not had to bother too much about attributing costs because it could always rest on its oars, if you like, and revert to subjective methods of allocating fixed costs as it wished without discipline.

It would be most surprising if sufficient attention has been given to the definition of variable costs and we would suggest that a worthwhile emphasis could be placed on the adoption of ABC activity based costing principles in the agencies concerned. So we're saying we would like to see some of the things the commission has mentioned elaborated in relation to accounting. You will notice that one of the matters that you've listed as required information is this question of transmission loss accounting. We say, of course - we assert really that it is feasible, it is desirable and we're not pretending it's not complex, but it's important and ABARE's recent work demonstrates the point. The fourth imperative, and again, we're not pretending this is

not complex, is the separation of the water part from the transport part of the water usage system.

It seems to us that in particular the withdrawal of the public sector to a role which concentrates on areas where market failure is likely to be a problem ought to be the driving principle here, and as I understand it that's in the natural monopoly areas and that's not water per se in my opinion and I think in most columnist's opinion too. There's no real reason, of course, why in the transport or distribution of water function this ought not be operated by the private sector, albeit under a regulatory regime. But certainly we would see it appropriate for the commission to urge that urgent attention be directed towards the same kinds of appropriate withdrawal of the government that have been undertaken already in other infrastructure areas to also occur more.

These things have been said in general terms when the national competition policy was launched. I think the commission's summary of the purpose and the principle elements of the national competition policy in the draft already serves to underline that these economic implications that I've just drawn out are ones at the heart of the process. So in a word, less choreography, I suppose from government is the hope that irrigators are pressing for you to endorse. Thank you very much.

MR COSGROVE: Thank you. A very interesting presentation and I'm sure we'll want to reflect on it when we have time to read your submission. You said quite a lot, Gary, about the historical sense of water property rights or entitlements. Is it as clear-cut as that? I mean, are these things which you would say would stand up to the test of law and serve as a basis for financial compensation in the event of their withdrawal or are they more in the nature of, as we've, I think, used the phrase perhaps yesterday "a bit like a driver's licence," a renewable entitlement to use a particular service.

MR DONOVAN: From a legal perspective, I suppose, there are two issues: one is the nature of the expectation. If you use the analogy of the driver's licence I'm sure if you fronted up to pay your renewal and they said, "Sorry, there's too many cars on the road, we're trying to reduce accidents. The next 50 don't get renewed but we're issuing a new driver's licence to these people over here," you would have some concerns about it and I'm sure the courts would have some concerns about that sort of approach too, regardless of what the government did in that respect. So, in other words, there's an expectation that although, yes, a driver's licence might only be issued for one year and then renewed, no-one would have any doubts that once you got your licence unless there was some good reason to have that licence taken away or not renewed that there would be the expectation that it would continue. The periodic nature of the licence is subjugated, it would seem to me, to the long history to the nature of the licence itself.

Similarly, in irrigation the same principle applies. It's both common in the United States, indeed in Canada as well as here, that regardless of what the actual law says in the nature of - particularly under the Water Act I'm thinking in terms where there was a periodic licence with conditions, it was a rare occurrence if conditions were changed or a rare occurrence that a licence was not automatically renewed. So

again, it would be very similar to that expectation. I also point that they were not the only rights that existed. Rights existed under the Irrigation Act that if you had a right under the Irrigation Act, then the government was obliged to supply you with water. A question mark then says, "Well, how much water?" The implication being enough water to service your needs, because the government had promoted those schemes. You're close - so you've got your settlement, soldier settlement schemes and the like, and in say the Murrumbidgee irrigation area, for example, even rented the farms. You couldn't own the farms until very recently.

So once again you've got this very recent change to the nature of a licence. Underpinning that is both the nature of the law itself - which had a system of objections and appeal. So what it comes back to is that in principle you've got this notion of compensation. COAG actually mentioned it. Removing those rights in any sort of change it appears to me, where there is such a fundamental nature of change, where government has encouraged you in, such as the dairy industry reforms now - compensation to move away from those transitional gains traps, if you like, and a regulated system - once again this is a transitional gains trap, as it were, because we have encouraged people to end up in the position that they are in, that now they will no longer be able to sustain under this free market government removing out of the system.

Whether one would succeed against a resisted claim by government - first of all it would be very expensive to even run it in a court and far beyond a small farmer. Secondly, it shouldn't need to get to that either. I take the commission's attention to an objection raised to licences that were to be issued up on the border rivers of New South Wales, on the Whalan Creek. That eventually ended up in the High Court. Sir Laurence Street ended up trying to do a mediation. I think as costs got up near \$5 million each for the two competing parties, Sir Laurence recommended that the government - because they were the cause of this dispute - should actually pay the legal costs and walk away, because there was no water to actually issue.

So that again gives you the vagaries of the legal system, whereas in fact it's not good government policy perhaps to put people to that trauma and drama when over a long period of time you have built up a certain system but then, for very good long-term reasons, are moving away and having a fundamental change. So I make that comment with respect to the legal right that - there may well be some legal change there. But it seems to me to be a very unfair process to force farmers down that track when the principle has been encompassed by the COAG agreement.

MR COSGROVE: You referred earlier on - and I haven't been able to find the reference to it in your submission but it may well be there - to this notion of the role of government being to remove impediments, rather than to maintain its active regulatory position. Could you explain for us a little more what you've got in mind there, or draw us to the part of the submission where you've addressed it?

MR DONOVAN: Yes, that's COAG communique page 3.

MR COSGROVE: That's on the third page, is it, of your submission?

MR DONOVAN: Yes, the COAG communique on 25 February 1994, coming out of Hobart immediately on the agreement, page 3:

The report noted that while progress is being made on a number of fronts to reform the water industry and to minimise unsustainable natural resource use that currently exists within the water industry -

and then a series of dot points, and of them was -

impediments to irrigation being transferred from low value broadacre agriculture to higher value uses in horticulture, crop production and dairy.

So it saw the role, it seems to me - and it goes on later to explain a bit more on that - that there was a role in government that where there were impediments the role of government is to remove impediments, so in other words to allow the market to work. So for example if there was a restriction, as there was on the Murray River - that you couldn't grow rice except if you were in Murray Irrigation area - then that was an impediment to somebody on the Murray who may have had some entitlement that was probably originally there as a drought-proofing measure, not designed to be used as an annual cropping or perennial cropping regime - to remove that choice restriction.

Now, that is a different role of government, it seems to me, to remove impediments, to go in and say, "We're going to increase prices and we're going to increase regulatory concerns to try and force water to move to high value," on this notion that we are encouraging people to be more efficient.

MR COSGROVE: So you're wanting government to essentially set the rules of the game and then, as part of that task, to remove impediments. But then if the market, on the basis of what you have said are the need for coherent water rights, results in a change, an increase in the price of water, then that's okay.

MR DONOVAN: No, what I'm saying is that - there's two aspects to impediments. If you look at the notion of getting water - and that's why I explained then, to go on to talk about the objective of COAG was to maximise the water that was used to maximise its contribution to national income and welfare. That comes back to the notions of efficient use in terms of economic parlance and so on. Then where you have a constraint adopting that, then the government may need to move in and overcome that transitional restriction by either removing a regulatory constraint - as in the case of not allowing certain agricultural products to be grown in certain regions - or removing, by structural financial means, some mechanism because you've got existing activity, to overcome that transitional gains trap and move forward.

So you've got the two elements. One is moving a regulatory constraint, the other is actually moving it in terms of financial assistance to overcome a transitional

gains trap as in say, dairying or egg deregulation where you compensated farmers to get the ultimate benefit down the other track.

MR COSGROVE: But once you get past that stage do you still envisage governments, including I suppose the MDBC, setting the levels of water allocations across systems or is that something that you see being done by these - valley management authority?

MR DONOVAN: Well, really what I'm saying is the role of government is to move out of the way and to get itself out of the race. That seems to be the notion of what COAG was about, to reduce the involvement in government of picking winners and setting rules, in that sense, so that if you move to infrastructure access rights and so on, as ABARE pointed out, as a set of water policy reporters pointed out, that in fact you are removing from government the decision-making over how that water in the resource will be managed. In other words, if you have your share of that access you can make your own risk decisions about whether you want to be opportunistic or whether you want to be more circumspect, whether you take it now or later and so on.

Indeed those issues of transmission were inherent in that sort of infrastructure access systems. They don't need to then involve yourself in others. So it seems to me that removing constraints is very much about also removing from government this notion of determining and having rules where it determines allocations and it can vary that over time. The more you have that, the less that you have a right, and it seems to me if you move more to the infrastructure access right you are removing government from that process, giving more individuals more of a choice and indeed removing government and removing those administrative impediments, policy impediments, out of the way.

MR COSGROVE: But I guess there would still be a risk that the private assessment by an irrigator, say, of benefits and costs of certain water management practices could differ from the social or, if you like, community assessment of - how would you handle that?

MR CUTBUSH: That certainly would be the case. But I mean, I presume you're thinking about matters like salt and - - -

MR COSGROVE: Yes.

MR CUTBUSH: Or erosion even.

MR COSGROVE: Let's take it in terms of salinity. I suppose you could argue that individual irrigators have an interest in keeping salinity levels as low as possible and you might argue that the reason that salinity levels have reached high recordings is a function of inefficient government administration of the system and that's possible, I suppose. But you could also perhaps envisage an outcome of the same kind with the government on your terms, you know, out of those - - -

MR DONOVAN: True. I would go back to perhaps the comment of Noel Fitzpatrick who said that in essence governments didn't get it right in the past and it certainly seems from COAG you're saying that - true it is that we're trying to remove government from that process as much as possible and allow the private sector and the markets to make more of those choices. So it seems to me the more we can maximise that then the more we're adopting the competition policy principle and therefore the more closer we will get to the objective of enhancing national economic interest.

MR COSGROVE: So you have no real dispute with the principles that COAG agreed upon, save perhaps for that one wrinkle you mentioned about the expert group.

MR DONOVAN: Certainly the interpretation of principles as we see them from the documents that we've read and the explanations that were given to us at the time. What we do have argument with is that the manner in which they've been implemented in terms of some have been ignored and others have been, in our view, totally misinterpreted from an orthodox economic viewpoint. It has only been where we've managed to get before an independent tribunal such as the IPART or the Healthy Rivers Commission that we've managed to get some sense back in the system. So we feel that there is a very good opportunity and a need for the commission to take the opportunity to add to that, bringing back to the COAG principles and system the water reform process.

MR CUTBUSH: See, some of the problems - just by way of parenthesis here, some of the kind of issues that you mentioned, the general custodial duty of governments with regard to the environment let's say, and good practice in relation to the environment and its possible distinction with the sort of practice that a farmer might operate himself or herself, it seems to me that progress in this area towards a more decentralised and evolved approach, which would be based on tradable credits, let's say in salt cases, are currently impeded by (a) an apparent reluctance of government to fire up that lever and (b) quite frankly a fair difficulty in policing any system anyway by virtue of the absence of information, given a system that has been so centralised it didn't have to be done, or wasn't seen as a necessary part in a world when commercial imperatives were so slight.

So I would say, you know, the transitional process has to be one where a whole new way of thinking about the custody of the environment has to begin and progressively a number of these matters needn't be government things that are done through standards or through fixed non-price instruments, but rather could progressively be turned into privately traded regulatory devices which involve the government a whole lot less than currently.

MR DONOVAN: Certainly if you look at the evidence of the management at the moment, they seem to have adopted the government bureaucracy, "What will we do about the environment? Well, we'll have natural flows. We'll look backwards and

try

and make them a bit more natural." There's no scientific basis that they can give you or explanation as to what benefit's going to come out of that, except in vague, warm, fuzzy notions. Healthy Rivers Commission has challenged that and said, "We don't think this is giving any practical environment benefit at all, but at the same time it's reducing water for productive use and we don't see any reason for that. So we come up with a system that's quite different." So again I see that whilst arguments are put forward to resist the devolution of functions and to introduce secure property rights on the notions that, "Oh, we need to be precautionary or protect the environment," when you actually look at what's happening in practice it convinces you more that decentralisation or devolution of functions would enhance the system rather than the other way.

MR BRAITHWAITE: Yes, there's a lot of information there that we will have to digest later. Sorry about that. The New South Wales Independent Healthy Rivers Commission, the report, what integrity has it, where was it directed and who's going to take notice of it?

MR DONOVAN: Sorry?

MR BRAITHWAITE: The Independent Healthy Rivers Commission.

MR DONOVAN: Healthy Rivers Commission?

MR BRAITHWAITE: Yes, who was it directed to?

MR COSGROVE: What is the commission and also - - -

MR DONOVAN: That was a reference given by the state government and the recommendations are recommendations - this is a draft report, there's now further consultation before the final report goes back to government. The Healthy Rivers Commission has been given a reference by the government previously to inquire into the Hawkesbury-Nepean, the Shoalhaven and the Williams River and this is the reference that has been given into the Clarence River.

MR BRAITHWAITE: So the New South Wales government - - -

MR DONOVAN: By the New South Wales and it is an independent commission and it is under the portfolio of the minister for the environment but it is an independent commission.

MR BRAITHWAITE: Can that truly be said? Is it truly independent when it's under a department? Where does it get its independence from?

MR COSGROVE: Is it a statutory commission?

MR DONOVAN: Yes.

MR COSGROVE: I see.

MR DONOVAN: I mean, it's similar, I suppose, in a sense, to the Independent Pricing and Regulatory Tribunal in that it is separate to any administrative arm of government.

MR CUTBUSH: You can't answer that kind of thing objectively, I don't suppose, from where we sit but it IPART too would have to be seen as a government agency influenced by its answerability to the cabinet office or whoever else it is reporting to formally. One guesses that nothing within the umbrella of government is fully independent, perhaps even this commission.

MR BRAITHWAITE: The suggestion of a watershed based river management, how long has that been around and how significant would that be in the reduction of the water management committees that are operating at the moment?

MR DONOVAN: Firstly, what it would do is split up what is, in essence, a government monopoly, a state monopoly at the moment. What we have seen, both in the IPART hearings and in practice is a very large increase in personnel and activity by the Department of Land and Water Conservation as it is privatised, irrigation areas and districts are moved away from its, I suppose, traditional base to expand into this notion of natural resource management. So you have Land and Water Conservation in natural resource management, you have the EPA and you have National Parks and Wildlife and you have a plethora, in essence, of agencies with the bulk of their people in head office in the capital city. So one of the benefits is that you would remove a government monopoly and you would have a number of valley management authorities. That would provide some ability to compare across systems and so on, so there would be some competitive benefit there.

The second thing and one of the real benefits is that you would drive the policy of what is done at the local level, so that the community who would be represented by the valley management authority would in fact be focusing on their valley. You would have approaches that were more consistent to solutions in that valley versus some statewide policies, and you would also be encouraged to drive very heavily the cost efficiencies and so forth. One of the points that IPART was impressed with is that when management irrigation areas were moved to local ownership, then they drove the efficiencies. Similarly, if we move to valley management authorities we would see a similar drive and efficiency. I think if we look to Victoria, where they have at least evolved down from a central monopoly, we have found certain benefits in the water delivery systems there between the various agencies that now deliver water, and similarly we believe in New South Wales that that would be a similar benefit.

The other difference between these if you like advisory committees that are established is that their terms of reference are not there to be the management of the river but rather to simply provide some form of an endorsement mechanism for river

flow rules, and that is a minor part of the management of the river water and the catchment.

MR BRAITHWAITE: The other question on this historic rights of water, as you were pointing out in the Alberta, Canadian situation: do you know of any others that might exist in the US? I thought there was some comprehensive legislation there. The other thing is, is there any legislation that goes international, such as the use of water on the continent, in Europe, or something like that. Do you know of any?

MR DONOVAN: At the highest level, of course, you had the 1997 UN Convention on the Non-Navigational Uses of International Waters. That I think is the thing that I would look to as being the principles that that adopted. That's why I say that it was interesting to me to see that the principles adopted by the Healthy Rivers Commission in terms of the notion of a healthy river and the variety of uses, no one of which is more important than any other, are reflected in the UN convention. But also it's a common trend in that pre-existing users are recognised in any further extractions from rivers. So I would look to that as perhaps being the highest international level legal document.

In the United States, of course, where you have rivers flowing between states, there's an enormous history of litigation between states to protect various pre-existing rights to water use. So I suppose in Australia we are a little different in that, whereas most other countries do have some international waterways because rivers flow beyond national boundaries, here in Australia we haven't quite had that same history of litigation and therefore the notion of the rights from a legal perspective hasn't been as developed from the framework.

MR CUTBUSH: Mr Braithwaite, on that question also, it's true that the US has a much more codified approach to compensation than ourselves, I think. The 5th amendment, isn't it, of the American constitution says a lot about compensation and when it in fact is due and when it isn't, and it seems to me to be more rigorous in that regard than our common law in the New South Wales case.

MR DONOVAN: There has been a recent High Court case, as I understand it, here in Australia. I just can't recall of the top of my head the case reference to that, but it is relatively recent, where contrary to previous High Court decisions, the extent to which a right had to be varied in order to come within the constitutional definition of affecting property for compensation had to be a fairly severe affectation of the right. There has been some dicta in a recent case where it may not need to be as severe. But certainly I would suggest in Australia that still only pertains to rights affected by the Commonwealth, and many of the implementations of the water rights and effecting water rights are done by state governments, so it's not directly covered by our constitution.

MR COSGROVE: I'm conscious of the hour and the fact that people will be looking for some nourishment, but if I might just ask two short questions. First, you referred to this concept of third party access in the transport of water. I'm not very well informed in this area, but what does that involve? Can you tell me simply what it means?

MR CUTBUSH: It's about in principle one of the things in Part IIIA in the Trade Practices Act which was added in the recent amendments in 1995 is all about.

MR COSGROVE: I'm familiar with the notion of access, but I'm just not clear on what it means in the case of water.

MR CUTBUSH: The term third party access, you know how that applies perhaps in gas and so forth too.

MR COSGROVE: Yes.

MR CUTBUSH: So there's no need to go into that. In the context of water, it seems to me that we're going to need some very large investments, a very large sum of investments, in a whole raft of works, whether it be salinity works, water works, efficiency and so forth. Much of that will need to come from the private sector, and there's a deficiency at the moment in that there's no thought being given to that at the national level as to how we're going to attract that investment in. But it seems that one simple way would be to provide for third party access to the rivers, for example, as a means of transmission of water, so that in a simple case - in the most simple case - a farmer has two properties. On one of those properties is an on-farm storage for water. He has water in that storage. He needs water down on his other farm. He should be able to physically transfer the water down. At the moment, once the water goes back into the river the water reverts to the government.

The more complex case and the more interesting case is to take an example of the Moira wetlands - and there is a very large number of wetlands similar to the Moira - where the private sector could invest in a structure to prevent water flowing in. One of the problems is with water regulation you don't want the wetlands wet all the time, which is what's been happening, so you put a regulator on it, that you can wet the wetland as part of a managed wetting cycle and then deliver downstream for productive use as part of a managed dry-out cycle. At the moment there's no incentive on the private sector to put the hand up and offer to do that, because they can't use the river as a transmission system. But if third party access was allowed it may eventuate that you could encourage private sector firms to be interested in a water supply authority in that nature.

MR COSGROVE: The last one was this point you raise, Greg, about having government withdraw to areas of natural monopoly. Would you, subject perhaps to the point that Gary was just making, confine that to the construction of bulk water storages?

MR CUTBUSH: No, indeed not. I think the bulk water storages are probably more genuinely private goods, if I think as an economist. I think without taking the analogy too far, as my discussions with irrigators have certainly warned me, it's the distribution and transmission systems that are logically the natural monopoly parts of the water system, not the water per se nor the bits where they come from, the dams

and the other private storages where the water is held.

As a point of departure I think that's what you'll find discussed in a report done for the NCC by Tasman Economics, which has looked at third party access in relation to water in some detail on a similar basis to the thinking that has guided reforms in electricity and gas and other big infrastructure area - that what we want is for the bits of former utility conglomerates of government to be reconsidered in the light of their genuine public good nature, as distinct from their private good nature, for governments to withdraw from the public good bit. That's the infrastructure bit, which is most likely to be prone to natural monopoly in all these cases, and it's surprising how little there is of it when you get down to defining it, particularly when you start to think of how you might contract out the functions under a regulatory umbrella as well. So you're left with a pretty light-handed approach to most of these things if you can take it to the limit, and that's the theory I think that you already have articulated as having been some of the basis of the reforms that you're addressing in this inquiry.

MR COSGROVE: Okay. Thank you very much for a very helpful contribution. Now we need to break for lunch. I think we'll try to stick as near as we can to our afternoon schedule, which means we'll aim to be back here quite shortly after 2 pm.

(Luncheon adjournment)

MR COSGROVE: Let's resume now. Our next participant is the One Nation Party. Mrs Hill, would you mind for our transcript identifying yourself and the organisation you're here representing.

MS HILL: Heather Hill from Senator Len Harris's office. I'm senior adviser and with the party Pauline Hanson's One Nation.

MR COSGROVE: Thank you.

MS HILL: With your permission, if I can actually go through my submission and then I'm more than happy to go back and answer any questions.

MR COSGROVE: Good.

MS HILL:

In 1966 Australia had approximately 290,000 farmers. There are now around 100,000 and they are leaving the land at the rate of 35 per week. This means that 60 per cent of the Australian farms which existed in the 1960s have been destroyed by market forces assisted by deliberate government policy. Those that are left are 30 per cent bigger, employ 30 per cent less people and 80 per cent of them are deeply in debt. The number of pig producers has fallen from 40,000 to 3000 in the last 40 years. News Weekly places the flight from the land even higher, reporting that the number of Australian farmers declined 15 per cent between 1988 and 1996, representing a loss of 52 farmers a week.

I think it's most important that it's documented that One Nation is not suggesting that the above impacts on rural regional Australia are solely due to the impact of national competition policy. However, we do assert that the theory that underlines national competition policy has had significant effects on average working Australians. NCP has always called for transparent processes in decision-making. One Nation finds it remarkable that the body that dictates these terms for business did not adopt similar processes during their own development. In terms of accountability, national competition policy has been introduced and implemented through bureaucratic processes that in the main avoid public, parliament and senate accountability until just recently.

Competition policy was presented as a bitter pill we had to swallow that would generate positive outcomes for the community. This sounds ominously like the recession we had to have. It is unfortunate that the basis for this decision seems to be profit driven, not people driven. As the commission acknowledges, many agencies did not know how to apply a public interest test. This problem can be rectified with educational training, but in the meantime average Australians suffer at the hands of further political and bureaucratic decisions. The principles of economic rationalism drive the NCP. It has been said that the two main arms of economic rationalism are deregulation and privatisation. One Nation believes that NCP is the Australian brand of a

worldwide phenomena of governments

being forced to exit from all publicly owned monopolies, whether consumers, who are the current shareholders, benefit from it or not.

One Nation believes that the cost of economic rationalism at the end of the day is the 1990s permanent recession. Rural and regional Australia are demoralised at having had a government and its agencies not only fail to defend their country's interest but seeming act against it. The deregulation of electricity, gas and telecommunication industries have led, in the main, to huge gains for big business while the small business operators, particularly rural ones have lost their livelihoods, homes, essential services, self-esteem and ultimately their faith in the process of government. These factors have been mostly ignored for one reason or another by the economic rationalist. When we look at deregulation, we believe that regulation was introduced in the first place to preserve competition.

Without sufficient effective competition, big business tends to form cartels, oligopolies and monopolies which further destroy any competition and the competitive market with it. Government regulation, we believe, is not the only tool that distorts the price of consumer products. Through its ability to control markets and manipulate prices, big business also distorts prices and the market. When we look at the major grocery retailers in the United Kingdom, they control, it's believed approximately 45 per cent of the retail market, in the United States, 21 per cent, in Japan 17, but in Australia it is claimed by lobby groups that they control approximately 80 per cent of the market. We also have figures that show that this figure has doubled in the last 20 years.

Figures suggest that the big three chains have bought out \$1 billion worth of small and independent retailers in the last three years alone. The concentration of market power has the capacity to distort competitive prices, enabling non-competitive practices such as price discrepancies. We believe that deregulation has been seen at its worst in the New South Wales dairy industry where, contrary to the claims being made prior to implementation that prices would improve for the producer and costs would go down for the consumer, what has transpired is farmers now are paid less per litre of milk and mothers are paying more for that same litre of milk in order to provide nourishment for their children.

The end result of deregulation of the dairy industry has been more hardship for the dairy farmer, higher prices for the family providing for their children and more profits for the processor and the grocery chain. Prohibited trade practices include anti-competitive agreements such as price fixing, market sharing and primary and secondary boycotts. We're looking here at the Trade Practices Act section 45 to 45D, the misuse of market power, section 46, and mergers that are likely to lessen substantially competition in a substantial market, section 50. They're all acts that are prohibited under the Trade Practices Act. Under such a subjective legislation regime we ask the question, where has Australia set the benchmark for anti-competitive practices?

When do the big three retail chains actually come under anti-competitive practices and perhaps is it when they own 99 per cent of the retail sales? This is a question that we're continually being asked by many small businesses throughout rural Queensland. They feel that their ability to call in the ACCC to investigate alleged breaches of the TPA are hindered by unclear definitions and by the costly nature of litigation. In rural Queensland how do you define when a company does have market force and is misusing this market power? Predatory pricing is an attempt by a firm with a substantial share of the market to cut its prices in order to force competitors out of the market or to deter potential market entrants. Small businesses in rural Australia have continually faced predatory pricing by large retail chains. These are certainly the claims that the small retailers are telling us in rural Queensland.

Small businesses are reluctant to seek litigated relief from these practices. One of the few successful cases is the Victorian Egg Marketing Board versus Parkwood Eggs Pty Ltd, where a large marketing board was prevented from discounting eggs into the ACT egg market. The details of this case show the difficulties in proving a case of predatory pricing. This form of legislative protection is beyond the reach of most small business. Like most economic puritans, One Nation believes that there is a legitimate role for government regulation in business and that the purpose of regulation is to counteract the effects of reduced competition. A mixture of market forces and government controls in certain circumstances can operate for the overall public benefit. Although we believe the economic puritans hate to admit it, this mixture of market forces and government intervention is necessary to preserve an adequate level of competition and consumer choice. This mixture preserves economic opportunities for the whole community and not just for the big end of town.

We believe that the main problem with NCP has been its overzealous implementation with little or no regard to the anti-competitive nature of unregulated free markets and with little or no regard to the very real social costs of NCP inspired policies. The mixed economy has two sets of government controls - or two sorts of government controls - on big business which try to prevent oligopolies and outright monopolies forming, and measures that assist small medium-size business compete with big business. These measures include tariffs, input quotas, subsidies and anti-monopoly legislation which enable small business to stay in business and form buying and selling cooperatives to build up what Mr Galbraith calls "countervailing power".

This power counter-balances that of the vastly superior purchasing, taxation and economies of scale advantages enjoyed by larger companies. J. Galbraith says that the support of the countervailing power has become, in modern times, perhaps the major domestic peace time function of the federal government. One Nation believes that these countervailing balances effectively level the playing field, thereby enabling the Australian industry to compete effectively in Australian markets.

John Carroll provides a succinct summary of the failure of economic rationalism as applied to Australia. The theory says that the new competitive industry will grow out of the ashes of the old protectionist ruin. Carroll continues that "The reality is that Australia's most dynamic and best managed companies, like Pacific Dunlop, ones that have capital to invest, are building their factories in Asia." They have been forced to act against the national interest by the governments and their bureaucratic systems.

One Nation also looks very strongly at the issue of state sovereignty. NCP policy openly claims that state sovereignty is a fundamental component of the NCP package. However, it makes the statement that important legislative reviews, ie dairy reviews, will be weighed in terms of costs and benefits for the national interest, and this could lead to adjustment of costs in the home state, but greater overall benefits in other states.

In practice, state sovereignty always appears to be subservient to a nebulous and poorly defined ideal called "national interest". I can assure you that a farmer in Cloncurry will have a very different view of what constitutes national interest, compared to a person in Canberra, and herein lies one of the major sources of contention between the states and the federal government. The different views of the national interest exist, and that a "one size fits all" mentality in the application of NCP will fail completely.

The "one size fits all" mentality of NCP is detracting from our federal system of government, a system that ensures that less populated states have equal representation in the decision-making processes in parliament through the Australian senate. It was a concern of the founding fathers that New South Wales and Victoria, through sheer force of population, could impose their will on a smaller decentralised state. It would appear that NCP through its national interest test is eroding our state sovereignty, and the ability of Queenslanders to regulate their own affairs. Is it any wonder that rural and regional Australians feel totally disenfranchised from the political and bureaucratic process of change.

Harry Evans, the clerk of the senate, in his paper titled Federalism and the Role of the Senate, states, "Governments have not been able to rely for long solely on the support in Sydney and Melbourne while ignoring the rest of the country. This has avoided extreme alienation of the outlying parts of the country in accord with the aims of federalism." This dilemma of trying to please the captive masses in Sydney and Melbourne at the expense of the rest of Australia has always faced our popularly elected governments. One Nation, and more recently, the public, have noted the other political parties ducking for cover on the issue of NCP. NCP appears to be the fault of others and not the fault of any particular political party itself for this new bureaucracy being born and to date nurtured. The lack of ownership of the NCP tells much about the damage wrought upon our country by this process. It is funny, but most politicians in

Queensland now drop NCP. It's as if they have been handed a tiger snake.

What we call for is that in fact this decision should be taken back for a review by COAG and put it back in the hands of the people who actually developed this system that's now being used, the COAG board. One Nation agrees with Harry Evans that the real need for reform is not so much in the institutions of government as in the political parties. They have been narrowly based, factionalised, undemocratic oligarchies to be controlled by too few people, closed to public view but open to manipulation and outright corruption. Reforming them would make the institutions of government work better, without changing those institutions. But without reforming them, the institutions cannot work very much better than they do at present.

It is not public ownership per se that leads to inefficiency; rather, it is poor management. Shareholders cannot be blamed for poor management, only for allowing poor management to continue. When NCP criticises government owned bureaucracies being inefficient and over-manned, many in rural and regional Queensland consider the NCP itself to be an uncaring bureaucracy that blindly implements its program with little or no consideration for any measures other than paper profits.

Decentralised power has been the constitutional backbone of our federation. The obligation of the senate to protect the rights of the states has been undermined by the NCP process. Prof W. Caspar in his paper Making Federalism Flourish states that, "The right institutional innovation will not come from the centre, Canberra." Camisworth goes further to disagree with Mr Keating's view that, "If we are to meet the economic challenges of the decade and of the new century in a global trading economy we will also need more central authority to shape our economy and not less."

Clearly decision-making in government, like that of industry, is best performed in a decentralised manner. Efficient business require decisions to be made as close as possible to the work front. Government equally requires timely and efficient decision-making as close as possible to those involved. Centralised design of government has had some spectacular outcomes, particularly in communist regimes. Caspar expresses that, "We must shed the illusion that centralised government can act as the universal problem solver, intervening in all walks of life." We have now reached a stage where states have been disenfranchised and put on a central financial drip to an extent that one must fear for their survival.

People may oppose a decentralisation of political powers on the grounds that work is duplicated. This argument was in fact used by Mr Hawke. But the centralisers have also conveniently failed to incorporate the inefficiency of decision-makers far removed from the process they are deciding upon and it is at this point that One Nation would also like to recommend that local governments should actually form a part of the review that will be conducted

by

COAG. We believe that part of the problem with implementing NCP has been that local government has been too far removed, and by removing local government you remove the ability for the average person in the street to be able to contact a councillor to ask why something is happening and to also have their input.

The strong criticisms that we had literally are, who are the NCP? And it comes loud and clear from rural and regional Australia. It is believed that they are unelected academic elites who do not suffer the consequences of their own decisions. These people are isolated from the economic impact of their policies and many times we were asked, "Have any of these people actually travelled to those remote areas and witnessed the effects this policy has had on the people?" The policy makers acknowledge a problem and promise that the long-awaited benefits are just around the corner. In the meantime farmers, small business operators and working-class Australians are being driven to the wall.

In this promised Utopia tempers are fraying and Australians are being driven into a wider class divide of the rich and the poor. This style of strict adherence to free markets was commented on by Karl Marx who said, "The free trade system is destructive. It breaks up old nationalities and pushes the antagonism of the proletariat and the bourgeoisie to the extreme point." In a word, the free trade system hastens the social revolution. It is in this revolutionary sense alone, gentlemen, that I vote in favour of free trade. Karl Marx could see that unrestricted free markets would speed social unrest and lead to such deprivation that the class system itself would be threatened.

Don Dunstan, the ex-premier of South Australia, sums up many of the feelings of rural, regional Queenslanders in a statement he made. He said, "Adelaide was a long way from Canberra but a lot of decisions of importance to South Australia would necessarily be made in Adelaide," and it was clearly to the advantage of the South Australians that these decisions should be made by locally elected politicians who depended for their survival on the goodwill of the local people rather than by civil service functionaries acting at the behest of their superiors in the ACT.

Strategy policy affecting the lives of all Australians as much as the NCP must be driven by the wishes of the majority of Australian voters, not by an unelected anonymous group of public servants. When we look at privatisation of public assets we recognise that it is not a stated objective of NCP. We believe that politicians in all states have raised the NCP in defence of their inevitable progression to privatisation. But clearly the publicly owned monopolies are a target of the NCP. These public enterprises and the natural monopolies they controlled are owned by the Australian people. The same people, the NCP argues, will benefit through reform.

The headline benefits of privatisation are reduced government debt, increased efficiency and therefore lower prices to consumers, and better services through

the introduction of competition. But this is just a theory. In practice, does this really happen? The electricity industry in Victoria was privatised. The billions received were partly used to reduce government debt, a noble quest. The reality is that a larger amount of debt now has to be serviced by the electricity consumers in Victoria. The private companies have borrowed more than the government paid off of its debts. The electricity consumers now have to fund increased debt at possibly higher interest rates, a return on these assets, profit margins for the company, and at the same time be satisfied with a lower level of service in terms of service reliability and higher connection fees. Of course the moneys raised have been used to the benefit of voters in Victoria. But short-term vote buying paid for by selling off assets owned by the voters is not sustainable, because sooner or later there will be no more assets to sell.

This favourable view of privatisation by the NCP is causing havoc in Queensland. If the proceeds were used to create industry and jobs it may be able to be justified. But at present the returns seem to be more theoretical than real to many people. In the area of social policy One Nation believes that everybody is entitled to access the essential services. It is not only appropriate for government to run public utilities, it is responsible and preferable, and has stood the test of time for many years. Due to the highly decentralised nature of Queensland it is essential to retain the cross-subsidisation of services to non-metropolitan areas. We believe that the essential services include communications, electricity, water, health, roads and housing.

Regional Queensland can only sustain these services at a standard equal to the city through cross-subsidisation. Historically this has been an obligation of government. Privatisation of public assets will undoubtedly reduce standards and access to services as history has, I believe, demonstrated. The reduction in service delivery by Telstra since the corporatisation, privatisation process began, has provided a glaring example of the government's inability to control corporate entities, even when they are the majority shareholder. The people of Australia should be the ones to decide how our essential services are to be provided and operated, not an invisible, anonymous group of public servants. In a true free market theory the test of the success of an economic system is how well it services the community and raises living standards, not how well it serves the profit-making interests of business investors. By this measure we believe NCP has failed.

On the wider subject of deregulation and global economics, of which NCP is only a part, One Nation has serious concerns about the wages and working conditions of people in a deregulated Australia. The reason for Australian protectionism after 1901 was to ensure that certain measures were needed to preserve standards of living in Australia. Uncontrolled free market forces are as serious threat to our standard of living today as they were in 1901. We must ensure that our economy is structured to improve our society, not just witness unrestricted profit making.

When we look at future direction we believe that the only purpose of the economic system is to provide the greatest possible benefits and opportunities to the greatest possible number of people. By this benchmark it is undeniable that what governments have done to Australia over the last 25 years or so in the name of progress has clearly failed in this fundamental purpose. Thank you.

MR COSGROVE: Thank you, Ms Hill. You've certainly covered a lot of ground there and some of it I think is rather broader than the specific terms of reference we have before us. But let me just try to pick up a few points. First of all, you made quite a bit of the need for what I guess you could call decentralisation decision-making and decentralised government processes. I think it can be argued that that is in fact one of the objectives of national competition policy. In the past we had highly centralised government agencies in control of the provision of important services to the community, telecommunications, transport. Electricity is another example.

So as consumers or as individuals we simply had no choice. You know, if we wanted a telephone put on, it was Telecom who put it on for us. I know from personal experience, and I don't think it was unique, that the quality of that service was quite poor. You know, they would just tell you, "Well, we'll be out there in a couple of months, you know, if we can find the time." There was no such thing as accountability to the customer by that government monopoly. You couldn't even get an itemised account of your telephone transactions. What you have now - and if I can just stay in the telecommunications market - is greater competition. Now, it's true of course that the main extent of that competition is available in the metropolitan centres where, for example if you're in Sydney or Melbourne - or maybe even Brisbane, I'm not sure - you can sign up with Optus on a local-call basis whereas even here in Canberra we can't do that yet, but I think we will be able to in time.

But nevertheless even if you're in Julia Creek you will now be paying much less for your telephone calls, even though Telstra is still the only provider of them, because Telstra has faced competition from other suppliers and nationally has reduced its long-distance call charges. I think you could say the same is starting to emerge in the electricity market where again we had no choice, even as large energy users. Big industrial companies simply were supplied by the state government monopoly, whatever it might have been called, and now certainly in two states - and this will I think soon be the case in your state as well - there are more providers and that's having some beneficial effects so far as we can see in terms of the prices paid by those people, which in turn improves their own competitiveness in the marketplace and presumably helps them to grow a little more quickly than might otherwise be the case and perhaps employ more people in the process.

MS HILL: Can I just make some comments on that?

MR COSGROVE: Do you have any doubts about that drift of decision-making?

MS HILL: Yes. I think when you're looking at decentralisation I agree with you

that national competition policy has certainly tried to remove a lot of the decision-making from government bureaucracies. But primarily what we see is through to private business and what we're saying is that in some aspects we don't believe that is the best move. Certainly in some areas I think it has been good, but when you're looking at issues of essential services then I think that they have to remain primarily under government control. I also think that with decentralisation one of the other big aspects - and it's a big loop that has been missed out - is the lack of local governments actually being involved in this whole decision-making process.

It has literally been federal and state. State, in my mind, almost seem to be dancing to a tune that has been developed and they've said to the local government authorities that, "You should do this," and in many aspects, from what I see talking to local councillors, is that they haven't understood what it was that they were expected to do and particularly in that interest of public interest and consequently a lot of people have been hurt in the meantime. So when we look at the process of how NCP has both evolved and been implemented, I think it is most important that local governments are involved in those decision-making processes, because they are much closer to the people.

I still believe that even with Telstra - our personal belief is that the 51 per cent should remain with the government and the 49 per cent out to enterprise. I think it's good that there are other competitors within the market. But we still do have grave concerns that even with the government holding the 51 per cent and greater than that - well, even at the moment until the sell-off occurs that in fact people in rural, regional Queensland have not received adequate services, and I look at that too from the issue of cutting staff and again it's almost the chicken and the egg scenario, that it's great having all these super-duper services but if you're not working you're not going to be able to access them anyhow. So it's trying to ensure that decisions are not just profit driven, and that appears to be what is happening under NCP.

MR COSGROVE: Well, yes, maybe, but if you're living in remote areas of the country it has always been the case that you have had a less extensive range of services available to you than if you were living in a city.

MS HILL: I think though, even when we look at the argument that NCP uses - that the environment is changing and technology is improving - that 10 years ago that may have been the case but today it simply shouldn't be the case. I also think back to people I've spoken to in rural Queensland who say to me that they pay their taxes and their taxes go towards the arts, but the philharmonic orchestra has never gone out to visit them. So there is a real sense that they are doing the right thing by the community and they in return expect the essential services to be provided to them.

MR COSGROVE: Would you call a visit by an orchestra an essential service?

MS HILL: I wouldn't call it an essential service, but it was just an example that I particularly liked.

MR COSGROVE: Yes. I saw some figures in the past week indicating that the rate of economic growth in Queensland over the past 12 months has been very high, I think something approaching 5 per cent. Of course, we have seen in national statistics a quite impressive acceleration in the rate of economic growth in recent years. Our organisation itself has recently put out a document on a particular aspect of that productivity. It would seem that, you know, some of the intended outcomes - pay-offs if you like, from an extensive period of economic reform wider than the narrow purview of NCP that we're looking at - are starting to show up. Now, I haven't delved into those statistics to look at what is happening to output in the farm sector. It's no doubt volatile, as seasons vary and market conditions move around. But you seem to be giving us the impression that while that growth - and I assume the statisticians are counting it reasonably well - is occurring, it's not occurring widely in your state?

MS HILL: I certainly agree with that. I think that the dichotomy between the rich and the poor is getting wider and - - -

MR COSGROVE: Well, there's a lot of research that says that's not the case - serious research, I mean. It's true I think that at the level of earned income there seems to have been some widening dispersion, but governments have intervened, as they always have. They have used the progressive income tax system. They have used the budgetary welfare system. The overall effect of that, according to the research that I have seen, suggests that really the distribution of income hasn't - after tax and welfare provisions - has not really widened at all.

MS HILL: I guess I can only talk from being on the ground and talking to people in the community. But the feedback that I get from them is that they look at the basic necessities of life - ie, bread, milk, sugar and the likes - and they're not seeing any decrease in prices in those areas. I'm always very cynical of statistics, primarily because I look at the unemployment levels and I don't believe that they take into account the under-employment that's occurring and the changes within the community more to casual and part-time work, and the fact that we have a number of highly skilled young, middle-aged and older people who simply cannot find work in their areas of choice.

I think if you're talking to just the average Australian they are not feeling that boom at all, that economic boom that we're being told is occurring. I think probably some of the biggest comments that I get from people is job security just seems to have gone out of the window, and with that their desire to actually pour their money into homes or into bigger purchases. So I guess what I'm saying is that if NCP is working - and I don't believe that it is - if it is, then it hasn't flown through all stratas in the society.

MR COSGROVE: Well, it would be surprising I guess if it was delivering identical impacts on all sorts of people in the community.

MS HILL: I think even when we look at electricity, electricity prices have

decreased for industry within Queensland. They haven't decreased for the consumer, the average consumer.

MR COSGROVE: No, but your state has very little competition in the Queensland - - -

MS HILL: Well, certainly. But if we go to New South Wales, with the deregulation of the milk, what actually happened is milk went up. So again people are very sceptical and very cynical and that's what they see, because the promises that have been put forward are simply not being met.

MR COSGROVE: You mentioned that there were abuses of the Trade Practices Act, I think particularly in the retail sector, which weren't being corrected because of high transactions costs, you might say, and difficulties - length of ACCC processes or the cost of legal assistance. Are you aware of - I mean, this is a difficult question to answer perhaps - but it's always a difficult proposition to test, if only because people don't often run those potential avenues to see whether they work easily or whether they involve a lot of difficulty. You're not aware of any cases of people - - -

MS HILL: I certainly am. I have been told of a number of cases and I would be happy to pass that information through, providing that it's legal and I don't get into any trouble. But certainly from speaking to people in rural Queensland they have given me cases of where they believe predatory pricing has occurred, where basically a large retail outlet has undercut prices for a significant period of time in a special area to ensure that the small retailer who was within the vicinity actually went out of business, and they say now that that person no longer is there. The food that they're providing is actually some of the dearest in town.

So again I think it's that very grey area - and I know from my own experience of High Courts how incredibly grey that area can be. The fear that small business people - particularly when they're working with their backs up against the wall, which they are, through not just that but many other factors - basically find that they won't come out and actually challenge what they believe to be predatory pricing.

MR COSGROVE: It's a little surprising if they see their own business at stake.

MS HILL: I don't know that it is, because I know business people I have spoken to that are working six days a week, 12 hours a day and on Sunday for four hours a day, they're not paying the rent on their shop, they're just slowly seeing themselves slide backwards for other reasons. I don't think many people will actually come out really fighting when they're fighting to keep their own businesses up and running. I think it's probably just part of human nature that in many instances they won't. Also, as I say, it's such a grey area to actually be able to prove that somebody is engaging in predatory pricing.

MR COSGROVE: But if there was a strong sense of community support for those smaller businesses and a large company came in and engaged in predatory pricing,

drove the small business out, wouldn't you expect the consumers themselves to be expressing a lot of concern?

MS HILL: I think we see that, not with predatory pricing, but in some rural country towns we certainly see that. There is one that I think of in particular, where the retail outlet is providing petrol at a discounted price if you buy your groceries from that shop. The people I speak to in that country town are telling me that they're purposely going to their little private garage because they really like him and he deserves to be supported. I think, however, that one thing about human beings is that they do tend to be driven in many respects by profit motives themselves, let alone big business. If people are running on a very tight income they will often go to whoever the cheapest provider is, which is fine providing that cheap price remains when the remaining competition has been recovered. Often when you talk to people in the towns they don't believe that to be the case. It's very subjective I find. This is where I think it's very difficult to actually quantify many of the subjective comments that we receive.

MR BRAITHWAITE: Still, trying to base this back to national competition policy, your view of national competition policy say 12 months ago, as compared to its effect after our draft report - has it changed considerably?

MS HILL: It has, in that there were many aspects that I thought involved national competition policy that in fact didn't. They were not part of the actual project of NCP, although I have to admit again I feel a bit like the chicken and the egg because I read some aspects and think that surely that is what NCP means but then you read somewhere else it doesn't, but it seems like it's the normal outcome. Certainly they have - and again I think this goes back to my previous comment, that the information has not flowed through to the average person on the street and maybe the involvement of local governments would ensure that the application of the policy would be better designed to meet the needs of the people, plus they have the opportunity of finding out what the actual aim is - not to say that I agree with the aim because I still believe NCP is very much profit driven and I think it needs to be much more halfway, that we still need to look after some services through governments.

MR BRAITHWAITE: Probably the most - not misunderstood - but not understood part of the NCP is what they call the public interest test, the public benefit test.

MS HILL: Yes.

MR BRAITHWAITE: It's the manner in which that is applied. If it's robustly, in some cases, coming from a particular position, they can arrive at one result, whereas if it's applied in another way it could arrive at another.

MS HILL: Yes.

MR BRAITHWAITE: I think that's our conclusion, too, that that has been not understood by the people who have been asked to participate in the process.

MS HILL: I agree.

MR BRAITHWAITE: Which then leaves the NCP probably, as the last piece of reform arriving on the block, then blamed for a lot of the problems created by the other. Would you agree with that?

MS HILL: I certainly would. Again I keep going back to the fact that if local governments were involved in the process then the information has a better way of disseminating into the community. I don't actually believe that the NCP is at fault for anything. I actually think that the whole drive has been a political drive and basically that the NCP has done what they have been instructed to do. So this is where I say give the tiger snake back to the people who actually designed it, because they are the ones that have to answer directly to the people and will front up to them at the next election.

MR BRAITHWAITE: The question of sovereign rights certainly has arisen on quite a few occasions. I think our draft report goes out of its way to say that sovereign rights are still there. COAG has the responsibility of all the jurisdictions, the creation of the jurisdictions, and if they want it changed - they want a timetable expanded - they can go back and look at that. They can look at any aspect they like, if they wish to go back. So the sovereignty is still very much preserved, although you might argue that the sovereignty is sometimes subverted by the need to get a competition dividend.

MS HILL: Yes. I think again this is where I go back to the competition dividend. If you ask somebody in Cloncurry and you ask somebody in Canberra is that the dividend that they want, depending on what the issue is I think you might find you get a different answer. So again this is where I think that grey patch comes through about the national interest.

MR BRAITHWAITE: One very important part of national competition policy is calling for the states and the jurisdictions themselves to review their own legislation, which means at the end of the day the politicians within the states have to pass legislation either to do what - you know, to make the amendments or to continue. You wouldn't see review of any legislation as being damaging, would you?

MS HILL: No, certainly. I think that the legislation needs to be reviewed. I think that it needs to be made public and I'm pleased that the public have been given an opportunity to have input. I think this is where I'm finding - having been in state parliament - the most interesting scenario is watching politicians from all sides of government basically all jumping onto the same bandwagon, which at the moment appears to be not one of supporting NCP.

MR COSGROVE: I don't think that's true of all governments.

MS HILL: Not all, sorry, I'm talking state. I'm talking about Queensland, with

Labor and National Party.

MR BRAITHWAITE: That was an interesting concept of yours that perhaps our commission, through the NCP, ought to be investigating political parties and the need of them.

MS HILL: I tell you, I don't think it's a bad idea quite frankly.

MR COSGROVE: I don't think the terms of reference - - -

MS HILL: That might have been where I stepped outside the brief.

MR COSGROVE: You mentioned that you thought the national competition policy was not really accountable. Can you explain a little more what you mean by that.

MS HILL: Okay.

MR COSGROVE: We have an annual process which centres around the National Competition Council, they make a report to the federal parliament. Then I guess it's question of what politicians choose to do with that themselves, but anybody who wants to look at parliamentary material - which there is a lot, I realise - can at least annually get some understanding of what has been done on the NCP agenda in the past 12 months whether - - -

MS HILL: I think probably what I'm trying to say is that I think the whole issue of national competition policy has only really been discussed, debated and partially understood by the people over the last 18 months or so and that is where I believe accountability comes in. So again, maybe the finger should be directed towards the politicians who basically implemented legislation, did not explain what it was that they were trying to achieve to a level that the people could understand and you will always find that if people don't understand what the change process is that is being brought through, they certainly will not support it. So again, I think we have to just go back to the process of implementation of NCP and say probably one of the biggest gaps was the fact that local government authorities were not involved in both the design and the implementation. They were literally by the state jurisdictions, "This is what we've got implemented."

MR COSGROVE: But what do you think local governments specifically could do in terms of helping the public to understand what's involved here?

MS HILL: I think if local governments had been involved then I think that whole issue of the public interest test would have been dealt with because I think then local governments would have been able to say, "These are the impacts that this policy will have on our local council," ie I look at the issue of roads and how local councils have felt that they had to contract work out when in fact that wasn't strictly correct. Again, some councillors I've spoken have said that they believe it was the Road Transport

Authority that was actually literally forcing them to contract out and that they simply were not aware that that other option was available. So by opening up the channels of communication with local government authorities maybe that public interest test would not have been a problem.

But what I see now is that over the past - again, I'd have to say 18 months because that's when I became much more politically active - talking to people in rural regional Australia, an awful lot of people have been hurt through job losses when in fact it may not have been necessary. So I feel like there are a lot of people out there at the moment who are really hurting because information wasn't used appropriately.

MR COSGROVE: You mean a lot of people have lost their jobs as a result of road contracting works?

MS HILL: Well, I can only go off what local councillors tell me. But they tell me now that they feel they have to tender out, the bigger companies are able to obtain the tenders and they've lost their own workers because of that and they find that when that happens those people basically are in a position where frequently they'd have to leave the rural town. So you start to get the shift of demographics either to the coastal areas or to the smaller cities.

MR COSGROVE: That has been something that has been under way for several decades, that's not new.

MS HILL: It certainly has, but I think NCP policy probably unwittingly has actually helped to speed that along a little bit again because of the lack of understanding of that public interest test. I have to admit even reading through the draft I'm still not totally clear on that any more than I am on the national interest.

MR BRAITHWAITE: Certainly in Queensland there was a lot of initial concern by local councils about that factor of having to contract out and losing those jobs. It's about the only state in Australia where the Main Roads have given as a right, on a zonal basis, the right for maintenance and I think New South Wales too so we heard this morning - they would be allowed as a right the maintenance and not so much the construction work but the maintenance. Again, Queensland local councils are one of the only two states that gets a reimbursement of the competition payment. Could I just talk about the word "globalisation" because not only have you used it, but it's been used a lot in the context - just to get my own mind straight we've have the recent decision about the salmon which was regarded as a trade barrier by Canada and the threat was that if that wasn't lifted the World Trade Organisation and that's really a global organisation said that, "If you don't listen to us on this your beef, your sugar" - and another product of considerable importance they were going to take - - -

MS HILL: Yes.

MR BRAITHWAITE: How does a nation like Australia, particularly in its primary industry area that needs access to the global market, step aside from it?

MS HILL: Good question.

MR BRAITHWAITE: It's one that people talk about - - -

MS HILL: It certainly is.

MR BRAITHWAITE: - - - and I'm just trying to come to grips with it.

MS HILL: Yes, it's a good question. I think again I can only say what rural regional Australians are saying and that is that Mr Clinton can decide to put trade barriers up on our lamb when the World Trade Organisation basically will beat him over the head with a feather duster. In the case of Australia, the way that they feel is that we are just open slather. It's almost like the penguin that runs up the beach and says, "We're willing to develop up the effective and the efficiency requirements with our business," and it's almost as though we've run off on our own up the beach and suddenly look over our shoulder and realise that nobody is behind us.

I really couldn't answer that question without really delving in to the whole issue of imports and exports because it's not an area that I am terribly au fait . But I do believe that as a country we really need to be looking very, very carefully at developing up different protocols to ensure that we look after our own industry first. Now, as I say, without looking at the imports and exports - I mean, I would be very happy to come back in a few weeks time and actually say - especially after speaking to people from my own party - what our position would be on that. But at the moment I know that there's a huge sense of frustration, that we just seem to be at the beck and call of every other country and yet we like to consider ourselves to be one of the almost elite, I guess, in the international markets.

MR BRAITHWAITE: Australia is one of the 13 countries that really tackle this on a World Trade Organisation basis of trying to cut down the corruption of other markets. I know the omen on globalisation could quite well be we're trading into a corrupt market. But I know that Australia was one of the 13 countries that really led the drive to try to get access to a free market. We're still a way from it, at least they do have agreements in place that over the period of the next 10 to 20 years they will come into place. But I just thought on that question of the salmon - it was particularly difficult for the beef industry, that has had very little subsidisation or had no subsidisation or assistance in any way whatsoever.

MS HILL: I think the frustration is, and I'm sure you've heard it time and time again, is when we're ploughing our oranges into the ground but we're receiving oranges from Brazil; you know, when our pork farmers are going out of the back door but we're importing pork from Canada. I do know that I did speak to a gentleman from the pork industry and I know that he, I felt, put forward some very, very good suggestions on ways that we could protect our markets. I don't for one minute believe that we have to adopt a protectionist policy, I don't think we can do that. There must be another way around it but I simply don't know what it is. If I did

I would be a wealthy woman.

MR COSGROVE: We do have limited negotiating power in many of these international trade areas where, as Ray was just saying, I think we made quite an important breakthrough in the last international trade negotiation through the use of the Cairns group to open up agricultural protection with the WTO where previously it had no status whatsoever. Admittedly, it's only a slight opening of the door to date, but I think having achieved that more will follow if one doesn't know how quickly. But really, I think, apart from important policy actions of that type really the best thing that we can do to help many of the people in industries in outback parts of the country, not least in the state of Queensland, is to lower the costs which we - I'm talking here "we" Australian governments - impose on them through various other forms of protection. A tariff boils down in the end to a tax on exporters because they're the only people who can't pass on the cost of the tariff.

But I think again that if you go back to the Australian people and I think Dick Smith - I hope he's successful in his venture with actually producing Australian made and manufactured products, many Australian people that I speak to say to me that they're prepared to pay a little bit more if it means that the money stays in this country and their money helps to create jobs for others. It's as I say that if you're a job and you're earning \$400 a week and it costs you \$40 for a product or you're unemployed and you're unemployed and you're earning 130 but the product is cheaper now at \$30, it really doesn't help a great deal. So I know, we're talking very holistically here because we're moving into areas of employment and I've no doubt I can tackle education and health at the same time.

But I guess that's where I keep coming from that I don't believe that the profit drive is always the best one and I think that we have to float it up, the fifty-fifty that there are some essential services that will probably have to be provided by government.

MR BRAITHWAITE: Well, they still are and the national competition policy enables them to continue to remain in place. We too don't dismiss the need for important service providers to be giving a good quality of service and there do appear to be some deficiencies emerging in that area. In a broader perspective I don't think we should be assuming that we're likely to get the best employment outcome, let alone the best income outcome if we focus on purchasing without our own domestic market. A lot of our employment and income, of course, our export earnings come from sales that we make in foreign markets.

MS HILL: Certainly.

MR COSGROVE: If we are to put up an approach that says, you know, "Let's buy Dick Smith's Australian made products," then we would have little grounds on which to say no to people in other countries who say, "Well, we're going to buy our own too." We'd all be forgoing the gains from trade.

MS HILL: Let me qualify that by saying it's an option. It's an option on the shelves that people can partake in and I think even if the goods were slightly dearer, people would partake. I think it goes very much to the truth in labelling, where people really do want to know where goods have been grown and made. Because, I think, again it's part of that nationalism and sense of pride that we have in our own country.

MR COSGROVE: If I could briefly come back to national competition policy before we finish. But I think it's objective now, it may not be being achieved and there may well be significant implementation problems, we've heard quite a bit about those in the water area in the last couple of days and elsewhere. But its intention really is to help people operating in foreign markets - our producers operating in foreign markets by lowering the costs of production which they faced to help them become more competitive.

MS HILL: Certainly, and I do recognise that.

MR COSGROVE: You don't dispute that, I see.

MS HILL: No, I don't dispute that at all. But I guess my concern is that the foreign markets that we're operating in in many respects often pay significantly less in the way of wages and have lower living standards and I think we need to be very, very careful that we don't do that to our own people in Australia.

MR COSGROVE: They have low wages and living standards because they have a lot of people and they have yet to go very far down the process of economic development. You wouldn't want to deny them the chance to grow more quickly, would you, by selling what they can produce more efficiently than us.

MS HILL: I would never want to deny anybody that opportunity, but at the same time I really think it's Australians first and that is where I come from that - - -

MR COSGROVE: It sounds as though you are denying them that opportunity.

MS HILL: No, I'm not denying them opportunities in our markets, but what I'm saying is there are only 18 million of us in this country and I think that governments have a responsibility to ensure that they look after their own people and that's not to say that we don't have an ability to let other products come into this country but do it carefully.

MR BRAITHWAITE: Certainly, the aspect of - I think it's a bit of a cycle this idea of living standards and wage levels.

MS HILL: Yes.

MR BRAITHWAITE: 20 years ago the Japanese were regarded as being very low priced marketers of goods and then all of a sudden they couldn't stand the heat, that went over to Korea - the big manufacturing market went over there, it might be back

in China by now - and so there seems to be a circle going around.

MR COSGROVE: That's the process of economic development, yet as you become wealthier you have to shift into - - -

MS HILL: Then I think again I go back to our comment that when we look at economics it's trying to give the best to as many people as we can.

MR COSGROVE: Certainly.

MS HILL: That's what I think the principle has to be.

MR BRAITHWAITE: Just leading to the other comment, that of all the regulated inputs we have in Australia probably labour is the greatest one.

MS HILL: Yes.

MR BRAITHWAITE: No comment on that?

MS HILL: No, I think that - yes, I think that's probably correct. I think there are industries that have certainly moved across, particularly the mining industry, but I think labour probably is still a very significant part of inputs and I think probably we need to increase it.

MR BRAITHWAITE: I think you see the same problems in all of this as we do.

MS HILL: Okay, thank you very much.

MR COSGROVE: Thank you very much, Mrs Hill, for coming along.

MR COSGROVE: Now, our next participant is the Balanced State Development Working Group.

MR HALTON: Chairman, my name is Charles Halton. I am the co-convenor of a group called the Balanced State Development Working Group, which is a small group which on a totally pro bono basis is involved in a number of issues, both with government and also with the private sector. If I can start with a request, since none of my colleagues are able to be with me today and since - perhaps not surprisingly - they would be very interested to know (a) what I say and (b) what you ask me, I wonder whether in fact when you have the formal Hansard record of this exchange whether I could have a copy.

MR COSGROVE: Yes, you can. You might like to talk to our members of staff when we have finished our discussion. It's certainly available on our Web site - or will be within a short period of time. Is that one means for you - - -

MR HALTON: No. You're presuming I think - and in fact it comes through - that everybody in the community has a Web site or ready access to it.

MR COSGROVE: Well, I was conscious that not all people do but all public libraries do have access and you can obtain them there. Anyway, it's certainly available. The staff can fill you in on how to obtain it.

MR HALTON: Good, thanks. I think I've got to start by saying that, as I said in my covering letter, in relation to our third submission and the submissions I'm talking about - in your numbering system are 205, 210 and 273. Although we don't agree with everything that's in the draft report, we certainly do acknowledge the value of the analysis. We certainly have an overall concern about the use which the commission has made of the views of what we - for want of a better description - have called your focus groups, that you went around the country talking to, not because it wasn't an interesting method of in fact trying to get a feel but in fact in terms of in some ways where there was no follow-up.

For example, it seemed to us that in fact it was one thing to be able to say that when whichever commission it was - you explained what national competition policy was, they immediately saw the light. The question is not whether they saw the light at that moment but whether a week or a month or whenever period later they still had a clear understanding of what it was you had described to them. That, at least in our experience of trying to work with focus groups, is a very real issue.

Similarly, we found it quite disappointing that out of those focus group discussions it seemed to us there was very little hard data. There was lots of anecdotal comment, what appeared to be some qualitative comment and very little quantitative comment. Now, whether that was almost of necessity, given the nature of the discussions, obviously we're not in a position to comment, because for reasons that you're familiar with, chairman, in fact it didn't prove possible for any member of BSDWG to actually take part in one of those discussions. But in looking at the draft

report that was one overall comment that we really felt we ought to make in relation to that.

MR COSGROVE: Yes, well, I think it's a reasonable comment. We have, I must say, had considerable difficulty in generating what you would call hard evidence during the course of this inquiry, not just from our discussions with focus groups, as you call them, but from other potential sources. I think the main problem is that it is an inquiry into the effects of these policies on rural and regional Australia and that's an area where data, I'm afraid, is scarce.

MR HALTON: But in fact, as you know, we have in fact been trying in a quantitative way to make sure we feed you as much as we can in relation to that. But the question of data also in a broad sense concerns us, because it seems to us that some of the data which is in the report is, bluntly, irrelevant data when you're in fact working to terms of reference which talk about regional and rural. For example, there's a splendid chart on page 58 of road and rail freight rates between Melbourne and Sydney. Now, I don't think anybody is suggesting that Melbourne is in other than a metropolitan area and I don't think anybody is suggesting that Sydney is in other than a metropolitan area. We were frankly surprised and didn't understand the relevance of that. If you, for example, had been able to get something from, say, Sale to Melbourne or if you had in fact gone, say, from Bathurst or Orange into Sydney, then we would have said that that was in fact giving information which was germane to the terms of reference.

Similarly, on page 160 it says that telephony STD charges have come down by 25 per cent. I haven't got a clue, nor have my colleagues, as to what's the basis of that. I'm quite confident that it is not a statistic which is based on either metropolitan to regional and rural, regional and rural to metropolitan, or regional and rural to regional and rural. In fact if you look at what Telstra did in January of this year - and this is within your five-year period of course - it has in fact introduced a pricing differential of about 15 per cent if you in fact look at STD distances of about a hundred kilometres up to about 600, because of the way it's in fact structured those differing price regimes.

MR COSGROVE: I think we have cited sources there. We will have to check them. But it wasn't a figure plucked out of the air.

MR HALTON: No, I know it's not a figure plucked out of the air, but when I have seen that source that is totally Australia. The only thing that's confusing is whether in fact it's a figure based on a standard period of call or whether it is a figure which reflects the density of calls between markets. If it's a figure which reflects the density of calls between markets it's more believable. In other words, there's a lot more calls between Melbourne and Sydney than there is between, say, Melbourne and Merimbula.

MR COSGROVE: I would have thought it was the price of, as you say, a call at a certain standard time, but I would need to check that.

MR HALTON: Okay.

MR COSGROVE: Incidentally, I might also say I had noticed in your latest submission, Charles, this point about national information in the report when it's about rural and regional Australia. But we have been asked also to look at the impacts - I can cite the terms of reference - impacts and changes on the wider Australian economy.

MR HALTON: Yes.

MR COSGROVE: It's partly for that reason that we - - -

MR HALTON: But in fact if you have got the one and you don't have anything on the other, you're leaving the reader with a distorted impression as to what your conclusions are.

MR COSGROVE: Well, maybe, although I think we have tried hard to use whatever reliable information we think we can get our hands on on rural and regional effects. I might say that figure you referred to on page 58 - I see that as pretty much scene-setting. It's an indication over a lengthy period of time of what has happened to transport costs. In other words, all we're trying to say there is that the cost of transport has declined. Now, it may well be that it hasn't declined as rapidly in areas of rural transportation but we didn't mean that as a sign that we're only interested in Melbourne to Sydney. It's being used as a proxy.

MR HALTON: Yes, I understand that. Of course, when you get into the questions of what has been happening to road freight over the last 20 years, which is from our point of view a quite important issue, then in fact there are interesting and not always reliable indicators. You can in fact get out of pulling trends like that between capital cities - but we'll come back to that. But then there are two, in a sense, related issues. One is the fact that reading the report you wouldn't believe that coastal shipping existed and yet coastal shipping, as I understand it, is still quite a major component of freight around the country. Indeed, in your own discussions in Albany and in Bega what they were talking about was the use of coastal shipping to in fact bring refined product into another terminal. Unless it's changed dramatically, there are lots of other product lines where in fact coastal shipping is still quite important.

MR COSGROVE: I think the reason why we didn't discuss it in the report is it's not caught up in national competition policy.

MR HALTON: No, in that sense I think you're probably right. But it has a bearing in fact when people start quoting the significance to country areas and suggest that coastal shipping has no significance, by omission as it were. The other thing of course that I flagged which isn't mentioned at all and certainly looms fairly large in the perspective of some of my colleagues is bottled gas - that in fact you talk about what's happening in the pipeline network, and I think we would say that that side of it

is

balanced, but there's another part of the gas market which in fact I think frankly - I assume it's just an oversight - didn't get any treatment at all.

So in terms of an introduction, I was persuaded last night of how to in fact say - well, actually this reminded us of a splendid expression that Jonathon Lynn and Antony Jay put into the mouth of Sir Humphrey, "Yes, minister, you did do well but not nearly well enough."

MR COSGROVE: Well, we have a second chance to do better, which is why we're holding these hearings.

MR HALTON: Yes, this is really what we want to in fact try and assist on. Now, as I said to you before we started, it seemed that in terms of this public hearing it might be more useful if in fact the order in which I dealt with things was slightly different to the order in which in fact I have got them into the submission. I wanted to start with some words on cost price, service quality, reasonable access. Since I'd been trying to make sure that in fact we'd given you as much as we could right up to your closing time of 5 pm on the 16th, I for other reasons had to go to Sydney on Friday and indeed I dropped off that submission on my way out onto the highway. I can tell you that the petrol price at my control petrol station in Sydney on Friday evening was 66.7 cents per litre, which is still within what we've said in our paper we believe that, using that control station - and it seemed to us for a long time you don't go around sampling different to find the cheapest on a particular day. You're going to get more useful information if you pick, and that's what we've tried to do. As I say, on Friday night it was 66.7, whereas the last time I sampled it, it was 64.7.

But the other thing which is quite important in general terms is that one thing that's very noticeable is that, whereas until a couple of years ago there was a clear differential between leaded and unleaded petrol of 2.2 cents per litre to reflect that taxation decision which was initially at 2 cents a litre and then got increased to 2.2 cents a litre, certainly when you get out of metropolitan areas that has dropped back to 2 cents a litre. I'm not saying it's a good thing or a bad thing; I'm just saying by frequent inspection it has definitely happened, and if one of the reasons for the differential was essentially to increase the pace in which cars using leaded petrol were retired, then in fact the pricing mechanism has now, as it were, moved slightly to slow down that process. It's not a big issue but it's just something we thought we ought to in fact flag.

On electricity, in addition to what we've said to you in submission 205, in submission 273 we thought we really ought to come back on two things: firstly, the adverts that have only recently been appearing, at least in the New South Wales press, pointing to the fact that if you have up to say 10 locations in New South Wales where you consume electricity, then providing a minimum megawatt-hour test, in fact you can now negotiate to source all your purchases at the retail level from the same retailer. But if you go back and look at what was supposed to be the timetable for opening up the whole of the electricity market, it's running two to three years late. Just to make sure I wasn't misquoting myself, I took the precaution of going back to

an annual report for the Snowy Mountains Authority for 91-92, which I signed off as the then commissioner. Certainly in terms of expectations at that level I should, as somebody who has a house in Merimbula and a house in Hughes, already be able to get it from one retailer, and I can't, and I'd suggest to you - and some of my colleagues in BST are in the same position - there is no likelihood that we will for another two years.

It's coming, but it's coming at a very slow pace and it is coming at a pace which is totally inconsistent with the expectations which were being understandably expressed by governments at an earlier time. One of the things I'm going to say more than once this afternoon is that in fact, when you look at expectations which were perceived by officers and by ministers and by parliamentarians generally a few years ago, those expectations, particularly in relation to the effects on regional and rural, have tended to be delayed, and delayed in fairly significant terms.

The other thing which I've got to mention is that one of the significant changes which has occurred as a result of the competitive electricity market and which, if you go back to some of the early internal discussions a few years ago, were suggested as likely, has happened: that if you work from 100 per cent market share, brown coal in the Latrobe Valley is now commanding 5.8 per cent more of that 100 per cent than it was a couple of years ago. That in terms of environmental issues, which we would say are not insignificant in terms of the overall consideration, is an issue, and it's an issue which - for example the Institution of Engineers have had them under consideration too at the moment. But it doesn't appear to get much attention in fact in relation to discussions and inquiries of the type which your commission has been asked to undertake.

That's all I wanted to say on electricity this afternoon. I didn't want to say much on milk other than that from the Merimbula News Weekly at the beginning of June I discovered that the New South Wales Dairy Corporation had commissioned another - appeared to be quite methodical sampling of 200 metropolitan sites and 100 regional rural sites in New South Wales. The price on that sampling - and it covers a range of size of container, up to three litres at the top end - does appear to be progressively increasing. The other thing that's interesting is that in fact there don't appear to be any price differential between the price in metropolitan areas and the price in regional rural areas. Now, considering the original raw product comes out of regional rural, we as a group haven't yet got our minds around what that they may or may not mean.

MR COSGROVE: What matters I guess is where the processing takes place. It then has to be distributed from that point.

MR HALTON: It has got to be distributed, and in fact, if you look at where the processings take place, they're not all in metropolitan areas.

MR COSGROVE: No.

MR HALTON: So there are some interesting - - -

MR COSGROVE: A number are, yes.

MR HALTON: Sure, some are. But in fact the ones that are - you would probably mount a reasonable argument that in fact the freight costs of getting to that processing plant are greater than the freight costs - - -

MR COSGROVE: But it's a free decision that a milk company can take to price universally. NCP doesn't tell the private companies to do anything different.

MR HALTON: I'm not suggesting that. But in fact if you then look at petroleum you might in fact say there are some interesting parallels. If the one chooses to price average and the other doesn't, even though the volumes are different - I'm not trying to argue that point - then in fact you can get yourself into some interesting issues. I wouldn't want to put it any stronger than that.

Telecom - well, I've already said that we have difficulty with the quoted figure for reduction in STD. We do feel that when you're looking at difference in prices one issue which doesn't appear to have had any attention in the draft report is actually the local call coverage area, which in the capital cities is huge, and it's huge both in a land mass area and also in a population sense. If you get outside, the land mass area is small and the population is small. I forget precisely where it is in that draft report but you do say that somebody talked to you about how they could almost look across where they were going to be charged an STD rate for. Now, the equity side of that is one for you, not for me at the present time.

But it does in a sense relate to something, with respect, I heard you asking Mrs Hill about because, as we drew to your attention in submission 205, even around the ACT, through the Australian Capital Regional Development Board, which Col Freeman chairs, there's a lot of evidence that parts of that region - and I'm not narrowly talking about the ACT - have two or three mobile phone carriers providing coverage and other parts of the region don't have any. So you don't have to go very far from in this case Canberra to find a situation where the market is behaving in a selective way to in fact essentially deny certain parts of the community access to an alleged benefit. I'm not saying it's necessarily a benefit, but they are being denied it.

Now, I agree that's market forces in one sense. I'm not sure whether in fact, if you broadened your consideration out and start talking about socioeconomic issues, that's a desirable effect. Certainly, as the development board said in its report on this, if you look at the way telecommunications coverage for mobiles has been done in the UK it does seem that the regulator has been able to in fact more methodically ensure that there is continuity of coverage, so you go from that supplier to that supplier to that supplier. You don't get the gaps that we have here. Once again I think that's an issue for you.

MR COSGROVE: Very different sized country of course.

MR HALTON: Sure - and as somebody who was brought up there. But I think there is an issue there which in fact is easier to defend when you in fact get out into other parts of Australia which have very low average population densities over long distances. But that's not a characteristic of around here. That's all we wanted to say.

MR BRAITHWAITE: I don't think the bush people would mind if you had timed local calls, but that's not something you expect us to recommend, is it?

MR HALTON: No, but I think it is reasonable to draw attention to the differences between untimed local calls that are available in metropolitan areas vis-a-vis what is available in regional and rural. Water, sewerage - we really don't have much to add to what we said to you in our earlier submission. We certainly are disappointed that you haven't seen fit to make any reference to the fact that, for example, the water in the Shoalhaven catchment area, which is outside the Sydney Water Board's area of influence, is being collected as a first priority and pushed into Sydney Water Board. That seems to us to be something that ought to be recognised and the community which is denied access to its primary source of water first ought to in fact get some measure of compensation.

I'm not saying it's necessarily or inevitably to be a financial compensation but given that there's a lot of emphasis in your draft report to community service obligations being paid for metropolitan water authorities to provide water to regional and rural, I would have thought there was a question of balance, where in fact if water is being collected from outside a metropolitan area that in fact that ought to be recognised in some way, because that is, in my parlance and the parlance of my colleagues, a reverse CSO, taking the traditional view of CSOs.

MR COSGROVE: Who is doing the collecting of that water at Shoalhaven?

MR HALTON: The collecting of the water is primarily being done by the Sydney Water Board. But by collecting it the way it is collected, they have first use of the available water resource. So if you want to take a strict view, the people who lived there have a second choice. So they are not totally in control of water within their own catchment area.

MR COSGROVE: But nor do they have ownership of that water, as I understand you. That's owned by the Sydney Water Corporation.

MR HALTON: Well, that is an interesting issue, because you get exactly the same thing in relation to the water catchment for the Snowy Hydro-Electric Authority and you also get it in a different way on Brown Mountain, because the release of the water on Brown Mountain is dictated in the first place by when the electricity authority wants to push that water through the hydro-electronic generators on Brown Mountain.

Whether in fact you take a view that because there is a statutory relationship to the Shoalhaven - I find that if you want to take that view it's difficult to understand

how, when you get into regional and rural - and let me stay just with New South Wales because IPART has done a lot of work on this. I find it difficult to understand how IPART can be supported by the state government in saying, "You may have, say, three discrete catchment areas within your shire and you will" - repeat "will" - "treat them financially separately," because if you take the argument that the water board has enabling legislation to get access to the Shoalhaven - and I'm not too sure I totally sign on to that as an argument but I understand that argument - then in fact it's not being worked that way elsewhere.

Now, the other thing about the Snowy - to start with, in the draft report there are some comments made - and forgive me, I have forgotten the page number - about the way water as a commodity is volatile when it's released from the Snowy and what have you. What seems to be overlooked is in fact there are actually years when the Murray-Darling Commission would much prefer the Snowy not to release any water. In fact in pricing terms you would have to say that in those years the price of the water which the Snowy is going to release is negative. If you won't allow me to have negative price, you would certainly have to allow me to in fact say zero price.

Of course, there are other years when there are droughts where in fact the water that the Snowy produces can be up to 30 per cent by volume of the water which is going into Murray-Darling, when the price of that water is extremely high. Now, the way the draft report is written it gives us the impression that in fact there's almost a constant price approach, whereas in fact we would say, on the basis of fairly hard experience, that in fact it really does go up and down quite dramatically.

The related thing is of course that it's still our collective view - and if you like, my very strong personal view - that the Snowy River, let's say from the Jindabyne dam right down to Orbost, is suffering a continuing serious environmental, and I would say economic, disadvantage, because in fact it has been denied other than a very minor riparian rights allocation for a very long time. I think those are issues which in terms of NCP tend to get put to one side, overlooked - call it what you will.

MR COSGROVE: Not according to what irrigators have been telling us though.

MR HALTON: Sure. I have heard the other side of the argument. I understand that too. In the relationship between those issues and the reference document you were talking about when I was listening earlier to that series which the commission has had responsibility for in relation to government trading enterprises, I do find it surprising that in translating that into your draft you haven't chosen to mention - at least I couldn't find any reference to the fact that - I think it's 24 of the local electricity distributors in New South Wales weren't tracked before they were merged. The relative information which is in there is towards a metropolitan slant. When you get the water, the only bodies that are tracked are bodies within metropolitan New South Wales, meaning essentially the Hunter and the Sydney Water Board. The rest of the state this report is silent on and, regrettably from our point of view, your draft report is silent on.

MR COSGROVE: That's the way that particular steering committee chose to collect the information.

MR HALTON: Yes, but that doesn't mean to say that you should just use it without comment.

MR COSGROVE: As I said earlier, we're not looking only at rural and regional effects here.

MR HALTON: Okay, but by doing that type of thing I think you do tend to understate some of the impacts. Service quality, frankly - when I looked at this again and talked to one of my colleagues last night I thought the only thing that I should flag today is that one thing that doesn't get any treatment in relation to service quality is in fact major failure. I don't really think you've given enough attention to the impacts of, say, the electricity failures there were in Queensland at the start of last year, the very significant failures that there were in Victoria on gas later in the year and also - - -

MR COSGROVE: They don't have much to do with competition though, do they?

MR HALTON: Well, if you were going to talk about service quality, which you do fairly methodically - - -

MR COSGROVE: Yes, but we've tried to assess the effects on service quality of national competition policy reforms.

MR HALTON: Right.

MR COSGROVE: Now, the fact that in Victoria there happens to be a sole provider of natural gas is not an NCP matter. We have noted it, but there has been no competition in that sector in Victoria.

MR HALTON: All right, and in fact if it were applied both by the Productivity Commission and also by the NCC, there's a potential deficiency in relying on the single producer, I would agree.

MR COSGROVE: Yes.

MR HALTON: But I think it's worth that type of comment. Then the final one in relation to this general sector is reasonable access which - I certainly understand why you were very carefully drawing attention to the fact that you really couldn't provide access to all ranges of facilities everywhere. But in a sense, going back to my time in the Canadian public sector, one of the things that I was very much attracted to when I was in the Canadian public sector was that if - in fact primarily but not exclusively through a chap called Dick Soberman from the University of Toronto. He had got a lot of people to think quite hard about mirror imaging.

In other words, if you looked at what constituted reasonable access from say Yass and you were considering whether Yass could be adequately served from say Goulburn, then you had to put yourself in the mindset of, "If we're in Goulburn, could you take the view that you could be reasonably served from Yass?" In other words, mirror images of situations. Certainly we would say that in terms of big metropolitan areas there are obviously difficult issues which haven't been properly addressed on reasonable access, for example with hospitals, in relation to the distribution of hospitals between say the outer west, where there are precious few, and the centre of Sydney where I think most people would say that there's an over-availability almost.

MR COSGROVE: Well, yes, again I don't see what this has to do with national competition policy, but the New South Wales government has certainly closed some inner city hospitals and created new hospitals in the west of the metropolitan area. So they're moving in that direction.

MR HALTON: All right. But in fact you are taking that view and then applying it in regional and rural. One example that has been quoted at me is if your wife is pregnant and you live down on the south-east coast then the medical profession these days puts considerable emphasis on you in fact having your delivery in a large, fully equipped hospital. The pressure on people coming to Canberra is very high. Now, in terms of reasonable access - and all we wanted to do was to say that, in looking at whether Canberra is acceptable from say Moruya, you might reasonably ask, on the Soberman theory, whether in fact Moruya would be reasonable access from Canberra, and I suspect I know what the answer would be.

CSOs - to start with, there's no doubt BSD agrees with the overall approach that you advocate. We have already touched on some of the water issues in relation to the Shoalhaven, Brown Mountain and the Snowy. I had the opportunity yesterday afternoon - when I came, bluntly, to listen and to get a feel as to how you were conducting these sessions - to hear some views being expressed about services out of rivers for irrigation purposes, and I think it was you, Cameron, who was expressing a view which I would have said we agree with - that in fact we really are at the present time having to try and adjust, recover from perspectives that were taken by governments and governments responding to local community pressures over an extended period of time. In what we've said to you this time on CSOs we would strongly say that this is precisely the situation we are in on roads. It is now more than 20 years since Green Dog arranged those highly effective blockades around cities which in fact led to governments which had already committed themselves to cost recovery and the user-pay approach bluntly walking away from it at a meeting in Melbourne.

The reason why we decided why we would quote parts of the annual report to the Department of Transport was not narrowly because in fact I had them readily available, but it seemed to my colleagues that in fact that was a couple of useful quotes because it did, on the first part, say there was already a commitment to cost recovery through user pays. It was then essentially abundant in the form that it was then going to take, and 20 years later we still haven't got road pricing onto a rational

basis. We haven't got road pricing onto a rational basis both with respect to trucking freight, which produces marvellous distortions in relation to the use of railway, to in fact get back onto that comparison. It really does produce major distortions. It has led in certain parts of the country to the abandonment of railway lines which would not have been abandoned if in fact we had at an earlier stage gone to rational road pricing. Also, when you come to the large urban areas, lack of the right pricing signals definitely appears to be leading to the overuse of the private car as opposed to public transport.

If you want one measure of the community's present view with respect to pricing, just drive the M5 on your way into Sydney or out of Sydney. Nobody appears to even blink if they're in a private car being asked to pay \$2.50 for a one-way trip. No truckie these days seems to blink at being asked to pay \$5.50 for a one-way trip. Whether that means that the community at large is more educated than it was 20 years ago and that in fact governments are being somewhat slower in implementing national competition policy - so I really do believe that this is quite an issue - I really wouldn't want to comment. But I do feel that in fact there are issues of that nature which ought to be addressed. At a more micro level, if you are a resident of New South Wales driving a privately registered motor car and providing you've got an account with the operator of the toll road, you can have your toll reimbursed. You can't if you're a resident of the ACT, you can't if you're a resident of Queensland or Victoria. I have not seen any reference, nor have my colleagues, to whether that really constitutes a CSR.

It certainly not something which is available to all New South Wales residents, because you've got to have a card from the operator. So it's in fact a selected portion of the population. We think it's a CSR. We thought we ought to in fact be drawing it to your attention and also through use of the NCC.

MR COSGROVE: I don't see how it fits within the NCC's ambit. There is an element of road transport reforms in the COAG NCP package.

MR HALTON: There's a substantial one, including road pricing.

MR COSGROVE: Road pricing?

MR HALTON: Road pricing in fact gets about half a sentence worth of reference, but it's in there and it's been in there ever since once of your predecessors, the Inter-State Commission did, in its last report, a reference to that.

MR COSGROVE: Okay.

MR HALTON: I will give you the reference later on, if you like, or I'll give it to your officers. Ray, that was all I was going to say on NCSOs this afternoon. The next heading which is on my sequence as I gave it to you and John was Regional and Rural Services, because it certainly does seem to us that by choosing, in our parlance, to redefine the reference so that it covers all parts of Australia other than

metropolitan

areas and to call that country Australia is a much broader view of the parts of Australia which are in the reference than we think is appropriate. We said that in our first submission, reference 205. We have been back again and looked at the debate in relation to Telstra and certainly in the Telstra there is very careful description, admittedly not pages of it, but nevertheless sufficient description, at least in our view, to understand what it was that the parliament was asking for or is asking for which is not as broad as country Australia.

If you take the view of country Australia which is put in that draft report, then the Telstra board already had one director from country Australia, yet the government very clearly said it didn't. The government very clearly said that it proposed to in fact add two directors to cover a deficiency. So it certainly seems to us that that redefinition towards country Australia is a broader definition than the original terms of reference of the inquiry suggests. In addition, the terms of reference of the inquiry invoked the House of Reps report. It certainly seems to us that in fact the House of Reps report takes a narrower definition of regional and rural than is in the draft report. But I would be surprised if at this stage you would either have the time or the patience to in fact change your definition.

So in trying to think how we might sensibly and constructively assist you in moving from a draft to a final, it certainly was interesting to look on page 31 of that draft report at table 2.7 and to see how between 1981 and 1996, if you took the statistical area with the largest income in relation to the average national and the statistical area with the lowest income, the spread had increased dramatically, by in some areas almost a factor of 2, other than in Western Australia. Whereas if you take the top and the bottom they are slightly compressed, and that's obviously something to do with the vagaries of the mining industry up in the Pilbara. So that was one issue.

The other which relates is that, accepting the modelling work that the commission has done with Monash and assuming that you wouldn't have quote your figures to three significant figures if you didn't mean to, then it is quite interesting from our point of view that, of each of the 45 regions which are neither a capital city nor a metropolitan area - and we've done it that way because we think you should regard Hobart as a capital city - there are 31 regions which are forecast to have an increase in unemployment and - - -

MR COSGROVE: Not forecast; I would say estimated.

MR HALTON: I'm quite happy to see that point. But I've got to do it against the fact that you are prepared to put into your draft report an estimate to three sig figs. I'm really saying that we're starting from that perspective. When you then look at those, there certainly is a different effect between regions which have got main centres with a population of less than 26,000 and regions which have got populations in excess of 26,000. In fact, if you look state by state, then in each state the worst estimated levels of unemployment growth are all within main centres of less than 26,000. If you go to the second tier estimate of estimated growth in unemployment,

there's only one which is higher than 26,000 and that's the one that includes Wagga.

So 11 of the 12 - just looking at that first group of 12 - are all definitely the small population end, and it certainly seemed to us that we ought to be suggesting to you that, even within your definition of country Australia, on the analysis you've done you can actually draw attention to an estimate, at subset, if you like, which in fact shows a different effect. So in a sense it's a pity the gambling report came out yesterday because that - I haven't read it - - -

MR COSGROVE: Nor have I.

MR HALTON: - - - but I've certainly read some of the reports on it. They've managed to get into that draft report, as I understand it - and this is me, it's not my colleagues - bankruptcy, productivity loss, divorce and separation, depression, suicide, counselling services, family relocation and dislocation, court and gaol as being social factors which are very important in terms of trying to assess the overall value. Now, I know that my colleagues in BSD were - they were talking about it earlier, not this week - very disappointed that in fact you'd taken your analysis so far, you'd in fact included for each region what happened in terms of the gross product or whatever the jargon was that was used, I forget precisely, for a region and you were able to point out that with one exception the gross product was increasing and that undoubtedly is a very important parameter, but in fact we were very disappointed that in fact you hadn't, as it were, gone further in terms of trying to think through the implications for some of the people who, as a result of NCP - because that's what your estimates relate to - were in fact worse off, were going to be unemployed, were going to be forced to move, all things which cause serious disbenefit.

I certainly know of down in Merimbula, leaving Eden out of it for the moment, of families who've tried to move, in some cases up to Queensland - this to demonstrate that they're not narrowly looking at New South Wales - and have in fact produced separations and have produced divorce in the last two or three years. All we wanted to say, and it was reinforced by reading the report of the gambling report, that in fact it's a pity that you didn't feel able to go further than you did and that there is also an opportunity in relation to this report to go on and canvass the need to have the mechanisms in place or alternative mechanisms in place to the ones which in fact were going to be there when all this was being discussed in 93, 94, and 95 and I know it's not a particularly popular expression at the time, but the Office of Labour and Market Adjustment was going to be a mechanism which in fact was going to be used for some of this.

Now, it's obviously a parliament's prerogative to want to do it a different way, but there doesn't appear to be a mechanism to in fact try and help these communities. I know the report says "allow due process" but it doesn't actually talk about how due process really gets applied in some of these areas.

MR COSGROVE: We did set forward some suggested principles which might require government adjustment assistance in situations where governments thought it

was necessary.

MR HALTON: But it's quite narrow and it's nothing like - - -

MR COSGROVE: I wouldn't say it's narrow. It's in fact quite general, I would have thought.

MR HALTON: Narrow in the sense that in fact when governments were talking about it originally there were some discrete initiatives identified which they all signed on to. Anyway, that's probably enough.

MR COSGROVE: Yes, Charles, I think, we might need to move on a little. We still have another participant to hear this afternoon.

MR HALTON: As I was saying to your officers, I've also got a car having two tyres changed and I've got to be able to get that car before - - -

MR COSGROVE: Right.

MR HALTON: On infrastructure services I don't really need to say much to you to supplement what it's in that last submission, other than, as I've quoted in it - and the source of this comment is in the first place a colleague of mine who I have known for about 40 years who was two terms chairman of the Meat and Livestock Corporation in the UK. Sir William Armstrong, who was cabinet secretary for a fair period of time in fact in 1987, said, "It is difficult to sustain drive for increased efficiency and reduce numbers, however desirable, without implying that the service has been inefficient and over large." One of the real problems we have in your discussion of infrastructure services is that you say more than 10 times that all these undertakings were overmanned and we would say that there is not the evidence around to sustain that assertion until you get into the last decade when in fact a lot of infrastructure was finally completed and when, one way or another, what you can do with digital processing that some of us, believe it or not, were working with in the 1950s has now actually come to fruition and I think I think you are being overly critical in terms of what you say on that side.

MR COSGROVE: I don't think we are the only people to have taken that view.

MR HALTON: I know you're not.

MR COSGROVE: That's a fairly common impression, I think, that the combination of a government owed monopoly and a powerful trade union resulted in quite a bit of feather-bedding for a long period of time.

MR HALTON: For example, the Snowy Mountains Authority, when I took it on in 1987 there was not the technology to allow us to have a SCADA, system control and data acquisition - the technology was not there. It was not there in a form where we could purchase it and use it until about 89 and as soon as it was, we did and as soon

as we did we were able to in fact shed staff. But we could not shed staff until we had a SCADA and that was true about a lot of organisations. And I think I can claim to have had a fair amount to do with organisations which are involved in your description of infrastructure over the years. So I think you're being a bit hard compared to where we would in fact see it.

I don't think I need to say anything on national competition policy, what's in that report is fairly clear. We've included a section on the recommendations, both because it seems to us that you can improve the overall quality of some of your recommendations by taking them a stage further, but also because it does seem to us that in fact there are some additional recommendations that ought to be added to the list and we do feel that one thing which really is not appreciated is how little is known and how little can be accessed when you get outside the bigger urban areas. To give you a couple of examples, if NCC updates were available in libraries or were available on web sites, similarly ACCC updates that there's documentation like that which in fact is not available, I have sampled every library in the Cooma-Monaro shire and also Bega Valley shire and there's nothing. In fact there is only, with respect, one terminal in each library. You don't actually get much time to access it and there is a real issue.

If, as we're all agreed, we want to in fact progress national competition policy, we want to progress it in a manner which is in fact constructive to the community as a whole, then a lot more has got to be done to in fact get the ideas across.

MR COSGROVE: It's quite an interesting suggestion. It's an area, as you will see, that we've given some prominence to in the draft report and the actual means of getting it out and about now need to be further considered.

MR HALTON: The converse of that is because - not you, but governments broadly defined - haven't been as successful so far, then in fact we would strongly suggest that contrary to what is in your draft recommendations there is a substantial case for saying that you should recommend to governments that there be a two-year delay on the final implementation date in regional and rural and it's our definition of regional and rural rather than yours.

MR COSGROVE: Yes, I noticed that. This is one that I wanted to ask you about. Thank you, incidentally for these carefully put together thoughts on the recommendations. I wondered how, in practical terms, you would go about using a different implementation date for a part of the community. If you think of most of infrastructure reforms, for example, or even the outcomes of legislation reviews - let's take dairy, now the dairy industry, whether as the result of NCP or for other market driven reasons looks as though it is going to be deregulated in the next 12 months, can you really see how you can quarantine the effects of that - - -

MR HALTON: If the dairy industry at large says it's happy, it's got sufficient progress to be deregulated then let it. But if in fact you've got areas in regional and rural which palpably haven't made sufficient progress, and I regret to say local government is one good example of that, then in fact you shouldn't force, and by

forcing produce significant distortions. Nobody, including the Productivity

Commission, has jumped up and down when electricity reform has slowed down, when water reform is not going particularly quickly and when telecommunications is quite definitely askew.

It's not as though there aren't other areas which, as it were by default, have been allowed to slow down. So why shouldn't certain parts which don't put up their hands and say, "We are sufficiently mature, we can cope with it against the original timetable," why not give them the same mechanism? That's a more generous, as it were, recommendation than the way you've put it in your draft report or so it seems to us.

MR BRAITHWAITE: When you ask for an extension - and we've heard from the irrigation people - that the longer the extension - and that's where a delay probably should be, but the longer the extension the further the goalposts move away - you go onto environmental matters and things like that. It gives time for lobby groups to intervene in the process.

MR HALTON: It also gives time, Ray, for the people who should have been getting their house in order to get their house in order. I've sat through some of the public hearings by IPART on water for irrigators and although what you were hearing yesterday when I was in the room does not reflect the way I would have put it to you, there's more than a grain of truth in it.

MR COSGROVE: Again, if we come back to dairying, couldn't this in fact disadvantage these people that you're trying to assist? If I'm a dairy processor and I know that I can buy my milk from the deregulated sector of the market at a lower price than I can buy it from these people who we're trying to help adjust, then they're going to lose market share - they are going to be worse off because they will have to pay them a higher price. Who would want to do it?

MR HALTON: Would the industry association advise governments to continue with deregulation? If they would, let it go ahead. You're in a democracy, aren't you?

MR COSGROVE: Yes. It just strikes me as a very difficult - - -

MR HALTON: Then come back, why was the electricity allowed to slow it down, and it has dramatically.

MR COSGROVE: Yes, okay. I'm not trying to defend that, all I'm saying is that that is a whole sector which is slowing down. What you are proposing here is that we introduce differential rates of reform and I would say also in the electricity sector. If one state said, "Look, you know, this is all very difficult for us, you fellows who are more ready for it go ahead," then the state that says, "We can't match the pace," is going to lose. It won't gain anything and the same, I think, will apply in all of these areas.

MR HALTON: In that case, the industry association ESAA would in fact

recommend that you shouldn't slow it down.

MR COSGROVE: Okay.

MR BRAITHWAITE: There's examples of electricity and then you go on to transport. There's already a mechanism there for a slow down in the process, obvious from the fact the timetable is then expanded. I think the recommendation goes on to say that that process is built in and if the jurisdictions want that slow down at any time they should ask for it, and they obviously have in transport and electricity and water.

MR HALTON: If you go into the local government area - and I fully recognise that you tried to do that in your focus group discussion - you go around and talk to some of those, they are really very confused. They do not understand what the public interest is.

MR COSGROVE: No, that's another matter.

MR HALTON: And they also have a very clear view, whether it's right or wrong, that the NCC's view of public interest is what it was when both the chairman and the chief executive quoted their views in 1996 that all they could do was an economic assessment, they weren't going to get into the business of doing anything on the social front.

MR COSGROVE: Okay, Charles, I think we should wind up now, in the interests of getting you off to your motor vehicle and also for us to help our other participants. But I would like to thank you for the very serious interest you have taken in the inquiry and for the considerable amount of submissions you have given to us.

MR HALTON: Thank you.

MR COSGROVE: Now, our final participant is Macquarie Food and Fibre. Good afternoon.

MS BENEDYKA: Good afternoon.

MR COSGROVE: Would you mind identifying yourself and the capacity in which you're appearing today please?

MS BENEDYKA: Yes. My name is Susan Benedyka. I'm the executive officer of Macquarie River Food and Fibre. I'd like to go through just a fairly quick presentation this afternoon. I was particularly intrigued by the question that said, "Let's talk about water reforms and their impacts on employment," and we would like to give you some evidence about what has been happening in the Macquarie Valley. What I would like to do, though, is go through who we are - Macquarie River Food and Fibre - a quick thumbnail of the valley, talk about employment and water reforms and what we have found, and then make some other comments about policy responses that we're making in the valley, water pricing and a little bit about compensation and adjustment.

Macquarie River Food and Fibre was formed in 1996 out of the Macquarie Valley Irrigators Association. The change of name actually reflects a change of focus on the organisation as well, from inputs - just focusing purely on water inputs - to actually looking at the outputs of food and fibre products that are being produced. We represent the concerns and interests of 600 irrigators and their families and we also offer associate and corporate membership to businesses who have a close relationship with the industry.

MR COSGROVE: You're a private organisation?

MS BENEDYKA: We are indeed. Membership is based on a voluntary levy on all irrigation licence entitlements, and that includes ground water users. At the moment about 92 per cent is coming in, of voluntary levy, on the entitlement. So it's quite a significant membership base. We work on policy for the Macquarie Valley irrigation industry, lobbying politicians and other decision-makers, liaising with other stakeholders, and that includes a group from New South Wales farmers through to environmentalists, local government, a whole range of people. We run community relations projects, look at media strategies, conduct education programs, and then be involved with other people in the valley on particular projects. One of them is a water efficiency project which I will mention a little later on.

In the Macquarie Valley one-third of the catchment agriculture is grown by irrigation, using about 1 per cent of the catchment area. The water use - about 26 per cent of the water used is for irrigation, 2 per cent for towns. 35 per cent goes to the Macquarie marshes or environmental flows, 10 per cent in above marsh flooding, 20 per cent in evaporation and about 7 per cent to the Darling River, which would be - it's a natural terminal marsh at the end of the system. So that 7 per cent is roughly what would have gone out naturally anyway.

Burrendong dam was constructed between 1965 and 1968 and that's when irrigation started. No new irrigation licences have been issued since 1979. Irrigated industries include livestock, dairying, sheep, meat, wool, beef; summer and winter crops, wheat, barley, maize, sorghum, cotton and legumes; vegetables, corn, broccoli, lettuce, onions, herbs; citrus, limes and oranges; and significant trees and rose nurseries. Agriculture is the third largest employer in the Macquarie catchment and irrigated agriculture employs two-thirds of those in the agricultural sector.

Employment and water reforms: the Macquarie Valley is one of the earlier valleys in New South Wales to feel the effects of COAG water reforms. In 1996 the Macquarie marshes water management plan increased environmental flows to the Macquarie marches but decreased the reliability of irrigation water supply. Various estimates of that impact exist. The reliability of supplies is expressed as a percentage and refers to the number of years in 100 that full entitlement - that is, your licence demand - is received. The Macquarie Valley was sitting at a low 39 per cent prior to the 1996 water marshes management plan. It now sits around 27 per cent.

Prof Roy Powell, formerly of UNE, was commissioned by Macquarie River Food and Fibre to study the effects of the reduction - the proposed reduction at that stage, it was a 1996 study done prior to the plan - and concluded that the result would be an average annual reduction of 115,000 megalitres and that this would have significant impact on employment and output. Powell estimated this impact to be about \$35.2 million in direct output to the regional economy. That was \$14.1 million less in value adding as well and 500 less direct jobs on farms. Using multipliers, local input-output tables, Prof Powell estimated that the impact on the entire community was about \$295 million less in income for the valley and 1200 less jobs in the community entirely.

A further employment study was commissioned last year by Macquarie River Food and Fibre and we commissioned the Western Research Institute, part of Charles Sturt University in Bathurst, and it confirmed the continuing importance of the Macquarie irrigation industry to the local and national economies. It also confirms our concerns about the impact of water policies on employment in the Macquarie Valley and shows - and I quote - "a very direct relationship between numbers employed and water allocations."

Figures that they showed - Macquarie River Food and Fibre members contribute \$300 million in gross domestic product and 6000 jobs to the national economy when flow-ons are taken into account. Members directly provide over 1100 jobs and about 3600 jobs in local communities. The significance of that is that the 3600 jobs is 25 per cent more than the total employment in the valley's second largest town, Wellington.

I would now like to give you - and it's very hard to give you a table visually - but a comparison between the Powell study and the Western Research Institute findings, because it was in that time-frame that we saw the tremendous impacts of

water reform. In 1996 Roy Powell said we had an output of 264 million, gross value added of 105 million, and a total employment of 6000. The Western Research Institute in 1998 said the output was 474 million, gross value added 292 million, but total employment 3600. They also showed a correlation between megalitres of water and they actually said 1000 megalitres of water in our valley produces about 1.5 jobs.

Just another comment: the towns in the Macquarie Valley are directly impacted by the health of the irrigation industry. We found via the Western Research Institute study that Dubbo derives about 24 per cent of its income from the irrigation industry, Narromine 48 per cent, Warren 76 per cent and Trangie 78 per cent. These communities obviously depend on sound water policy.

The two studies that I have pointed out - there are a number of differences between those two studies so one can't compare them directly. One was by a survey, another one - the earlier one had been by estimates and studies done by Roy Powell. There has been a significant increase in agricultural productivity during that period of time, which is reflected elsewhere, and there was a use of national output tables by the Western Research Institute as compared to local input-output tables. But the indications clearly show that since the introduction of water reforms there has been a decrease in contribution of the irrigation industry to employment, both direct and indirect. This is not positive for regional development.

At the time of the 1996 Macquarie marshes water management plan there was a promised socioeconomic impact study. For two and a half, three years we have been now screaming for that study and saying that needed to be at the same time as the study itself, to show those sort of impacts, so that future modifications may be made to reduce the social and economic impacts on the valley. That study is now being undertaken by the Department of Land and Water Conservation, and the Macquarie River management committee is also seeing in place a way of being able to measure those social and economic impacts for any future decisions that will be made with regard to environmental allocations and other policy settings regarding water in the valley.

As irrigators we have had to look at what it is and how we will respond to these sort of changes that are going on. We're not asking for any more water. Basically we have said there are two key things that we need to do to secure the industry in the valley. We need to look at increasing the reliability of supply and increasing the security of supply. In terms of increasing the reliability of supply, we want to see much more done about the efficiency of water delivery in the valley, look at greater use of storages. In Burrendong dam, for example, there is a flood mitigation zone which is usually air space. We're lobbying for policy changes to perhaps use some of that for storage, within a responsible and reasonable manner, with other stakeholders in the valley. That sort of discussion is advancing at the moment.

We would also like to see a new joint purpose en route storage that may capture, further down towards the marshes, rain rejected water and increase transmission efficiencies. When the marshes need water, the water could be released

much closer to them, also benefiting those irrigators who get releases much closer to when they need it.

We're also looking at collaborative water efficiency projects. At the moment we're working with the Department of Agriculture and the local LandCare group to really look at increasing water efficiency and trying to translate studies into real effects on farm. So we're not just sitting back and saying it's someone else's fault; we are trying to respond. In terms of security of supply, property rights is obviously one of the things that we are arguing for very strongly. We did not agree that there should be a slow down, as recommended in the draft report, about the implementation of some of the water reforms, particularly the implementation of property rights.

Water trading has been occurring quite significantly in the Macquarie Valley - both temporary and permanent transfers are taking place - and there has been significant moves into higher value crops. Grapes in the Cudgegong Valley - Cudgegong River flows into the Macquarie River - and cotton further down the river system are setting the price for water.

There has been a change as well in how water is used in the valley. About three years ago it was approximated to be 50 per cent of the water going onto cotton. It's now about 90 per cent. But that has other problems in a valley, when you think about the potential for monoculture, huge problems with perception about cotton and what happens in valleys. It's not healthy for a river system to be totally reliant on one form of production. In terms of water pricing, we acknowledge - and you have pointed out that IPART is now looking at bulk water pricing in New South Wales - but there are still real concerns with transparency and what's happening with water pricing in New South Wales. There are tremendously increased costs associated with implementing water reforms and we're hoping that that's not - well, we're trusting that that's not impacting on our pricing.

There is an incentive package that came out at the same time as the water reforms - it was part of the transfer payments - to try and ease the burden on irrigators who were adversely affected. One of the ways in which those incentives are being offered is through FarmBiz New South Wales Rural Assistance Authority, through the FarmBiz program offering specific incentives. To date, not one single application has been made for that incentive package. The package is tailored to exclude those who would most be benefiting from it.

MR COSGROVE: Is that a state government program or a Commonwealth?

MS BENEDYKA: It's a state government program but the money has come through the competition policy reform process. There are discussions going on with New South Wales Rural Assistance Authority at the moment about the inappropriateness of that package, and it was meant to be one of the mechanisms to get some money back in, to encourage incentives and more efficient water use - a whole range of things - but it really has not worked. Again when we have talked to and approached IPART we have mentioned a valley management authority really at a

valley level. It may be much better to have the state water type role occurring at each valley level.

I think there are just some final bits and pieces of comments that I would like to make. We have heard much about adjustments that are occurring in regional areas. This has been a serious impact on the Macquarie Valley. People are making those adjustments. There's all sorts of things that they're doing at an individual farm level and a regional level. But it is a time now when - for example, with environmental flows - we need to say, "Enough is enough," and then any further adjustments that occur need to be adjusted out by compensation, by buy-outs of those water allocations, so it's not just a single part of the community is suffering from a community-wide decision that we're making to put more water into the environment.

There is a study being undertaken at the moment by Dr Morrison, now at Charles Sturt University. He is extending some work done on choice modelling where he is going to be getting community people - wide cross-sections of community people - to actually start placing a value on what they would trade off between jobs and environment if that's a direct trade-off. We're also arguing that there isn't just a direct trade-off, that you can get productive efficiencies that may be beneficial to both parties. That's the conclusion of my formal presentation and I'm happy to take any questions.

MR COSGROVE: Thank you, Susan. Those studies that you referred to, in 1996 and 1998 I think - are they publicly available?

MS BENEDYKA: They are publicly available and I am happy to provide copies.

MR COSGROVE: If you wouldn't mind, it would be of interest to us. You mentioned that one, the later one, drew on national input-output data, and the Powell study used local input-output.

MS BENEDYKA: Yes.

MR COSGROVE: That was data developed by Prof Powell himself, was it?

MS BENEDYKA: Yes, it was.

MR COSGROVE: Yes, I see. You seem to have, from what you said early in your statement, a fairly wide range of products in the valley, which I guess enhances the capacity of people to adjust?

MS BENEDYKA: It does to a certain extent. The valley has very heavily moved into cotton production. It was the thing that's returning the most per megalitre. It is now common to hear people using a megalitre as their point of reference, as the most scarce resource, rather than bales per acre which would be a normal reference. There is now a consciousness about bales per megalitre, which is quite an interesting move. That diversity we're really trying to encourage, from Macquarie River Food and

Fibre's point of view, but there is that tremendous shift about the highest value.

MR COSGROVE: Would you say that that shift has played a significant role in the reduced number of people working on irrigated farms? I tend to think of cotton as being an extensive scale of production, probably a lot more machinery, not so many people as you might in a fruit growing farm?

MS BENEDYKA: Certainly. That shift may be occurring but really it has gone from, for example, lucerne production to cotton production. So you're not seeing - lucerne production is not as intensive, for example, as horticulture. So it's not as if we're wiping out - we're not doing this huge trade in jobs. We are seeing a reduction in jobs because of the reduced amount of water that's available.

MR COSGROVE: But you have managed to increase output, I think you said, substantially.

MS BENEDYKA: Yes, and that output increase also depends on commodity prices.

MR COSGROVE: So that's a value concept.

MS BENEDYKA: A value, yes.

MR COSGROVE: Okay. If you can - I don't know whether you can tell us what might have happened in volume terms, which is a better measure of productivity. Has that too increased, would you say, or has it been driven by price?

MS BENEDYKA: Look, I haven't got those tables in front of me, I'm sorry.

MR COSGROVE: Do you think the reform process, the water reform process, has led farmers in your valley to achieve gains in efficiency in the way they operate their farms?

MS BENEDYKA: I think it has been a bit of both. I am privileged to work with some very switched-on farmers. The irrigators of the Macquarie Valley and particularly in the cotton industry tend to be younger, much more switched on. Their tertiary education levels are higher, and they are already making those sort of adjustments and reforms in their own production areas anyway. The good ones are then passing it on to others. But it's a bit of, you know, six of one, half a dozen of the other - are they leading changes in their own production or is the pricing and the reforms leading that. There is a positive response though. Rather than sitting down and saying, "Woe is me," there is a positive response to water reform.

MR COSGROVE: Yes. It sounds as though with the reduced reliability - and also reductions in the allocation?

MS BENEDYKA: Yes, reductions in allocation, reduced liability.

MR COSGROVE: And I take it an increase in the price per megalitre?

MS BENEDYKA: That's right.

MR COSGROVE: So the effective price of the amount of water available to you has probably increased significantly.

MS BENEDYKA: It has.

MR COSGROVE: You would ordinarily think of that tending to lead farmers to think, "Well, how am I going to make my money with this tighter financial situation?"

MS BENEDYKA: Exactly, and their willingness to participate in the water efficiency program that I was mentioning and other water efficiency areas certainly is an indication of that. But these are people who - a lot of them were at leading edge anyway.

MR COSGROVE: Yes.

MS BENEDYKA: This is just both an impost and an incentive.

MR COSGROVE: You mentioned on the water pricing side that it lacked transparency. That's a little disappointing in a way to hear, as you have an independent regulator playing this role. What do you see is the problem here?

MS BENEDYKA: It was very difficult when we have approached IPART - when I was preparing for this I looked back through my notes to IPART and to the hearing. The information that we had - some of it was not able to be quite clearly or distinctly differentiated between state water and Department of Land and Water Conservation. So those distinctions were very unclear. At a valley-by-valley level they often didn't disaggregate the information that was there so we were getting costings applying to the whole state but not knowing what was happening in each valley. There were a number of inconsistencies like that. One would hope that they're moving towards making it more transparent but certainly at the time that we were at the IPART hearing and looking back through those notes we were most unhappy.

MR BRAITHWAITE: Was that IPART's problem or is it the state's problem to supply the information?

MS BENEDYKA: The state's problem in supplying the information I think.

MR COSGROVE: So IPART would be prepared to use differential pricing for water, according to the cost of supplying it?

MS BENEDYKA: They appeared to us to be able to do that and willing to do that.

It was more the information being provided at the state level that we were very critical of.

MR COSGROVE: We have spent quite a bit of time during these and other hearings discussing water pricing principles. I think it's probably fair to say that most of those who have spoken to us have expressed general agreement with the principles being followed by IPART, in other words what you might call a forward-looking approach where you make sure that you're covering the costs of refurbishment and any repairs that might be needed.

MS BENEDYKA: That's right.

MR COSGROVE: Does that sound a sensible approach to you?

MS BENEDYKA: It was a sensible approach. What became contentious is what you did in the past - what happened in the past and how much responsibility did this generation need to take for degraded infrastructure, for example.

MR COSGROVE: But I thought IPART had effectively dealt with that, by saying in effect that that was sunk expenditure and it was better to look forward. I guess insofar as you have to repair a badly depleted set of assets then that still forms part of the forward-looking costs, right?

MS BENEDYKA: It does. But yes, we generally agreed with the thrust that they had taken and were pleased to see that we weren't being burdened with all those past decisions.

MR BRAITHWAITE: Is the Macquarie irrigation system similar to the Lachlan? Do you have a weir, a dam, or do you just pump from the river?

MS BENEDYKA: It's a regulated river. There is Burrendong dam. Above that is the Windamere dam. The Windamere dam is on the Cudgegong River. It flows into the Burrendong dam. The Burrendong dam is the major water storage. There is a system of weirs a little further down - small weirs. There is also unregulated streams from which irrigation occurs. There are a number of irrigation schemes that run off that private - well, yes, private, class them as - schemes that are running off that, about five small schemes.

MR BRAITHWAITE: And in the transfer did the government provide a dowry towards the refurbishment of dilapidated assets?

MS BENEDYKA: Yes.

MR BRAITHWAITE: Your property rights are then similar to all the other cases we have heard about in New South Wales? There's just no definite title yet?

MS BENEDYKA: Absolutely no definite title. I mean, we have made it our highest

priority in terms of lobbying this year. We have only just said that is now the thing that we are working at. We're quite clearly saying that we need to know what the right is. It needs to be separate from a land right. It needs to be specific, have appropriate tenure, allowing for long-term planning. It needs to be exclusive - that's the benefits and costs associated with a right are attributed to the owner. It needs to be enforceable and enforced, and it needs to be transferable and basically bankable. People spend a lot of money developing on that water and yet still feel they don't have a right to that water. It's an eroding right as well at this stage, as policy changes occur. What they had four years ago is quite different to what they have now.

MR COSGROVE: This is a clearly required part of the water reforms under COAG.

MS BENEDYKA: Under COAG, definitely.

MR COSGROVE: Can you tell us why you think it's proving to be so difficult to implement in New South Wales?

MS BENEDYKA: I wish we knew. It has been tremendously difficult to get the message through. We seem to be seeing the other parts of the reform implemented, those parts which have quite negative impacts, and yet the thing that will keep everyone sweet - and their trade-off was to get policy changes regarding property rights. That doesn't seem to be occurring. So there is real angst occurring about what people are doing, why are they being part of this water reform process, learning to change their ways, learning to do different things, and yet the thing that they want most - property rights - has not been forthcoming.

We haven't seen discussion papers about it. There hasn't been community consultation about it yet. So it has really not even moved to that point. There has been a recent study done by Marsden and Jacob on water trading. I would think that that's a precursor to coming out with something. There has also been a paper on water use and access rights but that has really just been a paper and there has been only a synopsis of the responses, rather than any draft that has come out to say, "This is the way the state will go."

MR BRAITHWAITE: You mention the valley catchment water authorities as being a step in the right direction.

MS BENEDYKA: Yes.

MR BRAITHWAITE: I see you're also a member of the irrigators.

MS BENEDYKA: That's right.

MR BRAITHWAITE: Their suggestion was a watershed-based river management. Are you talking about the same thing?

MS BENEDYKA: That's the same thing, yes.

MR BRAITHWAITE: You, like them, would like to see better representation, more consultation in those management councils than what there is at the moment.

MS BENEDYKA: Absolutely. The valley management authority or watershed-based catchment authorities have been discussed for probably about the last two years, just getting it into some detail. There are differences, quite marked differences, in every valley - about water, the nature of those valleys, about its availability - a whole range of things, which mean that if you can work at a local level and involve the local people, beneficiaries and users in those catchment authorities or management authorities, it's going to be more responsive to community needs.

MR BRAITHWAITE: I think you mentioned that 26 per cent of the catchment is used for irrigation now.

MS BENEDYKA: Yes.

MR BRAITHWAITE: What was it before the reforms started?

MS BENEDYKA: That's the percentage I have now. I don't have that figure from before, I'm sorry.

MR BRAITHWAITE: Sufficient to say it has decreased?

MS BENEDYKA: Yes, it has. I have worked with the organisation for 18 months so I just don't have that, I'm sorry.

MR BRAITHWAITE: I must say that what you're saying seems to confirm everything else we have heard in the last two days.

MR COSGROVE: You mentioned that you didn't like the recommendation in our draft report that there be a postponement of some elements of the water reforms. I guess that it was in the draft report because a number of people have said to us, "There hasn't been enough consultation, there hasn't been enough information generated on the basis of which one could determine water rights at this stage." But in your area you would say you have that information? I don't know how the consultation process has gone but - - -

MS BENEDYKA: There is information available. There will be arguments about how much information there is and how in-depth it is. There are some people who would much prefer a cautionary approach that says, "Until we know everything, let's not do anything." We have been subject to the same consultation process in our valley as every other valley has. Information comes out from the Department of Land and Water Conservation and times are being set for community consultation and we walk through things. But we have been involved with a number of the early stage

consultations and still not seen, back to us, policies or drafts or anything that we really

feel like, "This is the direction it's going to go in."

There is an enormous frustration both - it's very difficult to get people off their tractors and out of their communities and into those consultation processes, and then for it to seemingly be stifled after we have got them to that point is very difficult - very difficult.

MR COSGROVE: Well, thanks very much, Susan, for coming along and giving us that presentation. I don't know whether any of your notes are in a form that could be provided to us as a submission. We have you on tape. I guess we'll take that as an accurate account of what you wanted to say to us.

MS BENEDYKA: I'm quite happy to have this typed up and presented to you if you wish.

MR COSGROVE: If you think the real essence of it is what you have said today, we will take it from that I think.

MS BENEDYKA: Thank you very much.

MR COSGROVE: Thank you. That concludes the public hearings for this inquiry.

AT 5.03 PM THE INQUIRY WAS ADJOURNED ACCORDINGLY

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