



SPARK AND CANNON

Telephone:

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

TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

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

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

TRANSCRIPT OF PROCEEDINGS

AT LAUNCESTON ON MONDAY, 5 JULY 1999, AT 9.05 AM

Continued from 1/7/99 in Albury

MR COSGROVE: These are our public hearings in Launceston on the commission's draft report on the impact of competition policy reforms on rural and regional Australia. As I've indicated to participants at other hearings, we do try to make the hearing as informal as we can but we do like participants to be accurate in the information which they give to us in order to assist us to get the right story into the final report. What we're looking for in particular but not exclusively is factual evidence on the impacts of competition policy reforms and also reactions to assessments contained in the draft report. I'll be asking all participants to identify themselves and the capacities in which they're appearing before us today. I should point out also that the hearings are recorded with transcripts of them made available, including on the commission's own web site, and our members of staff will be able to tell people how they can best obtain a copy of a transcript if they wish to do so.

Our first participant today is the Circular Head Council and for the purposes of our recording and transcript, I would ask you each to identify yourselves and the capacities in which you're here today.

MR HINE: Thank you, sir, my name is Ross Hine. I'm mayor of the Circular Head Council.

MR ARNOLD: My name is Paul Arnold. I'm the general manager of the Circular Head Council.

MR WELDON: I'm Michael Weldon and I'm deputy mayor of Circular Head Council.

MR COSGROVE: Thank you. I'd like to thank you also for giving us a submission to the earlier stage of the inquiry. Now, as I said, we're interested to hear what further points you'd like to make to us.

MR HINE: I'd just like to say, sir, we thank you for the opportunity to be here today and just as a bit of a background I would like to introduce to you our general manager to give you a bit of an opening spiel on the Circular Head Council and what we're about.

MR COSGROVE: Fine.

MR ARNOLD: Thank you, Mr Mayor. I guess Circular Head Council's submission was quite brief. Since we had the benefit of the draft report we've had our deputy mayor Michael Weldon work through that draft report and he'll be making observations and comments primarily on behalf of council. But if, firstly, I can just make the members of the commission aware of Circular Head. In summary, Circular Head is to the far north-west of Tasmania. It's about 4900 square kilometres and it is a very rich area in terms of production for some of the primary industries. We have a very strong agricultural sector there with some of the best dairy farming in the country. We have a very strong forestry sector. We have a very strong fishing sector. In general, it's argued that every day the sun comes up in Circular Head. We have

something like over the course of a year \$365 million worth of brand new wealth that previously did not exist.

So in that sense we believe that our area is quite representative of rural and regional Australia. We only have 8100 people, however, living in our area so it is quite a discrete, small area in terms of population, but in terms of productivity you could argue that there's more wealth more capita per person being created over a wide, diverse range of industry in our area than perhaps in most other areas of the Commonwealth. So that's why we have some interest in what long-term impact the competition policy is going to have. It does have the potential to impact quite a deal of the services that are provided to our regional and rural area and as to that end, I guess we're here to make some sort of formal representation on behalf of our community.

It's true to say that perhaps the impact of national competition policy is really only in its infancy in terms of the way that it is impacting our community and we've seen it first, perhaps with something like Tasmania's own Hydro-Electric Commission where the reforms that have been generated in that particular body, we're starting to see that in service provision generally there is a push to have this form of business or entrepreneurial business type of action. If I can just example one thing, when Tasmania's hydro was operated as it used to be, you could get a lot of things done and achieved within various towns within various parts of rural Tasmania. Now, for example, we have in our main town of Smithton which is 3400 people, we have poles and wires going up on both sides of our main street and any representations we make to have them undergrounded is going to be a cost to council, whereas in days gone by when we didn't have the same regime that we have now, we have situations where the cost of undergrounding cables up the main street of Smithton is a significant cost that all of a sudden there's no social benefit perceived on that and so because of the transparency required under competition policy those types of community benefits are no longer going to happen in our areas.

That is just one of the examples of some of the social implications of national competition policy, because everything has to be articulated into transparency through those sort of community service obligations that every other town had the enjoyment of. We were perhaps a little bit slow in forcing the issue politically decades ago. So we're going to suffer now for the next sort of hundred years in terms of not being able to get some of that infrastructure placed where it ought to have been. But that's just a small example. Perhaps, Mr Mayor, I'll pass on to our deputy to go from there.

MR WELDON: Thank you. Mr Chairman, the national competition policy when it was first released in the Hilmer report was immediately - while it was being developed and immediately following the release of the report, we saw in our small community that its potential for negative effect on us was significant and the potential for a negative effect on regional or rural Australia was significant. We saw that because we could see that further down we could face a situation wherein small, local business - especially, for instance, in transport or in services to council and

services within the local community, for instance, roadworks or something like that - that where in the

past we'd been able to employ local, small contractors, we envisaged a situation wherein under NCP and CCT and all of the parts that become part of NCP, we could see that our local contractors or our local people would be overcome by larger organisations coming in from outside to take over those roles.

They would be able to do that because the efficiencies of scale would be such that it may be that they could show that they could do it cheaper and therefore council would be locked into a position of having to indeed employ people on that basis. It was also envisaged that there would be within NCP provision for a bias towards local people. However, as has been pointed out more than once that if that bias was included in any letting of contracts then nobody except local people would apply anyway, so that would break the contract system or the tendering system right down. We found all of that to be true because in our own community those sorts of things have happened. We've found that larger organisations have been able to come in. We've found that because our council has indeed taken on board the imperatives of NCP, probably faster than many others. Even though we resisted it and resented it and produced reports to the Local Government Association of Tasmania and the Australian Local Government Association meetings in Canberra, where we got full support for repudiation of NCP, we knew that the law as it was, was such that we had to move in that direction.

Having done so, we've actually found that indeed what we feared to be the case would be - smaller, local contractors missing out on work; larger organisations are moving in. This means in small, regional or rural communities that people who are the vital necessity in a rural community, people are having to leave the district. When that happens - and this is where I think treasury has got it wrong - it's not just the rural businesses, the farming businesses, that suffer but it's the whole of the community, whether it's the shopkeepers in the main street or whether it's the stock and station agents or whether it's the schools, all of these things suffer. That's what we're finding in Circular Head.

The general manager has already pointed out that our local Hydro-Electric Commission employees have been reduced and taken out and that has been a major concern, especially to dairy farmers when the power goes out and you can't milk the cows. We've found, as was pointed out, that Telecom has been a problem and we've had outages from that. Medicare was taken out. We've also had a more local problems with following the rules and implication of the rules. We've had significant concern in our local community because council was forced into a situation where it had to employ outside contractors for waste collection, where we'd had our local people who were prepared and able to do it.

MR COSGROVE: Michael, could I just try to clarify that point. As we pointed out in the draft report, national competition policy, properly understood, doesn't require councils to contract work to outside suppliers. Is this a case of your own state government setting a requirement, such as the Victorian government, for compulsory competitive tendering?

MR WELDON: No, it's not. It's a case of the full implications of NCP saying that national competition policy should always be transparent, it should be such that there is no disadvantage to any group from wherever they might come.

MR COSGROVE: That's the principle of competitive neutrality, yes, which is a part of NCP.

MR WELDON: That's right.

MR COSGROVE: But my understanding is that it only comes into play if a council itself chooses to tender for work which is being bid by other people. In other words, you have a group of people in your own council who go out into the marketplace and try to win work. In that situation, yes, the principle of competitive neutrality comes into play to ensure that a private competitor would not be artificially disadvantaged. Have you been doing that?

MR WELDON: We've been doing that, yes, of course we have.

MR ARNOLD: Mr Chairman, if I might say that the Local Government Act in Tasmania requires that any purchase of goods and services of \$50,000 or more must go to public tender. So in that sense it's a state government requirement.

MR COSGROVE: From that point of view, yes.

MR ARNOLD: Across the councils in Tasmania there has probably been no council yet that's developed in-house bids compared to the outside bids that might be coming. Most councils have been preparing for that under the guidance and requirements of NCP so there's no compulsion yet on compulsory competitive tendering that councils by and large are starting to prepare themselves for what is seen to be inevitable coming down the track in terms of the application of NCP.

MR COSGROVE: I think the inevitability about it would have to come from state government policy rather than from NCP.

MR WELDON: But, Mr Chairman, state government policy is going to be dictated largely by the fistful of dollars that comes out to state governments from NCP, in compliance with NCP - - -

MR COSGROVE: Yes, but a state government won't be penalised in terms of those competition payments if it fails, I guess you could say, to require local governments to contract work out. That's not a requirement of NCP, so the federal government can't dock money if - - -

MR WELDON: But the federal government has said that it would. It said that if state governments aren't prepared to comply with implications of NCP and the implementation of NCP then it won't get the money.

MR COSGROVE: Yes, that's right.

MR WELDON: So state governments are pushing it down the line.

MR COSGROVE: Well, yes.

PROF SLOAN: In my state that's a suggestion, that they move to compulsory competitive tendering, yet they will be seen to comply with NCP. We're very interested in what you're saying, I think, and I don't think that we should spend too much time with what's NCP and what's not, because we're as equally interested in the other factors affecting you.

MR BRAITHWAITE: On the other hand, I'm very interested to see how far state governments push an agenda of their own and blame the NCP for it, and I think that would be a good example of it. I know in my own state there's a lot of new initiatives coming from the state government, and they don't seem to be penalised by way of dividend or anything else from the competition policy, but they are pushing an agenda. But in all fairness to them I think they are reimbursing local councils for the additional work. But, on the other hand, I have a feeling that perhaps the state governments probably took about two or three years to wind up to what NCP meant, and I'm not sure whether they're pushing their own agenda or they're just a little bit behind the eight ball.

MR WELDON: I guess in one way, Mr Chairman, none of us are because it's early days and things are still moving down the track. But I noticed in your report - and, picking up Prof Sloan's comment, we're moving on a bit - that there are views expressed in the report which suggest that maybe the report hasn't quite understood what the situation might be in the bush, or - as I've said before, I don't like that term - in rural and regional Australia. If I can just pick up on one small comment here on page 336, where you talk about the rationale for adjustment assistance, I note there where it says that governments and employers can help in this situation, with adjustment for assistance for people who are displaced:

by trying to ensure that people have access to accurate, up-to-date information about job opportunities, particularly in adjacent areas. Governments can also assist by helping displaced workers learn new skills to enable them to gain alternative employment. Thus governments may encourage retraining, either directly, for example, government-provided or contract training programs or through incentives, for example, subsidies to firms to undertake training.

That smacks to me of so much bureaucratise to the extent that those sorts of comments may apply in city or large regional areas: it does not apply one jot in smaller country towns where local people probably have lived there all their lives. They are engaged in local industry. That's what their training is for, and then if you displace a man from a timber mill at the age of 55 and say, "All right, mate. You've got to uproot your family, move to a city area, because there's no work in the country for you, and be retrained as a counter jumper or something," it's impossible. People

cannot do that. What it seems that the commission is dealing with here is a theory that may apply very well on a piece of paper but, my word, it doesn't apply to people in a living situation.

It may well be in city areas, where people are used to moving from one office job to another, that if an office job in a printing firm disappears then you can get an office job in maybe a chemist's or some other retail establishment. This doesn't apply in country areas that are based on either mining or forestry or farming or fishing, where people have become skilled in their moving of logs through a saw or whatever. But to say that governments can help by retraining and reskilling and moving them to another area - that doesn't work and it never has. What it does mean, though, is that, if as seems to be happening, businesses in country areas are closing down, largely because of this pressure on them coming, as I've maintained, partly from NCP but from other sources as well, then what happens is that rural Australia becomes denuded of people, becomes denuded of industry therefore.

I come back to a point that I was making before this meeting started, and that was that it seems to me that if the people who are city based and are supported by service industries believe for one minute that they can continue to exist and succeed in a material economy such as Australia's and OECD economies are and do so at the expense of material production and new wealth generation, then they are sadly fooled, because without those materials new wealth generation industries, then the service industries cannot exist.

So back to this point. This is one comment that I think the commission may have misunderstood or may have not quite realised - how important it is for people working in rural industries in small rural centres for them to be able to stay there and continue to exist there. But to force them to be retrained for something totally foreign and move to a foreign area is just not possible.

PROF SLOAN: But how can that be? Nothing has ever stayed the same. I mean, you take the case of mining as a good example, where the ore body runs out. What happens of course is that the people do move on. It's interesting that in a sense people accept that, whereas where the economic life of another activity comes to a close then people don't accept that. But you actually do say that people do move on, people leave the district.

MR WELDON: People have to leave the district because there's nothing else there for them.

PROF SLOAN: Yes. So that is an adjustment.

MR WELDON: As far as the miners are concerned, I remember when the scheelite mine closed down on King Island, most of the miners there were not King Islanders anyway. Miners in Australia have been for many years itinerant in that - they have been, except possibly in Queenstown and Broken Hill. But in the rest of Australia's mining communities - - -

PROF SLOAN: There's Hunter Valley, Mount Isa, Western Australia.

MR WELDON: Some Western Australian, but for much of Australia the miners move from mine to mine. I've met miners on the west coast that have worked in mines all over Australia, and many of them do that. But in some of the more settled areas, sure, they stay - in Queenstown over 100 years and Mount Isa for a long time too, that's true, and other places. But mainly you'll find the professional miners do move, and even there they are becoming more settled because they're being flown in and flown out now and they can establish a home base. For farmers and foresters and people dependent on a local fishing industry where they know where the fish are, they know where they're placed in that local area and they've been dependent on it for many, many years, that's a different situation. Those country and rural communities have been there for a long time, the people have been there for a long time. They've contributed positively to the national economy for a long time and they are being forcibly uprooted and moved out.

Now, it's all very well to say that an industry is no longer required. If it's no longer required, one has to ask, where are the raw materials going to come from, because that's what they've produced there. Farmers are producing raw materials, foresters are producing raw materials and so are the fishing people.

MR BRAITHWAITE: Somebody said to us in Western Australia it's not the people who go out of production on primary industry: the land stays in production, it just changes owners. So particularly in primary industry what you'll find is that, unless the land is used for subdivision around a bigger city, that land just changes owners, and what might have had six or seven owners 40 years ago now has one owner as they go into something bigger. That's a trend that's been going on for decades. So perhaps we ought to just crystallise our thoughts on this: to what extent in the primary industry area is wealth not being created that wasn't there before on the assumption that it's now being done in bigger lots, and to what extent has national competition policy affected that?

MR WELDON: So we have to decide whether we want a rural and regional Australia or not.

PROF SLOAN: I'm not sure that's right because even if you said yes, what can anyone do? What does the government do? I think the government does do a lot, if you read through our report, to support rural and regional Australia, but to say, "We want a rural and regional Australia," is that suggesting above and beyond something that would emerge through natural processes?

MR WELDON: I think governments in the OECD still have, although globalisation seems to be taking it over - but I think governments and communities and bureaucracies in the separate countries still have, limited but a role in influencing the future and development of their own countries. That's been reduced, as I said, by globalisation but it still exists to some extent. Therefore if Australia decides, as at an

economics meeting in Brisbane a couple of weeks ago - I've forgotten his name but I'm sure you would have heard of it. There was an economist from ABARE, I think, who said Australia's future would not be in manufacturing as such, we would not be a manufacturing country in the future, most of our manufacturing would be in some processing of raw materials and that's as far as our manufacturing would go. The reason he gave was that Australia is too far away from markets and there's not the capacity for us to be a manufacturing nation. I think he should have been shot, quite frankly, because to take that - - -

MR COSGROVE: We're not unusual in that regard. Every OECD country has seen the relative size of its manufacturing sector decline, to the point where I think you'd be lucky now to find an OECD country where manufacturing accounted for more than 20 per cent of total national output. In our case it's a bit lower than that. But that's not to say that manufacturing activity is not continuing to grow.

MR WELDON: It's growing at 2 per cent according to reports.

MR COSGROVE: Yes, and likewise primary product growth is continuing.

MR WELDON: 2 per cent, yes.

MR COSGROVE: It's just that, as we were saying earlier in the morning, people as their incomes increase and as technology progresses choose to spend more of those increasing incomes on service items. So people themselves are driving the pattern of economic production. That's how economies operate.

MR WELDON: I know, but it's not economic production. That's the point I was trying to make before, that service industries - and we can debate this if you like - as such produce no new wealth at all. That's my contention and I'm quite happy to argue it.

PROF SLOAN: I think that's absolutely wrong.

MR WELDON: I think it's absolutely right.

PROF SLOAN: At point nought the service wasn't being provided, at point one it was, therefore it's new wealth. But I think the more interesting thing is, taking your point that the government or the governments have to take a stand about rural and regional Australia - what are the kinds of things they can do above and beyond what's already done?

MR HINE: I'd just like to think that it might be an appropriate time now to talk about the important industry in our area, and that is the dairy industry.

PROF SLOAN: Yes, we'd like to hear that.

MR HINE: I'm a dairy farmer and all my life and Mike is too, so we think we know

a little bit about it. In the last few years the dairy industry has progressed to really some extent in Circular Head with the influx of the New Zealand influence, if you like, that have come over. There's been a big farm purchase of a Woolnorth property where they renovated heathlands into dairy farms and there's been a big increase in production. There is also potential there to probably even double it again in Circular Head. So the dairy industry is our biggest industry, and if that gets a sneeze the whole town gets a cold. What we are seeing now is that we're moving into an era of another price drop this coming season and our inputs, our fertilisers and all those things, seem to be increasing, although probably not to a lot of extent the last couple of years. But they have been, so input costs are fairly high. You see a situation arising this year with the threat of deregulation, which is another issue, where the farmers themselves will put on more cows if they can, increase the pressure on themselves, it increases their fertiliser costs, it increases their debt load and the merry-go-round just goes a little bit faster. Some of them are having very much difficulty in getting off it. You know, it's a situation where in some instances it's a bit sad.

The deregulation threat is something that a lot of farmers are not real clear about, they don't fully understand it. Why would we, as a country, want to give our - I mean, from where I sit I can see the big winners of deregulation are the supermarket chains, which control probably 80 per cent of the sales in Australia and I think that's something the government can do something about and they probably should have done something about it years ago, where in America they have got some system in place that controls that. So we see the bigger getting bigger and wealthier and the smaller being phased out and that's a thing that's been going on in the dairy industry for years. I don't know how much longer that can go on for because the simple fact is that farmers will be leaving the land unless we can get a turnaround. If this deregulation comes in and it's going to hit as hard as what it's predicted to hit there'll be a lot of farmers go out of business.

PROF SLOAN: Why would the New Zealanders invest then in this industry if it doesn't have a future?

MR HINE: The time when they came over land in New Zealand was dear and they came over here and land was cheap. At that particular time there was a feeling around that the price for butter fat was going to be 8 to 10 dollars a kilo. At the particular time they came over it was around about five and that sort of philosophy rubbed off on a lot of farmers around the district and they increased their debt load by buying properties and increasing herd sizes so that meant they'd increase cow sheds, big silos. Ever since then the price of butter fat has actually dropped. So it went against the trend or went against what was foreseen. That got a lot of people in trouble, including some of the New Zealanders themselves.

PROF SLOAN: But that of course has got nothing to do - I mean, BHP thought the price of copper was going to up and it went down. That's a business mistake, isn't it?

MR HINE: I know, but what about - what part is NCP playing in the deregulation of the dairy industry and the level playing fields that I feel that they're only level in Australia proper.

MR COSGROVE: All states are reviewing their dairy legislation insofar as it restricts competition but there again in the end the sheer pressure of market forces, especially in Victoria, the lowest cost producing state, may well be more important in determining the outcome of the dairy market than NCP reviews. But let's assume for the sake of our discussion today that those changes do occur as a result of NCP. Are you saying - and this gets back to the point Ray was raising earlier - that the actual level of dairy production in your region would fall or merely that the number of producers would decline?

MR HINE: That's about what would happen I suppose.

MR COSGROVE: I don't know if I can pick up the point that Judith has been inquiring about. What adjustment opportunities, opportunities to move into new types of production would be available in the region for those dairy farmers no longer able to be profitable? Would they, for example, have options in forestry or other areas?

MR HINE: Cropping industry or something like that you're talking about?

MR COSGROVE: Any other - - -

MR HINE: Utilise the land for other purposes?

MR COSGROVE: Yes.

MR HINE: I mean, the opportunity is there, I suppose. Poppies is a - there's a few crops about. Again, forestry - and this is another thing that we feel as a community, where it's a possibility there where forestry take over of some of our smaller communities and they go planting out whole areas of trees you see the devastation again of the schools and the shops and halls and communities where the whole - they go in and buy whole farms. We've had the situation in a neighbouring municipality where they just doze the houses up and plant it out with trees. In a small way you see the devastation of small communities when there's forestry pushes. It's been on in a fairly big way in the last few years. Whole areas have been planted out to trees. I don't know if that's what we want as a community either.

MR COSGROVE: But are you saying that somehow or other governments should try to preserve what is there in a particular point in time rather than to allow some degree of change to take place?

MR HINE: I'm saying that a crop of trees is a 15 to 20 year cycle, where a crop of turnips or poppies or cauliflowers is only a 12 month thing and same with cows, I suppose, but why go and tie up all that good land in something like trees where it

could be probably earning a lot more if it was planted out with something else? I don't know but I suppose it's market forces that does it but the wholesale destruction of communities is something that we're a bit concerned about.

MR BRAITHWAITE: What's challenging you at the moment? Is it interstate trade from Victoria in milk or is it a market that is getting smaller, your manufacturing milk and your fresh milk? Are you under challenge from Victoria or not?

MR HINE: We've just been taken over by Victoria. UMT was the major manufacturing plant in Tasmania. It's been formed as part of Bonlac now. Bonlac has sort of taken it over so to a certain extent Tasmania is part of Victoria.

MR BRAITHWAITE: Yes, but do they import product here or do you still process your own product?

MR HINE: No, we process it here.

MR ARNOLD: 80 per cent of Tasmania's milk is, in fact, exported. Our liquid milk trade domestically is a very, very small part of it but with the promise of deregulation we can look forward to that liquid milk trade that is already here being absorbed by Victoria because of the cost of production over there. So our local manufacturers will go out of business and consequently jobs and the merry-go-round begins again. So in that sense I guess our real concern is that the social capital of rural and regional Australia is just not being regarded by the imperatives coming out of the NCP.

I mean, that is the bottom line, that social capital is being ignored and social capital being the fabric of our communities is not regarded in any way shape or form in all of the deliberations impacting NCP. I think that is the bottom line exercise, where all of a sudden our communities lose 10 or 15 or 20 people out of a community. It can dramatically close, for example, the level of seniority of the people at the local schools all of a sudden gets impacted which then results in the ability to attract educators of excellence and that sort of declines because people don't want to come to the rural and regional areas because their schools are not regarded as significant as those in urban areas. All of a sudden we just see the spiralling downwards of the whole social fabric of the community. I think that is our fundamental concern with NCP.

We're not afraid of competition. Let me say that the Circular Head Council has probably been at the forefront in terms of developing and using entrepreneurial activities in our own business unit. We have created a business unit for our outdoor work force which has contracts of about \$5 million with council. So we're not afraid of competition and we're preparing these guys really for the competition but at the end of the day a very key part of what we're on about is also protecting the social fabric of the community and so we invest heavily in social capital in terms of our own workforce by preparing them and giving them the preferred contractor status so

that they are able to meet the challenges of the future in that sense. But I think at the end of the day, in terms of the deregulation of the dairy industry and the forestry sectors

and all the other public services that the pressure is coming on, the social capital of the community is being eroded and nobody seems to care and that is a real problem.

MR BRAITHWAITE: Could I just ask a particular question there? Do you think the public interest test is deficient in being able to handle this aspect of social capital?

MR ARNOLD: I think it is.

MR BRAITHWAITE: In what way?

MR ARNOLD: In that there's been no parameters put on the public benefit test. I mean, how do you measure the loss of social capital? How do you measure the loss to the Circular Head community of the fact that because we lose enrolments in our school all of a sudden the status of the school is downgraded and our kids then for generations in perpetuity seem to suffer from that exercise. You just can't put those sort of measures into an economic model for the public benefit test.

PROF SLOAN: So it's really the peril of population decline for whatever reason. I mean, quite a lot of the things that your identifying aren't a consequence of NCP. But if you've got a small community and you start to lose population it has a sort of implosive effect.

MR ARNOLD: It does but we would argue that our community has got potential yet to be developed in the whole exercise. I mean, we talked a bit about our dairy industry. We have 217 dairy farms in Circular Head. Agreeably, we probably had 350 10 to 15 years ago but our dairy cow population is now 52,433 - probably 432, you had one die this morning, didn't you? But that 52,000 dairy cows is probably the highest population of dairy cows Circular Head has ever had. So the average farm is about 260 dairy cows per farm and obviously 40 years ago it was probably 40 cows per dairy farm. So we agree - - -

PROF SLOAN: But you wouldn't recommend we go back to that?

MR ARNOLD: No, that's right. I mean, in a sense - - -

PROF SLOAN: I suspect they were poor as church mice when they had forty cows.

MR HINE: It's a funny thing you should say that because when I left school and I went home on the farm I was only 15 and my father was employing somebody to help. We milked 80 cows and we were doing things then, borrowing money and buying land and buying tractors and things that we can't seem to be able to afford to do now. I don't know whether that's - what you're saying seems logical in a sense. It should be true but I don't know whether it is.

PROF SLOAN: But we're not going to turn back the clock.

MR HINE: No, we're not.

MR ARNOLD: That's right but what I was saying is we've got 52,000 dairy cows and that has grown 50 per cent over the last four years. So four years ago we were down more like 30,000 cows. So we've had a 50 per cent growth and we believe that we can still double that, we can still have 110,000 dairy cows. So Circular Head, instead of producing 205 million litres of milk per year could, in fact, produce 420 million litres of milk per year without too much imagination. We think that is a genuine reality. What we are concerned about is that the deregulation, that seems to be driven by NCP imperatives, is taking away the opportunities, the aspirations of our community in terms of achieving those sorts of levels of production because of the uncertainties provided by deregulation - which we don't - we're not yet sure is in the best interests of our dairy farming community. Deregulation is being driven by NCP.

MR COSGROVE: Of course NCP doesn't look at producers only as the stakeholders, if you like, in the whole process. They're trying to take account of the interests of the community more broadly when they conduct these reviews. As you've said, there are public interest provisions which are meant to be taken into account and they can be as relevant to producers as to consumers or others with an interest in the outcome of the review. These things always end up with some sort of judgment having to be made but is it the case that so far as your region is concerned dairy is of such prominence in the overall scale of economic activity that you would you think not see that doubling of milk production if deregulation occurred? I had thought that Tasmania was a relatively low cost producer of milk, unlike states such as Queensland or New South Wales.

MR ARNOLD: That's true. However, we have Bass Strait which prohibits our access of our liquid milk into the Victoria market, New South Wales market or Queensland fresh milk market and that's where - - -

MR COSGROVE: Are you mainly what they call a market milk producer?

MR WELDON: No, process milk.

MR COSGROVE: Process milk, yes.

MR ARNOLD: We really do have bulk commodity production of butter, skim milk powder and cheese. That's where the lion's share of the milk in Tasmania goes into but in terms of the NCP imperatives and deregulations there is no guarantee that the market milk premium is going to be returned back to the dairy farmer. The likelihood is that that premium margin in there is going to be taken out by the large supermarket chains. There is absolutely no guarantee that those premiums will come back to the dairy farmer.

I think that's the biggest fear of deregulation, is that all of that profit is going to be subsumed into the supermarket chains because there's no legislation anywhere that protects those true margins in the whole exercise coming back to the farmers. Just to have it devoid of any sort of regulation and allow market forces to predominate we

really know who's running the country and that really is the supermarket chains and that is the fear of the dairy farmers. We need the regulation so that there is a level playing field for all people in the exercise.

MR COSGROVE: If you look at it in the other way, somebody is paying that premium to the dairy farmers. I guess it's either the processors, the retailers - the supermarkets mainly - or the consumers of milk. So in that sense there's a big transfer at least in the - - -

MR ARNOLD: With respect, Mr Chairman, the consumers will still pay the same price.

MR COSGROVE: They may, yes. That's a possibility.

MR ARNOLD: So the profits are just being shifted from the producer of the milk into the large supermarket chains which inevitably end up outside the country and so we think that the whole - - -

MR COSGROVE: Why do you say inevitably outside the company. There's a large Australian shareholding of those retail companies.

PROF SLOAN: They are Australian companies but - - -

MR WELDON: In a supermarket in Burnie last week somebody was checking this out and a litre of bottled water cost more than a litre of milk. Really, if we're going to start talking about these sorts of relative values then our relativities seem to be askew, to say the least.

MR COSGROVE: But you see, the price of milk - I suppose the retail price of milk is no longer regulated although it was until relatively recently, and the farm gate price of milk is still regulated.

MR WELDON: And the bottom line of that is that Davey Maynard, some consultants in Tasmania three years ago conducted a survey of the Tasmanian dairy industry and the farm gate pricing and they said then that \$5 was breakeven and at \$5.50 you could get just above break even in terms of production for dairy product on farm. The current price is below \$5. Bonlac has announced that it's looking towards a 10 to 15 per cent cut in the next season and deregulation is going to cut even more off it. The bottom line currently is that most dairy farmers operating with less than 250 cows - let's say 200 cows - are running at a loss and have been for the last two or three years. With what's coming down the track, a significant proportion will simply have to go out of business. They will simply have to go out of business.

MR COSGROVE: We see that occurring - - -

MR WELDON: Some of the bigger farmers are now saying that they can't afford to have that margin drop so significantly either. Deregulation has been - - -

PROF SLOAN: And yet the Victorian farmers have voted for deregulation.

MR WELDON: But the Victorian farmers in the last two months have said, "We were hogwashed," and they are really worried about it now because many of them milk no more than 80 or 100 cows and they know that they are going to suffer.

PROF SLOAN: I'm sure that in a sense - I mean, just in all other areas of agriculture, in the shake-out the least efficient do fall out. But as Ray said, that land will not lie fallow and will be taken up either by larger dairy farms or by other farming activity.

MR WELDON: And so the social capital is totally lost.

PROF SLOAN: No, it's not; not necessarily. But the point is I want some concrete examples. I mean, I'll give you an example. My parents-in-law had a property outside South Australia, above Goyder's line, I might add, and when they were young there was a town of 150 near their farm called Delcra. Now it does not exist at all. There are a few bits of stones. Was that a loss of social capital?

MR WELDON: It probably was.

PROF SLOAN: But it happened, didn't it, and it wasn't in the context of any deregulation or anything.

MR WELDON: So we're accelerating it.

PROF SLOAN: This was wheat country, this was sheep country.

MR WELDON: So we're accelerating it through these current processes that are in place.

MR COSGROVE: That was what I was going to ask you. You mentioned your population is just over 8000. Is it declining, stable, rising?

MR HINE: It's been fairly static for the last sort of number of years. With the New Zealanders that have come in, we have lost in other downsizing in other industries so the 8100 is reasonably static.

MR COSGROVE: So what you're saying is that either to date or in the foreseeable future you see important changes occurring in the composition of that population, a loss of social capital?

MR HINE: That's right. And as a result of NCP, which we've started to see through the electricity industry and the telecommunications industry, they're just the first two that we brought in, and water is very, very close on us in terms of water

reform and of course dairy industry deregulation and then moving all through the industries we just see a massive sort of shift of employment and therefore, you know, loss being created in a sense by NCP imperatives which at the end of the day we don't believe are really going to deliver what was intended in the first place. I mean, yes, we believe in the principle of operating our own business, for example, and strong private industry guidelines, but not to the extent where you just have mass sort of reduction of staff and just sort of taking out the community. That really is not - I don't think it ever was the intention of NCP.

PROF SLOAN: No, it's not, but I mean, of course, Tasmania as a whole hasn't been growing.

MR WELDON: No, it's going backwards.

PROF SLOAN: So you're embedded in a larger region which is not prospering.

MR WELDON: We'd like an opportunity to break that cycle and that's why in Circular Head we're actively endeavouring to make changes that will cause our productive area to grow and that's part of the reason why we recently entered into a partnership agreement with the state government wherein we can utilise some of the resources of the state to try and get some further growth into our own community. But Prof Sloan asked a while ago what can governments do. I pick up another part of your report on page 313 where you talk about equalisation from state grants and how - you point out here:

Equalisation results in rural and regional local government authorities receiving significantly larger amounts on a per capita basis than metropolitan local government authorities.

We've been through the last few years with our grants commission and arguing the case which has been agreed to, that indeed the city-based areas do significantly better per capita because of the Mulholland formula within the agreement which says that sealed roads attract far more because their upkeep requires far more than unsealed roads. In country areas it's nearly all unsealed roads and we have 750-odd kilometres of unsealed roads and about 20 kilometres of sealed roads.

That means that say the city of Devonport or Launceston or Hobart which has all these sealed roads that have been laid down over years and years and years get significantly more funds per capita in terms of road funds than a country area does and yet in our country area we're running log trucks, we're running milk tankers, B-doubles carrying produce out of our area, not into it - but carrying produce out of the area on our unsealed roads. So that statement I suggest should be looked at again, particularly in terms of the Mulholland formula because in fact the country areas do less well out of the road funds.

PROF SLOAN: Although we have some figures in the report which - I mean, they're sourced from the grants commission which - - -

MR COSGROVE: That's the Commonwealth grants commission and you're talking about your state.

MR WELDON: The state has to distribute those funds under the state grants commission from the Commonwealth and the Mulholland formula applies right across the country, doesn't it? I think it does, on road funds.

MR COSGROVE: Is it a subject of controversy, this apparent distinction that you're - - -

MR WELDON: It is to the extent that it's pointed out here that that's one of the ways that the Commonwealth aids country areas. Our area is producing a million dollars a day and we get \$800,000 a year out of the fags. That's all. I mean, it's a flea bite compared to what say city areas get that don't even need it. They put it into bank accounts.

PROF SLOAN: I don't know about that.

MR COSGROVE: We don't have a lot more time I'm afraid but could I come back to some other aspects of national competition policy. We've been talking mainly about the impact on a particular industry, dairy, of deregulation. Of course national competition policy was intended to help producers of all types and ultimately consumers as well by reducing as a result of increased competition or more efficient provision of infrastructure things like the cost of electricity, gas, telecommunications. Now, in your state you have no gas other than bottled gas, do you. Nor do you have at present more than a single supplier of electric power. Isn't that also the case?

MR WELDON: Yes.

MR COSGROVE: So you don't really have any competition in that energy area. Telecommunications, in your particular part of the state, again, is there much competition? You've got Telstra no doubt.

MR WELDON: Telstra's it.

MR COSGROVE: And you've probably got some alternative suppliers of long-distance phone service but nothing at the local call level other than Telstra. So really you're an area which, if you like to put it this way, is suffering perhaps as much - leaving the dairy story to one side - from the lack of competition as from application of competition.

MR WELDON: That's drawing a very long bow, Mr Chairman.

PROF SLOAN: And you're going to do well out of Senator Harradine's package too.

MR WELDON: That is an extraordinary anomaly, isn't it. You won't say yes or no. it is.

PROF SLOAN: Being South Australian, it sticks in my - - -

MR COSGROVE: But the long bow, what is it about the long bow?

MR WELDON: Because the electricity industry, the water industry, the telecommunications industry - all of these industries nationwide are being exposed, if you like, to competitive stresses and they are responding to it. So as far as those national decisions are made, they have and they do reflect through onto us whether we have indigenous competition or not.

MR COSGROVE: I can see that you might be, as a result of say corporatisation of Hydro-Electric Commission or whatever - - -

MR WELDON: We corporatised that 10 years ago.

MR COSGROVE: You might be experiencing some what you see as adverse effects on the service provision side, perhaps in terms of the number of jobs in a particular part of Tasmania. All I was trying to say though was what was meant to be and is proving to be in most of the mainland states an important offset to those adverse consequences is not really yet showing up in Tasmania because there is no competition.

MR WELDON: That's right.

MR COSGROVE: You will have of course, Basslink, won't you, before too long.

MR WELDON: They're talking about it. I hope not but they're talking about it.

MR COSGROVE: And there is meant to be - - -

PROF SLOAN: Why wouldn't you want that?

MR WELDON: Because it will link it into the South-East Australian grid which will link it into the grid authority which will link it into Tasmania being screwed again.

MR COSGROVE: Why should that be the result?

PROF SLOAN: You could only benefit from having a new source of energy.

MR COSGROVE: Yes, you would have an alternative supply.

MR WELDON: No.

PROF SLOAN: If you don't want it, don't take it, but you could only benefit.

MR WELDON: We haven't the time. I look forward to a chance to discuss that one too.

MR ARNOLD: I think at the end of the day - I mean, you have 8100 people and you're trying to force all these national competition issues and trying to have two service providers or whatever else, it just is totally against what would normally occur within a city environment where you have a population and you have a level of demand that would be interested in such a thing so I just think that again caution is required in terms of application of competition policy in the rural and remote areas because at the end of the day it's going to be counterproductive and I think that's been really the force of our argument.

MR COSGROVE: So you think the smaller and more distant from a metropolitan centre a particular area is, the less likely it is to gain or in fact, the more likely it may be to lose from national competition policy.

MR ARNOLD: Yes, to lose.

MR WELDON: Because as the dollar and the economic arguments are run, then the small communities tend to lose in that exercise.

MR HINE: That philosophy is really shown up with Telstra when we talk about the mobile phone network down home. We've been pushing for mobile phone in our isolated areas where it would be of huge benefit to farmers and fishermen and people alike in those isolated country areas but they say, you know, you have to get to a level of 2000 population before it warrants it and all that. I mean, we're saying it doesn't seem to be right. Why should the towns and cities be covered with mobile phones when really there's plenty of other phones there anyway but in the isolated areas where the fishing boats, for argument's sake - there's a lot of money spent on communications in the fishing industry for safety reasons where they could be quite easily catered from a mobile phone network down along the north-west coast.

MR COSGROVE: But again I would say - and that situation is no worse now than it was before NCP came into existence and in fact the problem, I would say, in that area that you face is a lack of competition.

MR ARNOLD: Not so. We would argue, we would contend, sir, that Telstra has been more dollar driven than ever it was. So some of the social infrastructure that is required for all of Australia is never going to happen now because of NCP imperatives.

MR COSGROVE: I think it could be demonstrated by Telstra - and we'll be talking to them separately - that the coverage of their mobile phone network, let alone Optus or Vodafone, is greater now than it was five years ago. I don't think there would be any doubt about that.

MR ARNOLD: That might be the case in built-in areas where there is a dollar to be made but from Telstra's perspective there's not a dollar to be made out of Circular Head, so they'll leave us off the map - and they're the only genuine service provider we would have had, they're going to leave us off the map from any sort of enhancement of the existing infrastructure. Sure they'll support the existing infrastructure but that's about it, because they're driven by the dollar and so there's no social obligation on them to provide a service for all of rural and regional Australia and that's one of our concerns.

MR COSGROVE: They are subject of course to a government imposed universal service obligation. It doesn't include mobile phone arrangements anywhere.

MR WELDON: We had this discussion with Frank Luff in Canberra and he made the point then that indeed Telstra has to operate within firm business principles and that therefore when it was put to him that services should be provided he just said no and that was it. So then we also took up with him the fact that people - the technicians etcetera - had been pulled out of areas and that they were travelling up to 100 kilometres to get to a job. He found that hard to believe but said he'd look into it and sure enough it was true, so he said that changes would be made. But even so at the end of the day, as the general manager has pointed out, he was quite firm that if they could not see economic reality for Telstra in a particular service then they wouldn't do it. He's driven very much - or Telstra is driven very much by NCP.

MR BRAITHWAITE: But the thing is out of the second sale of Telstra there's up to a billion dollars being allocated for particular improvements in a lot of the areas, so I'm not sure what that is.

MR WELDON: No, none of us are.

MR BRAITHWAITE: Whether Tasmania is going to get more of that now than what it was before, so that's a bit of good news there. Probably another bit of good news is the retail inquiry is in town today looking at the supermarket situation.

MR WELDON: That's right. You mentioned that in the report too but we haven't got time now.

MR BRAITHWAITE: Maybe they're better equipped than we are to deal with that. Could I just come back on the aspect of dairy. If Victoria deregulates completely what can the state government do in its review of the dairy legislation in the face of that?

MR WELDON: Yes, it's difficult. Of course the only logical or the only administrative instrument that would be available would be the spurious use, if you like, of health regulations in inspecting everything that came into the state and pushing up the price that way. Reluctantly, unless the Victorians can be convinced that it's not in their own interests then they will proceed and if they proceed then

everything will

follow from that and the rest of dairy Australia will suffer.

MR BRAITHWAITE: And nothing in the national competition policy can assist it whatsoever.

MR WELDON: Well, I'm not sure because national competition policy almost supports - theoretically, ideologically - the Victorian - - -

MR COSGROVE: Yes, I mean, there's an underlying presumption - - -

MR WELDON: - - - bureaucracy's position.

MR COSGROVE: - - - that restriction, not competition, should go unless they can be shown to produce a public benefit, yes.

MR WELDON: And the definition of public benefit is a bit odd, to say the least.

MR BRAITHWAITE: There is one comment that the mayor made earlier - I think it was the mayor - that there are dairy farmers going into timber production now in your area.

MR WELDON: Yes.

MR BRAITHWAITE: So those dairy farmers have had a look at their situation and chosen to make an alternative use of the land.

MR WELDON: No, they've sold out. They've sold to the forestry companies.

MR HINE: Or private enterprise, you know, plantations. That's the problem we've got. It's a bit of a problem when the land is sort of devalued in such a way where trees became an option compared to dairying, I mean, in the market value of your land. That's a bit of a concern.

PROF SLOAN: Again that's the economics of it, isn't it?

MR HINE: How do you know that in 15 or 18 or 20 years' time and these trees are to be harvested that the same - - -

PROF SLOAN: It's a commercial risk that the owners take.

MR WELDON: The other thing that's worth noting, I think, is that due to the pressures that are currently upon the dairy industry, particularly in Tasmania, the revaluations of farms have significantly fallen, and they're revaluing in our area this year. They've just done revaluations in the Deloraine general area there and values of dairy land have fallen significantly. So farmers therefore are saying, "This is getting too hard. We're in debt up to our eyes, we're going to have to get out. We're going

to suffer even more trying to get out."

MR BRAITHWAITE: Just on the question of the forestation, were the quotas sold back into the industry or were they cancelled altogether?

MR ARNOLD: There was no quotas as such and the dairy cows just simply moved back into other farms, getting bigger. So that's why our dairy herd has increased 12 to 15 per cent per year over the last four years each year. Even though some of our land is now going to forestry, the herd is not reducing but rather increasing because you have the likes of Woolnorth coming from heath virgin land and now they've got 9245 dairy cows on their farm, so from zero to 9000 in three years is a fair growth. So some of the other dairy farmers are going into forestry and some of the virgin land is going into dairying and there has been that sort of move on in recent years. But it's all coming to an abrupt halt and that is our real fear in the whole exercise.

MR BRAITHWAITE: What you're saying council - you've got no guarantee from the state government that rural roadworks, main roads work and things like that will be allocated to the council in preference to other contractors.

MR ARNOLD: No. The big are getting bigger and the small are getting out.

MR HINE: It's a bit like - we've got, I suppose, the same scenario on our farms. I mean, we're seeing the demise of the family farms and we're seeing them being taken up by the corporate farmers now. We could argue all day whether that's a good thing or a bad thing from a community perspective. I feel it's a bad thing because all of a sudden our towns haven't got the people flowing through them that they probably would have had years ago, but that might be just a trend.

MR BRAITHWAITE: Are young people staying in the industry?

MR HINE: No.

MR BRAITHWAITE: So the dairy farmer is an ageing person, is he?

MR HINE: Exactly.

MR COSGROVE: In all of this it's worth bearing in mind - there's a chart I think in the second chapter of our draft report which shows that the proportion of the total Australian population living outside capital cities halved between Federation and the mid-1970s. So a lot of the concerns you're expressing have been the result of powerful, long-term forces under way. We realise and we've shown that in some states - and I'm not sure about Tasmania itself - there's been a further shift from the sort of inland areas to the coastal regions in more recent times, but the really big shift out of rural areas occurred a long time ago. Anyway, I'm grateful for the effort you've made to come and talk to us this morning and for the interesting matters we've discussed. Are there any other particular points you wanted to leave with us before we move on to our next participant?

MR HINE: No, I think we've covered them pretty well, thank you, sir. I'd just like to say thank you for the opportunity and I know that you'll take our concerns on board.

MR COSGROVE: Certainly.

MR HINE: Once again, I'd just say a big thank you for the opportunity to come up and talk. It's good to sit down and talk through some of the things we believe in.

MR COSGROVE: Yes, indeed. Of course, you have the further option, if you wish, of putting any additional points to us on paper. It's up to you as to whether you decide to do that. If so, we'd like to have it I think in the next fortnight because as we were saying earlier our deadline is now bearing down upon us. Thank you for coming.

MR HINE: Thank you very much.

MR COSGROVE: Our next participant is the Launceston City Council. We'll need to have each of you, for the purposes of our recording of the transcript, identify your names and the capacities in which you're with us please.

MR GROENEWEGAN: My name is Robert Groenewegan. I'm economic development officer and senior policy and projects planner with the Launceston City Council.

MR TIDEY: I'm Michael Tidey. I'm the corporate services manager of the Launceston City Council.

MR COSGROVE: Thank you. I must say we're very grateful to you for having attempted to address each of the issues on which we'd sought comments and information. It's a great display of businesslike effort, I think. I'd like to go over some of those points but is there anything you wanted to say to us before we go into that more item-by-item discussion?

MR GROENEWEGAN: No, I think you're right. I think what we did try to do was, I guess, be fairly specific and not go beyond what you'd asked us or asked for comment from. I'm not saying in any way that you were restricting us to that but we just felt that was appropriate from our point of view. I suppose I'd like to congratulate the commission on the ease of which it was to get through the report. I found it very easy to read and follow which was much appreciated. So basically from our point of view I think the system is that we will go through each of these one by one. Basically what we're seeking mostly is clarification on certain issues. I don't think we're challenging great chunks of the report. There are some areas where we're just seeking further clarification and you may want to take some of those on notice and get back to us or do what you can to answer them today.

MR COSGROVE: Let's do that then.

MR GROENEWEGAN: The first area was obviously in relation to the legislation reviews and the issues of the public benefit test. I guess in going through - it was interesting that we had Circular Head here before us, but in my review of the Tasmanian Dairy Industry Act, it was interesting to see how they applied the public benefit test from their point of view and how they saw it relevant. I suppose from my reading of that it was clear that if that wasn't applied consistently one wonders how competition policy itself could actually be applied evenly across the state and across Australia and I think that is a real issue. So basically from our point of view I guess we were endorsing the comments that you made in the report that there should be some guidelines about how the public benefit test is applied, so it can be applied consistently I guess between states and even within states. So I guess we're just endorsing already what you've already mentioned in the report there.

MR COSGROVE: You referred there in that second-last block to the fact that:

The discretion that all jurisdictions retain, as a result of some inconsistencies

between them, the public benefit test applied in the Dairy Industry Act is a case in point.

Were you simply citing that as an example or do you have some particular grasp of that review that would lead you to have concerns?

MR GROENEWEGAN: No, perhaps I'm going beyond my brief a tad there. What I've done basically is read that review, I saw the way they'd applied the public benefit test. To me it didn't seem to strictly coincide with what was asked for originally. I'm curious as to how, I guess, the Productivity Commission would analyse that and say, "Well, have they actually applied the public benefit test correctly?" I guess that was the point I was trying to make rather than to specifically poke at one particular review. If there's a question, I mean, how does the Productivity Commission deal with that? Do you sort of turn around and say - - -

MR BRAITHWAITE: In the report we actually say that some of these reviews should be done nationally and not state by state, and dairying was one of them.

MR GROENEWEGAN: But basically you leave the application of that public benefit test to each state government's discretion, do you?

MR BRAITHWAITE: Yes.

MR COSGROVE: You had another interesting comment - this is in the final block there:

Too often we're looking for reasons to blame compliance as having a negative impact when in fact the public benefit on noncompliance may be a significantly greater negative impact.

What are you actually referring to there as compliance and noncompliance?

MR GROENEWEGAN: Perhaps again "compliance" is not the correct word, but what I was trying to imply was that certainly there's been a fair bit of criticism of competition policy as such. But actually if we don't go down the track with competition policy, a region like Launceston could actually suffer from not getting a lot of the benefits and I guess that was the point that I was trying to make. Certainly as a region, the northern region of Tasmania was seen as one of the top third beneficiaries - but we'll get into that a bit later. So certainly it would be seen to be counterproductive from our region's point of view to be continually contesting some of these things when we're actually a direct beneficiary. So I guess that was the point we were trying to make there.

PROF SLOAN: Well, that's a point well made really, because in a sense what the modelling tells you - that if you don't do this then you lose.

MR GROENEWEGAN: Yes.

PROF SLOAN: Whereas of course the notion of the public interest test implies that if you do do it, you lose.

MR GROENEWEGAN: Yes.

PROF SLOAN: And you have to dream up a reason why you mightn't do it.

MR GROENEWEGAN: I think unfortunately it hasn't been sold that well that we have actually been one of the beneficiaries. Everyone sort of seems to blame I guess competition policy for a lot of things and a lot of changes that have taken place but - - -

MR COSGROVE: What do you see as the benefits that you've derived?

MR GROENEWEGAN: Well, I only went on the modelling in the table that you provided for us.

MR COSGROVE: Right.

MR GROENEWEGAN: I have got some questions about that later, because we would actually like to flush that out a bit to see where those real benefits did occur. But certainly if we're in the top third beneficiaries in Australia it would seem strange that we would be complaining too much about competition policy as a whole.

MR COSGROVE: Right.

MR GROENEWEGAN: So yes, I think that was - I don't know if, Mike, you had anything to add?

MR TIDEY: No. I think that - it's just interesting, I've just read recently the audit department's review of their compliance with it and our own efforts to comply with public benefits tests for water. It is an imprecise process.

PROF SLOAN: But it's probably a holy grail to think that there's a precise test out there too.

MR TIDEY: Yes, that's right.

PROF SLOAN: What have been the nature of the water reforms in this area? I mean, you presumably have tidied up the sort of water pricing issue around Launceston itself - or was that always relatively efficient?

MR TIDEY: The water is a fairly complex one because the mechanics of actually complying with the model require metering and all those other things to be in place.

PROF SLOAN: Was this not metered up?

MR TIDEY: A significant part is metered. It's not totally - whereas, you know, a city like Hobart isn't metered. We note that in the table at a later point. But we still in the case of Launceston rate for a cost of providing infrastructure and for a consumption allowance, and then there is a charge for consumption in excess of that. Some of the history was that water was actually provided as a health service, rather than a totally private good in that sense. You cannot not provide water to a building, and so that has been the history. So any move to a greater charge, like most of the competition processes, is seen to create winners and losers. It's easier not to create those sometimes than make the change. But allowances and our bases of charging - we try and reflect full costs in the services but it's not totally a consumption charge.

PROF SLOAN: Are there cross-subsidies within that though?

MR TIDEY: Within the consumer groups I would think that there are, because of the rating that - you know, a property such as this will have a particular allowance and would probably not use that allowance, versus residential consumption. There is another side to it though. A lot of the capacity that's built into servicing a property like this is built around fire capabilities, so you actually put heavier infrastructure in than is needed. To be precise about the cost of that capacity versus what's used is not that easy either. But yes, there is a rating cross-subsidy, we would think, that does exist.

PROF SLOAN: I mean, they cleaned this up in Adelaide, because we had the ridiculous situation where, you know, carparks would be levied for water and sewerage when in fact they had no water and sewerage.

MR TIDEY: The basis of rating legislation is, though, that if the service is within 30 metres of the boundary then there's a rating obligation. Water and sewer are still recovered through rating processes, rather than through other legislations.

MR COSGROVE: Our general impression is that in what you might call rural or regional town water supply arrangements, reforms have gone a fair way and that the main catch-up in terms of the water reform element of NCP is rural water issues, particularly associated with irrigation and bulk water storage. Is that pretty much what you would say is the story for your city? You have done what you think you need to do? If so, have there been any significant consequences of the change?

MR TIDEY: Demand management preceded competition policy on the water area for us. So the ability to make consumption price sensitive is probably as big a driver. You know, in our case we spend about 3 and a half, 4 million dollars on water purchases from another joint authority, which is local government in the region. So our ability to reduce that cost through demand management has sort of preceded it, as I say. But I think that there's more discussion that we will have about annual allowances and perhaps looking at different charging options so that the total isn't increased. But perhaps there's a different share between the rate and the consumption

charge - is something that will be an ongoing issue that we would review.

MR COSGROVE: But people had become accustomed to being charged additional amounts according to the level of consumption before these water reforms were put on the competition policy agenda.

MR TIDEY: Yes, in our case it's still a relatively small proportion of the municipality that do get those consumption charges, so it would probably be too much to say the community generally accepts it.

PROF SLOAN: So how is Launceston and the surrounding area going? I mean, we hear generally negative things about the Tasmanian economy.

MR TIDEY: In terms of local government or economics or industry?

PROF SLOAN: Yes, probably the latter.

MR COSGROVE: Population, economic activity, yes.

MR TIDEY: Population overall is reasonably flat. There's a bit of shift between municipalities because of different boundaries within the urban, suburban region. Industry was I think down. The coal centres have probably been a fairly good positive in the success that there's been with those in the region. There has been a few other proposals that have been talked about that perhaps have generally given the community a bit more optimism - you know, generalisations rather than hard data, if you like - but the proposals at Georgetown for some new industry and that sort of thing perhaps are generally more positive than it might have been a couple of years ago.

MR GROENEWEGAN: Yes, we've probably benefited from being a regional centre in that we get a bit of the outlying areas sort of floating into Launceston.

PROF SLOAN: So a bit of a sponge city?

MR GROENEWEGAN: Well, it hasn't really reflected highly in the figures but probably the losses and the gains have managed to equate themselves. But I guess there's still a concern that there's a general drift of people away from Tasmania as a whole. We certainly have been a part of that too. We have lost a lot of people. Retaining, I guess, people once they get through university - the brain drain is still a fairly big issue in Launceston. And there's not a huge amount of economic activity. There is just not a lot happening. There has been a few, I guess, government projects which have given us a bit of impetus and hope, but it probably hasn't been as private sector driven as we would like it to have been, yes.

PROF SLOAN: What about unemployment?

MR GROENEWEGAN: Unemployment has been constant but we haven't

benefited as well as the nation has as a whole, with the changes that have taken place over the last couple of years. So our unemployment rate has fallen but not to the same extent that it has fallen nationally. So you know, we're still up around the 10 per cent.

PROF SLOAN: Right.

MR TIDEY: Our population mix has probably changed a bit too, to an ageing - and the loss of young people. That's a concern.

MR GROENEWEGAN: Yes. Maybe if we could move to - I think it's page 4. We just felt there were perhaps some potential inaccuracies in the table in relation to water reform that was presented in the report. I think Mike touched on some of that. I have just got down there as an example:

The two-part tariff requires that water use be metered and we note that Hobart are talking about it but still currently do not have metered water -

yet I think Tasmania was listed as - under the table, the two-part tariff, we got the tick.

MR COSGROVE: Yes.

MR GROENEWEGAN: Which would seem a bit strange given that we're not all the way there, we're three to 10 years away from having completely two-part tariff, and Hobart don't have it at all. They being the two largest population centres, it would seem strange that we would get the tick there.

MR COSGROVE: That's helpful local feedback for us. We were looking for people to guide us in terms of our initial assessment there.

MR GROENEWEGAN: Yes. So I guess in some respects we're questioning some of the things in there.

MR TIDEY: I think the other thing that has happened there though - the bulk water supply has transferred to regional authorities generally and so there has been a two-part issue for them and then a two-part issue for local government as well. So you know, it's a difficult one to aggregate across all those.

MR GROENEWEGAN: I think Mike also touched on the issue of - well, I guess cross-subsidising is the way we have described it. Yes, full cost attribution I guess hasn't completely limited cross-subsidisation. It still occurs to a large extent, where people pay a flat rate but they never use that amount of water. Yes, I guess the other issue is we're not sure who they are, we haven't really nailed down who was subsidising who, so we've got a fair way to go.

PROF SLOAN: So you think you're doing it - or you know you're doing it.

MR GROENEWEGAN: Well, with an excess water rate - you'd probably be able to explain it better than me, Mike.

MR TIDEY: Well, the rating process - because that's valuation based - will invariably have some component. But as I the document before, that's intended to cover infrastructure. Just how you relate that on a site-specific one is a bit different - you know, whether you would go as far as flat access charges, which underlies that two-part, and whether you'd go as far as full consumption, because of your health obligations and that sort of thing. But I think we would see some scope for reducing the allowance levels so that there is more a consumption. It's got some history too because it's always been called excess water, so it's got a punitive connotation rather than a buying what you use sort of connotation, if you like.

MR GROENEWEGAN: Yes, I guess in that regard we're just saying if we can have some clarification on how the table was put together and - - -

MR COSGROVE: Well, it was put together on the basis of information coming to us mainly through three sources, I would guess. One was the meetings which we had in the first round of public consultations. We also of course had some written submissions from people. But there was also an attempt made by the staff working in that particular part of the report to obtain information direct from water authorities, whether they were still local government authorities or some more corporate type of entity.

MR GROENEWEGAN: Yes.

MR COSGROVE: You know, we didn't expect that we would get the ticks and the squares and the crosses completely right. The sort of feedback, as I was saying, that you have been able to give us is helping us perhaps to refine this approximate indication.

MR TIDEY: I think the other area we're perhaps a little bit confused is if someone has then made a public benefit assessment that, "No, it's not in the public benefit to go to the next stage. How is your process - is your process going to reflect that?" "Well, they're complying with the intent because they've been through that public benefit process."

MR COSGROVE: Yes, well, that would be an unwarranted conclusion to draw at this stage.

PROF SLOAN: Definitely.

MR COSGROVE: In fact we as an organisation will have, I would think, no influence on the ultimate NCP assessment of progress in water reforms, which rests of course with the National Competition Council. I'm sure they're looking at these things in much closer detail than we have been able to do in the draft report - or

indeed may be able to do in the final report for that matter. So I think if you are worried about how that type of assessment process might be going your real point of attention needs to be, I guess, through your statement government and the National Competition Council.

MR GROENEWEGAN: Okay, thank you. Probably the next issue that we need to look at is page 8, which relates to reforms in transport, road transport.

MR COSGROVE: Yes, I've got you - an issue for the state government.

MR GROENEWEGAN: I guess the only thing that we would raise there is that we're interested to establish to what extent reforms have occurred in the transport sector in Tasmania, but again perhaps that doesn't occur through you people, that perhaps occurs through our own inquiries.

MR COSGROVE: No, not at all. Our task, as you will have seen, is really to assess the effects of reforms, and then of course in doing that we need to have some eye towards how progress is occurring with their implementation. I think it's fair to say that our general impression in this area, not just for the state of Tasmania, is that the reforms have gone more slowly than had been intended and that there are still some sort of jurisdictional discussions going on about how quickly to authorise new forms of transport technology, how to make more uniform regulation arrangements governing road transport. There has been some progress. I can't now recall the details, but it's a process which has still got a long way to go, is our general impression.

MR GROENEWEGAN: I suppose in the time-frame we had we had some difficulty in getting to the nub of what changes had been made quickly enough to be able to make some sort of assessment about that. But that's in our court, so - - -

MR COSGROVE: It has mainly to do with, as I say, making registration costs more uniform, reaching agreements on what sort of road requirements are needed to allow particular types of trucks to move from one state to another. There are some barriers to competition of that kind certainly still in place. One state might have a good road and bridge system, another one hasn't got that sort of system to enable the larger truck to use it.

MR BRAITHWAITE: I think it's one of the COAG agreements that's lagging the most.

MR COSGROVE: That's my impression, yes.

MR BRAITHWAITE: Just from memory I think it's about two years behind and they're now into another section of requirements, which are about 12 items, and beyond that there are still more to go. I think in the present assessment there's not a lot of advancement. I think they're almost on the deadline now with not much movement, but road transport particularly is probably the least progressive.

MR GROENEWEGAN: Which makes judging the benefits a bit premature at this stage.

MR COSGROVE: Indeed, yes.

MR BRAITHWAITE: Not until you get into some of the local council areas in the east.

MR COSGROVE: We can come back to this I think when we talk about the modelling, although it may not be a point of high importance for this area.

MR GROENEWEGAN: Yes. Just on the next page, again we made I guess a bit of an issue about the Dairy Industry Act, or I did, perhaps more correctly. I guess the public benefit test again is just - I just found that it was really up to each state government to judge for themselves how they applied that, and that to me was - the whole issue of them making an assessment about it, because it's a big issue, especially in a place like Tasmania, and if there's no consistent application I just can't see how we can flow through and actually judge the benefits correctly. I think I've made that point earlier anyway. Competitive neutrality, local government.

MR COSGROVE: Yes, I noticed your comment there. You feel you haven't suffered to date due to either inaction or a differing approach of adjoining council areas.

MR GROENEWEGAN: Again, I think it's an issue perhaps that we haven't had time to make the assessment properly. We've gone down the track a fair way, we think. Certainly our outdoor workforces are now a government business enterprise, and I guess putting it on that simple level, have they suffered from not being able to perhaps pick up the work of the adjoining municipality who haven't gone as far down that track? I think it's been too early for us to make that assessment, as an example.

MR COSGROVE: So you as a council have groups of your people who are actually competing, authorised to compete, for outside work?

MR GROENEWEGAN: Yes.

MR COSGROVE: Have you gained much of that work through competitive tenders?

MR TIDEY: The council is still the biggest customer of that by far, but they do have significant expertise and have gained work in those areas of speciality, yes. But it's also something that, if you like, is evolutionary rather than revolutionary. We don't see ourselves as, if you like, aggressive competitors in the market. It's more, "we have this service if you would like to use it," and there have been different views, if you like, along the continuum about where that business would end. They are still not a separate legal entity but we are trying to put up, if you like, all the

barriers that

make them as transparently operational as we can.

But there are issues. For example, that workforce provides our emergency management response, and if we were to move to a situation that ultimately resulted in them not being available for whatever reason to provide that response, we need to have some other mechanism to do it. So what we're trying to do is make their day-to-day operations as transparent and their dealings back with council as transparent as we can, but then also identify where we believe that we need them and then identify those subsidies in their role that we want them to provide.

MR COSGROVE: I wonder if you could make some general comments on your implementation of competitive neutrality. Some people have said to us that they found it beneficial in the sense that it required them really to develop better knowledge of their own operations to improve their management and information systems. At the same time we've also heard from some councils that they felt the sheer effort and expenditure of resources involved in moving towards a state of readiness to do what you are now doing with competing for tenders was often not a very good expenditure of money because in some locations anyway there wasn't really much option except to have the council do the work. Do you have any thoughts on those broader aspects of the matter?

MR TIDEY: I think what you say is correct. It is certainly a more expensive process for us to run with a separate business and to provide all the mechanisms of all the internal invoicing that previously would have been managed in a much simpler process, but the consensus is that that transparency is worth the price. But if you said, "Prove it in some way", I couldn't do that. But the scale of that operation is significant and we're putting a lot of effort into service agreements and relationships so that there are what we would normally call capital works, which are contract or maintenance works, and those roles which will be specified in service agreements. But it's been a gradual process. There have been other councils that have gone very boldly into it and have formed legal entities and different things and then have retreated back.

We see it as something that does have a cost, but we do see the transparency and the accountability as ultimately being worth that cost, and it probably creates some, we'd hope, healthy customer-supplier tension relationships that ideally wouldn't stop you doing things that are still worth doing but makes you aware that you're actually doing them explicitly rather than implicitly. Councils and those sorts of things - government-type organisations - are about getting the most value they can out of a budget, whereas a private business will be about doing the job that it was contracted to do. So sometimes we would have historically, "Well, there's more money left so you can keep doing the service," and that's the best outcome for the community but it hasn't actually been an explicit process that we've done 20 per cent more than we could for that money. So we'd hope that through the transition we'd actually become more aware of those sorts of things and perhaps aware of instances where the service levels exceed the community expectations so we can redirect to other areas, because there's always somewhere else we can spend the money, sort of

thing. But I think

that's where we see the benefit that it does.

PROF SLOAN: Do you have big business-like activities run by the council?

MR TIDEY: We have a number of activities in Tasmania, because we're a sewer and water authority as well and before the formation of the joint water authority we ran our own bulk treatment plant. We've got parking operations both on-street and carparking, and then we've had this workforce, which has historically been separated, if you like, between our engineers, our roads, sewer and water people and our parks people, and that's been brought together into a workforce which is a maintenance operation. So that's the business unit. We've always accounted for and managed our sewer and water functions separately although they've been, as I said before, rates, so the expenditure and the results have always been managed separately, and we've got significant activities like a museum that's probably a major variation on other governments.

PROF SLOAN: You don't actually receive any moneys that go to the state government? Do you receive moneys - - -

MR TIDEY: From competition?

PROF SLOAN: Yes.

MR TIDEY: No, we haven't received anything back as yet.

MR BRAITHWAITE: Do you get sufficient guidelines from the state government department to allow you to do the work within the office with a degree of clarity?

MR TIDEY: On the competition process?

MR BRAITHWAITE: On the allocation of expenses between departments, administration and things like that.

MR TIDEY: No, they haven't been involved in that. We've done that as has been our sort of historic process and as allocated. The main things that the competition policy started to do was for things like rating, where we started to rate ourselves and charge ourselves for water and rent internal office space and some of those overhead areas we started to allocate through a full cost attribution process. So that was probably the main change. We've tried to make things more specific allocations than perhaps general allocations that previously existed.

MR BRAITHWAITE: Did you have to go into a valuation of all your assets?

MR TIDEY: We had to do that for accounting purposes anyway, so we'd done that some time before.

PROF SLOAN: What, the shift to accrual accounting?

MR TIDEY: Yes, with the accounting standards. We'd done that some time before.

MR COSGROVE: I see from the state government's earlier submission to us that they prepared a document entitled Guidelines for Implementing Full Cost Attribution Principles.

MR TIDEY: Yes. They were certainly useful check lists that got the issues flagged for us, but it was in some of those cost attribution processes and how we charged out services that previously we'd allocated more in an overhead sense, whereas now we actually charge them back to departments. That's been our approach for some time, to try and make managers responsible for their own departmental operations in total. So it was consistent with that objective.

MR BRAITHWAITE: Over this exercise how have you coped with the extra work? Have you put more staff on in the management side?

MR TIDEY: No, we appointed a commercial manager who had carriage of competition policy issues and he retired a bit over 12 months ago, and we're about to replace him as part of a restructure. So it did create some extra work there, and certainly the accounting people's work has been complicated through this invoicing and charging process that was previously just dealt with automatically by computer systems. If you're going to be transparent, someone has to give someone an invoice and someone has to authorise it, rather than just post an employee's time-sheet into their area. That's an accepted process. So that has caused some - - -

MR BRAITHWAITE: How do you cope with the assets? Do you keep that in the corporate body structure and if a road job comes up you hire the plant out to them or hire the activity out to them? Is that basically it?

MR TIDEY: Yes.

MR BRAITHWAITE: It's all under one structure as far as the asset ownership is concerned?

MR TIDEY: Yes. There are different categories of assets that are allocated to different areas of responsibility. So, for example, the plant that is used by our external workforce area - that responsibility is with them and they charge that out into their jobs as they use it. The corporate infrastructure assets we allocate and we depreciate on a corporate organisational basis. We've tried to say what's controllable and what's used by people.

MR BRAITHWAITE: So a water main would go to the corporate body, an end loader, a digger or something like that would go to the workforce.

MR TIDEY: The workforce, yes.

MR BRAITHWAITE: I heard that one council was having trouble with this two-rate tariff on water, that what they used to do was to their budget on a consumption basis on the basis of the worst case scenario, and then in a situation where it was a very good year and no drought, no restrictions and a lot of water, their budget was therefore going to be overexpended.

MR TIDEY: In surplus, yes.

MR BRAITHWAITE: Have you a provision for that type of thing, a contingency, or do you just wear that?

MR TIDEY: No, we don't have contingencies, we would wear it. With water, because the volume you purchase versus the volume that you sell - if you purchase more, it doesn't automatically get reflected in additional revenue, because it's taken up with these unutilised allowances through the system. So that would just be - you'd wear it as variance against the overall organisation outcome. So you have good years where you under-spend the budget, if you like, and you have those hopefully not too frequent years where the budget gets overspent. So it just has to be managed on an overall organisational outcome.

MR BRAITHWAITE: Have you got a rate cap here?

MR TIDEY: No.

PROF SLOAN: But the state government had a - I mean, there's talk on that page about a proposed amalgamation. Have there been amalgamations in this area?

MR TIDEY: No. That process was defeated through legislative challenge and so rate capping was talked about that. We would very vigorously oppose that.

PROF SLOAN: What, enforced amalgamation?

MR TIDEY: No, enforced rate capping.

PROF SLOAN: Actually, in my state of course they had enforced rate capping which forced the amalgamation, without the enforced amalgamation.

MR GROENEWEGAN: Yes, although in Victoria they've turned that around again. They capped amalgamations for the first couple of years and now they're trying to lift those caps, aren't they?

MR TIDEY: Yes. There's lots of reasons - we won't sort of go on - but I think that there is a component of the government process that needs to be dealt with as the electorate responding to what the local government does. We would see that we need to reflect the community needs. We may actually reflect a community need to do something that they're prepared to pay for. If that's validly dealt with, that that's the outcome that they want, why should someone else say to the community, "You can't

have what you want and what you're prepared to pay for."

PROF SLOAN: Yes. That is one of the things mentioned in our report, absolutely.

MR TIDEY: So we need to know all our business processes are as efficient as we can be - and we have quantified, you know, community service obligations or subsidies through those processes. But in an overall rating outcome, then we need to deal with that in a political process about what the service is that the community wants local government to provide and what roles it wants to play. To enforce some other thing on it really is very paternalistic and unnecessary.

PROF SLOAN: So have there been local government amalgamations in Tasmania?

MR TIDEY: Launceston was formed in 85 out of an amalgamation of two councils. In 93 there were statewide amalgamations, which didn't largely affect Launceston, but the numbers were something like 49 to 29. In July last year there were amalgamations that were meant to come from the 29 down to about I think 12, plus King Island and Flinders Island, that sort of number. We were into the eleventh hour of those transition processes when they stopped, with the challenge about the validity of the legislation.

PROF SLOAN: Right.

MR TIDEY: We're now working cooperatively with the state government on partnership agreements and with other councils on areas of common interest.

PROF SLOAN: It doesn't sound like too many, in a way, because Al and I went to a section of Western Australia where they had 44 councils for sort of 80,000 people. I think that might be a world record.

MR GROENEWEGAN: I think it might be too.

MR TIDEY: There are some fairly big geographic areas I suspect there.

PROF SLOAN: That is the only problem. It was quite a big area, yes.

MR BRAITHWAITE: The federal member also objects that his electorate is the biggest in the world.

MR COSGROVE: Shall we move to the modelling?

MR GROENEWEGAN: Yes. I mean, obviously we're quite pleased to read that we were in the top third highest of beneficiaries under the model. I guess what we would hope to get - and I obviously don't expect you to be presenting it here today - some sort of a breakdown as to how those - you know, what were the major things that sort of caused that for the northern region. If we could get that, that would be tremendous.

MR COSGROVE: Well, there are several things that we can probably help you with today. You may not have received the copy of the supplement which we prepared separately to the draft report. It's readily available.

MR GROENEWEGAN: Yes, I've seen that.

MR COSGROVE: If you'd like a copy, the staff can arrange to send you one when we get back to our office. But in general terms I think you need to bear in mind first of all that the modelling is only illustrative of the effects of competition policy, although it's not a bad means of trying to gain an impression of what might be those effects. The other thing is - well, two other things really. First of all, it's an attempt at estimating the longer run effects of implementation of national competition policy, by which I think that modellers would say, you know, over a period of something like five to 10 years. But more importantly, the modelling has been prepared on the basis of what is termed, rather unhelpfully, the outer envelope of the effects. By that they mean that they're assuming the maximum gains.

MR GROENEWEGAN: Yes.

MR COSGROVE: Well, gains and perhaps costs as well. But really the idea is that - let's take the case of dairy - that nationwide existing dairy deregulation goes. So in other words there has been no attempt in the modelling to say, "We think that the public interest considerations will qualify the extent of deregulation in a particular sector," whether it be water or dairy or what have you.

MR GROENEWEGAN: Yes.

MR COSGROVE: So maximum effect is the thing to keep in mind.

MR GROENEWEGAN: Yes.

MR COSGROVE: Now, so far as your particular region was concerned, we have had a quick look back at the modelling supplement where most of the underlying detail is provided. It would seem that the main long-term influences are coming from assumptions about increased competition in the provision of electricity, where for example over that longer-term period I guess they're saying you will have Basslink and so you would have more than one provider.

MR GROENEWEGAN: Yes.

MR COSGROVE: Also gas - it's intended, we understand, that in the next five years there will be provision of gas. The other one is telecommunications, more competition in the telecommunications. They were the three biggest quantitative impacts.

PROF SLOAN: And it's driven by the current industry structure, where the

north-west of Tasmania has a relatively - it has an industry structure which is skewed to quite energy intensive industries.

MR GROENEWEGAN: Yes.

PROF SLOAN: So when you get - it's like all these models. I mean, it's like business. You're getting a big kick out of the input side, then you get gains on the output side too.

MR TIDEY: That would be a fairly hard one if some of those industries are already being charged at a tariff that might reflect the future tariff, wouldn't it?

MR COSGROVE: Yes, but why would that be so, particularly in cases where you have a monopoly provider at present?

MR TIDEY: I don't know the details of their contract, and perhaps I'm straying a little bit, but I think that there would be some argument that some of our major electricity consumers have - - -

PROF SLOAN: Are getting a good deal already?

MR COSGROVE: Well, it may well be. I mean, there's the classic case with the aluminium smelter in Victoria.

PROF SLOAN: Portland.

MR COSGROVE: Portland, yes.

PROF SLOAN: But that is the mother of all deals.

MR COSGROVE: That's right.

PROF SLOAN: You see, you should understand this, with your name. Do you realise your name is a famous name in economics?

MR GROENEWEGAN: Indeed.

PROF SLOAN: How do you say your name?

MR GROENEWEGAN: Groenewegan.

PROF SLOAN: I think he sort of says it Groenewegan.

MR GROENEWEGAN: That's probably the correct pronunciation, yes.

PROF SLOAN: Yes. Well, peter Groenewegan in Sydney is a very famous

economist.

MR GROENEWEGAN: Yes, I had his book while I was studying at school. I got reflected glory out of that for years, even though we're not related.

PROF SLOAN: Come on, you must be related somewhere some time, you know.

MR TIDEY: Well, they're interesting because they are certainly potential possibilities, rather than real things at the moment.

MR COSGROVE: That's right. This isn't what has happened today, no.

MR TIDEY: No.

PROF SLOAN: But the point also would be that the model has implicitly assumed that because this is an area where energy intensive industries are relatively concentrated, that would be so into the future too, so you're identifying things that may not even exist at the moment. It's not just expansion of current activities.

MR COSGROVE: Yes.

MR TIDEY: It's a bit sort of chicken and egg though. If those things aren't realised then - - -

PROF SLOAN: Yes. But I mean, you make the point that what modelling underpins is the potential benefits from competition policy. What actually pans out will, as you say, depend on other things.

MR GROENEWEGAN: Certainly the proposed magnesium smelter at Bell Bay is a real - you know, one can't go without the other.

PROF SLOAN: Yes, you'd need the energy reforms to get that up.

MR GROENEWEGAN: Yes.

PROF SLOAN: But then if you got it, then it would be huge.

MR GROENEWEGAN: Yes, it would be huge, yes.

MR COSGROVE: Without wanting to get too technical, another point that the modellers would make I think is that this analysis which they have undertaken is essentially comparative static analysis, long-run comparative static - - -

MR GROENEWEGAN: So all the conditions remain the same?

MR COSGROVE: Well, not that they remain the same but that you look at what

you've got in a particular point of time and what you might have 10 years down the track.

MR GROENEWEGAN: Okay.

MR COSGROVE: They would say that there were likely to be some additional gains superimposed on that, which they term dynamic gains, and changes in the way in which firms behave as a result of an increase in the degree of competition which they face. The models, I'm afraid, can't attempt to capture that. People tend to see them as being valid additional gains.

MR TIDEY: I think that the telecommunications one is an interesting one too, because we're doing some work there about the pricing that a regional centre pays versus capital cities, and other areas of the states can vary a bit. So perhaps there's more potential for us to hopefully gain through those processes as well, to achieve - - -

PROF SLOAN: Well, those core centres are very dependent on good, efficient, cheap telecommunications presumably.

MR TIDEY: Yes.

PROF SLOAN: And there are some idiosyncrasies. I mean, I think Bendigo has done terribly well out of that. Isn't that because it's where all the cables meet.

MR COSGROVE: That's right.

MR TIDEY: Okay.

MR COSGROVE: But did you say you have already had some core centre activity in the - - -

MR TIDEY: Yes, we've had core centres here but, you know, the cost of telecommunications infrastructure and any ways that can reduce that and reduce the ongoing service - - -

MR GROENEWEGAN: There was a specific variance, wasn't there, between say a Hobart capital city, then a Launceston capital city.

MR TIDEY: Yes, there are some capital city rates that apply.

MR COSGROVE: And Launceston doesn't qualify for those?

MR GROENEWEGAN: No.

MR TIDEY: No, and so some relatively small distances and then some network

capacity issues as well that we're trying to work on, so that you can support the industries that might want to use it.

MR COSGROVE: So which people have established core centres in Launceston today?

MR TIDEY: Ansett, Westpac.

MR GROENEWEGAN: Department of Social Security, and actually Telstra have got one as well.

MR BRAITHWAITE: Qantas last week.

MR GROENEWEGAN: Yes, Qantas was down south. That was in Glenorchy's technopark.

PROF SLOAN: What about tourism? I mean, tourism is - when I think of Tasmania that's - - -

MR GROENEWEGAN: Certainly the figures on those have been really good over the last couple of years. Seacat, which comes into Georgetown, has been now retained for another three years, with a government subsidy. With the change in the diesel fuel excise it's certainly looking to be now much more attractive to an independent commercial operator. So there are some really positive signs around the tourism industry, yes.

PROF SLOAN: And I mean Tasmania, along with other states and federally, have engaged in a bit of labour market flexibility measures. Do you think that has helped tourism?

MR GROENEWEGAN: I guess I don't know the answer to that. I would be guessing.

PROF SLOAN: Yes, that's fine to say that. But presumably - and also education. I mean, there's the university here now. That wasn't once so.

MR GROENEWEGAN: Yes. We've got an excellent education sector and that's something we're really trying to improve on. We've also got the Maritime College here as well.

PROF SLOAN: Yes, that's right. That's a great big thing, isn't it.

MR GROENEWEGAN: Yes. Okay, we're getting on a bit.

MR COSGROVE: FBT?

MR GROENEWEGAN: Yes, probably fringe benefits tax was the next major one that we probably wanted to talk about.

MR TIDEY: It's just a bit of an anomaly that we actually end up being penalised, versus commercial operations.

MR COSGROVE: How does that come about? I noted that comment and I couldn't understand it.

MR TIDEY: Fringe benefits tax was changed some years ago - that made the payment of the tax then tax deductible. So it went that it actually doubled the rate and then commercial sectors got a tax deduction out of it. The local government doesn't of course get the tax deduction back out of it. When they changed the requirements - previously there had been a different treatment of entertaining expenditure, so that for a while when it first came in entertaining went out as not being deductible so fringe benefits tax wasn't payable on it. Then they changed the treatment again but they left the treatment that applied to - they talk about not for profit organisations. So we've actually ended up with different compliance costs and a punitive rate out of it, which in our case is probably two jobs.

PROF SLOAN: It's true with the universities too, you know. They pay basically at a hundred per cent.

MR TIDEY: Yes.

PROF SLOAN: I mean, the compliance costs are - I used to go back to my secretary and she would say, "Now, who did you have lunch with and did you have any alcohol?" You know, because there are all these different rates. I'm saying, "Well, it's not your business."

MR COSGROVE: "And I don't remember."

PROF SLOAN: Yes, "I don't remember."

MR BRAITHWAITE: The incentive is of course not to pay them. How realistic is that in a council like your own?

MR TIDEY: The majority of our fringe benefits tax costs come through vehicles and vehicles that are provided primarily for work purposes. Just digressing, it has got quite ludicrous because we have a situation where people are on call, so you want them to have the vehicle but that's required to be treated as private use, although the vehicle is there so that they can respond directly to a job. So they don't want to take the vehicle, so they then take their own vehicle and they have to go home to respond to the call-out when what was really incidental private use to a circumstance. So it's not through the provision of, if you like, generous benefits.

MR BRAITHWAITE: It's not through packaging.

MR TIDEY: No, no.

MR BRAITHWAITE: That was probably the point I was getting at, whether you find it necessary to package a deal here to get people to work.

MR TIDEY: No, it's not that at all. The vast majority of our obligation comes through vehicles and the treatment of vehicles. The fringe benefits tax actually works inverse to the way the benefit is derived, because people who actually do low mileage in a vehicle end up paying a very high fringe benefits tax. So it's doubly punitive.

MR GROENEWEGAN: I don't think there's much you can do about that.

MR BRAITHWAITE: No, I understand what you're talking about. Some not-for-profit organisations get exempted altogether but they're in the charitable area and of course you fit in between.

PROF SLOAN: That's about to change too, I think.

MR BRAITHWAITE: But only to the extent of reducing the amount you can bulk up. I think it's going from 30,000 to 20,000, something like that.

MR COSGROVE: Now, assistance measures is a topic in which we're greatly interested which is not easy.

MR GROENEWEGAN: I guess from our point of view, the closest we could come to making some sort of comment there is in relation to development incentives.

MR COSGROVE: Yes, what is in place there?

MR GROENEWEGAN: We have an option if an industry meets certain criteria that we may give them rate relief for two years. I think that's the maximum benefit under the policy. We're currently reviewing that and I will say - well, it seems to me also that a lot of the benefit that Tasmania has got from call centres has been through heavy incentives offered by the state government. I guess I'm just curious as to know where it ever ends. It seems that everyone is playing the game. It would seem to me to be, in the strictest sense, anti-competitive, I guess.

PROF SLOAN: It certainly is a zero sum gain, you'd have to think.

MR GROENEWEGAN: Yes, but if you're not in the game, where are you? So I'm just interested in some comment on that basically and whether this is the right place to make that comment, I don't know.

MR COSGROVE: As it happens our predecessor organisation, the Industry Commission, did a report on this matter which has been released. Its title is State and

Local Government Assistance to Industry and you should be able to obtain a copy from a government bookshop.

MR TIDEY: I think the general consensus has been it just moves things around.

MR COSGROVE: Yes, that was certainly the results of our analysis and we suggested - we weren't asked by the government to make recommendations in that inquiry but we nevertheless suggested that there should be some intergovernmental process on this to try to avoid the worst results of what is, as Judith said, a zero sum gain.

PROF SLOAN: There's also, I suppose, the issue in the scheme of things whether the rate relief for two years would really - I mean, it's not going to tip things one way or another. So it's just a complete deadweight - - -

MR GROENEWEGAN: Yes, there is that argument that by the time people have mind their mind up, you know, rate relief for two years is neither here nor there.

PROF SLOAN: But it seems a bit funny to forgo that money than a no different outcome.

MR TIDEY: I suppose it's just seen as a supportive process.

PROF SLOAN: Act of goodwill.

MR TIDEY: Rate growth is something that in a sense - that these are additional things that create additional revenue so you're actually just forgoing the rate growth, you're not giving something away that you've actually got at the moment, so it's a delayed process.

MR COSGROVE: Anyway, you'll find that report of interest given your comment about these issues.

MR GROENEWEGAN: Yes, thank you.

MR COSGROVE: But if we step outside measures of whatever kind to attract industry, are you able to say much about the extent of adjustment problems and costs in the Launceston area as a result of change in general or as much as NCP in particular? Population is static but are there parts of the community who you've noticed are falling through the safety nets which already exists?

MR TIDEY: I think it's probably been more historically with industries that have changed that we've noticed the change processes, like Launceston historically was a wool processing town - Coats Paton - and those sorts of things. The success of different industries is probably where we've noticed changes in the marketplace. I wouldn't say - and it's a very subjective call of mine - that we've noticed major changes from competition policy, reaction things.

MR GROENEWEGAN: I couldn't provide that information, unfortunately.

MR COSGROVE: In our draft report we indicated the general view that the existing generally available social welfare net was probably adequate. But there may be some particular situations or regions in which you might need to do more than that. Have you got anything to offer to us on that comment?

MR GROENEWEGAN: Probably only uninformed, so I'd rather sort of back away a little bit.

MR COSGROVE: It is a difficult area.

PROF SLOAN: We get lots of gratuitous opinions so - - -

MR BRAITHWAITE: Before you go, if I remember your original submission, you suggested that NCP was a great grab bag of money by the states looking at the dividend without looking at the process. Have you a different view on that now?

MR GROENEWEGAN: Did we present that?

MR TIDEY: I think the question you asked before, have we actually seen any of the dollars come back to us is perhaps the answer that the state potentially through the grant process has been the main direct beneficiary from compliance rather than something that we've seen flow directly to us. Because, as I said before, a lot of our processes have been trying to do some of the things - the transparency and those things - it perhaps hasn't been - well, we haven't felt uncomfortable with the process. Certainly there's areas - if someone said to us tomorrow, "You must change the way you price water. You will no longer rate for it. You will charge a flat access fee of this and you will price your consumption at this," then I'm sure you'd hear the reaction.

So there hasn't been that sort of thing that's driven us but there's been a general feeling that these processes are reasonable and they help us manage in the organisation and then help us to identify those areas where there's, if you like, the local government, the community, the government role rather than the business role and perhaps that separation. That's why, as I said before, we'd be very anti about something that affected our local government processes where that is really the community and the electoral process reflecting hopefully what's expected.

MR BRAITHWAITE: Are you stepping back from that statement?

MR TIDEY: I think we'd certainly like to see a share of the benefits that the state has derived.

MR BRAITHWAITE: It's a pity I agreed with you actually.

MR GROENEWEGAN: I'd challenge that a bit because I don't think we made an original submission - the council anyway.

MR BRAITHWAITE: No, I'm not sure.

MR GROENEWEGAN: We did have a meeting with the Tasmanian farmers and graziers and there were a number of other people there. But we ourselves didn't actually make an original submission, so I'll get out of it that way.

MR COSGROVE: Thank you very much for coming along. We do appreciate your attentiveness to the questions in the draft report. It was very admirable, thank you.

MR GROENEWEGAN: Thanks very much.

MR COSGROVE: Our next participant before we break for lunch is Mr Rod Linger, I understand. If anybody during the course of our discussions would like to go and take a cup of coffee then feel free to do so. It's there for your enjoyment. Mr Linger, before we get into the discussion if you also would just indicate your name and the capacity in which you're with us today for our tape please.

MR LINGER: My name is Rodney Linger. Essentially or officially I represent only myself.

MR COSGROVE: That's fine.

MR LINGER: But I believe I possibly represent all the Aussie battlers. Having now discovered the major fault in the system that we operate by and realise just where it's leading us, I've taken this opportunity to come forward and have that understood as possible. What I've done is I did send you this rather rough dot point summary. I'd like to just recap on that and then as I come to it I'll then address the supplements that I've since drafted. This was only completed this morning from 3.30 on so it's fairly rough.

PROF SLOAN: It sounds like my university days.

MR LINGER: I'm no university student, don't worry. My basic submission hinges around the fact that I feel, as I say in the summary here, that the whole rationale for the national competition policy I believe is flawed uncontradictorily. I'll just read this, the statement on page 70 of the draft report which supposedly encapsulates the rationale for NCP is, I believe, based on false premise and is in many ways contradictory. This therefore throws into doubt the accuracy of the rationale for NCP. The quote suggests that Australian firms must improve productivity and international competitiveness so that the living standards of Australians can be maintained and improved. I don't believe that to be so. The quote also suggests that by improving performance and lowering prices we actually give consumers greater access to products and by so doing create more employment opportunities. That seems to me to be contradictory. I believe that greater efficiency is always creating unemployment, thereby allowing the people less access to the goods being produced in abundance. So do we then have to produce more goods so that people can gain access to the goods they really require?

I believe our main problem is not one of production but rather one of distribution, that is, purchasing power or money in the hands of the consuming public or lack thereof to be more precise. This lack of money in the hands of the consumer can without doubt be attributed to the flaws within the economic system that most developed nations now work by, that is, fractional reserve central banking. There are three major flaws within this economic system. They are: (1) The creation of virtually all money is in the hands of a private monopoly, that is, bankers, particularly national bankers; (2) governments have no money of their own. The government only gets money by way of taxes or borrowing; (3) the money to pay the interest on debt money borrowed into existence has never been created. I think it's fraudulent.

These

flaws within the economic system are little understood by a great deal of the general public, many trade officials and bank managers and directors and also most politicians.

At this point I'll raise my summary so I'll go on with this. So that we all understand the methods by which money is created and destroyed and the reasons that the present system demands that banks bankrupt as many people as possible, I will explain the system as I understand it. When a bank loans money it does not loan people's deposits as many believe. The banks always issue new credits. In the case of unsecured loans these new credits may be backed by people's deposit but the actual deposit itself is never loaned out. In the case of secured loans, these credits are backed by some valuable asset or other, generally a house or land. Banks seem to love real estate as security.

In this latter case, supposing I am the borrower, I go to my bank manager with the deeds to my property. These I hand to my bank manager and the bank effectively takes ownership of the property. Note at this point the bank did not pay me for the new property, did not pay tax on the value of it, and did no work to compensate me for my property. I simply gave my property to my bank. In exchange my bank manager establishes a deposit in my cheque account for an agreed sum. This deposit in my account becomes a liability to the bank but the means of paying this liability have just been created out of nothing simply by adding the value of my property to the assets of the bank so that when I walk out of the bank having established a loan in this manner, I am richer by X amount but nobody anywhere is a corresponding amount poorer.

Some will argue that this is not money, yet once I spend it into circulation the one receiving it does not realise that. He may deposit it in his account or he may exchange it for notes or coins. This he is able to do. But either way, the total amount of money in circulation has just been increased by the amount that I borrowed. I am then required to pay interest on the credit borrowed from the bank so that over a period of time I may be required to pay back to the bank two or three times as much as I originally borrowed. But don't forget that only the amount of the original loan was ever put into circulation. The extra amount required to pay the interest was never put into circulation, meaning that it is an absolute impossibility for every borrower to pay back the full amount of their loans plus the interest, simply because the money to pay the interest never existed in the first place.

We should at this point look at the way money is destroyed, or as it is properly called, the credit is extinguished. When at the end of the loan period, assuming I was one of those that worked hard enough or was extremely lucky or operated dishonestly enough to have managed to pay the interest demands of the bank and still come up with enough spare to pay off the original principal of the loan on that final wonderful day that I walk into the bank with a nice fat deposit in my account, write out a cheque for X amount to pay off the original loan amount and take back control of my deeds to my property, when I walk back out of the bank I have just become X amount poorer. Yet nobody anywhere is a corresponding amount richer. The credit creating

ability has been taken away from the bank. The credit has been extinguished and

X amount of money has disappeared from circulation.

This process explains the boom bust cycle. This process is quite different to the one when private individuals lend one another money. In this case the lender is poorer and the borrower is richer by the same amount and vice versa when the debt is repaid. Back to the banks. Now, don't forget the interest the banks charge, if it didn't exist, where did it come from? It came from the credits they created in the first place so naturally not every borrower can possibly find the money to pay the total debt. So some will just have to be bankrupted and be forced to default on the payment of some or all of the principal. The system demands it. When this happens, what happens to the original credit that was created by the bank? It was written off as a loss by the bank and remains in circulation as money. This is the tricky part. Don't forget the bank has already taken possession of it anyway, supposedly as legitimate income - interest etcetera.

When the bank writes off the default credit the bank can use it to offset so-called legitimate income by claiming that the default is a loss, thereby keeping an equal amount of income tax free. Don't forget however that had the principal been paid off it would have been extinguished and removed from circulation. This other way the banks get to leave it in circulation and keep what they created out of nothing and what's more, keep it tax free. Also note that in the case of a secured loan default the bank takes possession of your asset and sells it off to recover the principal. In this case the bank never seems to mind how much under value the asset is sold for. Any shortfalls are still regarded as a liability of the borrower yet anything received up to the liability is regarded as return of capital and again, kept by the banks and not shown as income. But remember, the bank had not paid for the asset in the first place so it was never theirs so anything they got is tax-free income. Again, the original credit is never extinguished.

Is it any wonder the banks would rather bankrupt you if at all possible rather than assist you to pay off the principal? When a government cannot raise enough funds from taxes to fund all government spending they borrow. To do this they issue bonds which the banks use as collateral and issue credit, secured by the bonds. Again, money is created out of nothing and interest is charged. To get the money to pay the interest governments are forced to increase taxes, reduce spending or borrow further. As all tax dollars only exist as a result of debt, increasing tax only adds to the overall national debt and removes purchasing power from the hands of the nation's consumers, thereby forcing a push for higher wages to overcome the shortage which adds to inflation or lowers the living standards of the public if not adequate, which it never is.

If governments reduce spending, this again takes purchasing power out of the hands of consumers and at the same time reduces services available to the people, again a lowering of living standards. If governments increase borrowing there may be a short-term rise in living standards but to service the debt governments must again raise taxes or reduce spending or borrow further so we end up worse off than ever. There is another alternative. That is to sell off some of the assets we already

own like

Telstra or the railways or Qantas or the Commonwealth Bank. This again may lead to a short-term increase in living standards but then you find you have disposed of your income-earning ability but you still haven't cleared the total debt. What's more, these valuable assets are generally bought up by some international corporation that doesn't pay any tax due to the 1953 double Taxation Act so again, we the people are worse off then ever.

At the moment governments seem to be running around like chooks with their heads cut off trying all these means to get us out of the economic mess they've gotten us into but nothing is working. Are you yet starting to work out why nothing is working and why it never will while this crooked monetary system operates? Or do you understand full well just how the system works, as I believe does Little Johnny but you have no intention of changing anything? After all, if you are enjoying the great benefits of a fraudulent system there is little incentive to change it, is there? This system just takes all wealth from the ones that produce the wealth and gives it to those who do nothing productive at all yet the architects of NCP have the absolute gall to suggest we have to become more productive and more competitive in the productive sector.

Australian farmers in particular are already accepted as the most efficient farmers in the world but it's still not good enough for the likes of these economic illiterates. I am convinced that if these competition policies are continued with then the lowest common denominator will prevail and our living standards will be lowered to that of the Third World countries, in the nation that less than 100 years ago had the highest standard of living in the world. It's far from that now. Unemployment and homelessness is at an all-time high I believe although it's hard to get a true indicator of the unemployed because governments use all sorts of means to fudge the figures to make it look better for themselves. For instance, anyone on unemployment benefits is not shown as unemployed if they have done one hour of work in a week. When I first went out to work in the sixties, anyone that did not have a 40-hour a week job was regarded as unemployed.

PROF SLOAN: You're not actually quite right on that point. That's always been the way it's been.

MR LINGER: Is it?

PROF SLOAN: Yes.

MR LINGER: Thanks for that. To speak of competition suggests a fair contest where all participants play by the same rules or, in other words, on a level playing field. I believe there is no such thing as a level playing field when small business is forced to compete with large business and multinational corporations, when those big businesses, if not owned by or controlled by bankers, are at least given preferential treatment by their financiers. The word "competition" also suggests there will be only one winner at the end of the track. It's not hard to work out who that winner will be if this system is allowed to continue.

At that point I've just written a little story here, and it's pure fiction but it reflects my imagination a little bit in where I believe these competition policies lead us. I've just written, "Let us imagine for a moment that the objectives of NCP are able to reach their absolute full potential, 100 per cent efficiency, and every conceivable consumable commodity is able to be produced without the expenditure of any human effort whatsoever. Everything has been automated. All the decisions are made by some superhuman computer. All the labour is carried out by robots that receive their directions from the master computer. All transport has been automated and again receives its direction from the master computer. All the produce is automatically collected from the production centres out in the country, where nobody lives any more, as no labour is required there so all the country people have moved to the habitation centres on the coastal regions.

The goods are then delivered untouched by human hands to the habitation centres, where all the humans live, that is, the few that are left, because most have either scratched one another's eyes out or died from boredom. These few now live in little boxes all the same and the humans are by now the strangest looking creatures, resembling some imaginary alien being, with large heads and big eyes and scrawny bodies with no muscles. This has come about from years of inactivity, doing nothing but watching TV, playing video games and probably too much homosexual activity and drug use, and of course they can't afford food any more, even though there is plenty of it available. These strange beings can't get work nowadays. There are no jobs for humans any more, but the system demands paid work so they can have access to the goods being produced. However, the only jobs going are for computers and robots, and they're prepared to work for nothing, so it's very hard to compete with them. They don't eat food, and their only needs are provided by other computers and robots.

The humans can't get welfare any more. That ceased when everybody stopped paying taxes. Even GST didn't help, because no-one can afford to buy anything anyway. Even the few large corporations that for a while owned everything and didn't pay any tax anyway finally went under. Their directors were replaced by computers, and eventually to improve efficiency the computers' jobs were handed over to the one super computer, that controls everything.

The whole world is now 99 per cent efficient. The one thing that is spoiling things are the few humans that are left. After all, they serve no practical purpose and it's just terrible to take away from the environment just to provide for them. At this point the master computer decided that the remaining humans should be extinguished, and it was done. The unnecessary robots were decommissioned and the mission was complete. 100 per cent efficiency had been achieved."

As I say, this may be a fable but I believe it indicates that NCP will achieve if allowed to continue.

PROF SLOAN: You should become a novelist like George Orwell.

MR LINGER: Clear evidence that fraction reserve banking was designed for a particular purpose can be found in a study of such authors and famous speakers as Thomas Jefferson, Benjamin Franklin, Lord Acton, Thomas Edison, Robert Hemphill, Abraham Lincoln, Prof Carol Quigley, Henry Ford Snr, Major C.H. Douglas and many others. That purpose I believe was to bring all nations on earth into such an irredeemable debt situation that they would accept centralised control over all aspects of life, financial, social, environmental and even religion.

Nowadays it is quite common to hear such phrases as "globalisation", "new world order", "IMF world government" etcetera in the media. According to the committee on global governance (COGG), global governance does not mean world government, but according to every dictionary I can find that's exactly what it means, and I'm not in favour of it.

Major C.H. Douglas discovered additional flaws in the present monetary system, such as the fact that industry generates prices at a greater rate than it generates incomes, meaning that in any given production period there was never enough purchasing power put into the hands of the consumer to purchase the goods that were produced in the same period, the reason being there are other costs included in the cost of production than are put into the hands of consumers by way of wages, salaries and dividends as purchasing power. The other costs include such things as interest on loans, research and development funds, taxes, depreciation etcetera. These shortfalls of purchasing power need to be made up for in other ways, such as development programs for an injection of debt-free national credit. These are decisions that should be made by the parliament.

The Australian parliaments of today seem to have forgotten or never been informed just what money is and that it is supposed to represent the credit of the nation and, more importantly, that the credit of this nation belongs to the people of Australia, also that it is within the power of the parliament to issue the credit of the nation on whatever terms it sees fit. It has been done in the past by the then governor of the Commonwealth Bank, Sir Denison Miller, during the period 1912-24. The First World War was financed to the tune of 350 million pounds. The Indian Pacific railway was also built debt-free.

Until 1924, when the government bank was strangled, it had also conferred other great benefits upon the Australian people. Some examples were the 1,500,000 pounds provided to the jam and fruit industries, 4 million pounds for Australian homes, the loan of 9,360,000 pounds to local governments for extensive capital works. It paid to the Commonwealth government 3,097,000 pounds as profit from its note issue department between December 1920 and June 1923. It provided 4,500,000 pounds profit in 1924 for the redemption of debt. Denison Miller once said, "Whatever physically possible is financially possible."

In June 1924 the Bruce-Page government brought in a bill to amend the Commonwealth Bank Act by taking control of the Commonwealth Bank out of the

hands of the then governor and placing it in the hands of a directorate, which was to include certain prominent people chosen by the governor-general. These men could be friends of the private banks who resented the debt-free note issue and the extended cheap credit extended to a variety of public and private enterprises.

I suggest that the Australian government establish a national credit authority. This could be the Reserve Bank, which should have the authority to issue the nation's credit debt-free at the direction of the parliament, operating along similar lines to the original Commonwealth Government Bank. This could be used to issue credit to equal the shortfall inherent in the present system, and also over time to eliminate the current debt, which has grown from around \$3 billion in 1973 to somewhere around 230 billion now, I believe. Even the sale of the first part of Telstra only halted the debt spiral for less than 12 months. The total debt has now grown back to a level greater than the level prior to the Telstra sale. This debt growth can never be stopped while the present debt usury money system is the only one operating, as we are required to borrow into existence the money to pay the interest on the previous debt, which then becomes a debt in itself and the whole debt grows exponentially.

The reason Australian governments over the last 50 years or so have chosen not to use this debt-free credit facility that is clearly available to them defies logic. Any thinking person is forced to draw the conclusion that those that are in a position to influence are either economically illiterate or traitors or a combination of the two.

There are those that will say I am espousing the printing of money and that would cause inflation. The fact is printing money or issue of credit, there's no real difference. It's being done on a massive scale anyway, but it's being done by the private banks and increasing our debt, and that should be stopped. Just look at the Reserve Bank financial aggregates and you'll find that in March 1998, when the private banks held less than \$21 billion in currency, they were actually issuing credits to the value of over \$530 billion, a ratio of \$25.31 to every dollar. This then results in people having deposits of over \$332 billion. Note that the M3 figure rose by over \$30 billion during 1997. If that isn't printing money, I don't know what is. But it's probably true to say that the fear of inflation is more destructive than the fact. It's more important that the supply of money is equal to the demand for it, but the money must be put into circulation without increasing our debt.

Let me tell you about the experience of Guernsey Island in 1815. They wanted to build a marketplace that was going to cost 5500 pounds. Now, their local government only had 1000 pounds of English money, but they didn't want to put their small population into debt to provide what they wanted. They had all the materials and the manpower needed. All they lacked was money. What they decided to do was get the printing press going and print 4500 pounds of their own money. This was done and the work was carried out. All the materials were paid for and the builders were paid to do the work and the printed notes went into circulation as money. The people could use it to buy other goods and services that they required.

What the planners had done to ensure that their country did not become flooded

with worthless cash was to extinguish the money they had created. This is how they did it: at the completion of the job rent was charged for the use of the marketplace, which the people didn't mind at all, because they now had a wonderful facility that they had always wanted but thought they couldn't afford. So at the end of every year following the construction a certain amount of this money that they received as rent was extinguished, simply by taking the notes and throwing them in the incinerator. This went on until finally the entire amount that had been printed in the first place had been destroyed, but the strange this was, they still had their marketplace. Everybody had been paid, all the materials had been paid for and they had no debt, as no interest had been applied for issuing the credit of the country. This true story well describes the nature of money. Guernsey Island still to this day issues a part of its own money supply, and they have no debt and no unemployment.

Britain, from the signing of Magna Carta in 1215 to the founding of the Bank of England in 1694, had an inflation-free economy for over 500 years while the tally stick money system operated exclusively. The price of a loaf of bread did not increase. Usury was outlawed and punishable by death, according to Magna Carta. The middle ages are sometimes called the dark ages, but in truth they were anything but dark ages. The average family man could provide for his family, and there were no contraceptives back then - all they required by working an average of 14 weeks per year, and they were well-clothed, well-housed and well-fed. This was the period during which most of the great cathedrals and chapels were built. We saw evidence of this just recently, when Prince Edward, was it, was married. Men had time to spare after their requirements were met to devote to community projects. It was in reality in a prosperous age, and this was before the industrial revolution of 1750 to 1850.

But all this prosperity ended in 1694 when the Bank of England was formed by William Patterson - who incidentally was a former pirate of the high seas. They haven't changed much, have they?

At this point the Bank of England issued credit to the earl, William of Orange, and charged interest on it. God's laws were broken and the debt spiral began. I recently came across this short statement. It says this:

An examination of history will show that every large empire of the past crashed largely due to the interest and debt system and that no empire of the past endured for much more than 300 years on such a system. It takes just about that long for the greatest part of the wealth of a nation to be accumulated into the hands of a very few people. The masses being impoverished rise up in rebellion and the economic system crashes and with it, the government. Interest has now been legal in Britain for over 300 years. It became legal in the time of William of Orange around 1670, they say. He signed a note for money, he borrowed and agreed to pay interest. With the legalising of interest there came also into being our national debt. Our forefathers in inaugurating legalised interest have passed on to us a burden and a curse which we in turn add to and pass to our children as an inheritance.

That's the end of that one. At this stage it seems that our debt system is on borrowed

time. We are seeing the collapse of nations' economies all around us, and Australia, contrary to what our illustrious leaders would have us believe, is on a downhill roller-coaster and we are now one of if not the most indebted nations on earth on a per capita basis. This doesn't make any sense at all.

When according to a World Bank survey reported in the papers in September 1995, they did an appraisal of mineral resources, assets and industrial developments of 192 nations across the face of the globe which found that on a per capita basis, Australia was the richest nation on earth with a per capita wealth of \$135,000 American which with the exchange rate would have made it over \$A1 million. A family of four should be worth over \$4 million. The next richest nation was Canada with \$704,000.

PROF SLOAN: We've always been an indebted nation though because you had to have money to develop those sources of riches.

MR LINGER: Where do we get money from?

PROF SLOAN: From people who are prepared to borrow it to us - to lend it to us.

MR COSGROVE: I'm not sure how much more you have to read - - -

MR LINGER: Quite a bit.

MR COSGROVE: I'd just like to say that I'm afraid we're running out of time. There may be no scope for us to discuss some of these matters but that's the choice.

MR LINGER: It is my time.

MR COSGROVE: Yes, and it's near extinction.

MR LINGER: I've got 10 minutes up my sleeve. So how come the richest nation on earth can have so much debt. This is debt we can't afford. It reduces education, reduced police forces, reduced health standards, illiteracy is on the rise, crime on the increase, people dying because they can't afford health care. We can't do this or that because we haven't got the money. What an absolutely preposterous lie. I suppose at this stage I'll be labelled a conspiracy theorist. Let me quote what Dr Edwin Viera has said:

The establishment will always ridicule that which they cannot refute. What we could call the financial establishment has always been and remains today a, if not the, primary conspiratorial power in our political economy. Anyone that claims there is no conspiracy is living in political Disneyland.

And Dr Susan George, who's no slouch, she was in 1992 a consultant of UNESCO, the United Nations University, the UN's Economic Commission for Europe, the International Union of Foodworkers and the government of Nicaragua. At that time

she was on the international advisory board of the UN Economic Commission for Africa and its associate director of the Transnational Institute. Her books included a Fate Worse Than Debt and others. She said:

There are three institutions, they are, the World Bank, the IMF and GATT, which is the general agreement on tariffs and trade. All these institutions are centralised, hierarchical, completely undemocratic and working with a lot of money contributed by their members, mostly their richer members. What do they do with that money? Well, in many ways they are helping to subjugate all the economics of the world. The World Bank -

this is still quoting Dr Susan George -

is in charge of imposing this economic doctrine. The IMF is in charge of imposing structural adjustment - in other words, austerity programs in the Third World - and GATT is involved with indeed reducing not only barriers to trade but any standards - environmental standards, health standards and high wages - that could be considered impediments to trade. I feel very much that the undemocratic nature of these institutions will mean that a whole new world order is put into place and that it is an undemocratic, authoritarian order run by the elites of the rich world on their own behalf.

That's the end of the quote for Dr Susan George, and I think that is pretty close to the truth. Why can't we get a rational discussion by our representatives on these issues. We're getting there; not far to go.

Once one gained a grasp of the presently fatefully flawed monetary system and also with that an understanding of how an honest monetary system should work in accordance with God's laws which forbids the charging of usury or interest that it becomes very difficult to come to grips with the rationale of the architects of national competition policy, rather they remind me of a dog chasing its own tail. I don't think they will know what to do if they catch it. Maybe NCP should be renamed national cooperation policy - and I've added here - with a change in direction to reflect that change.

One last final supplement here. It is again my contention that the whole rationale for the national competition policy is disastrously flawed as it is based on a similarly disastrously flawed economic model and that the whole rationale should be re-examined. I believe it is futile to discuss any individual issues as they are mostly based on the way the flawed economic system reflects individual interest. I feel it is more important to address the root cause of our economic problems rather than rely upon bandaid measures. I fear that if a revolution in economic practices does not soon take place, we may face a different and much more disastrous revolution. I pray to God that the situation can be remedied before it comes to that. The people are waking up to the scam. Please address the problem. To persist with the present destructive system is nothing short of lunacy.

That's the end of my comments. I've got other information here. I've got copies of these for the commission and there are one or two documents there - - -

MR COSGROVE: If you'd like to make them available to us, please do so.

MR LINGER: Yes, well, they are just an extract of a small booklet here by Mrs D.E. Phelps which was written in 1972 called A Small Farmer Replies. So I've got an extract of that and I've got the Tasmanian parliamentary select committee report in 1935 into the monetary system. There's a lot of evidence in that on how the system works and what's wrong with it and the recommendations that were made at that time to change the system, get it straightened out but which of course have never been addressed. You probably don't need it but there's a copy of the financial aggregates from the Reserve Bank there in March last year which give you all - - -

MR COSGROVE: We can get our hands on that easily.

MR LINGER: It gives you all those figures. A letter there from a certain person to John Howard in 91 when he was the then treasurer in the Fraser government which explains or confirms that Mr Howard understands how the system works all right. Prof Carol Quigley in the 1960s when he wrote his famous literature, what was it called, Tragedy and Hope, page 53, he commented that:

The influence of financial capitalism and of the international bankers who created it was exercised both on business and on governments but could have done neither if it had not been able to persuade both of these to accept two axioms of its own ideology. Both of these were based on the assumption that politicians were too weak and too subject to temporary popular pressures to be trusted with control of the money system. Accordingly, the sanctity of all values and the soundness of money must be protected in two ways: by basing the value of money on gold and by allowing bankers to control the supply of money. To do this it was necessary to conceal or even to mislead both governments and people about the nature of money and its methods of operation.

For example, bankers called the process of establishing a monetary system on gold stabilisation but implied that this covered, as a single consequence, stabilisation of exchanges and stabilisation of prices. It really achieved only stabilisation of exchanges, while its influence on prices were quite independent and incidental and might be unstabilising from its usual tendency to force prices downward by limiting the supply of money. As a consequence, many persons, including financiers and even economists were astonished to discover in the 20th century that the gold standard gave stable exchanges and unstable prices. It had, however, already contributed to a similar but less extreme situation in much of the 19th century.

And I'll give you a copy of that. There's also a little sheet there that comes out from the Christian Identity Ministries in which they quote several famous people and what

they've said about money. I might even just throw one or two past you. You're talking about the issue of money - Thomas Edison said - and he was actually commenting at the time of the opening of the Mussel Shoals Power Project. He said:

People who will not turn a shovelful of dirt on the project nor continue a pound of material will collect more money from the United States than will the people who supply all the material and do all the work. This is the terrible thing about interest. In all great bond issues, the interest is always greater than the principal. All the great public works cost more than twice as much on that account. Under the present system of doing business we simply add from 120 per cent to 150 per cent to the stated cost. But here is the point: if our nation can issue a dollar bond, it is capable of issuing a dollar bill. The element that makes the bond good, makes the bill good also.

The difference between the bond and the bill is that the bond lets the money-broker collect twice the amount of the bond and an additional 20 per cent, whereas the currency, the honest sort provided by the constitution, pays nobody but those who contributed in some useful way. It is absurd to say our country can issue bonds and cannot issue currency. Both are promises to pay but one fattens the usurer and the other helps the people. If the currency issued by the people were no good, then the bonds would be no good either. It's a terrible situation on the government to ensure the national wealth must go into debt and submit to ruin interest charges at the hands of men who control the fictitious value of gold. Interest is an invention of Satan.

That was Thomas Edison. There's another good one here from the Rothschilds to the Wall Street people in 1863 when the National Bank Act was passed. I won't read it all to you because we're running short of time but the bit that really got me was where they stated:

The few who can understand the system will either be so interested in its profits or so dependent on its favours that there will be no opposition from that class. While on the other hand the great body of people mentally incapable of comprehending the tremendous advantages that capital derived from the system, will bear its burdens without complaint and perhaps without even suspecting that the system is inimical to their interest.

You could go on and on.

MR COSGROVE: Thanks, Rod. We've listened patiently to what you're putting to us this morning. Some of it may have a certain degree of relevance to our inquiry but I think you've really stretched much wider than the terms of reference which we have before us and I'm afraid, as I indicated some little time ago, we have now run out of time during this morning's session. We have another participant needing to talk to us at about 1.00 and everybody will need a luncheon break. So please, if you do have spare copies you can leave them with our staff and we'll be interested to have a look at them.

MR LINGER: I do have.

MR COSGROVE: But I think now we should break for lunch and as I said we'll need to resume again at 1 pm. Thank you.

MR LINGER: Thank you.

(Luncheon adjournment)

MR COSGROVE: We will resume the hearing now and our next participant is the Honourable Dick Adams, member of the federal parliament. If you wouldn't mind, Dick, just for the purposes of our tape-recording, identifying yourself and the capacity you're with us.

MR ADAMS: Dick Adams, member for Lyons, House of Representatives representing 61 per cent of Tasmania.

PROF SLOAN: By land.

MR ADAMS: By land.

MR BRAITHWAITE: It's nearly as big as a Brisbane electorate.

MR ADAMS: Mr Chairman, I'd like to say a few words and then if there's any questions please - - -

MR COSGROVE: Yes, please go ahead.

MR ADAMS: I think it's about four years since the national competition policy was introduced and the National Competition Council came into being. The Productivity Commission draft report notes that with a bit of scapegoating going on of looking at the policy and saying, "This is the cause of all evil," and everything that has occurred from globalisation to technological change has been blamed on the competition policy. I think it's true that significant change would have occurred without competition policy and that's a truth that can't be denied but I think the National Competition Council has handled some of the reforms a bit inconsistently and I think it's been focused on the economic side of life more than the social side or some of the consequences and the need to look at that side and how we assist people who are affected by these changes. So I think it's a very narrow agenda by the competition council at the exclusion of - maybe on the economic side at the exclusion of the social side and I would emphasise there is a need to look at the other side as well and to give dual emphasis to that.

The failure to sell the benefits of competition reform and the pluses in that will be a disadvantage for the country because there are pluses in it but we must also acknowledge the shortcomings of competition reform where there is a clear need to do so and rectify those shortcomings. There has been a generated mistrust of the national competition policy and also of the council and this needs to be rectified and given due weight and I think further public support still remains in the balance and we need to make sure that there is an open approach, transparent approach to these policies, and that though it is based on lifting market share, if it's just about looking at competition and the market then we'll lose out if it's not also given some just reward to quality, to fairness and equity within our society. So there has to be that approach and that emphasis. Especially I can see a lot more resistance to these policies if that isn't the case, especially in rural and regional Australia or in the terms

of the bush certainly becoming pretty critical in its approach or in looking at these policies.

PROF SLOAN: Do you see though that there was an element of inevitability and the NCC being represented in a certain way? After all, it was your party that set up the NCC and selected its incumbents. But I mean, their mandate is to progress the competition reform and those who stood to lose from the removal of anti-competitive arrangement were always likely to label the NCC or give it bad names and try and criticise it, irrespective of who was on that body and irrespective of how they went about it or is it more - I mean, is your point the way they've gone about their task?

MR ADAMS: Yes, my argument is about the way they've gone about their task, don't entirely know their total brief. So whether I'm being too critical of them but there needs to be, I guess, starting from your report, who I'm trying to influence today, is that there should be a more social look at those social changes that take place from that competition policy and to assist that change. That can be done in my view sometimes with very little by assisting in different ways but my criticism is that it's been a bit insensitive and also somewhat misunderstood on what the circumstances are.

PROF SLOAN: But all they've done at this stage, really, if you cut through the thicket, is that they've recommended that every state receive the first charge payments with the exception of New South Wales where it was a recommendation that a certain amount be withheld for rice marketing which in fact technically speaking hasn't really been withheld at this stage. It's still in abeyance. I mean, I'm wondering whether it's just a perception thing still because that's really all they've done, or do you think we're getting to the pointed end now?

MR ADAMS: I think you've brought down a report which is - the report was looking at where we've been and where we should be going. I think you've found some of the issues within the report are true and I think I discussed this on our regional committee where lifestyle has played a role. In those towns we've been able to change in an area where people retire to or go to live, there isn't as much dislocation or as many people leave. In towns that can get some tourism operation going, look at new industries, new service industries, the change from mining base or rural base isn't as difficult by putting in - they can keep their infrastructure, most of their infrastructure stays in place. It's those areas which still traditionally are relying on farming sector or on mining sector, neither industry needs as much infrastructure as it used to or just doesn't employ as many people as it used to, and therefore those towns are the ones that are actually shrinking and if they can't renew themselves, they're the ones that are suffering greatly in this approach.

I'd just like to push into a Tasmanian perspective. We're a regional economy which is in some trouble in the sense of we have the highest unemployment rate in the country, the lowest participation rate of our population in the workforce, heavily dependent on primary industry, historically very strong reliance on the public provision of services, basically driven by the public sector. That has changed considerably. 9000 less public sector jobs in the federal state arena now. So we are very isolated and we have a very dispersed population, with less than 50 per cent of

our population living in our capital. We're not like a South Australia. We're a city state as such where the bulk of - just about all our population is in South Australia.

PROF SLOAN: I'm from South Australia, be careful. I think we'd see ourselves as a city state as well.

MR ADAMS: Port Augusta, there's not too many left up there, is there?

PROF SLOAN: 25,000.

MR ADAMS: Whyalla? These are the points I'm trying to make. We are very dispersed across this island.

PROF SLOAN: But you're small.

MR ADAMS: We're small but we're dispersed right across the island as well. It's going to take some time, I think, before we actually get back to where we're mirroring the other states on the mainland's economies. I guess I'm telling you that - I'm saying to you that Tasmania is unique and we do have unique issues to deal with and because we are unique I think we really do need to have flexibility in the way we apply the public interest benefits provisions of the competition policy; that we need to be able to do it in a way which fits into the uniqueness of Tasmania and the uniqueness of the Tasmanian economy. I remember talking to Mr Hilmer some years ago on his original report and I wanted to reinforce that view by quoting him and this is from his original ideas. Hilmer stated that:

Competition might not always be effective in achieving consumer benefit or it might lead to conflicts with other social goals. Competition thus aims to produce guidelines that determine the nature and extent of competition and the ways in which possible conflicts between results of competition, economic efficiency and other social goals are to be handled.

So I think he's basically saying that there should be some flexibility in the process so that to reach the goal it will need a certain amount of flexibility in it. The commission's report on regional Australia, certainly it says about ADOT regional policy in Australia and that's certainly true. It's certainly a fair assessment. There's certainly a need for leadership in this area to pull it together and to date that hasn't been shown. We've had a state direction or we've had a federal direction or maybe a local government trying to initiate something with local initiative employment or something but we haven't had a real program that sort of fitted into all tiers. So if we could get some leadership down in that direction I think that would assist.

We just wanted to mention we have a major situation in the Tasmanian economy from competition policy which is our dairy industry which is certainly going into major changes, accepted by some, opposed by others, and the outcome of that will be known in future times but that is as a result of national competition policy as such. I just wanted to touch on retailing and social infrastructure. The

isolated areas

of Tasmania rely heavily on their small regional shops and I think there is a plus in this from the smaller stores given a benefit and they actually play a role in that it would cost people possibly more to travel from their isolated area to a larger centre to purchase their goods. So there's a social good in that store being there.

In that sense I think they give a community service by just being there and in some ways that has been recognised by both state and federal governments in the usefulness of small business, with governments allocating some of their services in this area - bill-paying facilities being set up in some of the stores with the banks pulling out, Eftpos machines now in stores. The issue there is the cost that's been loaded onto the small retailer. The banks have taken their money in their greedy way, constantly drawing what they can, up to 3 per cent charges. The small shopkeepers that have joined their association, their association has been able to negotiate that back somewhat but there's been an excessive charge, I believe, onto the retailer.

If we go to a machine, an automatic teller, we actually pay for the cost of getting out our money but when we go to a store we actually put that cost onto the shopkeeper who I guess has to disburse it right through his system but it's still something I think that - post offices - we now have post offices, some of those located in our regional stores. So the benefits of these stores are very important in the overall social make-up of those small isolated communities but the cost to the retailer can be very high. Sometimes he has to put in other phone lines. He certainly has to carry more cash over a period of time. Therefore there's a security cost. There's also an insurance cost in those issues and I do notice that these issues were sort of pushed aside a little bit in the report that you did and I know there are other inquiries going on but I think they're very important issues driven by competition policy.

PROF SLOAN: What is the solution to those issues though?

MR ADAMS: I guess I would sort of look to your committee to bring down some very good ones.

PROF SLOAN: We're always interested in ideas.

MR ADAMS: I'm sure you are. My ideas are not formulated in enough cohesion yet to - - -

PROF SLOAN: If they provide such a strong social benefit then surely they won't be threatened because the local community will see that as being important and therefore - - -

MR ADAMS: One would hope that. One hears these arguments that the communities don't care because if they get something cheaper - I think that's some of the issues that I'm talking about. There's too narrow a focus on that economic base of saying everyone will get something cheaper, therefore everybody will be better off. I don't think that always works that way and I don't think in isolated and rural areas

that that is the exact answer. I think there are losses through the cohesion of people
not

having those stores. If those stores are not there, there is a major loss to that community and to the heart and soul of that community and therefore that community will be a lesser place to live in and therefore that community will be an unhappier, uncoordinated place as than without that store or without their small business.

MR BRAITHWAITE: Who redirects the customer who is looking for a better price to a corner store or a small business as an alternative?

MR ADAMS: I didn't quite pick up that, Ray, sorry.

MR BRAITHWAITE: Who redirects or what redirects a person who is looking for the lowest price to the small business in question?

MR ADAMS: Just to understand your question, people make their own choices about those issues, I guess, and they need to and we need to give them that choice. I guess it's where people get - I see large stores having total advantage in all that process against the smaller ones and that's on purchasing and being able to sell yourself, marketing, all those issues. It all runs one way and it all runs for the big end of town. It's just like banking and everything else. One of these issues we're into in Australia is really it's the big end using policy like competition policy for its totally own advantage and I see this is going to happen in the food line too, food safety area. I see the big end really dragging itself, using all its skills and all its money where it can get the best advice and can utilise it in the public direction and its lobbying of government to pull things in its direction at the expense of the smaller end.

MR COSGROVE: But one of the broad objectives of competition policy is really to reduce the power of the big end of town by subjecting it to more competition.

MR ADAMS: It doesn't seem to have happened that way. I don't think it has occurred and I don't think it will occur and if you talk to small manufacturers and people who supply those large chains, they certainly are in enormous price squeezes to meet their obligations and if they get too far in they're totally under the total control of those chains who can then, if they fall out of fashion, if their product falls out of fashion, after a few years that person supplying 80 per cent of that chain's line gradually goes downhill and finally is wiped out and they walk away. There's all those sort of pressures.

MR BRAITHWAITE: Is there any actual evidence on that, Dick? Have you actually got evidence on that?

MR ADAMS: No, I'm really talking anecdotally to you and it's some years since I did have some evidence on that but it's too long ago and that was in the smallgoods area and that was in the meat industry as such but a very small smallgoods manufacturer who was a bit smarter and didn't quite go more than 50 per cent to one of the chains but he then started to feel the price pressures that they could apply to him but had enough to where he could supply and actually worked himself back but I saw then just what sort of power a chain had, let alone now where they have

sometimes 80 per cent of market, or two chains in Tasmania has 80 per cent of the market. So I'm sorry I don't have anything other than what I've said.

PROF SLOAN: But going back to that point about the consumers, I mean, you're not going to be able to build rabbit fences for the consumers so presumably they are revealing their preferences, are they not?

MR ADAMS: They are, I think.

PROF SLOAN: It's a bit hard to say they're - - -

MR ADAMS: But it's very hard to have alternatives, isn't it, when one end of town has got everything running for it. It has got the language. It uses the changes taking place in the political circumstances and the policy changes. It's on top of that. It has got its lobbyists in Canberra. It has got the people that understand how you write the legislation. The small people don't have that advantage or don't have that opportunity. Therefore they're not in the game and therefore they're overrun and we don't get the alternative ideas. You know, alternative ideas - things like, I think, before the banking changes which should have really had a look at what was happening.

I mean, some of the things that are happening now in communities where they're building their own community banks, these are very good initiatives but maybe we should have had the ideas out there prior to banks withdrawing from those communities because I have in my electorate people that have to drive, people in business that have to drive over an hour, an hour and a quarter, to do their banking. That's a considerable amount of time out of small business and there's a security risk in all those sort of things. Those opportunities I think we should have had longer discussion. I've seen those things a couple of years ago when I had a look at regional policy overseas where the Germans have some of those.

The Americans certainly do have very small community banks operating very successfully and they can be also opportunities in that broader regional policy area of facilitating loans and opportunities that may occur where people need to borrow money to enhance a business or start a new business within those regional areas. There's a whole problem there as well which, if you'd like to look at my submission to the banking inquiry you'll see them documented there.

MR COSGROVE: On the small town retail store, Dick, in the Tasmanian situation how big does a town need to be before one of the major supermarket chains will set up a store there?

MR ADAMS: I've seen that Franklins have said on the mainland - and they're not in Tasmania - they needed a population of 5000. I think the township of Sorell would be around about 5000 and its surrounds though they usually draw, I think, from 60 to 80 miles - areas. The other one which was being looked at, I think, to expand was in Deloraine which would be within that figure I guess but they're looking at liquor,

fuel.

Then they get into - they certainly look for the newsagents and the Tattslotto type agency and as I said, everything from the local bakers - they have a hot bake. So it really does affect - it really comes in and wipes out a traditional group of people that have been there probably for several generations. So these are the social changes I'm talking about and you might have had people in business for three generations. This sort of change just comes in and wipes out that family, that family's history in that sense. That has major impacts in the social aspects of people's lives and they're some of the things that I'm saying can't be measured in that sense or very difficult to measure but the sort of things that we need to take into consideration when we give consideration to national competition policy.

MR COSGROVE: But is the - - -

PROF SLOAN: But there's no policy that could stop Franklins from coming into Deloraine. I mean, that's not - - -

MR ADAMS: Well, no. There isn't at the moment, no. You could write policy. We've had policy in Tasmania on trading hours where we kept the major stores closed for some years and that was done on employment. If you employed more than 100 people within your state operation you couldn't open Saturday or Sunday. That was state law. Now, I know from reading your work, Prof Sloan, that you wouldn't agree with that and we probably reached evolutionary change where that wouldn't be accepted but it's a very - not an easy question and I don't have the answer.

PROF SLOAN: I mean, I'm just interested. We've got a shack down the city state that I live in and we never had a supermarket down there and it was terrible. You had to drag everything down from Adelaide. Now we have two supermarkets, only 8000 people.

MR ADAMS: So you've gained a benefit?

PROF SLOAN: Yes. The residents - if I asked any of the residents they say, "Oh, thank God." So I mean, I think the point I'm making is that the consumers vote with their feet, don't they? Isn't it going to be hard to - - -

MR ADAMS: I think the point that I'm making is that sometimes it all goes in their favour and if they don't know what they're getting or if they're going to lose as well, there may be some other considerations but of course people in the lower - somebody who lives in the social economic chain, the cheaper they can buy their food, the cheaper they can buy their clothing, you would think the better off they will be and that's a hard argument to speak against but there are other considerations that I believe should be given a consideration as well. There's no saying that that's - I've had evidence from Tasmanian independent supermarkets that on the whole they can sometimes deliver prices at a very similar price to the major chains in Tasmania. The major chains always say that Tasmania is very profitable for them.

So these independent people say they can't match them on \$2.99 for rump steak

but they can certainly match them on most of the other things that they're selling through the major chains and they can sell through their supermarkets. I notice within this report you said there are pluses. As I said, I think it was pushed aside a little bit too easily in the report that the dividends and the profits come back to the regional areas. There's not too many dividends and profits come back into my electorate from Coles or Woolworths and those independent supermarket people do put money into their schools. They do put money into their sporting clubs that the big people don't and that's all about having a sense of community and those are some of the losses which can't be measured in economic terms.

PROF SLOAN: They of course actually are able to - Coles Myer and Woolworths are in fact able to document their commitment to local communities. Their managers do have some autonomy to - - -

MR ADAMS: I must write to them.

PROF SLOAN: I'm sure you have shareholders who live in your electorate.

MR ADAMS: Sure.

PROF SLOAN: Because that's who ultimately owns Coles and Woolworths.

MR ADAMS: Yes, but it's probably more an institutionalised interest.

PROF SLOAN: Yes, but they're ultimately owned by individuals. Institutions don't own anything.

MR ADAMS: I have one of the lowest share ownerships in my electorate.

MR COSGROVE: Direct share ownership?

MR ADAMS: Direct.

MR COSGROVE: But you may have one of the highest indirect share ownerships by virtue of public sector superannuation schemes.

MR ADAMS: Sure, that's true. I just wanted to mention one other example, which is new policy which just touches your committee, and that's about the situation that has developed with providing provision of employment services and our competition tendering is actually working against small service providers. Link Deloraine, which is a flexi 1 provider of employment services to the Meander Valley, has an office within the town. It's very well - it has a Christian base to it as people. It's a very well regarded organisation. There is no flexi 2 or 3 contracts awarded in the Meander Valley district and the Launceston based employment national is currently contracted to supply flexi 2 and 3 in that region. It comes out about once a month or every two months and sets up for half a day in the council chambers.

It doesn't provide a service in that sense in my opinion. The new draft that has been put out for the next round of tenders to this area sets up an employment service area. The employment service area takes in a very broad area which is much bigger than Link Deloraine. Therefore the tender process has been written to disallow that small organisation being able to tender within there to give a service. I believe they can give a service as good as anybody else, but they're being excluded from that. That's a small example of how being small can put you outside the opportunity to participate in a tender process. Also those small organisations like Link Deloraine often work with next-door neighbours by working together. They're now being accused if they do that they're liaising or linking tenders together in an unfair way. So I can only say that sometimes cooperation, competition in the city, is cooperation in the bush, and different circumstances do apply. I think that's about all that I wanted to say.

MR COSGROVE: Thanks, Dick. Can I go back to some of your earlier remarks. You said that it was disappointing that there had been a failure to sell the potential benefits of NCP but there was also a need to rectify some of the shortcomings of the policy. Have you got any information you'd like to give us on what you see as the main shortcomings of the policy? In our draft report I guess you could say we've looked at the quality of service provision and the employment effects as the main areas where you might get adverse consequences. Are there many others?

MR ADAMS: I think not that so much as issues like local employment initiatives, local business enterprise centres that could be funded in some way to help overcome some of those - - -

MR COSGROVE: I see, you're dealing with adjustment costs, okay.

MR ADAMS: Dealing with adjustment situations, and sometimes small amounts of money into a community can help facilitate change and where you can go in a different direction, where you can build on some newer directions, that that community may have really good assets in the tourist side of things or whatever.

MR COSGROVE: So they would be justified in terms of some failure in the supply of information which was resulting in people not taking out profitable opportunities?

MR ADAMS: Yes, I guess so. I guess it's just change. In some areas, of course - my prime example which I've always quoted has been the Queenstown circumstances, where the mine was going to close, a mine that was over 100 years old. Queenstown's culture was basically that the mine company delivered to the town, not that the people weren't generous or industrious. I mean, they always gave more to the Miss Tasmania quest, which was for handicapped children, than anyone else. They always participated greatly in rebuilding anything or whatever, but the culture was that the government delivered or the company delivered, and there wasn't a sense of enterprise within the town. After a period of time after the mine had closed, there was a lot more people thinking how they could look at circumstances of

work. Those are the sort of cultural changes that won't happen overnight, and they can put an

enormous amount of pressure on people if you don't participate in some way in those things. I think those are the points I'm trying to make.

PROF SLOAN: You said there had been a lack of coordination between the different levels of government in terms of developing and implementation of a regional development policy. What are the ingredients of a good regional development policy and can you give me examples of where they've worked?

MR ADAMS: I prefer to probably say that I think it's not about pork-barrelling, which has probably been a lot of the history, and I think we should keep away from that. We've had a lot of hospitals in Tasmania in different places that maybe we shouldn't have built them, and those sort of circumstances. But it is about giving communities an opportunity to go in a new direction with change. Sometimes they may need infrastructure to do that, and maybe they need to upgrade their port for their tourist opportunities or for their fishing fleet. Maybe they need a new bridge, maybe they need a certain road to be upgraded as a tourist road to allow people to get access there, or their airport or whatever.

Maybe there are pieces of infrastructure which fit into a strategic plan, and if they're willing to plan that way and give some undertaking that they're moving in a direction, then I think we should be sympathetic. But I always believe that that should come from below and not so much be opposed from above, and that the local communities should through their local government and other arrangements be able to put together a good enough strategic direction to then influence government. But we need to have the policies in place at government level, where they can tap into those funding opportunities.

PROF SLOAN: Do you think that's enough, though? I mean, we've heard of plenty of examples, in fact, of very underutilised infrastructure, infrastructure decisions which were with the benefit of hindsight clearly very wrong.

MR ADAMS: Yes, they're all over, aren't they?

PROF SLOAN: Yes.

MR ADAMS: It's building the road. Some communities have spent 40 years saying, "We need to get the road in here." When the road comes in there everybody leaves or everybody moves out.

PROF SLOAN: The economic geographers would tell you those things are always centralising, actually.

MR ADAMS: Yes. We've just got a change to our freight equalisation scheme, but we're going to lose some of our stock to being processed on the mainland, so that will have an effect on our kill capacity here. This is what I'm worried about, just on reading the newspaper this morning. There are ins and outs. There's pluses - isolation can give you some benefits from that sort of thing, but there are all sorts of

opportunities around Australia where you see infrastructure which is too much infrastructure not being utilised and therefore we're wasting the resources. In other areas you see where it isn't.

I think Emerald, where I was recently on other committee work, is a prime example of where there's a piece of infrastructure in the dam which allows three coal mines. They've got a citrus growing capacity now, they're growing table grapes. The town is in growth. It's got a problem in holding tradesmen to do building. It's a prime example of infrastructure and a direction - I think as a local government area they've got a direction, and the other shires around them, and they're moving forward. They seem to have a strategic plan and strategic ideas. I hold them up as a bit of an example for that.

MR COSGROVE: Where did the initiative for that particular dam come from, do you know?

MR ADAMS: I don't know.

PROF SLOAN: I think that was an election decision.

MR BRAITHWAITE: Where is Emerald?

MR ADAMS: Central Queensland.

PROF SLOAN: That Emerald. Mind you, it's been a sponge city for the ones around it, so if you go to Barcaldine and those other places they're not quite so happy, because everyone has gone out to Emerald.

MR ADAMS: Yes, I don't know what's happening out in - - -

PROF SLOAN: Your country, Barcaldine.

MR ADAMS: Yes, south-west Queensland, Charleville and Quilpie, where I went as a 17-year-old youth from Tasmania for the first trip to the mainland, Ray - the shearing sheds out there. I don't know what's out there now, but there wasn't a lot out there when I was there in the sixties.

MR BRAITHWAITE: A bit more broadacre farming, I'd say.

MR ADAMS: It's bigger, yes.

MR BRAITHWAITE: On that question of governments, state and federal, and I suppose local government, being a bit more mature on how they allocate assistance, do you think that Australian governments will ever be that mature, not to pork-barrel at an election time?

MR ADAMS: It's always difficult. Since we've got - I think both major parties try

now to cost their promises, and I think that's a very good move in our country, and though it gives you some heartburn and you'd like to run on a local issue, you were around in the political process, Ray, for long enough to know that that major project would be really good. It probably saves three seats or makes sure you win three seats. Those are the sort of political issues and imperatives that come on to political parties, but I think there is a need to be mature as a country.

There will always be some, I guess, and some decisions will be made on that level, but if we build a structure that's got integrity, where I think those local communities can build a strategic direction and then know that in good faith they can apply or are in a process of being able to gain some income to assist them with infrastructure and things like that, I think it would build integrity into it like anything, and an open process. I think the majority of people would then give support to it and we could go down that direction.

MR BRAITHWAITE: So what you're actually saying is that the adjustments have to be that mature that when the money is given, whether it's at a state direction, at election time or a federal or whatever it is, it should be transparent, costed and the benefit flow should be calculated, not as it was in the past.

MR ADAMS: No, it should be costed and we should have a reasonable knowledge of what the outcome is going to be so that in the future people can benchmark and say, "Yes, this is what we thought was going to happen. It hasn't quite happened that way but we've gone down this direction." So people, academics like Prof Sloan, can do analysis on those things and say, "Yes, this failed or this hasn't failed."

PROF SLOAN: I think we have to come up with ideas, but you think of your state and you think of my state, which have been net recipients of subsidies from the other states for a very, very long time. Yet what are the two economies that are most languishing in Australia? They're those two economies. It seems to me that by getting subsidies from the rest of Australia it doesn't seem to have actually - I mean, maybe it would have been worse without them, but it's not at first blush a very good story, is it?

MR ADAMS: No, but I think you're looking at it too simplistically. I think the thing was that changes have come upon us and we haven't looked at how we were going to deal with those changes, and Tasmania is a prime example. I think we languished for 10 years when we knew change was coming on us in the sense of our major industries were changing, capital no longer supplies jobs. Capital into a food processing plant will knock out 250 or 300 jobs when you put a new machine in that makes chips. That might be worth \$1 million but it's going to cost half the workforce. A new paper machine will cost half the workforce. Those things have all occurred in Tasmania. Our hydro-generation - we've gone out of building dams. Where we had 3 or 4 thousand people in that sector, it just doesn't take that amount of people any more. We didn't face those changes.

This is my knowledge and reading and of visiting northern Europe, Germany

and the Scandinavian countries. They seem to have a closer relationship between the capital in their banks and government and then in training and education, in what direction they're going, in some strategic way. We never seem to be able to do that very well in Australia, so we've never really - I suppose we can have sort of central planning, but having an idea of where you're going so that you can plan a little better in that sense. I think we could have done that a lot better in Tasmania, where we had a lot of debate going on which I think was pretty surplus to where we were economically, where we were going to be in the future. We didn't debate those issues as well as we should have done and reach conclusions about them, and we're only now I think starting to go in - where probably 80 of the population is going in a direction, knowing that Tasmania has got some difficulties. We need to be working in a positive way to achieve some results for the future.

PROF SLOAN: So do you see a bright future for Tasmania?

MR ADAMS: Yes, but it will be a different future than what it's been in the past.

PROF SLOAN: That's notwithstanding national competition policy?

MR ADAMS: No, it's notwithstanding national competition policy.

MR BRAITHWAITE: Dick, it has been said that Hilmer's report is not good for the legislation enacted, and you were a legislator in that time. Looking at it constructively, would you change any of that legislation to effect a better purpose, a better effect of NCP?

MR ADAMS: That's a very hard question, Ray. I wasn't across all the detail at the time and I'd have to revisit that and look at it and see whether - - -

MR BRAITHWAITE: But you see no change of function for the NCC? Some of the states are calling for and have had to go back to a COAG arrangement.

MR ADAMS: That's right. There's an argument that I've heard saying that the council is upsurging the elected representatives and pushing their agenda beyond what they should be over and above the premiers' and the prime minister's position. I think I'll wait to read your report on what you recommend in that area, Mr Braithwaite.

MR COSGROVE: Dick, could I take up another aspect of your earlier remarks. You mentioned that Tasmania has - I think you said it is unique, and - - -

PROF SLOAN: We're all unique. We were taught that at kindergarten.

MR COSGROVE: We're all unique, yes, but more particularly that as a result of that the public interest test should be applied flexibly. I wonder if you could help us a little in that area. It seems to me that there's a degree of tension inevitably associated with any public interest test and perhaps particularly with this public

interest test in that on the one hand it can be seen as a legitimate means of having what you might

loosely call non-economic considerations brought into account to make sure that an ill-founded decision is not taken, and on the other hand you could say it could become a means whereby the potential benefits, in some cases, of additional competition might be forgone because, as you know, that part of the agreement is pretty broadly formulated. There are lots of things that can be invoked to try to determine a public interest associated with restricted competition. Do you see any way of dealing with that tension?

MR ADAMS: No - there's certain tensions there. I guess people with enough time to work through them are saying that Tasmania is unique and different regions are unique. Australia is changing and I mean there are the major capitals which are - you know, Melbourne, Sydney and Brisbane are big enough to spin on their own tops, their own economies. We have this thing on globalisation where cities are linking with other cities and in that sense economies - I mean, Perth has got a bit more in common with some of the Asian areas probably than - you know, it's cheaper to fly to Asia than to Sydney from Perth. Therefore trade will go that way as well. I mean, what they produce will probably go as well. They produce a fair bit of stuff out of the ground further up.

Then we come back to economies like Tasmania - regional areas. That's now emerging where there's those of us that live in the regions. I think there's going to be tensions there and there's new ways of looking at Australia, how it's structured, and there's also the north again is another area, I think. But I think you've got to give people the opportunity to work through those things. The prime example here is with our Hydro-Electric Commission, we have one authority. At the last election the present government was elected on being opposed to its privatisation. The other party went the other way.

The position of magnesite has come up now. We have magnesite here - the new metal for the auto industry. You can build - very important in environmental terms - engines out of it. This is lighter than aluminium. You can build engines out of it and you get a lighter car. So therefore you get much better fuel consumption, those sort of things. We have quite a lot of this in the north-west. We can mine it and process it so the work is going on to endeavour for us to have this plant, \$900 million worth of plant and mine and a little bit more of the railway - we need to transport it across. This will be a major boost for us, especially across the north of the state, in employment and investment. But it also involves getting the gas to shore that we have in the Strait. If that comes ashore and we can put all that together - - -

PROF SLOAN: National competition policy.

MR ADAMS: - - - the national competition policy will be enhanced because we will have the gas ashore which can then compete with our water-based hydro stacks. That will give competition in our state. We also have the difficulty that our hydro scheme is based on water and is drought - if you overdo it you can end up with some hellish problems environmentally in our state. So are the sort of issues, I guess, and the tensions that are there and we need to work through. So I guess it's a matter of

laying

down what the goals are and letting people work towards those goals in their own way which I guess is what happens now. But we may need a little time to get there.

MR COSGROVE: Earlier today we had the Circular Head Council with us and we were discussing whether or not Tasmania might in fact be suffering from a lack of competition. You've just touched on that in a way - with your reference the possibility of gas providing some competition with hydro-electric power generation. But do you think there would be benefits for Tasmania if there was more competition in areas like telecommunications and energy and perhaps also transport?

MR ADAMS: Telecommunications, we've been losing our technical people from Telstra and therefore we've actually had problems with more breakdowns.

MR COSGROVE: You mean because Telstra has been withdrawing staff?

MR ADAMS: Withdrawing staff in one area and then putting them into - they can argue that they haven't reduced their amount of staff in Tasmania but they've actually got them in call centre type situations. But the technical people, they've been pulling some of those out. I had circumstances only recently where we had six days - for a restaurant on the east coast which is reliant on bookings and ordering in. It's very fine seafood. It had six days without a phone or a fax. That's just economically very difficult. In the past that would never have occurred, there would always be someone allocated to fix that, but there wasn't anyone - the changes that take place now is that there used to be people that lived on the coast that worked for Telstra. Nobody lives there now so every morning if you staying at Orford you'll see people come up from Hobart in a van and drive around the corner - whether to go and do the work on what has to be fixed up there, where in the past there was somebody up there that knew the system and was there.

In the future I don't know what will happen - if there was a local person up there working as a local contractor doing that work, if there'd be a plus in that or not. From my point of view I was very disappointed when we lost the depots of the people from within my electorate. They've been sucked back into the Sydney. A sponge works in a variety of ways. So therefore we have less people like that. Those sort of technical people play also pretty good roles in their communities. They have very high skills, sort of thing. But there's no doubt competition can be very good and competition sometimes has been lacking in some communities as well. I don't know about transport. Again because of our smallness and our isolation, transport is an issue in some small areas and we really need to look at that, in a transport policy, through the state in a pretty unique way.

I mean, some communities where the school bus takes in the prescriptions, when the school bus doesn't operate during school holidays there isn't a service. That becomes an issue where I think maybe the school bus should be a bigger service and probably should take in people - maybe backpackers and others. Maybe it shouldn't just be a school bus service. But I'm talking here very much on the edge. I haven't pushed these things into a broader perspective yet. But I think we need to look at

things like that - some of the changes for some of those smaller, isolated communities. You've got to take advantage of everything that's operating within those communities. If you've got a bus running certain distances then that bus needs to become pretty effective. That might be a link and you've got to make that link really pay. Having a pretty shabby place where people get off a bus is another one that I get angry about. Sometimes it's a cafe where a bit of freight is thrown and whatever, where it should be a painted-up spot for that town because it's probably now gaining many thousands of dollars through people coming in and out on that bus.

We know in Tasmania that backpackers are not people with 10 bob in their pocket and a dirty shirt, as one of our premiers once described backpackers in the middle of a dam debate. But we do know now that people travel the world with a pack on their back and actually will stay in one spot for two or three months and it's a preferred way of travelling, not so much doing it on the cheap. There are many places in Tasmania that's turning quite a few dollars by actually tapping into that world market of backpackers. They like isolation, they like to go to areas where they can do their own thing. There's quite a few smaller, isolated communities that I think could benefit but we need to make sure there's transport links and an opportunity for people to be able to get in and out of these places cost-efficiently. So competition in those areas, sure, I mean, competition can be a plus but sometimes the market doesn't always work and therefore it needs to be assisted or it needs to be helped. I don't think the market is the answer for the whole world and there's other reasons why we live and we organise our society.

MR BRAITHWAITE: The main principles, as I see, of NCP is to contest the market, to make it more competitive and to the extent that that produces a lower price somewhere along the line, that is said to be a successful competition policy. What other ingredients do you put in with that? A contestable market - will people still contest a standard of service? Will they require a standard of service in spite of the price? How do you juggle that?

MR ADAMS: I think they will if they've got a choice. If they can make a choice, I'm sure they will. That's where competition can play a very positive role. It can be very positive by giving people a choice. If somebody isn't giving the service, somebody isn't supplying the goods that people require then they do have an opportunity to make consumer choices and to make a choice about that. That's where competition is fine and the market can do that very well and should be allowed to get on and do it. But there are other areas, especially in the smaller areas - and as I said, there's a lot of difference now in Australia in the different regions that exist within Australia. Some can spin on their own top, others it's very different, and also historically where you come from.

Like I said the Tasmanian economy it's very, very public - driven by the public sector. It's changed enormously over the last 20 years. It's renewing itself and we're actually in transition now and where we're going to go into the future. You don't

want national policy hammering or harming you while that's going on. It has to fit in or be a part of the changes that take place and I guess it is doing that.

MR BRAITHWAITE: Your own personal experience within the areas that you're familiar with, do you think contestability has been price driven, more than service driven?

MR ADAMS: I guess so, yes.

PROF SLOAN: You mentioned the dairy industry, have you got any thoughts about dairy market reform?

MR ADAMS: I think the debate goes on. I mean, I came off a dairy farm originally so I grew up with mud on my gumboots. If we go back 20 years we didn't have an export dairy industry and we've now got \$2 million I think worth of export in cheeses and dry milk powders and other things. So, I mean, that's been a major success story. But if you look at the dairy farmer being on the equivalent of the local corner store in that sense it's been very successful. The major changes of globalisation and how that's forcing or looking at change and facing change and where you have the arguments about - especially New South Wales and Queensland where the market isn't flowing and therefore the Victorians, along with Tasmania, are very mindful that 80 per cent of the milk we produce we export. So we've really got to think about being export oriented.

With Victorian and Tasmanian milk, we're being - with an uneconomic or a non-market position in New South Wales we're unable to influence that market, though I think after July or next year I think there will be some changes. My concern about it is only - and this is looking in a broader sense - I've been in New Zealand a couple of times with work and that's looking at how they've done things. They've kept single market, single desk selling by keeping some direction in that sense but my concern is for what leverage we keep the farmers as opposed to supermarkets and I know it all comes back to letting consumers make decisions but for the present moment, with having a regulated system the farmers have some sense of income. They're going to lose that and that will go to supermarkets. Whether the consumer ends up with that - and there has been some argument in the New South Wales situation of previous deregulation where it certainly wasn't passed on, I think there's really going to have to be some work done to make sure that if that change occurs the consumer ends up with the benefit and not the supermarket chains.

MR COSGROVE: Maybe it had little chance of being passed on to the consumer because in the whole structure of regulation of the market the margins of the processes had also been squeezed.

MR ADAMS: That's true. I mean, my knowledge of England is that they had five chains and it looked like it might have been going to go to three and New Zealand has just had some real worry where they still put a lot of lamb and a lot of their dairy products, cheeses, into the UK market. They had some real problems with just how tight they were being squeezed down and they've got an economy which is much bigger than Tasmania's but we actually produce similar things. Why closer economic

relations haven't really done Tasmania all that much good but their concern was their economy has got a lot of primary produce base and their concern about having less and less leverage or opportunity to what the supermarkets or the more leverage that the supermarket chains have on them in the way they sell.

PROF SLOAN: But if Tasmanian dairy farmers export 80 per cent of their output, in a sense the supermarket is not their big game at all, is it?

MR ADAMS: No, I suppose the distribution system of the Japanese is because they pay more for anything.

MR BRAITHWAITE: Just a question on the dairying, Dick, if you can help me on it. As I understand it, within the last 12 months the Victorian dairymen accepted a lower price at the farm gate. That is still regulated to that reduced price. The effect of that was to decrease the price in New South Wales and Queensland by a similar amount because that meant they were then competing interstate at a lower figure. Do you see the deregulation or the appraisal of the statutory marketing authorities by each of the states of any use whatsoever? I mean, is it going to be determined by what Victoria thinks about the whole thing?

MR ADAMS: That's right, I agree with that, Ray. I believe that what Jeff Kennett does will be what the decider is. If they deregulate in Victoria then that will drive the rest of the deregulation.

PROF SLOAN: That's so true. Jeff Kennett drives a lot of things, doesn't he?

MR ADAMS: And that will occur. The position that the New South Wales people are getting 50 cents for their town milk per litre. I don't know about the other reduction in Victoria but the Victorians feel that they are very effective and very efficient farmers. They can produce their milk at this price and they want to sell it into New South Wales and they feel they should have a right to do that. It's only regulation that is stopping them from doing that. That regulation comes off, I think it's July next year. They say that they will have tankers ready to cross the border. I don't think it will be that simple because trucking it to Sydney is going to cost them so there will be an advantage. But I understand there's people in the Queensland situation that are on some pretty good real estate, still farming cows. I mean, dairy farming grew up around the cities to supply the town milk supplies. That hasn't changed much. This is where change occurs and catches up to us and we have to face up to change. The land that those guys are on now is worth more in real estate than it is in farming. So I guess that will drive some change as well somewhere along the line.

MR COSGROVE: With an eye on the clock, Dick, I think we'll draw this discussion to a conclusion and thank you again for helping us at this stage of the inquiry.

MR ADAMS: Could I say thank you very much for coming down and we in

Tasmania appreciate you being here and to listen to us and thank you very much for listening to me.

PROF SLOAN: You could have improved the weather because this is a completely abnormal day in the year, isn't it?

MR ADAMS: No, this occurs but it's a very soft wind, a very gentle wind.

MR COSGROVE: Our next participant is the Tasmanian Rural Women's Advisory Group. If you wouldn't mind, for the purposes of our transcript, identifying yourself and the group you're representing.

MS TAYLOR: I'm Anne Taylor and I'm chair of the Tasmanian Rural Women's Advisory Group.

MR COSGROVE: What would you like to say to us, Anne?

MS TAYLOR: Well, I'm rather ill-prepared, as we were only aware through your advertisements last week of your being here and I've only just picked up the report but we thought we needed to just make our presence known and comment. It's an umbrella group of various women in rural areas and regional areas so we've got - - -

MR COSGROVE: Right across the state?

MS TAYLOR: We're embryonic and we are developing. Agriculture with CWA, Women in Ag, the Forestry Protection Society, someone from the west coast and someone from mining has joined our group and competition policy certainly affects families and individuals everywhere with just the changes, the fact we're in a great flux of change, and a lot of people don't necessarily address change until it's forced upon them and competition policy, though it's been around for - we've been hearing it probably for nearly 10 years, haven't we? There are sort of noises that have been rumbling - put it that way.

MR COSGROVE: Yes, in various manifestations I suppose you could say that, yes.

MS TAYLOR: But a majority of people are only just feeling the impact. So we just felt that we needed to just sort of - from the agricultural point of view we feel we've been in a competitive market all our lives.

MR COSGROVE: Indeed.

MS TAYLOR: And we really know what competition is about. We do know that competition really - there are some people that always fall by the wayside in a competitive market but the people who survive have a lot of initiative and are looking at the cutting edge of whatever business they're in, certainly does promote people to be sharp with their skills. But the other side is that people - it's putting a dollar value on social aspects of our community, competition policy seems to be. To some of us, we had a bit of a discussion, it seems competition policy is almost like economic rationalism or they are hand in glove together.

PROF SLOAN: I don't actually know what economic rationalism means. I mean, if you're not an economic rationalist are you an economic irrationalist?

MS TAYLOR: Fair enough.

PROF SLOAN: Are you rejected? Is that what that means? I don't actually think that's what people mean.

MS TAYLOR: No, I think it's the mighty dollar rules and other aspects don't so that the bottom line is what seems to count but other factors don't. So that unless you're doing things at the cheapest possible price - I mean, your accountant can trim things off your balance sheet but it doesn't necessarily mean that the wife and children are clothed and fed. You know, that's a very drastic sort of example. There are other aspects - if it's very competitive - let me put it: the small business person, be it the corner shop, can scrape by working very long hours and just having head above water but their quality of life is just barely eight hours of sleep and everything else is work, work, work. So there's that element that competition brings in to some people and particularly with some farming families it is work, work, work.

PROF SLOAN: So do farming families want to pay more to the local corner store to make that person's life better?

MS TAYLOR: To the local corner store who buys their food, you mean.

MR COSGROVE: Corner store - the local corner store should be - - -

PROF SLOAN: Do they want to pay higher prices?

MS TAYLOR: From what they purchase at the corner store?

PROF SLOAN: Yes.

MS TAYLOR: None of us want to pay a high price. We're always trying to get the best bargain too, aren't we.

PROF SLOAN: I just wonder whether - I just don't know what has changed that's led to the use of this term because my just personal reflection would be that we're always wanting to get the best price.

MS TAYLOR: It's human nature I think, isn't it?

PROF SLOAN: But by the same token all of us place valuations on activities others than earning money and spending it.

MS TAYLOR: True, but there are some people who are finding that the competition is driving them so hard that all they can do is to work.

PROF SLOAN: But there have always been farmers that are like that?

MS TAYLOR: Yes, always and it's a very typical scenario, the struggling farmer

never has a holiday.

PROF SLOAN: But what could a government or anyone do to change that, do you think?

MS TAYLOR: Big question. I'm sure there are lots of people with lots of theories but not one theory or answer would help everyone. I mean, education is one of the things and certainly with the business skills that Farmbiz are supposedly trying to support the education of, is one way but not everyone will avail themselves of the opportunity either. So, no, I can't answer your question.

PROF SLOAN: No, I mean, I think the concerns are extremely legitimate but what one then does - I think those are two suggestions, education and business skills, but of course it has been part of the experience of Tasmania is that the kids go off to university and they never come back.

MS TAYLOR: No, I won't say they never come back. There's a large percentage of Tasmanian families where the people have returned to educate their children here and to bring them up, particularly in the city areas. I mean, the Australian population on a whole is moving to the cities, every generation, and we're almost coming to a stage where the young now haven't got grandparents in the country while my generation probably all had grandparents who were farmers, as a generalisation. So now the young haven't got that connection with the rural areas quite as closely. But yes, in Tasmania, sure, there's a brain drain but it's also I think - I have to speak from experience here. I certainly went to the mainland for tertiary training. My three children are there and you learn to value Tasmania very much. You find - it stamps on us that it's one of the special places of the world. But you have to go out there and experience and find out.

PROF SLOAN: Of course I think that about South Australia too but sadly it doesn't seem to help the economy, all those warm and fuzzy feelings.

MR BRAITHWAITE: We're both from Canberra - - -

MS TAYLOR: I personally feel that the Internet and IT technology is certainly going to help in spreading and decentralising the population and anyone who can obtain employment through that medium doesn't have to live in a city. So there are opportunities there and one of the things that our group did, we did a report where last October - it was a snapshot of the rural Tasmanian communities and one of the things we were looking at was for positive role models out there who are achieving even niche market - all sorts of innovative little things. And there are people out there having a go, doing things that are exciting and new and we hope to explore that a bit further and bring it to the public attention. So it's not all negative.

PROF SLOAN: No. In fact we met a wonderful woman, didn't we, Chris Capel, who is a teleworker outside Longreach and she actually works for the state government and she does it all over the Internet, e-mail and the like - with some

difficulty, I might add, because Longreach is a long way from adequate telecommunications but it's probably a bit better in Tasmania, isn't it?

MS TAYLOR: Patches. It just depends. The mountains do interfere.

MR COSGROVE: Anne, could I come back to this issue you raised at the outset that national competition policy puts a dollar aspect on social values. One of the main outcomes of the negotiations leading up to NCP of course was that the state governments would receive additional budgetary funding if they implemented the reforms as intended. The reason for that was that the effect of increased competition as a result of these reforms was seen as providing a larger economy, a bigger tax base and some further revenues for - well, the Commonwealth government in particular but to some extent the states also. Anyway, there was to be a transfer of these funds subject to reform performance from the Commonwealth to the states. Might that not be a way in which there can be at least some marrying of the economic objectives of increased competition with the capacity to meet some of the community's social wants as well. For example, additional expenditure on telecommunications infrastructure at least with Telstra, the still mainly government-funded provider, or more money on business skill development or education, the sorts of things you mentioned. Is it all - - -

MS TAYLOR: There certainly is the possibility but who determines where the money is spent? I have - - -

MR COSGROVE: That's our elected representatives who have to do that.

MS TAYLOR: Yes, and I'm not sure where I grasped this little gem from but I hear that some of our money has already been spent before it's been acquired.

MR COSGROVE: Let's say in their forward expenditure estimates.

MS TAYLOR: Yes, in theory there should be a balance out but whether in reality it actually happens - - -

MR COSGROVE: It may be that what we would tend to describe as the direct effects of these reforms are where they cut most sharply against the social values that you are referring to. For example, if Telstra withdraws some of its maintenance people from a small area and locates them in Hobart or some other Tasmanian provincial centre, then that might have significant adverse consequences for the area from which they've been withdrawn. The same could happen with railway reforms or electricity reforms. So those direct effects might actually, as I say, cut up against people's social interests, but the indirect effects - the sorts I was just referring to in terms of longer run improvements in revenue positions of governments - might be quite consistent with social objectives, if as you were implying, governments are wide in their use of additional revenues.

MS TAYLOR: Yes, there's a few ifs. I think it's a theory. It will be interesting to

see if it works in practice but I know with rail I'm quite confident in Tasmania because it's fully privatised. It's performing well as it did in New Zealand. Electricity I'm a little sceptical about simply because if competition policy or competition is applied to the nth degree the person at the end of the line is definitely not going to get full supply of electricity all the time. We know how the voltage drops the further away you are. I mean, there are RAPS available, perhaps not as efficient as power from the lines, you know, the traditional method, but certainly RAPS - do you know what I mean by RAPS, remote area power sources - are certainly improving in their quality. But yes, electricity is one area that I have got strong personal feelings that the person in the remote areas could well be having to change their technique of production or achievement.

MR COSGROVE: Even though in a state like Tasmania where there would seem to be, because of the dispersed population, reasons for an alternative supplier to say, "I'm going to look after those people in the outer areas."

MS TAYLOR: Are we a large enough population? That's the other thing. Competition is really based on a large population but in small population areas with these services it's not so easy to have a second supplier. The business is really dependent upon - - -

PROF SLOAN: Yes, you can have a second supplier. You're just not going to have duplicate transmission distribution systems but you wouldn't even in a big population. You're only going to have one set of poles and pylons and the like. But I mean, you foreshadow those problems notwithstanding the decision not to privatise the electricity authority? I mean, is this - - -

MS TAYLOR: Yes, we've been under the autocracy for a long time and big brother has dictated a lot and many times to us all so there have been some benefits certainly with pole renewals and they're just beginning to be in the line work where previous HEC employees have taken redundancy and are now being employed by competitors who are doing a more efficient job. I think that's where competition can weed out the people that aren't performing at maximum. Certainly it's not all bad but there are some sectors who are not - the change is not beneficial.

PROF SLOAN: Really you're pointing to probably small businesses in small communities. You come from Nile. That's a small place, is it?

MS TAYLOR: Bit of a blink town, yes. It used to have a post office. It used to have a school - probably 50 years ago it had a school but we're 30 minutes out of Launceston so I call myself a suburban rural.

PROF SLOAN: So the change in Nile obviously predates whatever has happened with competition policy?

MS TAYLOR: Yes, very much. It used to be almost a feudal town where most people were working on the farms and it was mostly full of pensioners and as they

have departed this life it's been filled with people who are looking for cheap housing and who - there isn't a bus service, only the school bus. So they are dependent on having their own transport.

PROF SLOAN: Probably attractive?

MS TAYLOR: Attractive - you mean a physically attractive town?

PROF SLOAN: Yes - not wildly?

MS TAYLOR: No.

MR BRAITHWAITE: Anne, I'm not sure whether you indicated what line of business you're in.

MS TAYLOR: I run a farming business with my husband.

MR BRAITHWAITE: What sort of farm?

MS TAYLOR: It's very mixed. We were mostly wool/sheep but we are now doing a lot of cropping as well and the sheep numbers are decreasing but I'm also a physiotherapist.

MR BRAITHWAITE: You seem to indicate you have been born onto a farm and you continued in it?

MS TAYLOR: No, my grandparents were farmers. I have aunts and uncles as farmers but I was city raised and bred but I married a farmer.

MR BRAITHWAITE: How long have you been on the farm?

MS TAYLOR: How long have I been married - 25 years.

PROF SLOAN: You should be able to remember that quite easily.

MR BRAITHWAITE: What significant changes have you made in the cropping of that farm? Are you still doing the same things now as you did 25 years ago?

MS TAYLOR: Absolutely not, no. We were cropping. 25 years ago we were usually planting barley for regenerating pasture and now because - - -

MR BRAITHWAITE: That's a waste of barley, isn't it? You want to use that in beer.

MS TAYLOR: Okay. The important part of regenerating pasture, you have to replace the pasture so it was ploughed up, cropped and then resown to a new pasture.

So therefore we had a cash crop while we were re-energizing or renewing.

MR BRAITHWAITE: Renewing - rejuvenating.

MS TAYLOR: Yes, rejuvenating the pasture. Now we have been doing a lot more but we have - there was no irrigation as such 25 years ago on our farm except for a bit of flood irrigation but now we're into Pivot irrigators and do a lot of cropping. It has opened up many more cash crops for us.

PROF SLOAN: They even grow grapes in this area, don't they?

MS TAYLOR: In Tasmania, yes. Not at the Nile but down the Tamar Valley here and on some of the hills. The wine industry is becoming quite boutique and getting a lot of advertising and publicity.

MR COSGROVE: You're now an irrigator you said. Has water reform as part of NCP had any effect yet in rural irrigation for you?

MS TAYLOR: There was an act - I think it's just been passed; it's certainly imminent. Yes, it is. It's going to impact on our farm particularly because we've had what's called a prospective water right since early last century and for the first time we're going to have to pay. We don't personally think that's a negative in that everyone should have equal right to the rainwater and what comes naturally to have the opportunity to make crops grow. I mean, that's our feeling but yes, the running of our business is going to be impacted by the changes.

MR COSGROVE: Is that a once for all payment or a continuous payment for the water you'll be using?

MS TAYLOR: It's not finalised yet.

PROF SLOAN: Do you take water from a common storage facility as opposed to just an on-farm storage facility?

MS TAYLOR: We have two rivers as our boundaries. One - they're both slow. The one in the south-east is not quite a trickle in the summer but the other, the Nile, is a trickle in February, March, particularly dry years. So we have got on-farm storage as well. Yes, we've had to look forward and we have planned.

PROF SLOAN: For this day?

MS TAYLOR: Yes, and this is where competition comes in. You need to plan ahead to look at eventualities but not everybody does.

PROF SLOAN: I mean, of course, up to a point there's only so much you can do for those who don't plan but I think we really haven't had good ideas put to us and that was some view, that people need business and entrepreneurial skills. Do you

think those are the same people, the people who don't adapt to the change, are they one and the same people who will be going off to the courses in business skills?

MS TAYLOR: Not necessarily. They need to see that it's a need of theirs - an opportunity for them. But I think what happens, if we look at families, the parents can be of one mind-set but a child can be of quite different. So it's - - -

MR COSGROVE: Especially under the influence of modern technology.

MS TAYLOR: That's right.

PROF SLOAN: Technology and the role models.

MS TAYLOR: So it's just - there should always be an opportunity for people there and yes, maybe your parents haven't been innovative and haven't but the need may arise for you. You've heard the saying that grandfather clears the land, father pays off the mortgage and son spends it.

PROF SLOAN: It's family business, isn't it.

MR COSGROVE: It can go the other way. I can remember from my time living in the United States seeing a lovely bumper bar sticker, a couple of old people driving around in a motor car and on the back is this sticker saying, "We're having a lot of fun spending our children's inheritance."

MR BRAITHWAITE: Anne, just going back to the analogy of your own property and just trying to get a comparison with 25 years ago till now, that was a family farm back 25 years ago?

MS TAYLOR: Yes.

MR BRAITHWAITE: Have you increased the area?

MS TAYLOR: We've bought out the other family members who were a previous generation and a cousin, so we've increased it from our own area of total ownership - our ownership has increased.

MR BRAITHWAITE: But you haven't increased the size of the farm itself?

MS TAYLOR: No, we haven't - yes, we have, we've put about 250 acres on. But we were planning for the future. We didn't quite know what our children would like to do and so far none of them have said they want to come back to the farm, so we didn't want to have a huge mortgage around our necks.

MR BRAITHWAITE: Is that farm self-sufficient?

MS TAYLOR: Totally.

MR BRAITHWAITE: So that would be a family farm for anybody who wanted to live off it?

MS TAYLOR: Yes, it's a viable business at this stage and would support two families at this time.

MR BRAITHWAITE: So you've maintained two families?

MS TAYLOR: We're only one at the moment but we can see that there's room for the next generation with us.

MR BRAITHWAITE: So you've maintained the family farm and viability by improved methods?

MS TAYLOR: Yes. My husband is particularly on the cutting edge of all the changes and advances in agricultural production. He's got his finger on the pulse.

MR BRAITHWAITE: So he's been in there with competition policy a long time before it became law.

MS TAYLOR: As I said, farmers have had competition in all their - in their existence. They know what competition is about very much more so than - but, yes, competition policy is about applying to the services, isn't it? It's also minimising monopolies.

MR COSGROVE: Yes, restrictions on competition.

MS TAYLOR: Yes. So it's a big moment of change, isn't it? It's the pendulum swung from one system to another. Is that - - -

PROF SLOAN: I think there were many forerunners. I mean, if you take the AGSA, say, that was really corporatised a long time ago well before national competition policy so the idea of it generating return on its assets for cost recovery, those were ideas that came in well before the federal legislation. That was true in all sorts of things. I wouldn't see it as all of a sudden it being this and then swinging over, it's just been a trend. Of course part of the trend was the lowering of the tariffs for Australia's manufactured goods, which of course were taxes on farmers, those tariffs. Once that process started on its way, people said, "Hang on, we'd better make the rest of the economy more competitive and efficient so we can be successful."

MS TAYLOR: Are you talking about electricity tariffs or - - -

PROF SLOAN: No, tariffs on cars and - - -

MS TAYLOR: The import tariffs?

PROF SLOAN: Import tariffs, yes. It's really a continuum of that process as well.

MR COSGROVE: Deregulation of the financial markets took place a long time ago as well.

MS TAYLOR: Yes, yes.

MR COSGROVE: But I think this is a more deliberate attempt to make more efficient a lot of publicly owned enterprises. Suppliers of an important infrastructure like electricity and gas - - -

MS TAYLOR: So make them subject to normal supply and demand - the law of supply and demand.

MR COSGROVE: More or less, yes.

PROF SLOAN: Commercial realities.

MS TAYLOR: With protectionism.

PROF SLOAN: Essentially, that's right.

MR COSGROVE: Another main leg is to have a close look in national terms at 2000 pieces of legislation which contain provisions restricting competition and that can involve many things, from the regulation of the dairy industry to - - -

PROF SLOAN: The Potato Board in Western Australia.

MR COSGROVE: - - - the Potato Board, shop trading hours, you know, a whole host of things.

MS TAYLOR: Well, we are a member of a global village, aren't we? So many other countries don't have the same protectionism. But Australia is becoming less protective than some of the other - - -

PROF SLOAN: That's probably right, yes. But in Western Australia they have a Potato Board which sets quotas for the farmers. They only produce two varieties of potatoes in Western Australia.

MS TAYLOR: So they don't have the pink eye?

PROF SLOAN: They say two is enough, you see, and the legislation that underpins the Potato Board will have to be reviewed under the competition policy. I mean, going back to my point, a lot of these things - my state had a Potato Board but it

would have been abolished 20 years ago and then an Egg Board and that was abolished. So it is a continuum of policy change but this probably has accelerated, I think you're right, to point to services and also to point to the public sector.

MR COSGROVE: Anne, did you receive a copy of our draft report?

MS TAYLOR: I just picked one up today. I did try to access it on the Internet over the weekend.

MR COSGROVE: You had trouble?

MS TAYLOR: I needed the assistance of my son.

MR COSGROVE: It's a big document too.

MS TAYLOR: Yes, enormous.

PROF SLOAN: That was very interesting, Anne. There's some good ideas there for us to think about.

MS TAYLOR: I felt very ill prepared.

PROF SLOAN: No, the process is supposed to be informal.

MR COSGROVE: We're glad to know a little about what your group is doing. You gave us - I realise you only found out about this hearing a few days ago - a short note with some attachments. Would you like us to treat that as a submission to the inquiry?

MS TAYLOR: What I faxed you?

MR COSGROVE: Yes. We could type that up in our own office very easily. The attachments are typed anyway. It's up to you whether you wish to or not.

MS TAYLOR: In a way it has not come through from the group. It would almost have to be a personal submission. I'd prefer it that way than to say it was - - -

MR COSGROVE: So it's a personal submission, okay. We'll treat it that way. Thank you very much for coming along and helping us. I think we have two further participants appearing jointly. If people would like to take a coffee we will break for five minutes.

MR COSGROVE: Let's continue. Our next participant, I suspect, is representing the Tasmanian Independent Wholesalers and NARGA?

MR RICHARDSON: Mainly Tasmanian Independent Wholesalers.

MR COSGROVE: Right. For our tape, if you wouldn't mind identifying yourself and the capacity in which you're here with us today.

MR RICHARDSON: My name is Lionel James Richardson, better known as Sam, and I'm the general manager of Tasmanian Independent Wholesalers, a cooperative of 534 retail supermarkets around Tasmania. We are the only independent wholesaler left in Tasmania.

MR COSGROVE: Yes. What would you like to draw to our attention?

MR RICHARDSON: Yes, thank you very much. Thank you for coming to Tasmania. I'm sorry if I probably will bring a little bit of a culture shock after Anne because she's such a lovely person. But really if I could start by saying 20 years from now I believe the ill-conceived activities of the National Competition Council will be fully accepted for what they are, a regrettable social disaster, sir, that has through the application of blinkered and outmoded economic rationalist theories proved to be catastrophic, quite contrary to their original charter - and I'll get to that shortly. These ravages have in particular in their many forms - and I can refer you to this diagram if you wouldn't mind passing those around, thank you. I'll also table that, sir, as far as what I presented earlier today and that's for your information.

On attachment 1 - and I'm not going to keep referring to all these attachments, I know you're busy people and you can read them at your leisure. But in their many forms the overloaded, fragile infrastructure, the ravages have really worked against those fragile infrastructures in rural and regional areas and translated into major job losses alongside the destruction of the viable local micro-economies in those communities. I will now outline some of the major defects as I see them of the National Competition Council and its attendant policies as I see them from a retail grocer's perspective; their impact in particular on rural and regional communities; several very worrying inaccuracies and assumptions in your draft report, sir, and then provide you with certain solutions and recommendations. I'm not just here to bag the NCC.

I believe these recommendations are something that your commission should consider and support as a matter of priority. One of the issues that was raised in the NARGA submission of which we are a member as TIW, was that I've yet to see evidence in your inquiry, sir, that it is not yet just another bureaucratic whitewash. I'm sorry to say that but I've got to be up-front and say that. Indeed, your initial findings have not allayed such concerns but instead reinforced them in terms of your acceptance without close introspective analysis of certain quite, in our view, ridiculous propositions as put to you by the major chains which we know to be misleading and cannot be substantiated by fact. If you'd like to read that on the

bottom, it's a classic example of such propositions.

You will find on page 231 - if there is one singular set of statements which reveal how inadequately the commission has failed to research its facts effectively, it is the following to be found on page 231 of your draft report, sir. I will quote:

In short, there appears to be strong community support for deregulated trading hours reflecting benefits to consumers in terms of convenience, range of goods and price.

And this is where we have a problem:

To the extent that consumers value small retailers they will continue to patronise them and these stores will remain viable.

We don't think that will be the case.

PROF SLOAN: Why not?

MR RICHARDSON: Because without critical mass we will not survive.

PROF SLOAN: Do you disagree with the first part of it?

MR RICHARDSON: Without doubt, a large number of consumers will go to major supermarkets. There is no argument about that. The fact that unless the major supermarkets are limited by capping or other means to allow a fair and competitive marketplace, the independents will not survive and that's where we believe that "to the extent that consumers value small retailers they will continue to patronise them", we would hope that they would, but unless the price structures are such to allow them to be competitive in the marketplace, they will not patronise them.

We need go further than to submit to you submission 172 from the Australian Consumers Federation of Australia and that's in attachment 6 in what I've given you as written by Dr Richard Copeland for the concurrent joint parliamentary select committee inquiry into the retail chain dominance. That tells you that the Consumer Federation of Australia support our push as far as some form of capping and divestiture. In fact their capping is at 60 per cent, not 80 per cent.

PROF SLOAN: That's not the Australian Consumers Association.

MR COSGROVE: What is the Consumer Food Network - - -

MR RICHARDSON: The ACA you're talking about?

PROF SLOAN: Yes.

MR RICHARDSON: That is the Choice magazine.

PROF SLOAN: They're more than the Choice magazine. They're the peak group - - -

MR RICHARDSON: As far as consumers, I would suggest, they are a minority group because the Australian Consumers Federation has over 80 other organisations within it and I forget how many hundreds of thousands of people within that organisation. So I think it's 320 as against the ACA which is, I might say, looked upon as a little bit of a joke by both the major chains and ourselves as far as price comparatives and differentials. So I would suggest if you look at submission 172 from Dr Richard Copeland, that would - - -

MR COSGROVE: That's to Mr Baird's committee, is it?

MR RICHARDSON: That's correct. The fact is without maintenance of critical mass - and this is what I mentioned earlier, and I've got that here for you, and I herewith table TIW's submission to the retail chain inquiry. The independent retailers cannot remain viable and market failure is the ultimate result. The reality is that while there might be strong community support for deregulated trading hours among the minority DINKs and DIWKs - and I don't have to explain that to you - according to ABS statistics and a distinct minority within our total community mix, and who carry most of the nation's disposable wealth in their pockets.

The majority of our consumer base, especially the disabled - and that's in attachment 7 - and disadvantaged, aged and infirm, do not like travelling to supermarkets quite a distance from their home to large busy acres of bitumen in order to do their shopping. These people - the majority of our overall population, I might add - much prefer the convenience of location to do their shopping at their local store just down the street from where they live. I'm not arguing the fact that the major chains do not have an impact on people wishing to shop from them, in fact they do a very good job. I'm not saying they're not good corporate citizens or that they do not abide by good corporate governance. The fact is that they have got so large and so powerful and so dominant in our sector that it has now become anti-competitive. The people admittedly go to them to buy but also those people do their top-up shopping in small independents in their own local areas. I'd like to address the adherence to the charter by the NCC. The charter of the NCC when it was first set up - and it's an agency that is not answerable to parliament, I believe.

MR COSGROVE: Yes, it is.

MR RICHARDSON: Is it?

MR COSGROVE: It's required to provide an annual report to parliament and it does.

MR RICHARDSON: Right, okay. That's something you learn every day. And I quote:

The need for a national competition policy to create and safeguard market structures and behaviour which prevent anti-competitive practices, ensure that markets operate efficiently and protect the interest of consumers.

Since its conception, the inappropriateness and in our view irresponsible actions of the council in terms of micro-economic reform has forcefully directed governments in a headlong manner with tight time-lines and with thinly veiled bribes of billions of dollars of taxpayers' money to commit to certain actions which in socioeconomic terms we believe have acted contrary to Australia's public interest.

PROF SLOAN: But that's the government policy, that's not NCC. NCC is only an advisory body and in fact with the first tranche payments the government hasn't actually even at this stage acted on the decision to deduct the New South Wales payment.

MR RICHARDSON: As far as the actions of - - -

PROF SLOAN: They don't hold the money. The NCC don't hold the money.

MR RICHARDSON: They don't hold the money but they formulate the policy to a large degree.

MR COSGROVE: No, they advise the federal government on the extent to which governments and their agencies have complied with the reform program which those governments themselves agreed to in 1995.

MR RICHARDSON: And which in some cases are not really looking at supporting those in total at this moment. There is some disagreement - is that correct - from certain state governments about the implications of the policy?

MR COSGROVE: Yes, there have been some statements from at least one state indicating that they're not too keen on the way the NCC has been conducting its reviews, its assessments. We'd better let them speak for themselves, I guess.

MR RICHARDSON: Yes, that's correct. The retail grocers' major concerns are that the NCC's policies and reviews have been implemented without effective socioeconomic impact assessments being completed beforehand. As a consequence, particularly in areas of small business in rural and regional communities, the NCC edicts have served more as portents of national disaster as against a national advice. I also refer to loss of full-time jobs in preference of part-time jobs and that these prove to be most substantial in five out of the seven states where both major chain dominance and forced deregulation have been most pronounced, and those facts are in attachments 8 and 9.

To that extent we consider the NCC as presently constituted has failed utterly to affect that part of the charter they have been given as to advancing the particular

basic

needs and aspirations of rural and regional communities, the very communities that have carried Australia for many generations through recession, drought and flood. As a consequence it has been small business, the small independent contractors - that's where I've been most of my life, 44 years in this industry - who have borne the greatest losses of this tragic economic rationalist experiment practised on the Australian community at large.

What then are its failings and how has this occurred to the degree that no less than three separate committees of inquiry at the public's expense are currently reviewing the NCC's performance. That in itself is alarming, that three inquiries covering very similar - - -

PROF SLOAN: We're not one of them. That's not in our terms of reference to assess the performance of the NCC.

MR RICHARDSON: No. The failure of NCC to take account of city, rural and community income differentials, sir, we did raise this with you in Oatlands when you were in Tasmania before. The negative impacts of national competition policy on rural and regional areas are compounded by the fact that many households in rural and regional localities on average earn substantially less than their counterparts in their respective capital city. To bring it to Tasmania, in dollar terms, the average household in Ross earns \$297 per week or a little over half the average household of Hobart on \$563; Campbelltown earns \$361 per week or 64 per cent of the average household in Hobart; St Helens \$360 or 64 per cent of Hobart; Bicheno, \$380 or 68 per cent.

MR COSGROVE: Is that a set of income patterns that has changed much, would you say, Sam, or has it long been the case?

MR RICHARDSON: No, I would say, Mr Chairman, that this is something that has been exacerbated over the last few years because of the dominance that's within the industry. There has been a complete moving out of the facilities, be they banks, be they government facilities, be they social facilities out of those towns, which means that also there has been a downturn to a slight degree in the rural industries in Tasmania which has exacerbated that as well.

PROF SLOAN: But they're sourced from the census, those figures, aren't they?

MR RICHARDSON: That's right.

PROF SLOAN: I mean, they are compounded by lots of things, notwithstanding the very different proportions of those employed in those areas, so you're getting retirees mixed up with workers so it gets a bit complicated.

MR RICHARDSON: Probably I could accept that if you were saying places like - whether it be St Helens or Shearwater, where there is more conducive weather conditions in Tasmania. But in the central parts of Tasmania I don't think there

would

be quite that. Also, the social infrastructure of those towns means that people are unable to stay in their own homes, as we're being asked to do as we get elderly and I'm looking towards that as well. But they have to move to more major populated centres for those services. That is devastating to a rural town.

PROF SLOAN: But I think John's point - the richest people have always lived in Melbourne and Sydney.

MR RICHARDSON: Yes, probably.

PROF SLOAN: Yes, so you have to establish what has changed.

MR RICHARDSON: But I'm saying Hobart as against - I'm trying to bring it back to a local perspective.

PROF SLOAN: Yes, but the richest people have always lived in Hobart too, in Tasmania.

MR RICHARDSON: That's right.

In addition, unemployment is higher in these areas -

which is what we're talking about -

which adds to the cycle of lower incomes and makes townships more vulnerable to the effects of small business closure. What serves as a double jeopardy is that many of the small businesses in rural and regional areas are family affairs so that closure or loss of business to the big box major chain developments in neighbouring townships means loss of employment and income to more than just one generation -

and I was listening to what Anne was saying. In the store that I was in at Longford for 34 years we serviced that area as well. So her forefathers were customers of mine, if you like. So I can see that happening, that it's not just one generation. It does have its effect right throughout.

We maintain that if this is allowed to continue unchecked, without a comprehensive tightening up of local planning regulations -

and that is something that I wish to bring to your notice -

such that major retail developments of any size may to local councils become subject to socioeconomic impact assessments prior to consideration for approval.

That is something that needs to be done, because at the moment the National Competition Council - their stated aim:

to help raise the living standards of the Australian community by ensuring that conditions for competition prevail throughout the economy, that promote growth, innovation and productivity.

There is an attachment in there.

Given we can demonstrate in the retailing grocery sector in particular that with unfettered competition and no effective regulation at its edges -

and I'm talking about capping triggers and divestiture and also talking about transparency of pricing -

without that we are going to face market failure within our independent structure. We have experienced an unhealthy concentration of market power into the hands of major supermarket chains oligopoly.

So we maintain this is clearly detrimental to the Australian community as a whole. Certainly in Tasmania, where one chain has 51 per cent of the market, the two chains have 77.7 per cent of the market - and that in anyone's situation is certainly an oligopoly.

PROF SLOAN: No, it can be a competitive duopoly. It all depends how you define the market as well.

MR RICHARDSON: That's correct.

PROF SLOAN: The market for food is much broader than grocery.

MR RICHARDSON: Yes, I am talking from a grocer's perspective. I believe that as far as the NCC in enacting their charter in the retail grocery sector of our economy and independent grocers in particular, who serve in rural regional areas at the moment - is a big fat zero. We're getting no support out of the NCC.

It is clear, despite the wealth of government resource research facilities it has available to it, that the NCC has chosen deliberately or otherwise to not take on board the well rounded experiences of the United States, as the world's foremost free trading nation, in its fundamental grass roots area of commerce. We contend that the retail grocery market in Australia is now the most anti-competitive in the developed world.

There is a lot of things here that I could go into, such as that:

Australia holds the invidious distinction of being the most unhealthy and anti-competitive retail grocery.

That's on attachment 10.

Further, this increasing development of unhealthy and anti-competitive practices has been accelerated, not abated, under the rule of the NCC.

There's further attachments there. But this raises a key question as we see it, as to why is it, with the retail grocery market sector on the cusp of market failure and with the NCC having been put on notice on numerous occasions, that it has for all intents and purposes stood idly by and done nothing.

MR COSGROVE: I don't think that's a role for the NCC. The NCC has several roles, the most important of which is to explain what national competition policy involves, and also to make assessments, as I said earlier, of the degree of implementation of agreed governmental policy decisions in the area of competition policy reforms. It also is able to conduct reviews of some legislation which contains restrictive provisions and has done so, the most important of those cases being its review of Australia Post - in which, incidentally, it didn't recommend total removal of all of the restrictions on competition in that market.

But it's not the NCC's role to be making a declaration on whether or not the retail grocery sector is competitive or not. That is a function for the Australian Competition and Consumer Commission. I'm wondering whether you can tell us whether your organisation or NARGA has taken up with the ACCC this claim that you have that the sector is uncompetitive.

MR RICHARDSON: Yes, this is further in the submission, sir.

MR COSGROVE: Right.

PROF SLOAN: Just on that point about Australia having the most non-competitive retail sector, have you got any data which you would expect us therefore to have the highest retail prices for groceries in the world if that were true? Have you got any data on that? I mean, going overseas myself, that strikes me as absolutely not true. In fact it's cheap to come back and shop in Australian supermarkets.

MR RICHARDSON: We can furnish you with the market share holdings in those other - - -

PROF SLOAN: No, I'm not talking about that. I'm talking about real retail prices.

MR RICHARDSON: The retail prices in Australia are - it's often said they are cheaper now than 25 years ago.

PROF SLOAN: Yes, and they're cheap in the world too.

MR RICHARDSON: The fact is that with the efficiencies within wholesaling and manufacturing and other areas, as you suggested, there are many factors that compound on various issues such as unemployment and rural and also regional areas.

But within pricing the same compounding effects are there.

PROF SLOAN: But those things are available overseas so they have had all those productivity gains too.

MR RICHARDSON: Probably the best thing is to look at the bottom line, to look at every major retailers here - - -

PROF SLOAN: No, I don't care about the company, I'm talking about from the consumer - - -

MR RICHARDSON: Major retailers here still make a far better percentage every than what you would see in America or elsewhere. What I'm saying is the efficiencies to scale that have occurred within Australia are not all because of consumer demand. It's also efficiencies within the whole structure, right from the Anne Taylors right through to the end product.

PROF SLOAN: But the point is you haven't got any data to support the proposition that real grocery prices in Australia are higher than elsewhere in the world because of our supposed anti-competitive arrangements, which is exactly what you would expect. If this is an anti-competitive market they will exploit their market, they will charge higher prices.

MR RICHARDSON: I would suggest that we should get you some information on that, especially on Mackay and other places where there are no effective competition to the major chains, where those prices that you're talking about have risen quite dramatically because there is no competition. So if you wish, we will furnish you with those, okay?

PROF SLOAN: Yes, we would like that.

MR BRAITHWAITE: I'll just mention that Mackay does have a very effective independent retailer there and one that I trade with quite regularly. That's something that I wanted to bring up later on - is how the strength of these people in the market, certainly in Mackay - I won't say they're making a difference to the price but they certainly are competing very effectively.

MR RICHARDSON: Yes. If you wish me to comment further on that point, in Tasmania - and I tabled within this here a price comparison of six supermarkets. There were five. I think there were three Woolworths, two Coles and one of our own stores. In that price comparison that was done over \$113 worth of basket, the Festival store which we supply and support was third cheapest in that. Now, that is because we have to take a far lesser margin to remain competitive. I would suggest your friendly grocer up in Mackay is also taking a lesser margin than what is available to the mainland chain. We have, for instance, milk and cream - and I've got that in this here. Perhaps if you would like I will get those to you. Excuse me, Alex, would you pass those around? This is highlighting the milk and cream pricing, okay.

What

the independent's margin is 14.6 for a larger independent, 13.3 for a medium, yet the chains get 20.9. Now, that is despite independents selling between 55 and 60 per cent of the milk in Tasmania.

Now, those prices - for instance, in the large independent where it's delivered for \$1.11, whereas his competitor at \$1.02.8 - the same milk vendor, the same truck on the same day, half a block away delivers that milk. So there is a dramatic price variance there. The chains also receive another 1 and a half per cent and sell them at a discount. On cream, independents receive zilch, nil. Major chains receive 2 and a half per cent rebate and 6 per cent cooperative advertising and marketing allowance. Orange juice, if you would like to add that up, it's 1.8 per cent rebate for independents as against the major chains getting 13 per cent. Yoghurt is there also, to show the variances.

But let's look at bread, which is a basic commodity. Branded, independents receive 2 per cent rebate. Major chains receive 2 per cent rebate, 1 per cent coop at marketing and 5 per cent settlement discount. Now, that's on a very basic item which we are selling at exactly the same price as the major chains. The generic bread on the bottom there, independents' net cost is \$1.47 and the major chains' net cost is \$1.26. We both sell at \$1.95. So the point I'm making is that whilst we are struggling to match those prices, they are making a killing. That is the point I would like to make.

On the back of that is the price comparison that I did do on 30 June. As you can see, it is very price competitive in Tasmania. We are all very aware of the marketplace and the pricing structures that you have to maintain. Everybody checks everybody else. As you can see, the TIW Festival store on the right is third in line after the Coles Meadow Mews and Ralph Voss Riverside. The Sandy Bay, Glenorchy and - purely Sandy Bay - are all southern outlets, I might say.

We are very competitive in the island, and that is the reason that - the main problem that we have in Tasmania on pricing, and we come up in disparity terms as far as the mainland - and Choice magazine and all those likes are bringing this out - is that there is a huge price differential, and it has been suggested that it is the water between here and the mainland. Whilst the water to a degree has compounded the price structures, the biggest problem is that we have the largest retail square footage per population than anywhere else in Australia. We have 43 major supermarkets and five K Marts in a population of less than 460,000 people. I would suggest to you, Mr Chairman and the panel, that that is a major concern in Tasmania, that through their push for total market domination the major chains have overspent on their capitalisation in this state and they have outpriced themselves as far as the consumers of Tasmania. That is the real reason why we are so much higher than the mainland, because they've overcapitalised with their market - - -

PROF SLOAN: But that's their problem, isn't it? Why is that a problem for anyone else?

MR RICHARDSON: It's a problem for the consumers, I would suggest.

PROF SLOAN: Why?

MR RICHARDSON: Because they are paying, I believe, more than they should be.

PROF SLOAN: You'd have to have more data to support that. To me this is exactly what you'd expect from a highly competitive market. You've got virtually identical prices, and as an economist that tells me this is an extremely competitive market.

MR RICHARDSON: Because one of those competitors is taking a far lesser margin of profit to remain viable, and that is the reason that I put all those - - -

PROF SLOAN: You just told me that the chains have made mistakes and have overinvested in property, so that's going to be dragging down their earnings substantially.

MR RICHARDSON: I would suggest that their EBITs in Tasmania are far better than anywhere else.

PROF SLOAN: But the point is this is exactly what you'd expect in a competitive market. In fact, it's interesting that if your figures, which I don't accept - you'd have to get the chains to verify those - if that is true, it's interesting why they don't drive you out of business, because they clearly have the opportunity to do that.

MR RICHARDSON: They have 77.7 of it at the moment.

PROF SLOAN: Good. But 100 is beautiful compared with 77.

MR RICHARDSON: Yes, the economic rationalist theory would be big is beautiful, but the concept of what I believe is being missed by the NCC is the human factor. There's no human element.

PROF SLOAN: I don't think it's got anything to do with the NCC. I think we should accept that.

MR RICHARDSON: I'm sorry, I can't - - -

MR COSGROVE: Do you mean NCP?

PROF SLOAN: NCP, you mean?

MR RICHARDSON: NCP, I should say.

PROF SLOAN: We can't charge the NCC with responsibilities that it doesn't have.

MR RICHARDSON: No. The NCP, if you like, okay. If they have no clout whatsoever, how come state governments follow their edicts virtually to the line? That is, if they've got no clout Graeme Samuel should be replaced and somebody else put in there. We believe that the constitution of the National Competition Council has no relevant small business operator within it. They have accepted and put on the welfare organisation that there is nobody on there that has a real grass roots knowledge of small business and how that actually operates. So I would suggest to this committee - - -

MR COSGROVE: But there are in the governments which decide what legislation is going to be changed quite clear small business interests.

MR RICHARDSON: Yes, which is the chicken and the egg? Who actually brings it forward?

PROF SLOAN: The government.

MR RICHARDSON: Or is it the government, or are they taking advice from the NCC?

MR COSGROVE: They take advice from the NCC.

MR RICHARDSON: That to me seems to be a role that is being - probably they have too much clout in that area as far as state governments are concerned. Like, we have a situation in Tasmania where we have a very viable operation as far as shop trading hours. It's allowing independents to remain viable at this moment. Yet if the state government have to put up a reason to have that regulation as to why it is - - -

MR COSGROVE: That's the way the policy was designed by the governments. The onus of proof is on those wishing to attain a legislative restriction on competition to prove that it produces a public benefit. So it's different from the conventional test where you might have thought the status quo should remain in place unless there was a reason to change. Governments explicitly decided that they wanted to, if you like, give the development of competition the edge in the running.

MR RICHARDSON: Yes, I accept what you're saying, but then there is the matter of finance, and if they are not able to satisfy that they have adhered to competition policy in the true sense, they are likely to miss out on funding.

MR COSGROVE: Yes.

MR RICHARDSON: Is that correct?

PROF SLOAN: But they signed it. I mean, it's an agreement as much between the state governments - - -

MR RICHARDSON: I think a lot of them would like to probably take the

decision - - -

PROF SLOAN: What you're saying is, "Could we have the money and not implement the policy?"

MR RICHARDSON: No, I'm not saying that; I'm just saying that there should be - - -

PROF SLOAN: No, no. I mean, we've had from the Western Australians the advice that if they feel on balance that a policy doesn't suit their state they will not implement a pro-competition policy and they will forgo the money. I just think you have to be realistic about the role of the NCC, particularly in relation to issues surrounding the private sector retail grocery market. The NCC really does not have a role. It has an indirect role in relation to trading hours.

MR RICHARDSON: That's certainly of major concern.

PROF SLOAN: Yes, but it's only indirect.

MR BRAITHWAITE: The major responsibility as far as I can understand is on the states. The states have been asked to review their legislation, ie trading hours. I believe in Queensland that's been done and there are restrictions on trading hours. They've been upheld. I don't think there's any penalty for the NCC there, nor I don't think could the NCC impose a penalty.

PROF SLOAN: We don't know that yet though.

MR BRAITHWAITE: No, but there is a responsibility on the states to review the legislation and there is a penalty if the state wishes to go against what the NCC guidelines might be. They suffer the penalty, and one state has already done that.

MR RICHARDSON: We, as you would know, have a very low rating as far as the economy with Tasmania, and any money looks good money to us at this particular point in time. The point that I'm trying to make is that the money is something that is quite bold within state governments' minds at this moment, and - - -

MR BRAITHWAITE: I'm not denying that.

PROF SLOAN: But it was signed by a democratically elected state government given that undertaking.

MR RICHARDSON: I accept what you say.

PROF SLOAN: It does remain an option for a state government to walk away from it.

MR RICHARDSON: I would suggest that the state government that signed it here was a Liberal government; if you were to go and ask the Labor government right now, they wouldn't sign it.

PROF SLOAN: Would they walk away from the money?

MR RICHARDSON: The money is once again - you bring the money up.

PROF SLOAN: Well, that's the trade. They don't have to, you see. They're not bound in that sense. They do have a choice.

MR RICHARDSON: The issue that I would further like to make, if I may, is that we believe that resolute action by legislative means to effectively amend, as I've submitted to the joint parliamentary inquiry this morning, in some preliminary draft proposals, amendments to Part IV of the Trade Practices Act (1974) so that capping transparency and trading terms provisions and dilution of market dominance are incorporated into that act. This will ensure that that act is much more industry-specific to the special competitive needs of small business. Otherwise we believe the ongoing public interest of all Australians as consumers will continue to remain at great risk.

I'd like to bring you back to a further report, your very commission's report in 1997, in Finding a Balance Towards Fair Trading. That's the Reid report, and I quote from that:

There needs to be a recognition the Australian environment is no longer conducive to fair competition because of the high levels of concentration in many industries, including retailing. It is naive to expect more small business to survive unrestrained competition without some form of protection from the worst excesses of the exercise with economic power.

In Tasmania if a major chain was to sneeze, the whole manufacturing industry would catch a cold, because if you are not in say 51 per cent of the market that one of the major chains has, you may as well fold your tent and go elsewhere, because you will not produce the critical mass to put that product on the shelf. We also found that in recommendation 4.1 of the Reid report that very detailed report refers to disturbing evidence supplied to it, and recommendation 4.2:

That the Trade Practices Act be amended to give the Australian Competition and Consumer Commission a wider raft of powers.

We strongly endorse that. The NCC - and I'm sorry if I keep referring to them, but surely as the charged body responsible to create and safeguard market structures and behaviour which prevent anti-competitive practices - is that a true statement of fact?

PROF SLOAN: It's more the ACCC.

MR RICHARDSON: We believe the chairman, Graeme Samuel, has got his priorities askew. He should have been more aware of small business in that regard. There needs to be somebody from small business on that committee. The ACCC can't do anything without instructions, so we are looking for every means that we can find by appearing here today and appearing at the other committee that the ACC get some teeth to be able to address this issue. We have put some draft clause proposals to them, and they are at the end of this submission. We commit those to you because we believe it is the only way that we will be able to remain viable long-term in this industry.

We are suggesting a capping, we're suggesting a transparency in pricing so that there is a competitive marketplace out there. We're suggesting that nominated manufacturers be - it be mandatory for those nominated manufacturers to provide to the ACCC or to a supplementary body similar to the PSA a complete and full disclosure, transparent disclosure, of their marketing funds that are allocated, be it to Woolworths, Coles, to Franklins, to Davids, to AFL, to TIW, so that there is a full and transparent disclosure of all marketing funds. That would then overcome the problems of the milk, the bread and all those other instances where major chains are in many instances receiving unfair advantage over small independent retailers.

MR COSGROVE: Do you think that would survive a court challenge, that type of proposal? It would seem to me to be very likely in the category of an infringement of private business information.

MR RICHARDSON: No, we believe it should go through to the PSA and/or - - -

MR COSGROVE: Yes, I understand your proposal, I think, but I'm wondering whether, if it were advanced to the point of say being included in the ACCC's set of responsibilities, if the ACCC sought to implement it, it mightn't be taken to court by those who are being told to make transparent what is commercial information.

MR RICHARDSON: I'm not going to argue legalistic matters with you, sir, but we have it on good authority that these would be a seamless amendment to the Trade Practices Act. What we have commended to the commission today is that they send them away to the ACCC for further refining and to bring back their own proposals. They are only draft proposals. Within that mandatory reporting there is a 10 per cent differential to allow competition to still be there. For instance, the major manufacturers had a 10 per cent marketing allowance for their product and that's above and below the line. It's national rebates, state rebates, coop case rebate and also other marketing. They have a total amount of spin. Say it was 10 per cent for instance, if Woolworths got 14 per cent and Coles only got 8 and independents got 6 it would be outside that 10 per cent differential.

We're saying that within that differential of 10 per cent it remains competitive. We're able to still move product out of the warehouse that is slowed down in the marketplace. It still allows them to bring in new product and allows many instances -

for instance, if they were to go into a Coles in June and promote a new product that they didn't get into Woolworths until July, it still allows that differential. It's a very seamless application and quite simple to put into place because it is only one line reporting from the nominated companies and if the ACCC wishes, they could also impose that same onto the wholesalers and the major chains to report what they have received.

PROF SLOAN: I wouldn't have thought very attractive though. This is not an attractive option at all.

MR RICHARDSON: To the major chains?

PROF SLOAN: This is sort of - to anyone, really, particularly not the regulators. There's clearly scope to fudge this tremendously. It's not our role to have a view particularly but the drifter policy is to ensure you've got competition at the consumption end because that sorts all these sorts of things out. That's the key.

MR RICHARDSON: Yes, the only way that you will sort it out I would suggest is following similar lines. We recommended these provisions. As far as capping, to be effective that is quite simple also in its application of how you would cap the market. That is also another very simple procedure. It's only people trying to - - -

PROF SLOAN: Not very attractive either, I wouldn't have thought either.

MR RICHARDSON: It's probably quite a large ask but then again, if that ask isn't taken into consideration, what have we got? We've got market failure at the end of the day. So people have to be - - -

MR COSGROVE: If the markets turn out to be anti-competitive you would claim market failure but that's still I think a bit of an open issue. You know, Sam, I think, that the main purpose of our inquiry is to assess the effects of various elements of the national competition policy package. From what you've told us today I have the impression that you think there are certain groups in the community - and you mentioned in particular the disabled, the disadvantaged, the aged and infirm who you see as experiencing some adverse consequences of the liberalisation of retail trading hours which is the only NCP reform I think of director relevance to the retail sector. I mean, there can be others like benefits of competition coming through on the input side and then reducing the cost you pay for electricity supply or telecommunications or what have you. These people - you say, the majority of our overall population. Do you mean by that your population of shoppers or the total Australian population?

MR RICHARDSON: Perhaps if I refer you to attachment 6, Consumer Food Network of the Consumers Federation of Australia. That, I would suggest, is their concerns about what is happening, especially in rural and regional areas. They have put this submission into the joint select committee. It is a document that goes even further than what we have said. They are saying a 60 per cent cap. This is a true grass roots - it has, I believe, the CWA and all those other organisations within this.

PROF SLOAN: I mean, I've never heard of them.

MR RICHARDSON: Haven't you?

PROF SLOAN: No.

MR RICHARDSON: All right. They are - - -

PROF SLOAN: That sounds like this person's personal view.

MR RICHARDSON: No, in Canberra next Monday there will be a coalition against major chain dominance and these people are part of that coalition. There will be the newsagents, the chemists, the automobile chamber of commerce and all those other - even shire councils have put their name to this coalition against major chain dominance and these are one of those parties.

PROF SLOAN: But they're not consumers, any of those groups, they're producers.

MR RICHARDSON: Yes, but these are consumers, total consumers.

PROF SLOAN: We're consumers and we're not part of it. I mean, what is your evidence that consumers are against extended trading hours?

MR RICHARDSON: I would commend this to you and if you wish to get further - this here, whilst they're saying the prices and the convenience of the small stores, in Tasmania we have a very - hopefully a bright future if we're able to maintain the infrastructures of our rural and regional towns. For instance, in Strachan, in Richmond, unless those vital economies, fragile economies are there for 12 months of the year we will lose our potential of tourism in this state. So what I'm saying to you is that the major chains are serving as vacuum cleaners, if you like, drawing out retail trade from those towns into major populated centres and the simple reason of having extended shop trading hours which allows perhaps people more time to traverse from point A to point B is going to be detrimental to those towns. So the consumers will always look to cheaper prices. I'm not arguing that they don't go to major chains because they do. But they also need their small independents in rural and regional areas, even in suburban areas, where the elderly and the frail and those that are not mobile are able to get the same convenience and access to those services as anywhere else in Tasmania.

PROF SLOAN: But in Bendigo they had a referendum. So they asked the people whether or not they wanted extended shopping hours and it was overwhelmingly in favour of it.

MR COSGROVE: And also - and you could obtain copies of their submissions if you wish, Sam, we've had several from the Bendigo area indicating that not only are the consumers pleased about this liberalisation but that it had also provided an

increased opportunity for small businesses to increase their trade.

MR RICHARDSON: Those close to.

MR COSGROVE: I don't know which particular small businesses but I'm not sure that's a terribly big issue anyway. The important point seems to be that both the supply side and the consumer side seem to think this has worked in their interests.

MR RICHARDSON: If you were to ask anybody - it's a bit like asking if you want more pay. The same with shop trading hours - anybody would say yes without thinking but nobody is looking at the overall public interest, at the consequences of what happens when you have an oligopoly or a duopoly or whatever you wish to speak of, if that becomes anti-competitive.

MR COSGROVE: What could be a clearer expression of the public interest than to have a secret ballot referendum?

MR RICHARDSON: It all depends how that referendum is held to a certain degree because - - -

MR COSGROVE: It was held like any election would be held. The State Electoral Commission of Victoria was the agency which conducted the referendum just as it would conduct - - -

MR RICHARDSON: If I could perhaps provide you with evidence from other organisations where it has been in total dispute of what you're saying is happening in Bendigo in other towns, in other shires, would that be of help to you to give you a more balanced view of trading hours because at the moment you seem to be focused on Bendigo.

PROF SLOAN: There are other examples.

MR RICHARDSON: There are other examples that we need to give to you.

PROF SLOAN: Favourable ones.

MR COSGROVE: By open vote as occurred in Bendigo or merely expressions of opinion?

MR RICHARDSON: I believe we have that evidence, Alex, to a degree.

MR GRAEME-EVANS: With respect, I mean, it's a complete aberration to the issue which has been constantly raised by the major chains. It is not - - -

MR COSGROVE: I'm sorry, Alex, I don't wish to be bureaucratic but if you wish to - - -

PROF SLOAN: It's not the major chains. In my home town there's now serious pressure for deregulating the shopping hours. I mean, you've got to see it in the context of the changing patterns of work. As a full-time woman working, having fixed shopping hours is absolutely hopeless so - - -

MR RICHARDSON: But in Tasmania - - -

PROF SLOAN: And Tasmania is not that different from anywhere else.

MR RICHARDSON: But in Tasmania we have shop trading hours from Monday to Wednesday between 8 o'clock and 6 o'clock, between 8 o'clock and 9 o'clock on Thursday and Friday and from 8.00 till 6.00 on Saturday. There is, in our opinion, ample opportunity for people to - - -

PROF SLOAN: But why should it be your opinion. It should be the consumers' opinion.

MR RICHARDSON: And it is in the consumers' opinion and if you look at - - -

PROF SLOAN: So there's been a vote.

MR RICHARDSON: As I say, I keep coming back to the consumer, okay.

PROF SLOAN: Yes, but this is - I mean, you're trying to get us to accept that the Consumer Food Network of the Consumers Federation of Australia is representative of the Australian consumer. Have they done a vote?

MR RICHARDSON: With all due respect, you're saying it's not attractive to do the cap and to do all these things but really, you know, what is in the public benefit is what I'm saying to you. It may not seem attractive but what is in the overall public benefit, okay.

MR BRAITHWAITE: Sam, it appears to me that in putting up the propositions of amending legislation that you've almost given up on the trading hours?

MR RICHARDSON: No, not at all, sir, not at all.

MR BRAITHWAITE: But the amendments themselves don't refer to trading hours, they refer to caps and ownerships, don't they?

MR RICHARDSON: That's right.

MR BRAITHWAITE: So you haven't given up the trading hours?

MR RICHARDSON: No, not in any way because without trading hours we would

not be in a position where we would be able to maintain that sort of competitive pricing so without that - the whole problem is that they - we're really talking in a large degree to the DINKs and the DIWKs, aren't we, really - the earner, double income with kids and without kids. I think they're what, about 34 per cent of the population, thereabouts, and they would have most of the expendable income in their pockets. The other 66 per cent or whatever it may be - and please don't hold me to those figures - they are the people that are mainly concerned, for instance, 71 per cent of our business is from in rural and regional Tasmania. That's outside Burnie, Devonport, Launceston and Hobart. 71 per cent of our turnover comes out of those areas.

They are the people that I am extremely concerned for, not only for the retailers. This has always been portrayed as a big versus small. To me it's not. Shop trading hours has never been a big against small. It's about the quality of life and the value of life in Tasmania and the access of services and prices and structures, no matter where you live in Tasmania. That's not a big and small issue. That's overall public benefit as far as I'm concerned. You know, if Coles get bigger or Woolworths get bigger, that is a side effect that is affecting that way of life and that quality of access to services in Tasmania.

MR COSGROVE: But why do they get bigger if it's not because people want to visit their stores? If people don't like this, as sort of an imposition on their communities, then won't those stores fail?

MR RICHARDSON: The domination of those major chains, the fact that they are the only ones that are approached to go into major developments, the fact that they are able to - - -

MR COSGROVE: Approached by local councillors you mean?

MR RICHARDSON: By local developers. They are also supported by local councils because they want that development to happen in their municipality because it's another little cash cow in rate return etcetera. But the problem that I see in that is that there has been no socioeconomic impact statements done. For instance, we have a store being built at Legana, a very small subdivision the other side of Launceston. Now, the major chain that's building that has got one within a very short distance. Now, they anticipate that they will lose 30-odd per cent of their own store, their current store, into that new store. All that's happening there is that they are building that to stop Coles going in there. Now, whilst they are doing that they are devastating the rest of that western Tamar, all the little independents down there. They will suck that business into that Legana store. Now, there was no socioeconomic - - -

MR COSGROVE: But again why? Why are they sucking the business away from the smaller ones?

MR RICHARDSON: Their dominance, the money that they are able to expend in

their presentation of their businesses, which independents in their depleted form are unable to match. They can't get bank loans at the same - they're always 3 per cent - - -

PROF SLOAN: It's interesting though, Sam, because there's Victoria, which has totally deregulated shopping hours and has had for some years, and it doesn't actually have the - in fact it has the sort of medium concentration of the chains, 77.4. There's Queensland, which probably has one of the more restricted trading hours arrangements, has 86.1 per cent dominated by the chains. So it seems to me that - you know, you may be chasing a pretty tasteless rabbit down this burrow - that in fact trading hours has got very little to do with the percentage of grocery retail sales taken up with the - I mean, they have had deregulated shopping hours in Victoria for, what, 10 years?

MR COSGROVE: Sunday trading I think is more recent.

MR RICHARDSON: That's more recent.

MR COSGROVE: Yes, that's about 96.

MR RICHARDSON: Yes, that's only been about three to four years probably.

PROF SLOAN: No, it is longer than that. I think that was certainly in Jeff Kennett's first term. Yet they don't have the - I mean, there is Queensland has the highest dominance of the chains and yet it has really quite restricted trading hours.

MR RICHARDSON: Which are under review at the moment I believe. Is that correct?

PROF SLOAN: They are under some review.

MR BRAITHWAITE: I know the committee has had evidence and I thought they had altered it to a small business of 20 or less employees. They raised it from about 13 to 20, so they extended it to that extent. But I thought the review was completed on that basis.

MR RICHARDSON: In Tasmania, both the Labor and Liberal Party in this state have given a commitment for four years not to extend shop trading hours, simply because they have recognised the detrimental effect that shop trading hours has on Tasmania.

PROF SLOAN: But my point is that these figures are not very conducive to your argument at all.

MR RICHARDSON: Look, I'm not going to put forward facts that aren't factual. I've given you the whole screed of what we were able to pull out. I'm not trying to pull wool over anybody's eyes, so you've got all the facts there in front of you.

PROF SLOAN: But I mean, the point is that at the end of the day about the only thing that's within a sort of NCP purview is the regulation of shopping hours. On the basis of it, it doesn't look as though the regulation of shopping hours and the dominance of the grocery retail chains is much related.

MR RICHARDSON: I think that you and I will have to agree to disagree, I'm sorry.

PROF SLOAN: Well, these are actually your figures.

MR RICHARDSON: But what you're saying to me is that the NCC have no influence on government and that they - - -

MR COSGROVE: No, not quite.

MR RICHARDSON: Well, that is the inflection that I'm getting - - -

MR COSGROVE: We're saying NCC is an adviser to government.

MR RICHARDSON: - - - that they are an advisory body to the government?

MR COSGROVE: Yes, that's right.

MR RICHARDSON: Yet the state governments have tended to pick up their advice and run with it at this point in time. Now, we have - we're the big carrot on the end of it, you know. What is it - 16 billion dollars worth of carrot? Is there anything further you wish to bring up?

MR BRAITHWAITE: I've got a few things. You're appearing here on behalf of the Tasmanian Independent Wholesalers. Is that using wholesalers in the normal term of the word?

MR RICHARDSON: Perhaps I better explain. Tasmanian Independent Wholesalers is a cooperative of 534 retail outlets. We're the only independent structure of our kind supplying independents in Tasmania. We co-own a warehouse with Woolworths Ltd in Launceston.

PROF SLOAN: Woolworths are one of the chains.

MR RICHARDSON: Yes. It makes for interesting living. That's why I say within the warehouse structure itself they abide by good corporate governance and also they - you won't find me saying they are not good corporate citizens, because they are. They have only just got too big and that's the problem. But within the warehouse structure, we co-own the warehouse. The warehouse is set up in a manner where we have a general manager who is - virtually what it's set up to do is buy, warehouse and

distribute it in the most economical manner for both major chain, Woolworths, and independents. We both do our own marketing, okay. So we both independently talk with manufacturers and get case deals and co-op and rebates.

Now, two months ago I was able to pick up an ex-major chain employee who in fact negotiated a lot of these marketing arrangements for the chain. It has been a very enlightening experience I can tell you - that we have been able to identify areas that we have certainly been disadvantaged by major manufacturers to the point where we have now been addressing those issues over the last two months. Our carpet is being worn out by national account managers coming in trying to justify why they should not be brought before the ACCC in their treatment of TIW. So if we are unable to get equitable trading terms we will certainly be listing those - any identifiable unfair trading practices for the ACCC.

PROF SLOAN: Well, the ACCC is designed to make individual complaints.

MR RICHARDSON: Yes. But as far as the warehouse, sir, it is structured that even the largest Woolworths store pays the same price as the very smallest independent and the only variance is the service fee structure and that would vary from - the total variance would be probably 3 and a half per cent from very largest to the smallest.

MR BRAITHWAITE: Why I asked - because I thought that the role of the wholesaler was diminishing to a large extent. Is this just a Tasmanian influence? How much of the supermarket product would be acquired direct from the manufacturers and not through a wholesaler? I thought this was the big benefit that chains had.

MR RICHARDSON: There's still about 70 per cent of product comes through at the central distribution point or a warehouse. That is the area that we are saying should be capped, and the mechanism is quite simple - either by scan data on those prescribed products or by warehouse purchases. It is a very simple mechanism. It's there already. It just has to be activated. But 70 per cent is still those packaged dry groceries, frozen and chilled products, and it's still a very large component of a supermarket structure. Now, unless independents have critical mass to go through their warehouses to ensure that they are able to buy in the package from the manufacturer - for instance, you have to buy 1200 cartons of tomato sauce, okay, Rosella tomato sauce, to be able to buy the best price. All of those situations - if you lose your critical mass, you're history in our game, because you just cannot maintain a viable structure. A warehouse for independents is the conduit from the manufacturer through to the end consumer. Unless they have critical mass, the end consumer will at the end of the day have to pay the price.

MR BRAITHWAITE: So your cap refers to wholesale purchasing?

MR RICHARDSON: Wholesale purchasing or - - -

MR BRAITHWAITE: It's not direct. The cap has to be on the wholesale purchasing.

MR RICHARDSON: On wholesale or central distribution. See, the majors are vertically integrated, as you know, which means that to the nominated products that we have - and we have close on 10,000-odd lines in our warehouse - they are also available to the ACCC through scan data from the majors. So I would suggest that you look at scan data from the majors and warehouse purchasing from independents. That would give you apples for apples.

MR BRAITHWAITE: Would that 70 per cent be consistent over all the states?

MR RICHARDSON: That's a national average. In Tasmania you're probably looking at around about 78 per cent, okay.

MR BRAITHWAITE: Yes.

MR RICHARDSON: Whereas we have not got a - as a developed fresh foods industry here. The other 30 per cent or 22 per cent is of no - it doesn't have the critical mass problems that the dry goods, frozen and chilled has, because it's not centrally distributed. There is a myriad of ways that you can buy other product. For instance, there are meat. You've got plenty of fruit and veg operations in each state that you can go and buy from the market or from individual vendors. Even within the milk and the bread there's individual vendors within that, and in the other state. Unfortunately here, one processor has 70 per cent dominance in the market and that's why you see those price structures that are here at the moment, because we are unable to obtain a licence or an account from that processor that allows us to be able to purchase milk at the correct price for our members.

MR BRAITHWAITE: Right. In your second submission you mention about the sales tax differential. Under that basis, whoever acquired that 70 per cent - as they do at the moment - is there a big penalty on paying wholesale tax?

MR RICHARDSON: Certainly is. The major chains collectively would get around about \$120 million free kick under the current wholesale sales tax situation at the moment.

MR BRAITHWAITE: Even though they only purchase 30 per cent direct from the manufacturers?

MR RICHARDSON: No, sorry. I'm saying that 70 per cent is warehoused and bought direct from dry goods, frozen and chilled.

MR BRAITHWAITE: Yes.

MR RICHARDSON: The other 30 per cent is the fresh foods area. Within the warehousing structure, because the major chains are vertically integrated they are

able

to go to the manufacturer and buy from the manufacturer's gate. They are able to strip down, if they want all their rebates, their case deals to reduce the price and therefore reduce their wholesale sales tax. An independent, that manufacturer, sells to the wholesale arm, to the wholesaler, the wholesaler. The wholesaler has his warehousing costs and service fee structure and then the independent pays their wholesale sales tax on that figure. So there's quite a gap because the majors pay at the manufacturer's gate, independents pay at the wholesaler's gate.

PROF SLOAN: But then that's the beauty of the GST.

MR RICHARDSON: Don't get me started.

PROF SLOAN: Yes, but I mean that does eliminate that problem. It might produce other ones but - - -

MR RICHARDSON: I agree with what you're saying but - - -

PROF SLOAN: It definitely deals with that problem.

MR RICHARDSON: - - - I wish they'd do it today and not in 12 months' time, because we're still behind the eight ball as it is.

MR BRAITHWAITE: I think I'm getting this clarified in my own mind, but I just want to make it absolutely clear. When you talk about 70 per cent wholesaling, that's the people you deal with acquire 70 per cent wholesaling and 30 per cent on the open market. You've got Woolworths in that arrangement. What about Coles? Are they the ones who then go direct to the manufacturers and get the advantage?

MR RICHARDSON: Coles have their own distribution centres, the same as an independent has a wholesale operation.

MR BRAITHWAITE: And, as you say, they're - - -

MR RICHARDSON: Vertically integrated. Now, the major chain, their percentage would be slightly less than an independent structure because they are more conducive to fresh foods in their retail establishment. That's why that percentage varies from state to state depending on their dominance in each state. But 70 per cent of product sold would be dry goods, frozen and chilled product that is centrally distributed.

MR BRAITHWAITE: Right. Just a few other questions. I'm pretty sure the other retailing select committee will be interested in this: the evidence of anti-competitive practices in purchasing. Does anything like that come before you or has evidence been given to the committee?

MR RICHARDSON: I dare say that it has been given at the parliamentary inquiry. There was a person appearing later today that would be held in camera that would be giving direct evidence on that.

MR BRAITHWAITE: It's a pity it's being held in camera. It would be the news of tomorrow if it wasn't.

MR RICHARDSON: The problem is if you come out and put evidence to the ACCC in this state you're immediately targeted. This chap would lose a lot of his business because all of a sudden you become a leper. The manufacturers don't want to know you, the major chains are thumping the manufacturers as well, so you've got to do it in camera. If you don't, you are putting your company at risk.

MR BRAITHWAITE: Yes. If I can just clarify in my own mind, when you mentioned the Mackay example I think you were responding to it in a reverse attitude to the manner in which I understood the study to be. Because there was a healthy independent in Mackay, I think the prices were closer together on the survey, whereas you were indicating there was a bigger disparity. That's the only reason I was saying that.

MR RICHARDSON: Yes, I think the disparity was about 23 per cent between Mackay and ourselves.

MR BRAITHWAITE: Yes, that's right, but in Mackay there wasn't a big difference because they are effectively competing. Is there any evidence that the majors are buying up independents at a faster rate in the last 12 months than before?

MR RICHARDSON: Yes, there is, and they've bought over \$1 billion worth of businesses, and that is why we believe there has to be a capping, because the ACCC is unable to pick that up in its current act. It has been one of the prime - - -

PROF SLOAN: If I were an independent, though, I'd be very unhappy with the idea of a cap, because this may be my superannuation. So I'd be very unhappy with you, Sam, very unhappy indeed.

MR RICHARDSON: I'm glad to say that you would be in the minority, because there are very few left in Australia that the majors would want to buy anyway. Those that are left would be looking for a long-term future, I would suggest to you, not a short-term gain. I'm sorry, but I'd like to finish this point.

PROF SLOAN: Yes, sure.

MR RICHARDSON: For instance, we have a situation in Hobart where Woolworths have acquired the business of our largest independent in Hobart, our largest Festival, who was a thorn in their side. They haven't bought it, they've leased it. If that fellow hadn't actually leased that premises they had access to a property further down the street. They could have gone in there and completely creamed that independent retailer. So they really haven't got a choice.

On the mainland, as you've accepted, they are offering instead of five to eight

times weekly turnover, which is the norm, up to 15 or 16 times simply to get that site, so that they can get that site too, because there's - - -

MR COSGROVE: What you're saying is they're paying well over the going market odds, which on the face of it would seem to put them at a competitive disadvantage, so they must have made some judgment that they can operate that business more effectively to cover the higher cost of the purchase.

MR RICHARDSON: The only problem is that they then transfer the cost of that - it's not even a blip on their annual balance, because they transfer that right across their whole operation.

PROF SLOAN: You never want to make a guesses mistake. Let's not forget - you say they've got bigger. The truth is they've got better.

MR RICHARDSON: Yes, I don't argue with that.

PROF SLOAN: In the late 1980s Woolworths nearly went broke. Let's face it, this nearly became an insolvent company.

MR RICHARDSON: 1985, yes.

PROF SLOAN: Coles Myer had hideous problems, including in its supermarket division. So whether they've got bigger because they've got bigger as opposed to they've got bigger because they've gone better is a very important point, isn't it? There's no government that can legislate against dozy independents.

MR RICHARDSON: In Tasmania in 1979 Woolworths had 7 and a half per cent of this market and they were a very poor operation. They then purchased two large independents, one in the north, one in the south, which effectively took them to 42 and a half per cent of the market right there. That's when we lost the ball game in Tasmania, right there. I would suggest that if that was to be the case these days, the ACCC would probably not have allowed that to happen. Why they allowed Cannons to happen, I do not know, in the ACT, where you now have in Cooma only two supermarkets and they are both Woolworths. There's no competition there. There's only Woolworths at either end of the town. We lost that ball game right there as far as being able to have critical mass to be a real force in Tasmania. Now, they've improved from 42 and a half to 51 per cent, and I would suggest we've done a damn good job to maintain our competitiveness and keep them to that level when they had 42 and a half per cent in 1980. So I'm very proud.

PROF SLOAN: But if they hadn't been good they would have lost market share.

MR RICHARDSON: There's no doubt about it, but they also bought independents that had a structure that was far better than what they were.

PROF SLOAN: That was canny business, wasn't it?

MR RICHARDSON: It was handed to them on a platter.

PROF SLOAN: These companies also don't earn excessive ROEs. These are not the best performing companies on the stock exchange. They've done okay, Woolworths considerably less spectacularly than Coles Myer. If they were in a truly oligopolistic position, you would expect their ratios to be out of line with the other listed companies on the stock exchange in terms of - ROE would be the classic, and it's not clear that they are at all.

MR RICHARDSON: In regards to that, I would suggest that there has been a campaign and it has been exacerbated, been accelerated in the last 12 months since we started this campaign, especially the Enough is Enough. We did have one view at one stage that the reason that you gentlemen and Judith are here today is the fact that perhaps Peter Costello wanted to forestall our campaign to get a joint parliamentary inquiry. But since that day there has been an acceleration of purchasing of independent retailers right around Australia.

PROF SLOAN: But can you come back to my point? What is the evidence based on the reported financial results that these companies were excessively profitable? If they were acting anti-competitively, you would expect them to be excessively profitable and you'd in fact expect their share price to be considerably higher than it is.

MR RICHARDSON: Either excessively profitable or poor managerial, one or the other.

PROF SLOAN: But you're telling me they're not poorly managed. Your experience - you're saying they are well-managed companies, and the consumers clearly want to go to them. So if we eliminate that as an explanation, what is the evidence in terms of their reported results that these are anti-competitive businesses generating excess returns to the shareholders?

MR RICHARDSON: The point that I made earlier to you I would suggest also has an impact within it, and that is that they are purchasing very large numbers of independents, which probably is detracting to the bottom of their balance sheet.

PROF SLOAN: So they're making business mistakes?

MR RICHARDSON: That's you saying it.

PROF SLOAN: That of course won't go through their P and L. That will only go through their balance sheet. So what is the evidence at the P and L line that they're making excess returns?

MR RICHARDSON: You probably have that evidence. I don't worry too much about what they've - Alex is sending me all these little notes here.

PROF SLOAN: It's like school.

MR COSGROVE: He's welcome to come to the microphone if he wishes, but we need to have remarks on the - - -

PROF SLOAN: I'm wanting to find this out because I'm going to invest in these companies if - - -

MR RICHARDSON: Perhaps I would suggest that you wait until after the joint parliamentary inquiry. That may be something worthwhile. The structure in Tasmania has always been very profitable for the major chains, there is no doubt about that, especially Woolworths with 51 per cent and the clout they have and the disproportionate support that they get from manufacturers. How that reflects in other states - I'm sorry, I'm basically talking Tasmania.

MR BRAITHWAITE: There has been a suggestion that there's a German chain that was interested in coming to the Australian market. Is that a reality? What are the problems it faces in doing so and what would happen if it did so?

MR RICHARDSON: They would face major problems because the style of operation that they are - and you're talking about Aldi - is that their operation is very similar to a Franklins operation. They operate on 6 or 7 hundred major lines. They don't have a complete offer, as we would know it now, because Franklins have had to enlarge their offer to encompass everything, fruit and veg, the whole lot. So they would find it very hard to get a foothold in Australia because the big boys would certainly put them under pressure right from the outset. You would find all 6 or 7 hundred lines price-matched within their own stores, so why go to Aldi when you can go and get a far greater offer from the major chains?

The other issue on that is that they will only be interested in major populated centres. I don't see them coming to Tasmania as a threat, quite honestly, or Franklins. Why would somebody come down here in 2.83 of the market, national market? I believe that they will find it very difficult. They will find it difficult to get sites because the big boys have already bought up the best sites and the best independents and they will find it extremely difficult to get a foothold into Australia.

PROF SLOAN: I'm interested in what you say about sites because I'm not sure it's as clear-cut as you might think. We have a beach shack down at Victor Harbour which never had any of the major chains and it was a grim place as a result of that actually. We had to lug all the groceries down from Adelaide. Whereas in fact Woolworths created its own site. I mean, people said, "We're putting it there," and we thought, "Boy, I wouldn't put it there," because it was away from the main drag. But it was a great site and in fact the shops around Woolworths do extremely well. So now, instead of lugging anything down from Adelaide we take absolutely nothing - get in the car and do all our shopping down there. So isn't that an example of that and they employ local kids. I mean, this is a gain to a regional area.

MR RICHARDSON: I just wonder where you're coming from, if I may ask. Is it from the DINKs or the DIWKs side of it? Are you double income - - -

PROF SLOAN: No, but all the locals shop there too.

MR RICHARDSON: They shop there too, all right. With regards to greenfields sites, that happens, there's no doubt about that. But I would draw you back again to Legana. That is simply market protection. It's not market expansion, it's market protection and in its simplest form and there is no benefit to consumers in that area because they already have riverside store just a few kilometres down the road, five, 10 minutes down the road and you're in the same major chain supermarket. So it is market protection, not market expansion. There is - - -

PROF SLOAN: That wouldn't be affected by the cap anyway, therefore. It's still within the cap if that's all it is.

MR RICHARDSON: Yes, we're saying - - -

PROF SLOAN: So if they want to throw their money away, that's their business.

MR RICHARDSON: Yes, it is but what I'm also saying to you - and I'm enjoying this quite nicely.

PROF SLOAN: Are you? I'm no apologist for the big chains but I am an apologist for the consumer.

MR RICHARDSON: Yes, I appreciate that.

PROF SLOAN: And for consumers who need additional flexibility in terms of when and where they shop. It seems to me a strange policy to - - -

MR RICHARDSON: That's about 34 per cent of the population.

PROF SLOAN: - - - ban the 34 per cent from shopping in a way that they might want to shop.

MR RICHARDSON: But we're saying that 66 per cent also deserve access and availability no matter where they live, price and competition.

PROF SLOAN: They may be the ones who in fact actually are more concerned about price and will go to the cheapest.

MR COSGROVE: How are you obtaining these figures of 66 per cent and 34 per cent? What's the basis for that?

MR RICHARDSON: Through ABS - and I must refer to Alex here. He's the

technical person, but I believe it's through ABS and other - - -

MR COSGROVE: Sorry, Alex, before you start could you just for the purposes of our tape-recording just tell us your name and your capacity.

MR GRAEME-EVANS: Alex Graeme-Evans and I'm assistant to Sam in the policy research area. To share that with you, they are ABS statistics that we can get certainly to you. I'm sure you'll be interested in that so I'll get some for you.

PROF SLOAN: I don't think - I mean, I can divide up the workforce or the population according to different income categories but you don't actually have any information on where these people shop.

MR COSGROVE: No, that's what surprised me.

PROF SLOAN: I mean, I've got a wealthy mother-in-law who will drive 20 kilometres to buy a cheap tin of soup.

MR COSGROVE: That's why she's wealthy.

PROF SLOAN: Probably.

MR RICHARDSON: Does she add the petrol to it?

PROF SLOAN: No, that's my point.

MR RICHARDSON: They don't do that, do they.

PROF SLOAN: I think you can't make assumptions about those income groups in terms of where they shop. Just because you're poor doesn't mean you need to shop at the corner store.

MR GRAEME-EVANS: But a lot of those people don't have motor vehicles and things like that or - - -

PROF SLOAN: You have information on that too.

MR GRAEME-EVANS: It's an interesting mix but as to the evidence you were asking for just a couple of minutes ago, I'd like to refer you to - in Sam's submission - the Business Review Weekly of 29 March 1999 and if you wanted the most direct hands-on evidence I suggest to you that Dennis Eck, as the chief executive of Coles, actually utters it out of his mouth because he says in two places here - - -

MR COSGROVE: Where is this document?

MR GRAEME-EVANS: With respect, it's in the one that Sam is delivering to you.

MR COSGROVE: Okay. It makes it a bit hard when you - - -

MR GRAEME-EVANS: I'm sorry, but I don't expect you to be - - -

MR COSGROVE: Thanks.

MR GRAEME-EVANS: I apologise that there's no interleaving there but it's a very interesting article which addressed very much the point that you are raising there, Judith, and it's that they say, "We have a different price zone for our goods and where we face competition we have the ability to go down in price to meet the competition." So when Sam was raising to you earlier that issue about, "It's not a blip in their cheque books," because they can afford to have a loss to strategically grab a key previous independent to get a market hold and increase their market share. That's where these pillars of retail equity, which is quite separate from these clausal recommendations - and if you refer to that, which is in this document, Sam said to you earlier that no way the restriction on trading hours is pivotal of the whole issue and the clausal has been a developmental to assist in the constructive way of addressing this problem. If you turn to this particular article, having admitted that they're kept honest by the independents - - -

MR RICHARDSON: Have you got this one? That's the one.

MR COSGROVE: Yes, I've found it.

MR GRAEME-EVANS: Lovely. So here is the admission from the very chief executive director himself saying that the major chains impliedly do keep us honest. If I could then ask you to turn the page to the next section - and this raises very much your interesting point, Judith. If you look at that other mark down there in the second column, looking at the offshore markets I have to say that I have yet to see anywhere where we can make more money than we are making here. You heard evidence earlier from Sam in respect to - - -

PROF SLOAN: It just tells me that overseas grocery retailing is very competitive.

MR GRAEME-EVANS: It's very tight.

PROF SLOAN: But that's not saying necessarily they're making excessive money here.

MR GRAEME-EVANS: Judith, the other source of evidence that you may list - and we can certainly do that because we did it for NARGA in great detail, is to give you the press release, the utterances from the major chains in their annual reports. They almost are extremely arrogant and I think it's an indicator to you as to how they're creaming the independents. It goes back to that basic ethos that Sam has in a very comprehensive way displayed to you today and that is it's in the public benefit we keep the major chains honest and we therefore have to have a viable base. So

that - - -

PROF SLOAN: But not by protecting the independent.

MR GRAEME-EVANS: It's not protection. They don't want protection. They want to compete fairly on an even playing field.

MR RICHARDSON: We want a fair go.

MR GRAEME-EVANS: We want a fair go.

PROF SLOAN: By restricting trading hours.

MR RICHARDSON: We want a fair and equitable playing field, okay.

PROF SLOAN: That's protection. Restricting trading hours is not a fair and equitable playing field, is it?

MR RICHARDSON: If you're capping with 25 per cent - no more than 25 per cent to any major player and bring it back to a situation where you have transparency of pricing and divestiture, if that's possible, there would be no need to have shop trading hours because it would then be a competitive field.

MR GRAEME-EVANS: And Judith, can it flow over to the wider issue, and the wider issue is: what are we about? We are about quality of life and it's not just cost per unit price. We're talking about jobs in the community. Every time there is a further diminution of the share of the independents we lose - for every one that the major chains pick up in employment we lose 1.7. That's one part of it.

PROF SLOAN: I just absolutely refuse to accept that.

MR GRAEME-EVANS: Okay.

PROF SLOAN: That shows you how incredibly inefficient the independents are then.

MR GRAEME-EVANS: No, it's not.

PROF SLOAN: It does.

MR GRAEME-EVANS: The second one - - -

PROF SLOAN: That's absolutely untrue. I can show you - we did a study actually at university which showed you what happened to retail employment in Victoria upon deregulated trading hours compared to what happened to retail employment in the other states. In fact it grew in Victoria which is exactly what you would expect, I

might add. So I just absolutely refuse to believe that.

MR RICHARDSON: Can I just throw in, so that Alex can get his breath back, that we are the largest private enterprise employer in Tasmania in our TIW. We employ 3614 employees in our industry within TIW, collectively within TIW. We are the largest private enterprise employer.

PROF SLOAN: Your point?

MR RICHARDSON: That is because we provide a quality of service and a structure right around Tasmania, not just in major populated centres. If you like to take out - for instance, if David Wilks, who gave evidence today, from Beaconsfield, which is about 20 kilometres on from Launceston - if you took out his business and that all went to Woolworths they would nowhere near employ the same number. In fact, they wouldn't even have to employ any more people to absorb his business into their structure.

MR COSGROVE: Which is the point about efficiency.

PROF SLOAN: In that case, I would have thought if your figure was right you have no hope.

MR RICHARDSON: Sorry?

PROF SLOAN: You have no hope. If you have to employ 1.7 people for every 1 that Woolies does to produce the same turnover you have no hope.

MR GRAEME-EVANS: But honestly, Judith, doesn't this get back to the - - -

PROF SLOAN: So we won't be having this conversation in five years. I don't think that figure - it's not right.

MR GRAEME-EVANS: It's up to the politicians to make a stand as to what quality of life we want in Australia.

PROF SLOAN: Yes, on behalf of ordinary Australians.

MR GRAEME-EVANS: It's not purely efficiency, purely employing people. There's a whole spread of issues - convenience for the aged, the elderly. You cannot look at it in the very narrow perspective of straight economics.

PROF SLOAN: I agree entirely.

MR GRAEME-EVANS: That, I guess, is the argument which we believe laterally strategically the federal government, hard as it may be, needs to face.

PROF SLOAN: Absolutely, I agree.

MR GRAEME-EVANS: A sword needs to be drawn in the sand - it is in the public benefit, it's in the consumer's benefit - as Mackay, the very good example we have from Mackay. You need to have a viable force to keep the major oligopoly honest but you cannot get around that, Judith. That's the - - -

PROF SLOAN: You're telling me I have to pay \$1.70 compared with \$1 and therefore I have 70 cents less to spend elsewhere so the economy-wide effects are likely to be perverse.

MR GRAEME-EVANS: Judith, I asked my son, who is doing economics, "Son, if you had to buy for \$1.10 a bottle of Coca-Cola" - or whatever these kids drink "as against \$1.02, if it meant that there were more people employed like you in the future and now," he said, "Dad, I'm quite happy to pay the \$1.08 because employment - - -"

MR COSGROVE: He needs a better economics teacher.

PROF SLOAN: He's going to the wrong course of economics, I'm afraid. He failed.

MR GRAEME-EVANS: I'm sorry. There is a field of argument that suggests that economics - - -

PROF SLOAN: But then he has 8 cents less to spend on something else. You see, you've got to understand the economy-wide impact of this. It's a fallacy, what you're saying.

MR GRAEME-EVANS: Judith, you and I could argue for hours. I believe we need a quantum leap - - -

MR COSGROVE: That's why I didn't bring him up here in the first place.

MR GRAEME-EVANS: - - - in economics. We've got to change our economic attitude.

PROF SLOAN: No, it's not about economics. It's about people's budgets.

MR COSGROVE: Alex, not having another hour to argue in, agree to disagree, will you?

MR GRAEME-EVANS: Yes, I agree - - -

PROF SLOAN: I'd be very wary of peddling that ratio because to me that is the complete nail in your coffin.

MR BRAITHWAITE: But isn't really the problem with the comparisons you're drawing that an independent supermarket as far as I'm concerned is somebody who offers the same type of premises, the same type of service, probably a better service within those confines. Are we mixing in with this equation of employment the corner grocery who is more of a convenience store than an independent? Who are the 500 people that we're looking at? They're not all the strict independents trading equally?

MR RICHARDSON: No.

MR BRAITHWAITE: So your percentage figures are coming from a corner store that would employ more? So we're arguing at one end of the spectrum here - - -

MR RICHARDSON: I was enjoying it because I was getting a rest, okay.

PROF SLOAN: I want to tell you actually I shop in an independent so there you go.

MR RICHARDSON: That makes two of us.

PROF SLOAN: But I think most people will - I mean, there are so many Australian businesses that have gone broke thinking they can offer a quality service or something slightly different.

MR COSGROVE: A niche market is what you're talking about.

PROF SLOAN: It just does not work.

MR RICHARDSON: To answer your question, Ray, 534 covers from the Festival that are very competitive down to unbannered corner-type operations. Some would even have takeaways within it with a small range of groceries etcetera. They are the members that I represent. They go right down, and that is the comparatives that we're talking about. We're not talking about a store that's doing 240,000 as against a major chain doing 450. We're talking about stores in the main our larger stores, the Festival stores, would be looking at about 120 to 130 thousand dollars a week sales, and they are in competition in producing that sort of price structure against stores that - their smallest is probably around about \$350,000 a week. So they are doing a damn good job to be competitive in that field.

We have four banners. If you like you could say that 45 per cent is produced by Festival, 35 by our Value Plus and then 15 and 5 - 15 per cent of the third banner and 5 per cent of the mums and dads type stores. Then there are the other unbannered stores as well that we support through our warehouse.

MR BRAITHWAITE: That 5 per cent would have a very high influence of labour against sales, wouldn't they?

MR RICHARDSON: Yes, and I was going to say they also have a higher

compliance cost with GST. I'm sorry, but I couldn't help saying that.

PROF SLOAN: And their underpaid family members.

MR RICHARDSON: No, not at all, okay. There are others.

MR BRAITHWAITE: This is just a throwaway line, but I think I know the answer. The retail inquiry should be as interested in the retail hardware as it is in retail grocery, because there are major national players in exactly the same as there are national players in grocery. I know you buy more groceries than you do retail, but it appears to me that there seems to be little emphasis placed on the retail hardware situation in Australia. They have again independent retailers in a place like Mackay, exactly the same type of threat of competition from the Bunnings and people like that around the place.

PROF SLOAN: Some of them are just buying chains I think, though. They're not actually in the market - - -

MR RICHARDSON: That, Ray, is something that's being addressed. They are also co-signers of the Coalition Against Market Chain Dominance. We as TIW are part of that coalition, as with the newsagents, the pharmacists, the Mitre 10s and those type outlets that are under threat as well from major chain dominance. We have the situation in here where - and it was brought out at the retail inquiry this morning - perhaps there should be a banner definition as far as what the major chains own, like Coles Myer. They have such a proliferation of other small enterprises, don't they, be it in clothing and all the rest of it.

MR COSGROVE: They face a lot of competition, though, in those other markets.

MR RICHARDSON: Yes, but the point that was being made was that you don't know that it's a Coles Myer store that you're going in because it's got a different banner.

PROF SLOAN: It wouldn't make any difference anyway.

MR RICHARDSON: That was just an observation and something that was brought out.

PROF SLOAN: They lose money out of quite a lot of them.

MR RICHARDSON: Maybe that statement you made earlier could be true. I believe that to be attributed to you. I want to get out of the next board meeting alive.

MR BRAITHWAITE: Particularly in retail hardware, the trading hours are as offensive to some of the independent traders as they are to the big chains, the BBCs and the people like that and the Bunnings, because they see that their niche market on weekends is taken up by those people who can trade with 20 or less staff and they

can't, because they're still private, they're still independent. They're still private corporations and families.

MR RICHARDSON: I totally agree with you there, and the problem with shop trading hours and if they were to be given the same hours as the independents have - that is really the only advantage they have at this moment, be they hardware or grocery or whatever.

MR BRAITHWAITE: Absolutely.

MR RICHARDSON: You compound that ever-increasing spiral downwards, because once you lose your market share and your critical mass it's a spiral downwards. Unless you have that Sunday trade, for instance, with your hardware people - because that is their core business at the moment. They would do more of a Sunday than they would Monday, Tuesday, Wednesday, throughout the week, because without that, like the tourism industry in Tasmania, if we don't have viable little economies, that will wither on the vine. Tourism is Tasmania's white knight, if you like, for the future, and if we can't have viable economies right around the state that's not going to really be of much advantage.

MR COSGROVE: Is it the case, though, that tourism is dependent on the existence of small grocery shops? I wouldn't have thought so.

MR RICHARDSON: Well, you take such a narrow definition of that. I'm saying via the infrastructure within that, because you need your butcher, your need your - - -

PROF SLOAN: For tourism? I don't think so.

MR COSGROVE: These people go to coffee shops and restaurants, fast food outlets.

PROF SLOAN: You're not going to buy raw meat as a tourist.

MR RICHARDSON: When you get into a place like Strahan and you've got cabin accommodation and other accommodation down there, you're looking to purchase all those things, the same as Richmond, the same as Port Arthur. Not everybody is a high income earner that can just go the pub or wherever to buy their purchases. They still need their newsagent, their supermarket. Hopefully they'd have a bank, but they haven't got too many of them round in rural Tasmania, I can tell you.

MR GRAEME-EVANS: With respect, you're talking about rural and regional communities, and it gets back to that principal issue, please forgive us, that we keep hammering: they are the linchpin in a lot of these fragile infrastructures. Take Bichenos and St Helens and all these places here. The tourists naturally want to drop in to get their fags and their milk and their bread or they're going to make some sandwiches that day to go down to the beach, as against, "We've been to the motel's dining place five times this week. We want a variation."

PROF SLOAN: I don't think you need worry about that. There are tourism dollars. There's no problem.

MR GRAEME-EVANS: It gets back to that key issue of fragile infrastructure, and in a place like Tasmania, as Sam says, we're so decentralised in terms of population overhead that maybe as a region of Australia we are very much facing that problem. So really the win-win is if we can guarantee this market share for the independents, we believe it's in the public benefit. It's at least keeping the major chains honest, and we can give you super examples of that. So we think, looking ahead for employment, keeping families together, maintaining fragile infrastructures, they're all plus-pluses. On balance, the probability is that the politicians should back the concept of having a reserve element for the small independents alongside the deep pocket, big end of town chains. It is in the public interest, we submit, for this to be the case.

PROF SLOAN: Good luck.

MR COSGROVE: Okay. Anything further, Sam?

MR RICHARDSON: No, John. Thank you very much.

MR COSGROVE: Thanks for all the further information.

MR RICHARDSON: Thank you for being so generous in your time.

MR COSGROVE: I'm going to conclude this hearing and we'll resume in Bendigo on Wednesday, the 7th. Thank you.

AT 4.50 PM THE INQUIRY WAS ADJOURNED UNTIL
WEDNESDAY, 7 JULY 1999

INDEX

	<u>Page</u>
CIRCULAR HEAD COUNCIL: ROSS HINE PAUL ARNOLD MICHAEL WELDON	336-358
LAUNCESTON CITY COUNCIL: ROBERT GROENEWEGAN	359-382
ROD LINGER:	383-395
DICK ADAMS, MP:	396-414
ANNE TAYLOR:	415-425
NATIONAL ASSOCIATION OF RETAIL GROCERS OF AUSTRALIA AND TASMANIAN INDEPENDENT WHOLESALERS: LIONEL JAMES RICHARDSON ALEX GRAEME-EVANS	426-464