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TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

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

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

TRANSCRIPT OF PROCEEDINGS

AT PERTH ON WEDNESDAY, 23 JUNE 1999, AT 9.45 AM

Continued from 22/6/99 in Adelaide

MR COSGROVE: Good morning, ladies and gentlemen. We are resuming the set of public hearings on the commission's draft report on the impact of competition policy reforms on rural and regional Australia. The hearings began yesterday in Adelaide. We are now in Perth. We do like to make these hearings as informal as we can but we would like participants to be accurate in the information which they provide to us. Obviously that will help us in terms of finalising our report for the government.

There are some matters on which we would be particularly pleased to have information from participants, and I mention in particular factual evidence on the impacts of competition policy reforms, as well as reactions to the various assessments contained in the draft report. Of course, that doesn't preclude participants from raising other matters with us. I will be asking each participant to identify themselves and also the capacities in which they are appearing before us today. I might mention that we are recording the hearings and there will eventually be a transcript made publicly available and Stewart Plane, who is at the back of the room, will be able to tell you how to obtain a copy of any transcript, should you wish to do so.

Before I call our first participant I might also mention that I have been provided by the hotel with a little piece of paper here concerning evacuation procedures. I don't plan to detain you over the full details. I will simply mention that in the event of any difficulty we will hear two types of alarms and if we hear the first of those, I will tell you what else we need to do.

Our first participant today is the Wheatbelt Development Commission. I would be grateful if you wouldn't mind coming up to the set of microphones to our left please, and as I mentioned, for the transcript recording, if you could please identify yourself and the capacity in which you are with us today.

MR MARTIN: Thank you, commissioners. My name is Damien Martin. I appear on behalf of the Wheatbelt Development Commission. I have actually some written notes that I had undertaken to e-mail to get to your executive assistant by last Friday. I have failed to do that. For that I accept full responsibility. I have, however, brought another copy and I will make them available at the close of my part of the proceedings.

I appear on behalf of the Wheatbelt Development Commission which is one of the nine regional development commissions in Western Australia. Those commissions are established pursuant to the Regional Development Commissions Act of 1993. Each commission reports to a community based board of management, as well as to the minister for regional development, who is also the deputy premier, the Hon Hendy Cowan MLA.

The minister is advised on issues of regional development by a statutory advisory council and that is entitled the Regional Development Council. That council is comprised of the chairs of the boards of each of the nine regional

development commissions. The objects of those commissions include maximising job creation and developing and broadening the economic base of their particular regions, seeking to ensure that the general standard of government services and access to those services is comparable to the metropolitan area, and generally taking steps to encourage and facilitate economic and social development of their respective regions.

So the broad charter of those development commissions in Western Australia necessitates their attention to this inquiry and to like issues of the senate select committee of the socioeconomic consequences of national competition policy. The Regional Development Council, as the peak body of these agencies, submitted to this inquiry and also to the Senate select committee. I'm familiar with and my commission supports the contents of those submissions. In fact, for our purposes, the two exercises were so similar that the same submission went to both and that submission included input from the Regional Development Commissions, including our own, so there is a coordinated effect to make those submissions.

To turn to the draft report, I have read it and it contains a lot of very interesting data and I was pleased to have that available to us. I note that it addresses measures to promote and develop country Australia in chapter 13. Discussion on the state government commitment to regional development policies and programs is limited to examples and that's quite acceptable, however I do find it surprising that the Western Australian commitment to specific regional development programs is not considered or discussed. There is discussion on relatively minor programs, such as the industry location scheme and Project Main Street. They are minor components of the overall array of commitment that the state government has to regional development; programs such as the commitment to the telecentre network, which the Commonwealth used to have a part in but in Western Australia, to my knowledge, no longer has; similarly, the Business Enterprise Centre Network, which also used to attract Commonwealth funding through the BARA scheme, but to my knowledge no longer does.

The Regional Development Commissions, there are nine agencies with, you know, budgets in the order of a million dollars and staff and resources.

MR COSGROVE: Is that each?

MR MARTIN: Yes, that's each. They vary, depending on the size of the region and the programs that are being delivered, but as a rule of thumb, generally speaking, administrative budgets run to something in the 1 point something million dollars and staff in the order of, you know, 10 people and what have you. Some of them are much more than that for specific programs that they have been running. So I find it surprising that those things are not considered when discussing the policies and programs for regional development.

Regional development policies are described as "in and out of fashion" on page 324 and also as "spasmodic". I put it to the commission that that's simply not

the case in Western Australia. The current array of programs and initiatives has been developed and expanded under successive governments of differing political persuasions. The descriptor of "spasmodic" is demonstrably accurate when applied to Commonwealth regional development policies and programs and may well apply to other states, but to fail to take into account the sustained commitment made to regional development in Western Australia is, in my view, dismissive and unhelpful - an example of why centrally developed policy and initiatives are often unresponsive to regional needs and priorities.

I note that there is no acceptance in the draft report that regional development is a desirable or an achievable policy objective. It seems to be an issue that's just left hanging. Chapter 13 raises the issues of whether measures taken are effective, without offering any assessment on that issue and the relationship between specific regional development policy and initiatives in the national competition policy seems to be warily avoided.

There are no recommendations, for example, in chapter 13 on how national competition policy could be fashioned or delivered to complement regional development policy and programs. The most immediate perception of the effect of a national competition policy in the wheatbelt region is that of service withdrawal and deregulation and that's often seen to be to the detriment of residents and I guess there's nothing new in that.

Cost reductions from national competition policy savings, for example, in rail freight, are only available to rail users. There are very few rail services available to residents in the region where I represent, just by the nature of the industry structure. On the other hand, everybody suffers when rail jobs are lost to a small community. I mean, certainly the draft report addresses those issues in great detail. But the assumption of economic efficiency as a completely desirable outcome relies on the tenet of infinitely divisible and mobile inputs. It fails to comprehend the critical mass required to maintain small but important rural communities and the social and economic costs associated with dislocation and often destruction of those communities. Those issues have also been addressed in the Regional Development Commissions' submission to this inquiry and also in the document and I'm sure the commission is aware of it. It's produced by the Regional Development Council last year, entitled Implications of Competition Policy for Rural Areas. Those issues are addressed in some detail in there and I simply support those.

Whilst the draft report correctly points out that this is not often a direct result of national competition policy, it highlights the net effect of the general policy direction. Both the submission by the RDC and that document that I just discussed, Implications of Competition Policy for Rural Areas, deal with that matter at length. No-one is advocating community service obligations, for example, should not be transparent. What is important is that the NCP outcome of strict application of competition to regional areas assumes that centrally funded CSOs will produce the desired result. That assumption ignores the reality that it bestows vulnerability of many services to short-term political exigencies.

In addition, the inquiry does not and cannot comprehend the indirect effects of national competition policy. Service delivery agencies have taken on a philosophy that concentrates on financial outcomes rather than service outcomes. This is a nebulous concept but it's difficult to quantify - probably impossible to quantify - but it's real. It has a real effect on regional residence and it's usually a detrimental effect. Those are the perceptions of my organisation and the people that I represent, commissioner. I would be happy to discuss any parts of those with you. I suspect none of them are new, but the constituents and stakeholders of our region feel it's sufficiently important that you are again made aware of them.

MR COSGROVE: Right, thank you very much, Damien, for drawing them to our attention. I should mention perhaps that we hope to be better placed to consider in our final report some of the matters in the area of regional development policy that you referred to, because by then we think it's likely that we might have further input from the state government which wasn't in a position to give us a submission prior to the draft report, although of course we did have material from the Regional Development Council, as you mentioned, and some associated documents also.

I am interested in this matter though. You raised the question for us - that is, how might we suggest that national competition policy be used to foster regional development. Would you like to give us any more specific thoughts in that area yourself? I must say, we found it difficult and we would be the first to acknowledge that the chapter to which you referred is short on policy advice, other than noting, you know, some aspects of earlier attempts to move down that path - particularly I think it's fair to say we did have in mind at the Commonwealth level - not entirely, but mainly. Anyway, it's a difficult area. Do you have any advice to offer us?

MR MARTIN: I knew you were going to ask me that question and, you know, it's one to which I wonder whether there is an answer, and I guess it gets back to the observation that the draft report makes about NCP being blamed for everything from the common cold to commodity prices. However, you know, it's apparent that there are no recommendations at all in chapter 13 and to me that tells the story in itself. I think the key issue gets back to fashioning the delivery and implementation of national competition policy to comprehend a desirable regional development objective.

I note that in the treasurer's mission, if you like, to this commission, it actually talks about "specifically report on possible differences between regional and metropolitan Australia in the nature and operation of major markets and in the economic and social impacts of the reforms promoted by NCP" and I think that's the key issue that I'm trying to get to. Now, how we actually do that - - -

MR COSGROVE: I think we've tried but that's not synonymous with putting forward recommendations about regional development policy, even though I might mention that is one of our general policy guidelines in our act which we need to have conscious in our thinking.

MR MARTIN: Perhaps some recognition in the report and in the structure of its recommendations about the differing nature of markets in smaller units. I address the issue of indivisible and immobile input and I think that's what it gets down to.

MR COSGROVE: Well, again, I think we have a section which is called the nature of business, as we've called it here in country Australia. That's actually in chapter 12 and that was where we attempted to deal with this question you're raising about the smaller nature of market competition in rural areas.

MR MARTIN: That issue of critical mass about when a community fails to have a critical mass and fails to be a viable community in itself.

PROF SLOAN: Dare I say it, Damien - I mean, that's been the nature of economic history, isn't it, that some communities do lose critical mass. I mean, I'm interested - I think you're absolutely right, chapter 13 is left hanging to a degree because I'm not sure we are clear about the effectiveness of specific regional development policy and so I'd like to hear your thoughts on that because we didn't want to be seen as a great advocate of these in the face of rather thin evidence that they work. That second point - I mean, clearly you can't save every small community, wherever it be. That's not the nature of economic history. If you think of mining communities, the ore body is depleted and people up stakes and move on. It's interesting that that kind of thinking doesn't apply to other centres where the basis of their economic activity changes and dries up. You know, where do you draw the line, I think is really - - -

MR MARTIN: You raised the question about discussions of whether regional development policy is a desirable objective in the face of thin evidence that it actually works. I guess that makes the assumption that if it hasn't worked that's the policy's fault and it's not the delivery's fault or the appropriateness of the policy and I think they're issues that - you know, we could have that debate for hours and hours and hours and probably not be any further advanced. I accept and understand that the structural nature of communities and regions can, has and will continue to change, probably at an ever increasing rate. The region which I represent is changing rapidly from a broadacre wheat and sheep region with a community centre and a hall and a shire every 30 kilometres to something which is changing slightly. Its population is growing. There is ample evidence, in my view, in the draft report of the changing nature and number of small regional communities. They're growing in number, yet the report says that itself, the number of communities between I think 1000 and 20,000 has doubled in 20 years or something.

MR COSGROVE: That's right.

MR MARTIN: And we're experiencing that here as well. Structural change is nothing new and it will be nothing new. Rapid structural change is leaving a lot of people asking themselves a lot of questions about how rapid it has to be. NCP in my view doesn't do anything to help that. In the overview discussion in the document one of the recommendations made is to make available assistance measures where in

some regions adjustment to change is difficult. That opens a whole myriad of questions. It's a bit like the GST police with the thermometer about where you draw the line and where you don't, and I guess calls into question the efficacy of going down that road from a political perspective but from an economic perspective, I mean, you simply have no option but to support it. That's if you accept that the policy direction that we're going this way is being delivered well and is worth continuing and I'm asking that question.

PROF SLOAN: So you're emphasising the actual implementation and the detail.

MR MARTIN: The implementation of the policy and, if you like, the difficult to quantify, the secondary knock-on effects, the philosophical effects of service delivery agencies and I'm not just talking about public sector agencies because it pervades the private sector as well and the banks are a classic example but by no means the only example of structural change in delivery of their services to regional Australia and the perception is, and it's because of the way it's delivered and because of the philosophical pervasion of the ethos of competition being applied on a strictly defined basis that - you ask the question about whether it's economical to deliver the service and economically efficient to deliver the service before you ask the question about whether it's desirable to deliver the service and that's one of the biggest problems I believe we face.

MR COSGROVE: As you mentioned, Damien, the population of the area you are representing is growing.

MR MARTIN: Is growing.

MR COSGROVE: Why is that and what are the particular setbacks that you see coming from NCP?

MR MARTIN: One of the particular - it's growing primarily because of its location. My region, if you like, adjoins the metropolitan area to the east and to the north. The south-west of Western Australia has been a rapidly growing and developing area for many years now and all of the Margaret Rivers and Dunsboroughs of this world, the property values have skyrocketed and effectively they're bought out and developed. People are now looking northwards, and my region just happens to encompass that area northwards of Perth and along the coast which is where people historically want to live and surrounding Perth almost within commuting distance to the east.

MR COSGROVE: So it's a question of shifts in relative land prices?

MR MARTIN: Shifts in relative land prices, industries being squeezed out of Perth because of population growth. The northern suburbs of Perth, for example, have been historically home to chicken farms, market gardeners, flower gardeners, those sorts of things. Land prices have squeezed those industries out. We have the water and the land at relatively reasonable prices to enable that to happen. There are almost dormitory suburbs developing, people retiring to go and buy their 10 acres beside a

shady brook in that rural lifestyle area and that's happening in what we term the "Avon arc". The Avon River is just to the east of us and in fact runs into the Swan - it becomes the Swan River. So this Avon arc which is an area which surrounds the metropolitan area almost from the coast to the north, right around to the east and to the south-east, is growing quite rapidly and the stats are bearing that out.

The issues that is throwing up for service providers, for local government, for state government, for private sector service providers, is based around infrastructure, is based around providing services and again, people scrabbling to attract service provision perhaps in areas where they have been culturally and historically conditioned to having those services provided. Primary schools in growing communities - people are talking about clubbing together and putting buildings on and then convincing the Education Department to deliver services from them, whereas perhaps a generation ago the formula was once you had 240 students you got a four-room school or something like that. The philosophical discussion which happens in those service providers, as I say, "Is it going to cost us any money to provide this service?" If the answer is no, it gets provided. If the answer is yes then you've got to fight very, very hard to make it happen.

MR COSGROVE: You seem to be indirectly raising a point which we had had a little bit to say on in our draft report and that is that although governments, in this case your state government, might have fairly specific regional development policy commitments, in other areas of policy action they actually cut across that regional development commitment. Is that a fair comment?

MR MARTIN: It's probably a very fair comment and I guess - I mean, in my short experience in the regional development portfolio which is in the order of five years, five or six years, the job is certainly characterised by that. I note the federal government takes what it called a whole of government approach to regional development policy where one program is delivered out of one agency and one out of another one. Certainly the state government is no different, apart from the fact that it has a specific regional development portfolio, ministry if you like, and resources. The notion of whole of government policy delivery is that all the agencies work together. We often find ourselves in the circumstance where we can't make any friends in the public sector because we are fighting for our region rather than for a portfolio and, you're dead right, quite often they seem to be conflicting policy arms and I don't think the change of thinking associated with this program helps that at all.

MR BRAITHWAITE: John, could I just follow up on that. With NCP cutting across, you know - how close are you to the minister?

MR MARTIN: To which minister, sorry?

MR BRAITHWAITE: To the minister who directs you.

MR MARTIN: To my minister for regional development?

MR BRAITHWAITE: Yes, is he a good listener? Does he absorb it? Does he feel as though you're doing a good job? Does he go out of his way to encourage you?

MR MARTIN: Yes, to all of those. I wouldn't say by any means that I'm close to my minister. The few discussions that I have with him are on specific initiatives that our organisation is undertaking - industry development initiatives and ex-industry wanting to develop here and us trying to help it along a bit. He certainly champions us without fail in respect to those issues. It's probably a political coincidence in some ways that in Western Australia we have a coalition government. Our minister is the head of the National party and they're no strangers to being controversial in their side of government, if you like, and that happens here. So my minister is not afraid to take up the bat in the cabinet room for regional issues.

MR BRAITHWAITE: The next question devolves around that because sometimes we get the feeling the state governments are using NCP as a reason not to do programs because they say it offends against NCP, ie, putting in probably a dam, water reservoir, because it's not cost effective. Do you see a tendency by government to argue that we'd do this, only NCP has bound us to certain criteria?

MR MARTIN: I could see that anybody would find a convenient excuse not to do something that was hard, regardless of what that excuse might be. I'm certainly not qualified to comment on whether a portfolio, a government or any other service deliverer might say, "We'd love to do it but NCP prevents us." I think the temptation could be well and truly there. Whether you could find examples or a tendency in say Western Australia to support that view is something I simply couldn't comment on.

MR BRAITHWAITE: I wasn't referring just to WA but governments in general. You also mentioned before the delivery of competition policy. Could you explain that to me? Do you mean by - you mentioned in your address the delivery of competition policy, more needed to be done. Were you talking in terms of the dividend that was coming from the national competition policy going back into the regions or were you talking about something else?

MR MARTIN: I think I was talking about something else. I was thinking about, talking about, if you like, the net effects of the changes necessitated by NCP - things like water reforms and market reforms in those kind of service delivery areas and stuff like that. Just perhaps there is scope in the way those changes are implemented to be more cognisant of perhaps the different market requirements of some regional areas. I think that's what I was driving at.

MR BRAITHWAITE: Even if, in the fullness of the light of how they go about water reforms, it conflicts with the guidelines on NCP policy?

MR MARTIN: I don't think I was going that far. I think I was advocating to change the central tenets of the National Competition Policy on it. I don't think anybody has any difficulty with the issue of making things transparent and the cost of service delivery transparent. What I am saying is that by having, if you like,

non-economic service delivery issues funded from a separate source or no longer cross-subsidised in the historical sense that they have been, it makes them more vulnerable to be picked off and it makes it a lot, lot harder to get additional services delivered under those circumstances.

MR COSGROVE: What is the main water reform issue in your region, Damien? Do you have a lot of irrigation - - -

MR MARTIN: I think there are a lot of water reform issues, commissioner. We have a little bit of irrigation. There are groundwater areas to the north of Perth that are regulated. If you like, the extractable - the quantity of groundwater is fully allocated. I don't think anybody is too worried about the notion of tradeable water rights and those kind of things. No, we don't - - -

MR COSGROVE: It's more a concern that at some time in the future the effective subsidisation of the provision of water in some of those areas might be reduced?

MR MARTIN: Yes, well, I mean, I think that's a separate issue from the reforms in the water regulation issue. I guess the cross-subsidisation gets back to the basic service deliveries like pumping water to regional communities and then charging the same cost, and power is exactly the same. We've already seen in Western Australia some consumers who are off what they call the south-west interconnected grid system being charged a differential rate for power. That's very different to how things historically have been, and people are very concerned that that is the beginning of what are going to be a whole raft of changes.

Now, that's business consumers in a community that has diesel generated power, so it's simply trying to reflect the cost of provision of those services. Nobody is for a moment saying that it doesn't cost more or that people shouldn't understand that it costs more, but what they are saying is that eventually the impact of this whole process, because of the change in thinking, the residential consumers down there will be paying more for their power than somebody is here, and that is seen as very undesirable and inimical to the development of those regions, which everybody is at pains to point out support an enormous amount of export dollars.

MR BRAITHWAITE: So when you say there should be a change in the policy, you're talking in terms of the public interest, that the public interest ought to be looking at those type of considerations and just not the pure economic returns. Is that what you're saying?

MR MARTIN: I think that's what I'm driving at, yes. I mean, I'm not familiar with the public interest test and how far that debate has got, but I know that it has raised a lot of issues at local government level particularly, and I'm not familiar with that debate.

MR BRAITHWAITE: We've got a feeling that 95 per cent of Australians are in your same shoes.

PROF SLOAN: What about that issue? You said you supported the transparency of CSOs but by the same token felt that the process of transparency led to a sort of game of short-term political toing-and-froing. What is the answer? If you do support the transparency of CSOs, I suppose there is always that - the only alternative as far as I can see is to go back and embed them in cross-subsidies and hide them.

MR MARTIN: I don't know that there is an answer, or an easy answer certainly, and I don't think anybody - - -

PROF SLOAN: I'm being repetitive, but I really am interested, and if you know of any work on this - I mean, you talked about this state government's consistent and substantial commitment to regional development. Has it been effective? Are there studies that tell us how effective it has been? You then described the development of your region, which seemed to have not much to do with government policy but some very big courses of change.

MR MARTIN: They're the broad drivers of change. Far be it from me to indicate whether it's been effective or not. Certainly our organisation does annual surveys, if you like, of our stakeholders to judge our effectiveness as part of our reporting mechanisms, and we're very happy with those. On a broader scale, whether the policy commitment and resource commitment to that program has been effective, in an academic sense I'm not aware of any studies, but in another sense the fact that the state government continues to commit those kinds of resources to it has got to give some indication certainly that it believes it's effective.

PROF SLOAN: Alternatively it looks as though you're being seen to be doing something. I mean, the truth is that if you've got a million dollars apiece and there are nine of you, that really is very small beer. But you're saying there are additional program moneys from time to time. What roles do bodies like yours fulfil? Obviously information and facilitation.

MR MARTIN: A facilitatory role primarily, in fact a facilitator and information role almost exclusively.

MR BRAITHWAITE: Do they ever get to a situation where they do the research and they are then responsible for the government putting money into a program?

MR MARTIN: There have been examples of that, and there continue to be examples of that, none of which are in my particular region at the moment. But certainly in other areas there have been infrastructure-type developments and continue to be infrastructure-type developments where that portfolio, if you like, becomes the administer of development funds and processes, yes.

MR COSGROVE: Could I come back to some other aspects of NCP, Damien. You seem to have given us the impression that the net outcome of NCP so far as your region is concerned is probably adverse.

MR MARTIN: No, I said it was perceived to be adverse.

MR COSGROVE: Yes, okay, more correctly said. One of the ways in which NCP was intended at least to assist all sorts of areas of the nation was in increasing the efficient provision of important infrastructure services like transport, energy and telecommunications. I heard you say you've got very little in the way of rail services in your region. Leaving that to one side, have there been no beneficial effects from these other areas?

MR MARTIN: I think there have been. I don't think there's any question about that. What I said about rail services - our region probably has the most rail services of any region in Western Australia, but the only thing it does is carry grain, and 8 per cent or a very small percentage of our population are grain producers, so therefore nobody uses the service apart from those people, if you like.

MR COSGROVE: Although I guess there may be some indirect spin-offs from the prosperity or otherwise of the grain producers.

MR MARTIN: Yes, certainly everybody recognises that the cost of rail freight has reduced significantly, and that certainly applies to many other service provisions as well. Telecommunications, particularly distance telephone call costs, have been falling steadily. The real cost of postage services has been falling steadily. The other side of the coin is that if you want to get your telephone on in Newdegate you'd be waiting 90 days or longer, kind of thing, and those sorts of things - when you talk about the efficiency of delivery of services, yes, the services are being delivered more efficiently where they are being delivered, but if you actually start talking about delivering additional services or enhancing the service delivery, then we get back to the bottom line argument before we start discussing a broader range of criteria about the desirability of delivering additional services.

MR BRAITHWAITE: That point is fairly significant. You're balancing on one hand a huge change in technology which is generally being available right across Australia - not always in the bush. They're now talking about the reduction of the local phone call from 25 cents to 20 cents. There's a huge benefit there from - it might be NCP, it might be a lot of other events, but there's that. How do you balance those types of improvements against the disadvantage? Is it worsening? That's the point. You're getting one set of improvement there; on the other hand you've got these delays, you can't get a call, you can't get maintenance. How do you juggle those two?

MR MARTIN: I suppose by definition they have to be juggled on subjective criteria, and therein lies the nub or the argument, in my view.

MR COSGROVE: Do you think the concerns that you described to us earlier are based around expected effects of NCP reforms or actual effects which have occurred to date? Let me expand on that question a little. I'm not sure, for example, how

many reviews of legislation regulating the marketing of rural products might be a factor in your region.

MR MARTIN: Quite a few.

MR COSGROVE: A number of those are not yet complete, of course, but again are people worried about what they might produce rather than what they have actually produced to date?

MR MARTIN: Certainly, and whether that's jumping at shadows or not probably remains to be seen, but certainly there are major concerns about the direction of things like statutory marketing bodies, which are traditionally associated with agriculture, and ours is a very agricultural region. There are very major concerns about where that will head. How much of that can be attributed directly to NCP is probably a moot point, but I think you can rest assured that, if there is blame to be laid, it will be laid at the door of NCP, and I think you've made that point very early in the thing.

MR BRAITHWAITE: What SMAs would you be looking at in your particular region? Dairying?

MR MARTIN: Industries?

MR BRAITHWAITE: Yes.

MR MARTIN: Primarily grain in our region, commissioner, grain and livestock. So there's the grain pool, AWB Ltd. Slaughtering arrangements in Western Australia again are sort of causing some concerns. It's traditionally wheat and sheep. There is developing horticultural and - - -

MR BRAITHWAITE: The SMAs wouldn't affect some of those, though, would they?

MR MARTIN: Not all of them.

MR BRAITHWAITE: So which particular ones would SMAs affect?

PROF SLOAN: Grain pool.

MR MARTIN: The grain pool, probably the egg marketing arrangements. I don't think we've got any dairying at all. That tends to be in the south-west irrigated area. We don't have any of that, and I don't know whether there are any of them around the horticultural industries, with table grapes or oranges or any of those sorts of things.

MR BRAITHWAITE: I'm just trying to get a handle on it.

PROF SLOAN: Damien, quite a lot of the report is about what you might regard as the history and geography of the issues. We always tend to have a section of history and geography in our reports, but in this case of course the history and geography is actually a central part of the story. I don't know whether you picked up on some of the things, for example that sponge city effect. When I went to your region I remember that that was happening, wasn't it? The bigger centres were getting bigger.

MR MARTIN: Yes, the bigger centres are getting bigger and quite often the smaller centres aren't, are going the other way, and I think that sponge city is probably happening to a greater or larger extent in Western Australia as well.

PROF SLOAN: So this was sort of Northam and Narrogin?

MR MARTIN: Northam and Narrogin, yes, primarily. I think there's just net growth in some of the communities to the north, but Northam and Narrogin in our region, and Albany and Bunbury and those areas, which are close but outside of my area, certainly Kalgoorlie. Probably Merredin is another example further to the east of that sponge city thing, but probably in a much smaller net degree than some of the bigger sponge cities. The places that you mentioned - Northam has a population of about 7000 people and Narrogin has a population of about 5000, so perhaps they're sponge towns.

PROF SLOAN: That was one of the things that was put to us in South Australia: that in fact we have to be a bit careful thinking about Australia as a whole, that in South Australia and Western Australia the spread of population in the regions is extremely thin and a medium size centre in Western Australia or South Australia might have 5000, whereas in Queensland or New South Wales you're looking at 70,000.

MR MARTIN: Yes, that's right.

PROF SLOAN: Is that something we should try and develop as a theme, do you think? One of the points was put to us was that the private sector will be in like Flynn if there are 70,000 people but they're not going to be in like Flynn for 5000 people.

MR MARTIN: They're not. I guess I didn't pick up an offensive theme, that that structure and that history and geography hadn't been picked up or hadn't been addressed, but I think it's probably well worth noting that very point - that where there's a dollar to be made in a regional centre in New South Wales or Victoria, it just doesn't happen in probably three other states and one territory, where those concentrations of population simply aren't.

MR COSGROVE: But does it apply, if we're thinking about your state, that the development of these sponge cities or provincial centres, whatever you want to call them, is something that should be looked upon favourably in the sense that it's those centres where markets are likely to become larger, more competitive and be able to

service their customers more satisfactorily? I take it there may be some reasons of social history that lead people to have a continuing attraction to smaller communities, but the question is, how viable might they be in the long run?

MR MARTIN: It's probably a question of social history and economic structure as much as anything. We're a small population state and we have no large population centres outside of the metropolitan area by any objective standard, and I guess that immediately raises the question of the efficacy of treating the whole of Australia with the same set of rules. That's probably a familiar cry to you as well.

PROF SLOAN: No, that was fine, I enjoyed my trip - - -

MR BRAITHWAITE: Just a general comment. You explained some of the problems and yet you are in a very definite growth area and you describe well. You also said job losses to rail and I'm not sure whether that was in your area. But there seems to be a tendency, you know, if there have been job losses in rail that they have found employment elsewhere within the region or do you think the business is now absorbing a lot of those losses - Telstra, rail - - -

MR MARTIN: I don't have a lot of data to address that issue. A prime example of that sort of thing where you have, if you like, the contracting out of services from those kind of agencies and nobody's arguing that that shouldn't be done, but in an area like ours, if you like, the principal road maintenance contracts, for example, there used to be a main roads establishment in four or five communities in our area, now there is one and that will go soon. Because of our particular confluence with the metropolitan area the term maintenance contracts are let to large conglomerates who employ - the theory always was and it was sold that they would effectively employ the main roads people and it would just be a seamless transition almost, but history shows that it hasn't happened because those services are now delivered out of here.

For example, a fellow will have a responsibility in a community a couple of hours from Perth, get up early Monday morning, go to work for the week and board with somebody or stay in a hotel at a negotiated rate and come home again. So there are then three less kids in the school and a lot less money spent in the community, if you like. So that's certainly one of the effects and whether the jobs have been picked up elsewhere - I'm just looking at the rail example. The two biggest rail towns we've had were Northam and Narrogin. I think a lot of people left and, if you like, the population has been maintained on the basis of their natural growth through other sources and their growth through structural change in other ways.

MR BRAITHWAITE: Is this an NCP influence or is it just the continuation of what West Australia started decades before they did in the eastern states of fly in, fly out?

MR MARTIN: I think it's an influence of the philosophy that pervades NCP and that gets back to that point that I was making earlier about service delivery on an economic basis rather than on a broader set of criteria. It may or may not be a direct

result of NCP, but it's certainly a direct result of the thinking that pervades NCP which then, if you like, pervades every other service delivery agency.

MR COSGROVE: I guess another way - this is my last point of thinking about the question that Ray was raising - is the population of your region you said is growing. Do you know if the people in working age cohorts is also growing?

MR MARTIN: It is?

MR COSGROVE: Or are you getting retirees and you people making up the population growth.

MR MARTIN: The population is growing. It is growing and the jobs are growing. The structure is changing.

MR COSGROVE: Is the unemployment rate in your region, do you know, above or below - - -

MR MARTIN: Below the national average because people leave.

MR COSGROVE: It rather suggests then that there is an adaptive capacity - - -

MR MARTIN: If people are unemployed they leave, commissioner, that's what happens. They go - - -

MR COSGROVE: Yes, but I thought you also said that the people in the population who are of working age had also been increasing.

MR MARTIN: Yes, it has.

MR COSGROVE: So it's not as though the total level of employment in your region is declining.

MR MARTIN: No, not at all. But in saying that, I must also qualify that by saying that the structure of the employment in the region is changing and the employment growth is effectively in the marginal area, in the geographic margins of the region, which are closer to the metropolitan area. The region itself extends much further to the east than to the north into the broadacre agricultural regions where it's that familiar tale of the school closing and the bank pulling out and that's, if you like, the geographical majority of the reason that I represent.

MR BRAITHWAITE: Are you saying that the public interest test ought to take into consideration the job prospects of those people in industries that might suffer a reduction such as a road maintenance gang being taken out?

MR MARTIN: I certainly think it should, commissioner, certainly.

MR COSGROVE: We should know the answer to that, shouldn't we?

MR BRAITHWAITE: I just thought I would put it on the record.

MR MARTIN: I'm grateful that I've had the opportunity.

MR COSGROVE: Anything else, Ray?

MR BRAITHWAITE: No, that's great.

MR COSGROVE: Thank you very much, Damien, for coming along and talking to us today.

MR MARTIN: Thank you very much for the opportunity. I will give a copy of my notes to your executive.

MR COSGROVE: Yes, we would be glad to have those thanks.

MR COSGROVE: I think we might continue, I don't think Ray Braithwaite is far away. Our next participant is the Pastoralists and Graziers Association of Western Australia and, Lynne, for the purposes of our transcript recording if you could indicate your name and the capacity in which you're with us today please.

MS JOHNSTON: Thank you, commissioner. Lynne Johnston, executive member of the Pastoralists and Graziers Association and chairman of economics and wool.

MR COSGROVE: Thank you. Our previous participant, I might say, was asking me at the end of our session with him what was expected to be the outcome of all the work that we and others are putting into this inquiry. I might just say simply that we're in the process of gathering reactions to the draft report with a view to providing the federal government, the treasurer in particular, with an even better document and it's then a matter for that government, and in the case of this inquiry I think state governments as well, to consider the content of our final report, the recommendations which it will contain and act upon them if they think they've received some good advice. Lynne, I see you have given us a short paper here which I haven't had a chance to look at. You might like to make some opening remarks.

MS JOHNSTON: Perhaps if I run through that quickly that would sort of put everyone in the picture. On review of your draft report on the impact of competition policy reforms on rural and regional Australia, the PGA remains fully supportive of the intent of national competition policy review and reform, particularly in relation to the role of statutory marketing authorities at agriculture. It is imperative that these many marketing institutions protected by the imprimatur of government statute be subjected to a comprehensive public review of their continuing relevance in a world of global markets.

By thorough scrutiny of their efficacy and accountability, these authorities must be able to actively prove they provide a public benefit rather than a continuing existence with little more justification than the fact that they do exist. In making the statement the PGA notes and endorses the Hawker committee recommendation that reviews should be independent of the existing arrangements and would go even further as to suggest that all such reviews should be conducted by independent consultancies, clearly at arm's length from governments and its politicians.

Statutory marketing authorities generally were started as grower cooperatives which gained statutory support through political patronage. The resulting government involvement is mandatory for reasons of public accountability but it is not government's responsibility or role to seek to justify the continuing existence of statutory marketing authorities. The PGA supports the principle that the default position of national competition policy as an SMA will be to regulate it unless those who support its ongoing existence can prove a public benefit. The onus for this proof rests with the growers who seek continuation of the statutory marketing authority, not the government.

Moving to another field, the provision of national infrastructure, we believe that there are important caveats that must accompany the implementation of NCP review and reform. This process must be carried out within an environment fully cognisant of the five major roles of government in a western democracy. These must be exercised with fairness and equity to all citizens. These are law and order; defence of the nation and its people; communication, that is telecommunication as well as physical communication infrastructure; health services, the infrastructure for these and education services and the infrastructure for such. In order that fairness and equity can be achieved and that an appropriate infrastructure sufficient to maintain a cohesive national fabric exists, there must be inevitably some cross-subsidisation of country people and business.

This can be justified by reference to Commonwealth guarantees of community service obligation and we submit that the continuation of the CSOs is crucial to the ongoing development of this nature. NCP must not be used by governments as an excuse by which they can abrogate their responsibility to provide adequate services for country communities. It is also of some concern that by virtue of state governments being signatory to the NCP review and reform process, opportunity now exists for individuals or groups within governments bureaucracies to further their specific agenda. This is particularly relevant in the area of water reform. It is essential that an ongoing process of consultation with communities, local government and farmers and their representative associations be maintained. The issue of private property rights must remain high on the agenda when developing policy in the area of water reform. State and local government must at all times be aware of their responsibilities to their constituents and not allow the lure of substantial federal funds to distract them from what is right for their citizens.

In conclusion, we were very pleased with the draft report and as I said, very supportive of its findings, but I think there are just these small issues that need to be addressed very strongly in the report that we do maintain this objectivity when we discuss how the SMAs will be reviewed and that we are careful to remember that this nation is an underpopulated nation, a very vast nation and if it is to remain a socially cohesive one and have a cohesive structure or infrastructure that does support defence and does support the rights of all its citizens, that there is a role for government which does, shall we say, go beyond just allowing the market forces to always run in control. So with that, I'd certainly like to discuss any of those points with you.

MR COSGROVE: Okay. Let's start with the SMAs. You say that they should essentially be deregulated unless they can establish that they are producing a public benefit. Now, the competition principles agreement, as I'm sure you know, sets out a number of factors which are to be taken into account in those types of reviews, but the agreement provides no guidance on how important some criteria are relative to others which makes the task of assessing whether or not they produce a public benefit somewhat difficult. Do you have any thoughts in that area as to whether - - -

MS JOHNSTON: I think it is imperative that we do try and develop a set of criteria for defining what is public benefit, but that must come from the public rather than a government's department or minister's department's interpretation of what they consider to be of public benefit. Unfortunately, with all the best will in the world, those of our politicians are always mindful - a part of their mind is always going to be set on what their constituency is likely to vote for at the next election. Now, we really do need to separate them from this onerous responsibility and give them the opportunity to not be affected by what their voters might or might not like. That's why we really need to try and bring objectivity into this process rather than have the minister or the minister's department or the particular government bureaucracy setting up the criteria for what is public benefit and then setting up the reasons - and we're seeing this happening in Western Australia on a number of occasions - where it is the department themselves that actually set up the reasons why the statutory authority should continue to exist. It is not their role. It is actually the growers who should be saying why they wish it to continue and proving why it is of public benefit.

PROF SLOAN: It's my observation that there are many more ongoing SMAs in this state than in other states. Most of these things like potato boards and egg boards and stuff, they've bit the dust a long time ago in most states. Why do you think that is?

MS JOHNSTON: It's an interesting question. Perhaps because of the view that this state has quite a large population of smaller farmers, in particular things like potato growing and so on, and a very powerful government coalition that is very supportive of once again, as I said, that electoral support - is very dependant upon that electoral support and we keep seeing this review coming from government rather than coming from the very people who are involved in it. They should be the ones that are approving it, but we keep seeing too much influence of the electoral support.

PROF SLOAN: But you're essentially saying that the bureaucrats are captured by the SMAs?

MS JOHNSTON: Well, of course, most SMAs and I'm urging a very strong opposition to the potential development of a new one in our wool strategy group at the moment where if you give a government bureaucracy or statutory bureaucracy any role, naturally careers are developed and are sought to be maintained by those very people who have got jobs in that particular area. Naturally once you've got your job there, you're going to do your very best to maintain it. That's just a fact of life. It's certainly not meaning any disparaging remark about the people there, but naturally if any of us have got a job we do like to see it continue.

PROF SLOAN: We're having a lot of trouble coming to grips with the public interest test and what it means and how it should be applied. It seems to me one of the problems in the SMA area is that at the broader circle the aim really of these things is to have a mandatory oligopoly and it basically operates to charge the public higher prices than what exist in a more competitive arrangement. Now, prima facie that's going to be very difficult to square with being in the public interest.

MS JOHNSTON: Exactly, and that's why if we put up the correct criteria we will see them fall. I mean, we will see them not be able to measure up to that public benefit test and that is exactly what we would like to see from our particular viewpoint. We do not support the continued existence of SMAs in any way at all because strangely enough, even though they cause a higher price to the buying public, they generally bring about a lower average to the supplying grower.

MR COSGROVE: Why is that, do you think?

MS JOHNSTON: It's a case of a fair average quality mentality in which the most people are going to receive the same amount. So we see most people brought down to a lower level rather than encouraging others to rise to a better producer's level. In a free and open market the effective and efficient producer will produce a better product that can attract a premium in the market place.

MR COSGROVE: So in other words what you're saying is the point that Judith was just mentioning about the consumer price effects of regulated SMAs is only one of the costs in this case of regulation; there are other benefits that you would see coming from deregulation.

MS JOHNSTON: Absolutely, you will see the development of a better range of product and the increase in efficacy of producers, your ability to produce product to the market's demands and what the market is asking for rather than what a middle group of people are telling them the market requires. This was a major problem in the wool industry for many years on a national scale and it certainly operates within the state SMAs that there is an interpretation of the market of what the market requires rather than the market being able to dictate through price, premium or discount - and I subscribe to the belief that there are no such things as premiums, there are just degrees of discount. So the point is you will get the least discount by producing the product that the market requires.

If you read that as a premium, so be it. The market can only operate efficiently if the market dictates what it requires rather than some bureaucracy or some middle group of people telling you what the market requires. The overall effect of the SMA is generally to satisfy that old problem in agriculture; it doesn't matter what price you get as long as no-one gets a better one. There are two things near to the heart of farmers, I often say, and that is that no-one gets a better price and no-one gets more rain.

MR COSGROVE: People, on the other hand, have put to us quite reasonably the point that as you deregulate the less efficient farmers will either see their sales and revenue diminish or maybe even driven out of business and that has to be weighed against these benefits we've been discussing a moment ago. This brings us back squarely into the public interest criteria. How do you see those sorts of contrary effects being weighed up by the objective independent panels that you advocate?

MS JOHNSTON: I don't think that that is something we should object to because that's going to be and will be an ongoing effect of deregulation. Why would we be supporting inefficient and inadequate producers? It does nothing for the product that this nation produces. It does nothing for our ability to obtain a premium in an export market if we are actually, by virtue of these SMAs, supporting the ongoing production of inadequate production through inefficient producers. I really don't see that is an appropriate means of applying social welfare to keep people in business just by virtue of the fact that they happen to be there.

MR COSGROVE: You'd rather use a different set of policy - - -

MS JOHNSTON: Absolutely. Social welfare is a totally different issue, and let's deal with social welfare in its appropriate place, not through keeping people in business. Do you notice the supplies to the local delicatessens - that we don't have a sort of SMA for delicatessens? If somebody in a delicatessen or other such business or a hardware store is not efficient and does not carry on their business properly, they meet the market justice, and that is they go out of business. I don't think farmers should be treated any differently.

MR BRAITHWAITE: But they're protected by legislation through trading hours to an extent, and that's another argument. SMAs - I don't think we've spoken to anybody who's said there should not be a review of all this legislation. I would go further. I think that every now and again there should be a few sunset clauses on all pieces of legislation for governments to have to review everything.

MS JOHNSTON: We have put that in many a submission, that a sunset clause should be in every one.

MR BRAITHWAITE: The review process - while you've made some comments, they're more global. Isn't it better for each industry, each government to concentrate and just see what their particular circumstances are to be able to determine whether regulation should apply or whether it shouldn't? The other point that you make here yourself is that the particular agenda by government bureaucrats can also be detrimental to neutrality on an SMA inquiry - not the person from a minister's office who has a feeling for those people in the industry, but more particularly treasury officials who have an agenda to economic rationalism perhaps. They're near the neutral, and there have been complaints in this regard.

MS JOHNSTON: This actually just sort of further backs up what we're saying, that these reviews need to be conducted from a completely independent point of view, and the onus of proof for their continuing existence rests with those growers who are a part of that particular SMA. It does not rest with either the bureaucracy that wants to keep it there or the one that wants to get rid of it. As I said, they originally started as grower cooperatives and, quite frankly, if they have a reason for being they can continue to exist as exactly that, a voluntary growers' cooperative. There is no need in today's market and in today's business place to continue a statutory support for them. Government should not be in the business of commerce. It has its roles, and

we really need to see it contract back to those roles. Its role in business is to provide the conducive environment to efficient business so that the proper rules are in place that an effective marketplace can exist.

PROF SLOAN: The first one I presume you would have no problem. That would be some phased deregulation and therefore giving some time for the participants to adjust. I'd like to hear your thoughts on that, and what about the secondary, perhaps more vexed issue of compensation for the losers from deregulation?

MS JOHNSTON: Compensation - who are the losers? We need to define who they are. I would submit that the growers will be the winners because they will certainly need to apply proper efficient business practices to survive, and in that they are going to win. Those who can't manage in that environment are going to leave the industry. When I see people leaving farming, I always tell them the farm doesn't leave; it's only the people that leave. The farm continues to exist, and its opportunity to produce product which is going to be of benefit to the nation continues to exist. It's just going to be run by somebody else, and not necessarily always by somebody getting bigger and bigger. So the farm and the ability of that farm to produce continues to exist and improve, but we deal with the compensation side, if there is to be one, through the process of social welfare.

MR COSGROVE: What about the case of a person who has been operating with the benefit of a restricted quota for production? I mean, not restricted in the sense of that person having a restricted amount of production, but they're benefiting from the fact that the total pool of activity in this particular industry is governed by quotas and they might have borrowed on the basis of that quota which, because there's a limitation on the number of them, sees their value go up, and then the quotas are withdrawn. Judith raised the question of a gradual dismantling of such arrangements as being one way of accommodating change for that type of person, but let's say it was to occur pretty quickly: the quotas were to be abolished and all of a sudden not only is that person struggling to be efficient in the sense that you have been mentioning, but also has a bank liability which it can no longer meet because other more efficient producers in a quota-free environment have cut its share of the market. Would you still rely on generally available social support measures for that case?

MS JOHNSTON: Yes, I would, because the fact that the market has been manipulated to create a value that doesn't really exist is not alleviated by extending the process. It really is better to deal with a situation quickly and cleanly rather than extend it, because one often finds that extending it does not cause those particular people to do anything about it. They just tend to let it go until the axe finally falls. Dealing with one cut is far better than death by a thousand, and we saw that in the wool industry. The end of the reserve price scheme should have happened earlier. It had to happen cleanly.

There was a point made by a member of the processing industry who telephoned me back in 1990 and said, "Could we receive the reserve price just slowly phased out, gradually lowered?" I said, "No, that is a ridiculous notion, because you

will know that it's going to be lowered again and again, so you're just going to stand off the market and all we will be doing in effect is helping alleviate your problem and the fact that you've got overpriced stock in your stockpile." But it is going to be a difficult situation for everyone. Let's deal with it quickly and cleanly rather than slowly phase things.

MR COSGROVE: But leaving aside the question of timing, you seem to be saying that the person who might have been benefiting from these quota arrangements essentially runs the risk of a government withdrawal of those restrictions?

MS JOHNSTON: Absolutely. That is always the risk of government being involved in business, and that is one of the major problems with statutory marketing authorities which distort the marketplace: that those in the marketplace know that at any time a political mood can change and the whole circumstance of that market is going to change. It's been the major difficulty in the wool industry for years.

MR BRAITHWAITE: Accepting that, and not using the wool industry as an example but being more specific with the dairy industry, particularly on the other side, where a bank will come and say, "Righto, you've got a quota, the security value is worth XYZ," they lend on it and they go into that business, they buy a property on that basis, isn't it a little bit retrospective for a government to come in and say, "We've changed the ground rules. We destroy your quota. We're going to destroy your security," without some compensation? Would you believe in compensation in those circumstances?

MS JOHNSTON: Governments has been doing it forever. I really don't - - -

MR BRAITHWAITE: Yes, but they've been continuing on a fairly consistent track that says "You're secure".

PROF SLOAN: Maybe we should let the lender take the haircuts. The lender should realise the regulatory risk involved.

MS JOHNSTON: Yes, and I think they do, quite frankly. I mean, any lender of - - -

MR COSGROVE: And charge accordingly?

MS JOHNSTON: Yes, they do. They know full well, anyone working in an environment where government is involved, knows full well - I mean, governments only have to change their political persuasion to see a total change in rules and regulations and support or not support, and I think that is taken into account. I really don't see a lot of difference between the dairy industry and the wool industry, because I know many lenders lent on 870 and people bought farms on the strength of loans based on 870 that suddenly two days later were gone. A month later it was over and suddenly the value wasn't there, but the efficient have survived. The efficient have

turned it around to make it work for them, and they're the people we want in this industry. We don't want the inefficient; we can't afford them.

MR COSGROVE: Lynne, I'd just like to come back to the public interest test again. Accepting your point that you'd like to have truly independent panels conducting these reviews, do you see the reviews applying the public interest factors mentioned in the competition principles agreement, section 1.3, on a case-by-case basis, or would you prefer to see an attempt at some sort of codification of the way in which those factors should be taken into account, including perhaps differential weights on some of them? We mentioned in the draft report, for example, that the National Competition Council at one point was suggesting that each of those factors should be given equal weight. We weren't very keen on that approach, but do you have any views on that area? Is it case by case? Can it be generalised?

MS JOHNSTON: I think we do need to try and have a general view of it, because case by case we can get as far as, "This particular SMA wants to put a particular case and try and justify its existence and set out a totally different set of criteria for public benefit as against another SMA." The actual application of national competition policy should have a general broad-based set of criteria.

MR COSGROVE: In a codified way, do you think, or not? We've thought about this ourselves and I don't think have reached a clear view.

MS JOHNSTON: No, it is a difficult one.

MR COSGROVE: But there are risks in codification in that it can reduce flexibility in the way in which - - -

MS JOHNSTON: It can, but in some ways it can increase it by giving you more fields, more points, to discuss and more points to work to. But I do think they need to be weighted. To have everything of equal value is somewhat going back to that old FAQ concept, isn't it, "We'll get the lowest common denominator," rather than the highest.

MR COSGROVE: It's possible.

PROF SLOAN: I think one of the problems with that approach is that some of the criteria don't even apply in certain cases, so how could you give them equal weight?

MS JOHNSTON: Exactly. But I certainly would like to work towards developing a set of responsible criteria, because it is somewhat subjective at the moment what is public benefit.

MR COSGROVE: Yes, I think that's right, if only because the list of considerations mentioned in the agreement is not exhaustive.

MS JOHNSTON: Exactly.

PROF SLOAN: If we're happy, I would like Lynne to give us a bit of background to the issues of water reform in this state. I don't think we understand that well at all there.

MS JOHNSTON: Just looking at the issues as I've sort of discussed with people from other states, the whole concept of the various state governments signing off on the agreements there on water reform and the separation of property rights, of ownership of water from ownership of land, we've certainly noticed a number of agendas surfacing about how certain elements of society would like to control the way water is used and water is manipulated on properties. We are seeing too one of the dangers of it now being a federal right to determine this policy rather than a state right, and states have signed off their rights on this particular issue.

Much of the policy is based on the Murray-Darling Basin across Australia, which quite frankly does not apply here. Seeing in many cases in New South Wales where they are restricted in the amount of water they can harvest on a property so that water is not held back from draining into the Murray-Darling Basin, in this state we're looking to address salinity concerns by draining water off the property rather than holding it back on. A federal policy cannot work for the whole of this vast country. We have totally different problems on the western seaboard than are experienced on the eastern, and Tasmania is different again, and we certainly heard that at that meeting I attended, where Tasmania has its own unique problems.

But the dangers of a federal approach are that we are tending to have a federal answer and federal rights over particular state problems. But definitely the private property rights issue one is another one. You were talking about the value of a quota in a property value. Imagine the loss of value to a property if its water rights no longer go with the property. Suddenly this property has an excellent water catchment facility - it certainly doesn't affect the holding of stock but that probably might be certainly conducive to holding water for irrigation purposes and using it to grow horticultural product, vines or whatever, but that right is now something that a permit has to be gathered if you are going to irrigate from your farm dam rather than just simply use it for stock.

PROF SLOAN: I remember also you telling us there is some sort of ambiguity or mixture in terms of some titles in this state actually do specify water rights as being part of the - - -

MS JOHNSTON: Some of the ancient titles that haven't been changed are still - - -

PROF SLOAN: So that's an issue.

MS JOHNSTON: Yes.

PROF SLOAN: But the Murray-Darling model of course is a lot about environmental flows and keeping a certain amount for the environment but what

you're saying really is that's not a model that necessarily has a lot going for it over here.

MS JOHNSTON: No.

PROF SLOAN: That there are potential restrictions - I remember when we went down to the Albany area, the farmers telling us about - you know, you have a dam on your property and the water reform agenda seems to suggest that there will be some restrictions placed on what you can do with that water. Am I giving that - - -

MS JOHNSTON: That certainly is applying in other states and we are assured here - because our water reform was somewhat ahead of national competition policy here - that it's not going to apply but they are specifying it's not going to apply as long as you're only using it for stock, but if you are harvesting water on your property and large amounts of it and can actually then use that water to create a horticultural business or a wine business and a vine growing business, you are now in the field or the realms of having to achieve permits and authorities to be able to use your water for that purpose.

MR COSGROVE: This seems arbitrary. What is the basis for that? Is it to do with environmental aspects?

MS JOHNSTON: Unfortunately that's my point about the agendas in certain departments and specific agendas surfacing here.

MR COSGROVE: But why would you discriminate between particular types of agricultural activity for environmental reasons?

MS JOHNSTON: It's a very good question - why indeed? That's why we make the point, that there must be a much wider community consultation with the individuals concerned, with the people who have money invested in these properties, with their representative organisations with local governments, so that we have certainly a much wider base from which we can make this policy rather than just policy coming out of bureaucracies.

MR COSGROVE: Lynne, you mentioned that this national approach to water reform doesn't make a lot of sense with different circumstances across parts of the country. If I look at the key water policy reforms, the first is pricing reform - pricing according to usage essentially with some coverage of the fixed costs of water provision as well. Do you have any difficulty in WA with that?

MS JOHNSTON: To my knowledge, no. It's not an area that I have a great deal to do with.

MR COSGROVE: The next one is investment reform, which relates really to the way in which you fund new dams or extensions of existing schemes, again, as I understand it, essentially in accord with what most people would see as sensible

economic pricing and environmental sustainability aspects as well. I mean, you don't want to overuse a catchment, for example. Any difficulties in that?

MS JOHNSTON: No. Our particular concerns come back to the private property rights of water on individual properties.

MR COSGROVE: Yes, so that's the next one, the water trading and institutional reform areas are where you see the main - - -

MS JOHNSTON: That is a concern. We can see difficulties arising here and I think this is one that you have to be very mindful of, that there is a much better process of community consultation and consultation with the private property owners.

PROF SLOAN: Has that improved, that situation?

MS JOHNSTON: No, I would say that the rules and regulations are getting more onerous rather than improving.

MR BRAITHWAITE: Lynne, could I just take that comment you made, that now the water has been taken over federally and the whole policy Australia-wide seems to generate from the Murray system. Certainly the COAG agreement has taken over water. The COAG agreement specifically says all new ventures have to be financially viable and economically sustainable but also there is a public benefit test there too in which other criteria are mixed. What you're saying is that NCC seems to be leading this definition and trying to set out the policy on this. What you're saying is that the Western Australian government has no control over that whatsoever; it is all being led by NCC and not by the Western Australian government.

MS JOHNSTON: We see that as a danger.

MR BRAITHWAITE: And what is the risk for the Western Australian government if it was to intervene and go against the policy?

MS JOHNSTON: The risk to the government?

MR BRAITHWAITE: The risk of a new project not starting because the Western Australian government can't sustain the criteria under which the NCC are operating - do you see the penalty that the Western Australian government should have to forfeit competition dividend - - -

MS JOHNSTON: I think this whole area needs to be reviewed in the light of the fact that this country is a very diverse and very large country and that we really need to have policy and concepts that work for specific areas rather than just an overall blanket policy and let's sort of review the review to make sure that this policy will allow the investment into projects in Western Australia or South Australia or New South Wales or wherever but in the light of arrangements and policies that are

suitable to their particular problems and areas and rights and responsibilities rather than one blanket policy for the whole of Australia. I think the danger in one blanket one is that we are - - -

PROF SLOAN: Your concern with water reform is not so much the construction of new dams, is it?

MS JOHNSTON: No, a particular concern we have here is more private property rights.

PROF SLOAN: It's really about the - yes, the sovereignty of private property holders on the water on their land.

MS JOHNSTON: Yes, exactly.

PROF SLOAN: Although I suppose there's a grey area where it's part of a waterway as opposed to a constructed dam but you're saying that there are moves afoot to in fact limit the use of dam water.

MS JOHNSTON: Absolutely. We have some very strange and conflicting rules that are appearing insofar as if one tries to dam water and use it one is then subject to permits and a lot of difficulty and yet on the other hand, do not drain your saline water into the river. What do you do with it? There's a tremendous number of rules and regulations surfacing on the control of water and the use of water and the rights of water which are going to cause us a great number of headaches, I believe. It's an area that we are going to have to address very carefully.

MR BRAITHWAITE: We have requested other information in connection with the pricing of water which is very much based on the Victorian model, about providing in the cost of water the depreciation of the assets that are there, most of them are sunken - you know, they've already been paid for - and on the same hand providing for a sinking fund for the replacement of those assets. You wouldn't care to comment on that?

MS JOHNSTON: I don't have a great deal of problem with that because I think, you know, we're now dealing with an irrigation concept and wider public use I think and more information, once again, generally as it applies to specific states rather than just as you've got there, a Victorian model is why you certainly need to get more information but the area that we are particularly interested in is this one relative to the private property rights.

MR BRAITHWAITE: There's also another comment we're asking for, the efficacy and the cost and benefits of fringe benefit taxation concessions and income tax zone rebates, including the extent to which they overcome locational disadvantages. Have you a view on that?

MS JOHNSTON: Not at this moment. I think we need to - it's not one that I've actually addressed in the submission.

MR COSGROVE: There are quite a number of them.

MS JOHNSTON: There is quite a lot.

PROF SLOAN: What about that broader issue, Lynne, you've raised it in your position paper, which is the magnitude and quality of government services to regional areas and I suppose your perception that, you know, there may have been a deterioration in the effort.

MS JOHNSTON: As I said, we looked at that particularly in relation to those five - what we consider the five roles of government. The country does need an efficient communication system, both in telecommunication and in physical communication - road, rail, whatever. That is a necessity for the defence of the country. It's a necessity to maintain a socially cohesive fabric in the country and it is one that can allow and should allow the development of private business to perform those functions but maintaining a very cohesive structure or infrastructure right across the country is essential. That will fall, at times, on government to provide where the market is not going to be interested in providing. The market is not going to be interested in providing facilities at a loss and as a nation our government is going to have to accept that and not then just leave that particular community excommunicated from the rest of Australia because it will dissolve and it will disappear and it is important that we do maintain a hinterland.

PROF SLOAN: What would be your impression - I mean, NCP of course is aiming to provide much more efficient, in a broader range of telecommunication and other communication.

MS JOHNSTON: And we have achieved and it has been an excellent achievement. We are now seeing competition in that but the community service obligation is the important balancing act here - universal service obligation - and that must be maintained and at times that is going to be a taxpayer cost.

PROF SLOAN: What would be your impression though as a farmer, you know, with telecommunications over the past several years?

MS JOHNSTON: Under an NCP environment it has improved dramatically except I do object to the fact that I can't get Optus where I live.

MR COSGROVE: You're not alone.

MS JOHNSTON: That has been a deterioration in the fact that under digital we can't have universal receivers or transponders or whatever they're called. They seem to have to have their own and under the old analog system they were able to use one for both or all three and that has been a setback rather than a step forward, I'm afraid.

MR COSGROVE: Are you able to give us any observations from your perspective on the efficiency or otherwise of the national competition policy reforms in other areas of infrastructure such as transport or electricity provision or gas?

MS JOHNSTON: We're certainly seeing a benefit in the communities that I live in and the communities that I work with, that there have been a number of benefits from national competition policy but I think there are areas that are going to be beyond the interest of the market and those are the areas that as a nation we are going to have to address and be prepared to fund and they will need to be identified by the government that they are not being serviced adequately and the taxpayer will have to fund that if we are going to maintain a properly cohesive fabric throughout the - - -

MR COSGROVE: Could I be a bit of a devil's advocate for a moment. You were saying earlier that the onus of proof, as it already is under these reforms, is that people who are benefiting from various pieces of government legislation which restrict competition should be expected to justify them and if they can't, then the benefits of the restriction go. Is it such a different situation to say that remote rural areas where the costs of servicing a community are very high should on the other hand be sort of obligatory recipients of government assistance to maintain those communities?

MS JOHNSTON: The onus is on them to - - -

MR COSGROVE: I take it you've got defence considerations mentioned here but why is it - - -

MS JOHNSTON: I'm saying the onus on them is to identify their difficulties, so once again it comes back to the onus on the consumer or the user to identify their problem and then the public benefit test is applied to that. Is it right that we maintain a socially cohesive, properly cohesive nation? Is it important to the nation? The nation needs to identify that. Does it wish to have a hinterland? Under the community service obligation the market has to provide a service where it is not all that profitable.

MR COSGROVE: Yes, in other words, the starting assumption is that this is a good thing.

MS JOHNSTON: Yes.

MR COSGROVE: Whereas in the case of let's say the rural producers, the starting assumption is the assistance which is being given to them through legislation is a bad thing and must be justified.

MS JOHNSTON: Yes.

MR COSGROVE: There's a different - - -

MS JOHNSTON: There are certainly different things. One is commerce and the other one is the infrastructure that supports the nation and I think we are dealing here with two quite different fields. One is where certain people have money invested in a business, but the nation has its future invested in the infrastructure that supports its cohesiveness and I think these are the two quite distinct areas. The marketplace will - and we must maintain the marketplace involved in the competition to maintain the efficiency and to get the best out of it to see competition in our rail system, in our telecommunication system etcetera, but maintaining the rights of all Australians to be able to receive a letter that they can afford to receive is one of the great advances of our society and it would be reprehensible if we allowed it to step back to the past where that wasn't possible, and the same applies to the right to communication, the right to access to a health service and education. We regard that as a universal right for all of our citizens that they have access to education.

Whether they seek to go beyond that education and apply more funds of their own to achieve what they believe is a better education, that is their particular right. But we must have a basic infrastructure.

MR COSGROVE: We were discussing earlier this morning in the question of regional development policy and were informed that the Western Australia state government has reasonably solid commitment in that area, but the question of exactly how you do it remains a little unclear. Have you got any thoughts on that?

MS JOHNSTON: No.

MR COSGROVE: I know it's not covered specifically in your paper today.

MS JOHNSTON: In regional development we certainly see it. I come from a very small town - I didn't live in the town, I lived well away from the town - but the point is that it's a very small town that has - it's a service town to its hinterland community and it has developed its own policies of survival. The town has less than 200 people, it's a hamlet, it's a village, and yet it maintains its existence and it is in effect maintaining its importance in the community in growing by virtue of its own efforts. It used to have some rail system employees there but they've long gone. The railway line has long gone. Everything has gone. But it has developed new ways of developing business, of attracting business into the community and keeping people in the town.

I very much believe it is up to the regions to develop their own reasons for being. They have a reason for existing, but it's up to them to not rely on outsiders to provide their reason for existence but to develop that themselves. There are an amazing number of success stories, particularly around this very empty state where we've seen communities go out and actually find ways of making themselves attractive.

MR COSGROVE: How have they done that? Is it providing better service to the surrounding farm people or working off tourism or - - -

MS JOHNSTON: In the case of Darkan they attracted a tannery by making it very, very attractive for the people and set up the tanner in the district. They've attracted a fabrication business into the town by making the industrial area conducive and attractive and at low cost. This has been funded by the ratepayers in effect through the shire council, all with the support of that. They've developed housing developments on the basis that people will wish to come and live in the town, work in those businesses. They retire into the township.

The shire council has been active in developing a housing policy by which they borrowed funds to build the first one, sold it, which paid for the development of the second one and so on and so forth - you know, all in a small way but in a way that has been very successful in keeping that town in existence. It has no doctor, yet it is building a medical and professional centre to attract a doctor to come twice a week. They had one who came to a very, very substandard facilities for many years who is now retired and the younger doctors sort of took one look at that and said they weren't really interested and I don't blame them. So the people of the town have developed a professional centre now which they have funded and it's almost finished now. It's a professional centre and it will attract - - -

MR COSGROVE: Little or no funding from the state government?

MS JOHNSTON: No, the funding has come from the shire and from lotteries and those various organisations that provide funding into good causes. So these are the things that towns can do for themselves. One of the great problems of communities of relying on the existence of a main roads base or a railway head or whatever is that they do become very reliant upon those facilities to maintain the reason for their town's existence and once they go there is a period of adjustment but there are reasons to keep our country towns and I think it comes back to the people in the community. They want to stay there, so let's make it successful.

MR COSGROVE: What about a situation in which say the state government was to provide a cheap industrial state in a rural town. Would you see that as being a good thing to do?

MS JOHNSTON: Why not? This is part of - - -

MR COSGROVE: So in other words, you do see some circumstances, some aspects of government regional development policy which would make sense.

MS JOHNSTON: As I said, it's part of those five roles of government and that they are maintaining and can see where it is a proper use for their money. But they need to be very careful that it is not a political exercise where it is just there to attract votes from that particular - let's ask the community what they want. All of this impetus

must come from the communities themselves, that they can develop their policies and go out and seek the means and the ways in which they can make it happen.

We had an instance where a little tiny hamlet within our shire which has all of 24 people or something in it, it's been in existence for many years, it used to be a major railway base and that disappeared. It never had water and yet it would probably be one of the only communities in Australia that did not actually have running water and the only water they had was what they caught of their own roofs. They sought water with help from the state government which was refused. The costing that the state government put up was one and a half million to get water to that little town. In the end, through various means, the shire council and the local community, through finding water on one of the properties, have provided water for a total cost of 58,000 and that little hamlet now has running water. The community set about saying, "We wish to remain." There are two tiny stores in the town.

MR BRAITHWAITE: Lynne, would you like the name of the town and the name of the council on record?

MS JOHNSTON: Yes, West Arthur Shire Council and the name of the town is Darkan where the tannery is and the little one that has the water now through the efforts of that community is Duranillin, a tiny little place. The whole of the shire only has 1100 people but it's a successful community effort that is maintaining its reason for being and supporting that from its own efforts.

MR COSGROVE: I have just one further question, Lynne. I don't know whether you can help us on it or whether it's an issue indeed in your area, but some people raised with us a question about the regional zonal tax allowance - I'm not sure I've got the terminology correct. Is that an issue in your region?

MS JOHNSTON: It's one that affects our pastoral members as many of them live in that tax concession area.

MR COSGROVE: Do people see present arrangements as satisfactory or not?

MS JOHNSTON: It's one we actually looked at and may need to address under the GST provisions that are coming in the future. We have always maintained the premise that the GST should have been universal and it is disappointing that it has now been complicated and we saw that as actually one way in which the far-flung regions' fairness could be addressed for those who live in areas where GST is actually going to be higher because it is a final tax and, of course, transport costs etcetera are built into it. It does exist, it needs to be kept under constant review that it doesn't become just simply a bonus for living in a northern region because many of those - it's use to pastoral people perhaps - but many of those who live in the mining communities are extremely well paid to do so anyway.

MR COSGROVE: Thank you.

MS JOHNSTON: Thank you very much for having me here today and I would certainly like to maintain contact. One thing we would like to finish with is we do see an ongoing role for the Productivity Commission in this process because it is going to be a long process, an ongoing process, and I think at all times we need to have an independent body such as yourselves in there in a role of being that umpire and keeping a watching brief on what is happening.

MR COSGROVE: We'll try to be independent and objective. We might just take a short break for five minutes or so and then resume.

MR COSGROVE: I think we'll resume the hearing now. The next participant is the Shire of Jerramungup. I hope I have the pronunciation somewhere near the mark. Murray, as our other participants have done, would you please state your name and the capacity in which you're appearing for the purposes of the record.

MR BROWN: Thanks, Mr Chairman. My name is Murray Brown. I'm the chief executive officer with the Shire of Jerramungup.

MR COSGROVE: I think I should note that your shire was the first to provide us with a submission in this whole inquiry. You deserve an award for that, and of course we had a look at that in the earlier stage of our inquiry, but I imagine you have some new things to say to us now.

MR BROWN: Yes, thank you. Mr Chairman, I think all the commissioners have got a copy of a my brief submission.

MR COSGROVE: Yes. I haven't had a chance to read it yet.

MR BROWN: I won't read it, I'll just talk to it as we go through.

MR COSGROVE: Please go ahead.

MR BROWN: I'll start off by saying that, despite the fact that we've had the draft report for a fair few weeks, it's been difficult for me to find the time or the resources to get round and get through it, but we managed to. It's probably fair to say the report paints a fairly grim picture for the future of many inland rural communities, whether that's the result of national competition policy or not. The report, it's probably fair to say, also indicates that most of the problems in rural areas are caused by events other than the national competition policy. That's what the report as I see it says, and in my opinion it may be the way the national competition policy is implemented rather than the policy itself. I've learnt a lot from the report, because I learnt that some of the things I said to you back in October are probably not as correct or you don't believe are as correct as I thought they were at the time.

The balance of the first and second pages, I have a heading Rural and Regional Australia, and basically what I think I'm trying to do is identify the fact that rural and regional Western Australia are different from rural and regional Australia, and I think that point was made two witnesses ago. I've highlighted some of the populations or estimated populations of our four major regional towns in rural Australia and pointed out that in places like New South Wales you have Newcastle, Wollongong, Tamworth, Armidale, and you could go down to Victoria and there are some very large Bendigos and Ballarats and places like that.

I think the difference in these bigger regional centres on the eastern side of Australia is that they get to the stage where they almost become self-sufficient. They can generate their own growth by population growth and new industries, where there are probably very few regional towns in Western Australia where that would happen

because we haven't sort of got to the optimum population of a country town. I'm not sure what the optimum population of a country town is, but I would suggest that on the east coast many of the larger regional towns have a lot of advantages through economies of scale and probably things like national competition policy wouldn't have an effect to the same degree.

I've then made some comments on the recommendations of the draft report, and perhaps I'll just comment briefly on some of the recommendations. The first recommendation related to the fact that there should be more information provided on national competition policy, and I could support that with some discussions I've had in Western Australia. After talking to your meeting in October I found the names of five of the members of a state government committee on - I don't know whether it's called national. They've been looking at the national competition policy for the state but I think they're called federal-state relations, made up of upper house and lower house members. I spoke to three of the five, who I knew personally, and none of those three could refute any of the arguments that I put to you which some of you have since refuted. I honestly believe that most members of state parliament do not understand what national competition policy is all about.

.....: Hear, hear.

MR BROWN: Despite the fact that we have a spy over in the background, but I'll stand by that. It's pretty hard to expect the poor old country boy like me to understand its implications when our state leaders don't, and probably if I rang Canberra there would be a lot of bureaucrats and politicians in Canberra that may not understand it either. But to the three out of this five I put my arguments. One member said, "Look, it's all too hard. I don't understand," and I said, "But you're an elected member, you should." Another one said, "Look, Brownie, I agree with you." I said, "You're in the government. Why don't you change it?" and he said, "It's too hard for me." The other one was an opposition member who said, "I agree with you, but we're not in government. We can't do much about it." So I think there is a high level of public education needed on the positive aspects of national competition.

The second recommendation I support, which relates to the basic principles for the application of the public interest test. I think again the public interest test is largely misunderstood and I think, having reread it and seen the definitions in the draft report, in our case council could almost accept any tender for anything and it would be in the public interest, if that's the way the council interpreted it. But I think perhaps the public interest test provisions could be expanded or elaborated on a little so that there's a bit more public understanding.

There's a couple of them there, including the water, which council didn't have any opinion on. We don't have any water or water problems. The farmers all catch their own, so water is not a problem. In terms of specific adjustment assistance, we support that recommendation, and we also support principally that the government should rely on the currently available general assistance measures in terms of any anomalies.

Then I have made some comments on two items of information that you requested. Midway through your report you requested some comments. The first one was relating to the current and potential impacts of road transport reforms on country Australia. Our council would generally support the road transport reforms. However, at a local level we have concern that the benefits of road transport reform will be diminished without increased investment in the area of road infrastructure. In other words, we need more money. But we've never had a railway line anyway, so we've never had a railway line to lose or anything like that.

PROF SLOAN: Is this about the standard of the road to take via mass limits and bridges and the like?

MR COSGROVE: Or more roads?

MR BROWN: No, we need the existing roads upgraded more so, because we're getting triple road trains and B-trains as common traffic now with the farmers even. Because we don't have a railway line, they've got to use those trains to get the wheat and the farm produce to the port. The second comment I thought I'd make relates to the efficiency and cost and benefits of the fringe benefits tax concessions and income tax zone rebates. Basically I think fringe benefits tax is a tax on rural and remote area employers who, in order to attract and retain staff, have to provide non-cash incentives such as low-level rental housing etcetera to get people into rural and regional Australia. I know that in local government generally, local governments provide fringe benefits not to enable the officer to avoid tax but to provide a package to attract people to these areas.

In terms of the zone tax rebates, my comment is they're good but they're probably not appropriate in terms of level. They should be a lot higher. I lived in the Kimberley for nine years, which at one stage had one of the highest costs of living of any region in Western Australia, and the A zone tax benefits that applied up there nowhere near offset the higher cost of living. It was hardly an incentive. That's a brief talk-over of my points.

MR COSGROVE: Thanks, Murray. You mentioned that you thought the public interest test was misunderstood and needed to be elaborated in some way. I think you were present when we were discussing that with Lynne Johnston just several moments ago. Do you have any thoughts yourself on whether this is best handled by way of a more strict allocation of importance to particular elements of the test or whether it's best left for people to use in the context of particular reviews that they are undertaking under NCP?

MR BROWN: I think perhaps more publicity and somehow knowledge of the test should be put out so that more people are aware that it exists.

MR COSGROVE: So you're not unhappy with the way in which it's formulated in the competition principles paper?

MR BROWN: The way it's been set out in your draft report is clearer than I've ever seen it set out before. Can I just talk about tenders?

MR COSGROVE: Yes.

MR BROWN: When we talked last time I was talking about the aggregation of tenders as one of the problems, and again that comes back to my comment that the national competition policy itself may not be the problem, it's the implementation. In terms of our state government's main roads contracts, the Narrogin and the Albany divisions, which are going to cover 60,000 people and in most of the Great Southern extending over a large area of the south of Western Australia all the road maintenance and construction are going to be let by one net term contract, which will be nine or 10 years - all the road maintenance and all the construction. The short-listed contractors are all national or multinational companies, and they're going through that selection process.

I believe that there will be no local contractor that will be given the opportunity to necessarily get the work. The contractor may well bring all their plant and equipment and employees out of Perth on a sort of a fly in, fly out basis. They'll go home for the weekends and then they'll move back to a region to carry out the work. Alternatively, if they do want to use some of the local contractors, the fact that they've got the whole contract tied up for such a long time, they'll be able to set the price for the local subcontractor to come in with his truck or his grader or something like that. I think it's one of the concerns in terms of our area that without main roads or road contract work it reduces the opportunity for these small businesses.

MR BRAITHWAITE: Murray, in one state in particular the government has indicated a main roads policy where councils of different size are guaranteed a percentage or all of the road works up to a certain year. Has that ever been contemplated in Western Australia?

MR BROWN: No, not that I'm aware of.

MR BRAITHWAITE: As of right they get the main roads work?

MR BROWN: No. I think that applies in Queensland, doesn't it?

MR COSGROVE: Yes, that's right. I thought it was on a regional basis, three zones.

MR BRAITHWAITE: Yes, it is regional, but the councils fit into that region.

PROF SLOAN: What's been your experience with the application of competitive neutrality for your business?

MR BROWN: In our area not a lot, no.

PROF SLOAN: Mainly because you don't have businesslike activities of a sufficient scale?

MR BROWN: No, the main tenders we put out are sort of - we put out some tenders for a portion of our roadworks program last year and we put out tenders for things like rubbish removal and that, but on a fairly small scale.

MR BRAITHWAITE: But the cost of establishing your records to comply with competitive neutrality, have you found that onerous?

MR BROWN: It just means I've got to work harder. No, not really. On the outside. We're a very small organisation.

MR BRAITHWAITE: Have you got accrual accounting.

MR BROWN: We've had it for - - -

MR BRAITHWAITE: So that has come in, yes.

MR BROWN: We've had it since 95, I think, 94, yes.

MR BRAITHWAITE: But, as you say, you just work seven days a week instead of six?

MR BROWN: That's right. It's character building.

PROF SLOAN: How is your region going down there? I don't think I went there.

MR BROWN: The shire of Jerramungup includes the town of Bremer Bay, which is on the south-east coast of Western Australia. You might see it mentioned on the map occasionally. The coastal side of it obviously will grow long-term. The balance of the shire is basically agriculture, wheat and sheep, and the farming area is actually only just over 40 years old. So it's a relatively new farming area compared to most agricultural areas of the state, and a lot of our farmers are still first generation farmers.

PROF SLOAN: Is it a growing shire?

MR BROWN: Yes, it's growing but mainly the long-term growth will be on the coast, not inland.

PROF SLOAN: Because in Victoria in particular but also my state, South Australia, there has been either compulsion or encouragement for local governments to amalgamate and to get much larger. It seemed to be my impression here that your shires remain relatively small.

MR BROWN: Yes. Our shire actually to the west borders on the city of Albany, which is 185 K's away, so I don't know whether there's really much of an argument to amalgamate us with the city of Albany. But we've got 144 local authorities in Western Australia, I think, in which about 120 are probably outside the metropolitan area, but of course we occupy a third of the continent.

PROF SLOAN: No, it's your point that that amalgamation model is perhaps a bit limited because of the geographic vastness of this state, that you end up amalgamating things which are in fact a very long way apart.

MR BROWN: Yes.

MR COSGROVE: Murray, in terms of the effects of some of those main elements of national competition policy in the infrastructure reform area that I've been asking other participants about, I realise the location of your shire might mean that the scope for benefits from those to be gained might be less than it is in a larger market area like a capital city but have you seen any effects in costs or service provision or employment changes in rail - you probably don't have rail - energy, telecommunications.

MR BROWN: Telecommunications is a good example because the last time I talked I was critical of the level of service and I'm still critical of the level of service in terms of when there's a breakdown or a new connection. The nearest Telecom office is nearly 200 K's away so it means it's pretty hard for them to respond to one fault.

MR COSGROVE: Is that a change, as compared with the situation - - -

MR BROWN: Some years ago there was a locally-based Telecom office but it's been common practice for a while now but we're also not an area subject to mobile telephone access but very recently five of our shires got together between Albany and Esperance, right across the south coast and we jointly put a submission through the regional telecommunications infrastructure funds and subject to the sale of Telstra, we've been given about 800,000 to assist with the provision of a mobile telephone network to extend between those two major towns. So hopefully by about next March or April we will have a mobile telephone system and again, each local authority has had to put some resources in, between 50 and 100 thousand dollars to help offset the cost. So again, we've had to help ourselves.

MR COSGROVE: Is natural gas available in your area?

MR BROWN: No.

MR COSGROVE: No, I didn't think so. When you made your first submission to us I think I'm right in remembering that you were expressing a lot of disquiet about

the centralisation of service provision. Is this largely a question of state government services or are we talking here about Commonwealth government services as well?

MR BROWN: The main ones I can think of that would affect my current shire would be largely state government services, yes.

MR COSGROVE: What would you mention as examples of that?

MR BROWN: Electricity supply. The amount of lines people that are available locally to attend to power failures and when the power lines go down, how they all seem to be based into the more major towns and then spend a lot more time travelling to faults. Water supply is a very similar situation for the scheme - water. I mean, whilst we have our own scheme which is not on the scheme, we normally have an officer that's there to carry out maintenance and repairs.

MR COSGROVE: Anything in the education area or general state government administrative services?

MR BROWN: Education, if you've got kids, you've got teachers. We've got plenty of kids, we've got plenty of teachers. Actually, probably education would be the biggest - other than primary production, education would be the second biggest employer in the shire.

PROF SLOAN: What about health services?

MR BROWN: No, they rate very poorly. They don't employ many because a lot of - the hospital and that is in Albany again which is 200 K's away so we have a locally-based nurse and sort of a nursing post but again, you know, we travel a fair distance for access to those services.

MR COSGROVE: In terms of regional development, which we were discussing earlier today in terms of the state government's attempts to promote regions, how do you see that from your neck of the woods?

MR BROWN: Yes, I think the state government is fairly keen or some parts of the state government are fairly keen and in our area they've assisted us to fund the business enterprise centre which is where we're trying to attract and retain and develop more small business. Between them and the Commonwealth with these telecentres and next up we'll have these - what do we call them - RCPs. You know, the agencies for the government on-line things which are coming now we've sold Telstra and there's other things called main street programs and that which are designed to upgrade your town to make it more attractive for people to shop locally and there is - if you've got a decent industry and you're any good you can get some, you know, more direct assistance from the government in terms of subsidies or something like that and of course the regional development commissioners themselves are there to sort of facilitate the development of regions. Whilst they only facilitate, it's a fairly positive initiative.

MR COSGROVE: So you see all of that as a constructive way of trying to advance the region's interests?

MR BROWN: I think they're positive initiatives, yes. I think we talk about the way we're going at the moment, Mr Chairman, and we were talking about how the benefits of the national competition policy. I'm not sure whether I can identify any benefits in the national competition policy yet because, I mean, in the last few years we've been fortunate to have a lower unemployment rate. We've had a very low CPI rate and we've got a very low set of interest rates. From my point of view I'm quite comfortable to keep the CPI and the interest rates down.

MR BRAITHWAITE: So you're not investing anywhere?

MR BROWN: I beg yours?

MR BRAITHWAITE: You're not investing out anywhere?

MR BROWN: The only reason we've got a local bank is they can't afford to leave because I owe them too much money.

MR BRAITHWAITE: So the local bank still is there?

MR BROWN: Yes, we've still got a local bank.

MR BRAITHWAITE: Local business - no supermarkets or anything like that - national chains?

MR BROWN: No, well, it's a Foodland which is sort of a bulk buying but it's locally owned.

MR COSGROVE: Has your shire faced any significant adjustment issues in recent times? You mentioned that you're growing, mainly on the coast, but are there areas of difficulty that - - -

MR BROWN: As a shire we were only formed in 1982 so we're a relatively new area. I mean, 40 years, 45 years, the farms were sort of carved out of the bush. Changes, yes, the majority of our workforce are now on a workplace agreement which leads to increased productivity and they've had to sort of sacrifice some of the old work practices and customs. We've implemented that over the last 12 months and that's starting to show some results in terms of improved efficiencies and it's probably easier to achieve in a small organisation than it is in a large statewide organisation. Things like that - our work practices have definitely changed and improved - workplace agreements. We now occasionally test the water by - whilst we don't necessarily have to, we call tenders to compare them - the standards of private contract roadworks against our own. We've deliberately set up a competitive situation to see how we go.

MR COSGROVE: Benchmarking - - -

MR BROWN: Yes. That's proving to be an incentive for our own people if they want to stay with us and it's been a good education for the council and the community.

PROF SLOAN: Those industrial relations changes, they use the Western Australian law to bring in your workplace agreement.

MR BROWN: Yes.

PROF SLOAN: That's been quite facilitated, hasn't it?

MR BROWN: We started off working down the enterprise bargaining agreement line and then we jumped ship two-thirds of the way through and went across to workplace agreement.

MR COSGROVE: How important as an employer is the shire itself?

MR BROWN: We'd be the major employer outside - at Bremer Bay we've got a fishing industry which is pilchards which is the ones that have all been - you know, the disease started in South Australia and it's a bit like VD, it just sort of swam around the coast to Fremantle or somewhere like that. So that has sort of suffered a bit of pain lately but the shire would be the third probably biggest employer outside of agriculture. Fishing would employ more jobs in the shire but we've got a workforce of about 25.

MR BRAITHWAITE: And you've maintained that over the NCP? Any thoughts under the encouragement of NCP of contracting out? You know, if you've got a road gang, of getting into private work. Any opportunities like that?

MR BROWN: We've had one of the tenderers for this main roads net term contract come to us and say, "Give us a price," and we've given them our price but we're not going to be beaten down or anything. If they want us we'll do it. If they don't, bad luck. Other than that, there's not a lot of opportunity to do other work, no.

MR BRAITHWAITE: The situation in some states with councils is that it has been traditional that the government will give a subsidy on water, will give a subsidy on water reticulation, roads and things like that. Do you see under the national competition policy a determination of the government to pull back from those? You mentioned here you need road infrastructure and it's badly needed. Do you see the government pulling back under the excuse that the national competition policy is now in that you look after yourself.

MR BROWN: I think some government service agencies have had that mentality anyway and they probably blamed it on national competition policy but it's happening, yes. All levels of government I think are getting tougher.

MR COSGROVE: Have you had any significant changes in those sorts of areas that Ray was just referring to?

MR BROWN: Not really. We just notice things are getting harder. You know, there's less - the term community service - what do you call it - - -

PROF SLOAN: Obligation.

MR BROWN: Yes, that just seems not to have been mentioned as much as it used to be.

MR COSGROVE: You mean they've actually been cut or - - -

MR BROWN: Well, I don't think they're thrown around as generously as they used to be. You know, things like water supply extensions or any of the government services, the user pay principle is much more prevalent now than it used to be.

PROF SLOAN: Would you date that though from the implementation of NCP or - - -

MR BROWN: I think it started before that.

MR BRAITHWAITE: Have you been getting any dividends back from the government from competition dividends?

MR BROWN: Yes, we've had our 1998-1999 cheque and I think it was 2800 or 2900 or something.

PROF SLOAN: Don't spend it all at once.

MR BROWN: No. It was that small I forgot we got it and then I received a letter from - - -

MR BRAITHWAITE: So you don't build it into your budget?

MR BROWN: No, it's not going to have a major impact. The actual flow-on effect and I've already - next year the local government authority is going to get another allocation based on your population and then the balance of it's going to be set aside in a fund where the shires I think have got to apply for it and put up various projects that can be funded from it. You get a small portion which is an as of right grant and the balance is sort of competitive. You know, you've got to compete against the other shires and of course every shire will want more than their entitlement.

MR COSGROVE: I don't think I have any other points I wish to raise. How about my colleagues?

PROF SLOAN: No, that was very - - -

MR BRAITHWAITE: Just one point. The Western Australian local government - the relationship of the state government is different to other states somehow or other. What is that difference?

MR BROWN: I'm not sure. I mean, Western Australian local government normally does not get involved in water supply. Western Australian local government doesn't get involved in power supplies. We don't run public transport or things like that like they do in other states.

PROF SLOAN: Or not even much in the way of what you might regard as social service provision. In Victoria there's a big tradition of them being very involved in senior citizens club, nursing homes, infant welfare centres - - -

MR BROWN: Yes, local governments are involved through the home and community care program. They run or assist with aged persons and things like that. Local government in Western Australia is getting more involved in the social type issues these days, including things like community security patrols and things that we - - -

MR BRAITHWAITE: So because of those exclusions, the effects of NCP may not have been felt as badly with you as they might have been felt with other local governments in other states?

MR BROWN: I think they probably haven't been felt as much in the more isolated and smaller local authorities. Probably in the metropolitan area, I don't know, the thing is probably a bit different but there would be many local authorities in the metropolitan area that traditionally would have contracted out a lot of work anyway.

MR BRAITHWAITE: Does your council have a lot of plant and equipment?

MR BROWN: I wouldn't say a lot. We have sufficient to meet - we're very careful with - - -

MR BRAITHWAITE: No more than what you require for your own uses?

MR BROWN: No, we don't collect it. No, we're fairly tough on it.

MR COSGROVE: You mentioned, Murray, that it's the coastal part of the shire which is growing more quickly. Is that because of the fishing activity or is it mostly agriculture down there too?

MR BROWN: No, the coastal area is growing (a) because it's a greatest tourist venue and you can still catch some fish there, so industry is there or tourism and it's a retirement area where people go to retire.

MR COSGROVE: So how do those retired citizens affect the community's finances or they on concessional rate payments, for example?

MR BROWN: Yes, some of them are on concessional rate payments, yes, but because we only have a nursing post, once you get past retirement and you get to the stage where you need regular medical care they tend to retire then to Albany or Perth. So you're sort of a young, fit retiree when you come to retire in our shire.

MR COSGROVE: Right, so they're still catching fish, your people?

MR BROWN: Yes. When you're too old to catch fish you normally move on.

MR BRAITHWAITE: Murray, how long is it since you were in the Kimberleys?

MR BROWN: I was up there from 80 till 89.

MR BRAITHWAITE: I can recall being up there at one stage and a lot of the shires gathered together to form their own regional committee by putting in a sum of money to promote the area which, as I understand, was all self-funded. Do you know if that's continuing and do you have something similar to that in the south?

MR BROWN: I think in terms of tourist promotion and things like that the system still continues up there. We don't have quite the same cooperative - we work well with our neighbours but we probably don't get into schemes the way we did in the Kimberley, no.

MR COSGROVE: There was just one other thing I noticed and I can now come back to in your further submission to us, Murray. It's the recommendation just down the bottom of the third page of your paper of ours that there should be no across the board extension of national competition policy target dates and your response is this: "Recommendation is supported to some degree." I wonder what you had in mind there by the words "to some degree".

MR BROWN: Well, the opinion of the council was we should have some degree of flexibility - that's a good political answer.

MR COSGROVE: I see, okay. Nothing more specific than that.

MR BROWN: No, but some degree of flexibility. It doesn't make sense but that's what we mean.

MR COSGROVE: I get you.

PROF SLOAN: It was the imported feed for the tuna fishermen, the tuna in Port Lincoln which killed off the pilchards.

MR BROWN: Is that what it was.

PROF SLOAN: That's what they think. They've come back though, haven't they?

MR BROWN: Yes, they're all back fishing now.

MR BRAITHWAITE: I thought it was the great white sharks that knocked all that off.

PROF SLOAN: Now, I think something has knocked the great white sharks off.

MR COSGROVE: Ray, anything further? No. Well, thanks very much, Murray. We appreciate the effort you've taken to come up and see us today. It's a long journey and thank you for giving us some further thoughts.

MR BRAITHWAITE: Thanks, Murray.

PROF SLOAN: Thanks, Murray.

MR COSGROVE: I've just been reminded that I didn't mention at the beginning of our session this morning that the transcripts taken of all of these public hearings are available. People who would like to have them in the form of a hard copy can purchase them. Stewart Plane will tell you of arrangements if you want to go that way, but they're also likely to be presented on our Web site, which is another means of access.

MR COSGROVE: The next participant I believe is the Goldfields Esperance Development Commission. Would you please come up to the microphones. Colin, would you also identify yourself and the capacity in which you're here today, please.

MR PURCELL: I'm Colin Purcell, chief executive officer for the Goldfields Esperance Development Commission.

MR COSGROVE: Thank you. Thanks for coming along, Colin.

MR PURCELL: Commissioner, I'd just like to set the scene. I know you visited Kalgoorlie last year and had some discussions there.

MR COSGROVE: Yes, I had that pleasure.

MR PURCELL: But for the other commissioners, because I think the Goldfields Esperance Commission covers such a huge area I think it is and should be seen as a special case. The region itself is made up of nine shires - Kalgoorlie-Boulder, Coolgardie, Dundas, Esperance, Laverton, Leonora, Menzies, Ngaanyatjaraku and Ravensthorpe - approximately 771,000 square kilometres in size, which is approximately twice the size of Victoria, with 58,000 people. I think if the statistics work out, it works out to about .1 of a person per square kilometre.

MR COSGROVE: If you carve them up.

MR PURCELL: Yes. But, more importantly, the estimated gross regional product out of that region in 97-98 was 3.7 billion, built on industries in mining, agriculture, manufacturing, retailing and tourism, the majority of the regional product actually being mining, which is approximately 3 billion. It is one of the major wealth producing regions in the state, so any changes to the provision of government infrastructure and services will have an impact on it and the rest of the state.

I appear here today to the commission to support the submission that was placed before you from the Regional Development Council. They have produced two papers on the impact of the national competition policy on regional areas, one of them being the Implications of Competition policy for Regional Areas: an Overview, which was published in June 98, and expressed the RDC's concern that competition policy is implemented on the assumption rather than the demonstration of benefit to the community. The paper was critical that there was little consultation with regional communities and businesses, which had fostered uncertainty about the impacts and benefits of public sector and micro-economic reform in regional areas.

The RDC also made a submission to the Senate Select Committee on the Socioeconomic Consequences of the National Competition Policy in September 98. The RDC argued that the largely market orientated competition policy will inevitably see regional communities treated inequitably compared to the major urban centres in terms of delivery of government services without adequate compensatory measures.

Commercialisation of government services was having less emphasis on public need, which in turn would have a strong adverse effect on regional communities.

The Productivity Commission issued a report in December 1998 called Aspects of Structural Change in Australia. Whilst not focusing on NCP, the report did make some pertinent observations on the impact of structural change on regional areas, most notably that closure of a major business in a regional centre is likely to have a large impact on a surrounding community than would be the closure of a similar operation in a capital city. This is because regional towns are often relatively specialised, with activities centred on a handful of core industries. I go back to Lynne's comment about the tannery at Darkan.

The GEDC supports the broad thrust of the RDC's paper on NCP and with the observations regarding structural change by the Productivity Commission. There are four areas that GEDC believes are relevant to NCP in its application to the Goldfields-Esperance regions: the region's economy, the region's isolation, the region's population and infrastructure policy in the region. I'd like to just address those, if I may.

MR COSGROVE: Yes, sure.

MR PURCELL: As I've said, the region's economy is one of the strongest in the state. As mentioned previously, it produces goods and services worth in excess of 3 billion a year. Most of this wealth is produced from the gold and nickel industries in the Goldfields and the agricultural industries found in the south-east of the region. Because of the region's reliance on these core industries, the government infrastructure and services it receives is dependent on the strength of these industries. Projects linked to upgrading electricity, water, gas and telecommunications markets have largely been predicated on major new resource projects proceeding. The problem is that many communities in the region are considered uneconomically viable and do not have resource projects to rely on for infrastructure and service upgrades.

The GEDC does not believe that the NCP will positively change this situation. The shift towards market orientation of government infrastructure and services will put communities in the region without a strong economic base even further behind. Case in point is the move to the national rail market in parallel with privatisation of Westrail's freight services. The GEDC concern is that the new operator of this service will concentrate their effort on improving the Kalgoorlie-Kwinana track, which is part of the national rail market, while paying minimal attention to the economically smaller but regionally significant Kalgoorlie-Esperance track.

Isolation: in terms of the government's infrastructure and services, the region is very isolated from the rest of the state, let alone the rest of the country, for NCP to have much of a beneficial impact. In terms of the WA energy market, only the city of Kalgoorlie-Boulder and the shires of Coolgardie and, to an extent, Ravensthorpe, are part of the south-west electricity grid. All the other shires rely on isolated power

systems run by Western Power. Likewise, the Goldfields gas trunk only extends as far as Kambalda, which means that a large part of the region has no access to any source of natural gas. Isolation is an enormously important factor in telecommunications coverage of the region. The vast distances between communities in the region make it very expensive for Telstra to even extend the coverage of mobile telephones to these remote communities.

Considering WA's isolation from the emerging national energy and gas market, any benefits provided by NCP are unlikely to be felt by this state. The lack of benefits is further compounded in regional areas like the Goldfields-Esperance region, which is isolated from the major infrastructure networks in the state. The GEDC believes that regional isolation from most government infrastructure and service works will not see any benefits from NCP.

In terms of population, coupled with its isolation from the rest of the state, the region's population is another factor against NCP working in the Goldfields-Esperance region. Of concern to the region is the pattern of population growth. Between 1993 and 98 the region had a population growth of 1.9 per cent per annum, but there were growth rates of great variation across each of the nine shires. The two most popular shires, Kalgoorlie-Boulder and Esperance, had moderately healthy growth rates of 3 per cent and 2.3 per cent respectively. The shire of Menzies had a growth rate of 3.6 per cent, which whilst on the surface appears strong, the shire is coming off a very low population base of 343 people.

The shire of Ngaanyatjarraku has the highest growth rate of all the shires, having 4.2 per cent per annum growth. However, the shire is the poorest in the region in terms of resource projects, economic development and infrastructure. It does not have great capacity to absorb this growth. Two shires have virtually negligible population growth. The shires of Leonora and Ravensthorpe possess a population growth rate of .1 per cent and .2 per cent respectively. Leonora's growth is essentially worrying, as between 1997 and 98 it had a population growth rate of negative 3.3 per cent. An obvious cause of this is the reduction in size of the large construction workforce at the Murrin Murrin nickel mine.

Of equal concern are the three shires that recorded negative population growth. These shires are Coolgardie, minus .9; Dundas, minus 2.1; and Laverton, minus 4.8. An obvious cause to this decline in population is job losses at gold and nickel mines like Higginsville, Bullabulling and Kambalda. These negative growth rates will have an adverse impact on the shires' and the region's ability to attract new infrastructure and services, as there is not the market to support them.

Some have argued that the growth of the fly in, fly out mining operations has caused a slow-down in the region's population growth and something should be done to reverse the trend of these operations. Worth noting is the Department and Commerce and Trade's Living in the Region study. Only 49 per cent of the people in the Goldfield-Esperance region felt any affinity with the region, compared to an average across all of the regions of the state of 73 per cent, with employment being

the main reason why people move to the region at 69 per cent against a regional average of 47 per cent, and with 36 per cent of the population indicating they would leave the region within five years. This highly mobile population, with little affinity to the region, is unlikely to see high growth rates in long-term settlement in the region.

The Goldfields-Esperance Development Commission concludes that the region's current population demography will always mitigate against it being able to attract new government infrastructure and services. The NCP is unlikely to change this situation as it is uneconomic for government infrastructure and service providers to cater for declining populations in isolated areas.

Infrastructure policy: experience of infrastructure policy at a state level has made the Goldfields-Esperance Development Commission uncertain about whether NCP will improve government infrastructure and service provisions to the regions as well. The GEDC has been cautious over third party access provisions, which form part of the Westrail freight sale. The GEDC believes that the strength of the access code cannot be determined until it has been actually tested. Third party access to railway tracks is vital if the region is going to see competitive freight rates resulting from a privatised system.

Apart from the gas pipeline, another energy market of concern to the GEDC is the tender for privatised power generation in the shire of Esperance. As stated previously, the desired outcome of this process is for costs for commercially large users to be significantly reduced. However, the terms of reference for this process does not give the GEDC confidence that this will be the case. The GEDC is uncertain whether the NCP will generate enough raw competitive pressure on vital infrastructure and service markets in the region. It also believes that some infrastructure policies at the state level have not engendered competition as promised and does not believe that the NCP will make that much of a difference either.

In conclusion, we believe that the national competition policy will be of negligible benefit to the region. The region's government infrastructure and services markets are unlikely to ever feel the full benefits offered from the NCP. This is due again to the region's economy, its isolation, its population and past experience with other infrastructure policies and suggested benefits that have not been realised. The region will also suffer other disadvantages, as outlined in the RDC council's report on the matter.

The GEDC concludes that there is still a strong role for government to play in the provision of infrastructure and services as a community service obligation. While the region does have a strong economy, the benefits flowing from this are not seen across the region, and much of the population are isolated from reliable government services. Further, the region's continual economic and social development warrants a high level of government support. A withdrawal of government support from the region could see the outstanding economic performance that the last decade generated for this country significantly diminish. The economic benefit has created

an entitlement for standards of government infrastructure and services support that exceeds the capacity of the NCP to deliver to this region.

MR COSGROVE: Thanks, Colin.

MR PURCELL: Commissioner, as I said, I will give the commissioners a copy of this document, but it does need a little bit of wordsmithing.

MR COSGROVE: I understand. We look forward to receiving that in due course, Colin. I had in my mind as you were speaking the little box that we had in one of the chapters of the draft report on the benefits of gas deregulation in a number of parts of WA. You seem to be putting the point rather differently, that it was only the availability of what I think you call something like viable investment projects which would trigger the provisions of new infrastructure in your region, whether it's gas or electricity or what have you. I understand now more clearly from what you said that the Pilbara goldfields pipeline goes only as far as Kambalda, although that's still, I imagine, germane to the northern part of your region, is it?

MR PURCELL: At this stage there is a proposal to extend that into Murrin Murrin as well but again, it's going to depend on the economics. It comes back to really the tyranny of distance. I mean, any of the projects - it is significant to anyone to put any infrastructure into that area. We're covering vast distances to get to relatively small service demand, but the wealth that is being generated from the region to the nation just cannot be denied and it is really, as I think I mentioned to you at the break, it comes back to what the nation requires. Do they require infrastructure in communities to live in regional areas or do we want to just turn it into a mining town, a mining camp as such? Pull the product out of the ground and have no-one living in the region.

If we believe, as we strongly do, that there is a part to play for regional communities in the development of the nation, then we need to provide them with the services. We are facing at the moment shortages of teachers, shortages of doctors and a lot of that has got to do with the provision of services.

MR COSGROVE: In the area of what we tend to call hard infrastructure, things like energy supplies and roads and power stations and so on, telecommunications, wouldn't it be the case that even your relatively isolated area would have had some benefits that you would regard as more than insignificant? I think you used the phrase "limited net benefits from NCP". Presumably the costs of telecommunications at least have declined significantly as a result of increased competition and, of course, technological progress as well.

MR PURCELL: Only having been in the region for a very short time, it's probably inappropriate for me to answer. But from the infrastructure that exists in the region, it would have only affected Kalgoorlie-Boulder. I mean, there is very little telecommunications infrastructure in the northern gulf, there was the Leonoras, the Leinsters. We at the moment - - -

MR COSGROVE: What about in the southern end?

MR PURCELL: Well, very well little there except for Esperance itself. The coverage for mobile phones, I mean, we're talking vast distances and it doesn't - 20 kilometres outside Kalgoorlie and that's it. If you get to Esperance, yes, you can pick it up there.

MR COSGROVE: Coming back to gas again, would the extension of that pipeline as far as Kambalda have given some benefit in terms of people, say, around the Kambalda now operating more efficiently with natural gas and undertaking additional investment relying to some extent more on businesses in the Kalgoorlie area.

MR PURCELL: Not really.

MR COSGROVE: They do so out of Perth, do they, instead?

MR PURCELL: Kalgoorlie-Boulder does not have - and I heard you ask someone before - we don't have a chain department store for clothes sales in Kalgoorlie, a city of 30,000 people. Yes, in terms of supermarkets we have the Woolworths and Coles but for women to go and shop there is no chain department store in Kalgoorlie.

MR COSGROVE: But do those surrounding mining developments generate any additional business in the Kalgoorlie-Boulder area itself? Even - one is thinking of supermarkets - can you perceive any, I realise you have been there a short time, but I wonder whether there are any indirect effects of NCP associated with the gas deregulation of that type?

MR PURCELL: I wouldn't think so at this point in time because the pipeline was put in for a specific purpose which was the development of a mine. Certainly, there has been some benefits in terms of people now being able to get natural gas for the homes, but I wouldn't see that NCP really played a part in that at all. I think it was sheer economics, a mine and an opportunity. There is still some concern with some of the other people looking at the price that is being charged for that gas and some of the other mines haven't agreed to sign up yet because of the price that's being charged for the gas. In reality there is no competition because there is only one supplier and, unfortunately, for the region itself that tends to be the situation.

I can give you a limited example although it doesn't have anything to do with national competition policy, but we want to get a boardroom table made and in the whole of the area there is one carpenter who can do it and that's fairly standard for the region.

MR BRAITHWAITE: The fact that you've got access to gas, the comparison is that you'll be paying a price for electricity. Is the gas price more economic than what the electricity is?

MR PURCELL: Of course, that's what the gas was used for to actually power an electricity generation source.

MR BRAITHWAITE: What was it going to be beyond that, diesel generation, was it?

MR PURCELL: Yes.

PROF SLOAN: So there is competition for different energy sources.

MR PURCELL: Energy sources.

PROF SLOAN: So you only switch over to gas if it makes sense.

MR PURCELL: With the change in the GST then it may be that in fact diesel becomes cheaper than gas.

PROF SLOAN: I was interested in your - and I'm not sure I quite got your point - fly in, fly out does affect your region. There are really quite a lot of people coming from Perth and further south, I think.

MR PURCELL: We can accommodate you Friday to Sunday, but do not try to get in between Monday and Friday nights.

PROF SLOAN: Was the point you were making - and I think it was partly driven because of the application of FBT to remote house, but I think there are other things behind it - but was the point you were making that leaving fly in, fly out aside you've still got a regional population which doesn't necessarily look like other regional populations any way, that they're a bit itinerant. Is that right? I mean, that mustn't be true of Kalgoorlie.

MR PURCELL: The itinerant population is really the mining industry. There is a stable population in terms of - it may be useful for the commissioners, in that 3.7 billion, retail turnover is 417 million, manufacturing 437 million, construction 122 million, tourism 109 million and fishing which is basically the industry for Esperance 10.1 million. So there are other factors there, but the itinerant population revolves around mining.

PROF SLOAN: If you're thinking of policy, was that a mistake the policy that drove a greater interest than fly in, fly out? What are the implications for a region of having - - -

MR PURCELL: From where I come from I would ban fly in, fly out. You want people to live in the region, that's where the benefits are going to come from. But the reality of life is the viability of some of the operations - they would not proceed. So it's a decision that's been made, the mines are working on it and there are a certain proportion of the mining people who actually do live in the region. The rest of them

are choosing to live in Perth and work on a fly in, fly out basis. I'm not sure that it does much for domestic harmony and there is a social cost.

PROF SLOAN: A social cost in the region or - - -

MR PURCELL: No, I think a social cost to Australia.

MR BRAITHWAITE: How far out of Kalgoorlie would a new enterprise set up that would contemplate taking their employment from Perth instead of from Kalgoorlie?

MR PURCELL: If we can come back to a mine called Kanowna Belle, they actually produced a video and they're only 24 kilometres outside of Kalgoorlie, they produced a video which they advertised nationally and in New Zealand for a workforce. The mining industry is a specialised industry and you need to attract the people who have the skills. Now, there just isn't - well, there probably would be now because of the closure of 13-odd mines there would be skill be available now. But at the time they started up two and a half years ago, we had to get skills in from outside. When the industry has a downturn, the workforce tend to leave and go to - - -

MR BRAITHWAITE: So in actual fact, do they use the Kalgoorlie-Boulder airport?

MR PURCELL: Yes, they do. It is the busiest regional airport in Australia for that very reason.

MR COSGROVE: Because the main part of your region is dependent on mining activity, is there still any lingering adverse effect associated with what I understand to be still a rather complicated set of native title claims over the goldfields area.

MR PURCELL: It's devastating. If you look at the history of the region since early 1890 is there has been a significant deposit announced approximately every 20 years, a significant deposit. It has taken that long to actually find - and these are greenfield sites I'm talking about. Talking two days ago to the drillers because they can't get to greenfield sites at the moment under native title, we are already out to 23 years before historically there will be another significant find and that's of strategic importance to the country. So the longer that goes the longer the potential lead time for another major discovery.

I know Kalgoorlie-Boulder itself, trying to promote itself as regional centre with professional people who these days tend to play golf - we have three golf courses but we don't have a grassed golf course. The government has been looking at that issue for some three years because they need the two existing golf courses for land development, housing development. We can't access the land for the proposed grass golf course - which government is prepared to contribute to, as I understand it - because of native title.

MR COSGROVE: Yes, I came across this situation first in an inquiry I was involved with in 1995, four years ago now. Has there been any clarification of native title claims in the area at all?

MR PURCELL: Not in a significant way.

MR COSGROVE: I realise there were a complex web of competing claims.

MR PURCELL: Competing claims, and this is the problem. You would have seen in today's paper that there was a significant breakthrough in the north and we are very keen to look at that. The Northern Land Council have been able to come to an agreement with the mining companies and sort of break that nexus. We would be delighted if we could come to that sort of arrangement with the Goldfields Land Council.

MR COSGROVE: Your impression is that what would otherwise be an expansion of exploration activity in the region generally is presently constrained by these - - -

MR PURCELL: I'm not sure of the figures but the drillers, and their rigs are around a million dollars each, they had, prior to my arrival in Kalgoorlie recently, they lined them all up in Hannan Street as a protest against one of the political parties that was in town on the day just to make the point of how many rigs were actually not being employed, and that is directly related to native title and nothing else. They just can't get access to the land.

MR BRAITHWAITE: Could I just come back to the fly in, fly out arrangement. That seems extraordinary to me, that you can live so close to a major centre and they're still flying in and flying out. Is there plenty of housing available in Kalgoorlie, the rental is reasonable?

MR PURCELL: The rental is very expensive and housing is expensive. In fact, I went house-hunting last weekend with my wife and was terrified at what we were being asked to pay. They're very expensive. Building costs are about 30 per cent higher than you would pay here.

MR BRAITHWAITE: So that would be a detriment to a mining company saying, "We'll source from Kalgoorlie or we'll - - -"

MR PURCELL: Yes, we'll source from - fly in on a fly out basis.

MR BRAITHWAITE: So you can't give them housing and you can't give them rental.

MR PURCELL: Yes, they've obviously done their sums. They construct the camps because they work on a two-week in, two-week out. So they construct base camps and the facilities that are in those camps are very good but I mean, you start putting families in, it's a different game. A lot of them, you know, their wives are

working. We hear historically now that the day of the one income family has disappeared so that if you're bringing a family up there's got to be something for your partner to do.

PROF SLOAN: I was interested that the GEDC would be cautious about third party access to the rail system. It seems to me that that would be something that the GEDC would grab.

MR PURCELL: Can we guarantee third party access? That's the problem. It's probably a little different but if we go back to the days where Brian Gray tried to put another airline into this country, you know, it wasn't very successful because there wasn't third party access, I believe, by the other two airlines.

PROF SLOAN: Not at the terminals, no. So is your point about - it's not that you're against it but you want it to be seen to be sustainable.

MR PURCELL: For instance, if we take the Esperance to Kalgoorlie railway line which is the one that really worries us because we see that as an arterial route between the two of us. I mean, it does link us and we have great synergies between Esperance and Kalgoorlie but if the freight side of that is sold and the line is then leased to whoever, whoever controls that line - it needs a \$35 million upgrade to be viable in the longer term anyhow. Provided that is happening, if you have a 14-year lease on the line and you are using the line, I mean, it really is not competition to let someone else onto the line. I just can't see how it's going to operate because you are using the line.

PROF SLOAN: It depends on what price you get.

MR PURCELL: You are using and you actually control it.

MR COSGROVE: Using may not be the same as owning the track. I don't know what the arrangements intended by the state are but the usual idea of a rail access arrangement is that somebody still in many states, typically a government entity, owns the track and depending on the prices - - -

MR PURCELL: But that's not the understanding - sorry, the way the Westrail situation is going it probably will not be owned by government.

MR COSGROVE: Government owned track, I see.

PROF SLOAN: No, their own submission - - -

MR PURCELL: I mean, our policy - my personal opinion would be that the Esperance port, who rely very heavily on the railway line, and some of what we call the strategic users on that line, it would be probably in their best interests to form a consortium and actually - - -

PROF SLOAN: Buy.

MR PURCELL: - - - buy the line.

MR BRAITHWAITE: To what extent has third party access across the Nullarbor and from Kalgoorlie to Perth assisted you generally in the lowering of freights to Kalgoorlie?

MR PURCELL: That has been good. There's no doubt of that, that the freight rates both east and to Perth are very good on the rail on that east-west line. There's no argument about that at all. Our real concern with the rail is the north-south line but certainly we have seen tremendous drops in freight on the east-west, both going east and coming down to Perth.

MR BRAITHWAITE: What about road transport? Is there any savings there out of road transport reform?

MR PURCELL: Kalgoorlie probably doesn't see that. I mean, the highway doesn't even come through Kalgoorlie itself. It's through traffic across the Eyre Highway.

MR BRAITHWAITE: So it's either air or rail freight that you're dealing with.

MR PURCELL: Yes, they're the biggest players. Road freight - you would get some delivery trucks coming up from Perth for the supermarkets and those sorts of things which, in time, with the drop in the diesel price we will see the benefit of that no doubt.

PROF SLOAN: One of the conclusions of your draft report, tentative conclusions, is that you have to place the NCP in context and that other broader economic forces are more important in terms of explaining what's happening (indistinct) than NCP. Would you agree with that?

MR PURCELL: Yes. I mean, there's no doubt of that but it's a whole host of issues that are impacting on the regional people and they just see that NCP - and it may be that it hasn't been explained to them or they haven't taken enough time to actually look through it but at this point in time, as I said in my presentation, we don't see it as being a positive for the area.

PROF SLOAN: But not a great negative either?

MR PURCELL: I mean, yes, at this point in time, depending on where we go with this access to the rail and those sorts of things, which is government infrastructure is going more commercial and that's in the water and the power and the rail and they have significant impacts in the region. So if NCP affects those, which it is doing, it's certainly going to have a major impact in our region because we're so reliant on those and we're a small population. It's not economic for a commercial operator to supply.

MR COSGROVE: Of course NCP doesn't require that those changes come about. There is provision in the policy for those sorts of cross-subsidies on important essential services to have been - - -

MR PURCELL: Yes, most of those essential service people are going corporate. They're corporatised and they're looking - - -

MR COSGROVE: Yes, but they still have the capacity, if the governments so wish, to keep community service obligations in place, provided they are transparently known and funded.

MR PURCELL: Yes, but there is some difficulty between the government having that desire and a corporate board saying, "It's going to cost us money. Who's going to pay for it?" That's the issue we're raising. There is so much money coming out of the region that the region demands those sorts of services and at the moment it won't be provided by a commercial operator because the economics aren't there so it has to come as a community service obligation. I take your point that that doesn't all rest with NCP.

MR BRAITHWAITE: Just looking at those major infrastructure ones as far as NCP is concerned: communications - I think we've heard evidence you're not happy with the maintenance and connections in your mobile phones.

MR PURCELL: We are doing something about that. We just completed a complete service and to the end of next month we will actually have a strategy in place of what we're going to do and how we're going to do it.

MR BRAITHWAITE: But it would be fair to say over the last four or five years you have benefited by lower charges, better technology. So communications would be a plus?

MR PURCELL: For Kalgoorlie-Boulder - only for that area.

MR BRAITHWAITE: Yes. Rail, as you said, limited to the main lines and not the cross ones.

MR PURCELL: Yes.

MR BRAITHWAITE: Power, while it's not cheap, the alternative has provided you with competition and probably a cheaper source than what it was.

MR PURCELL: Than what it was, yes.

MR BRAITHWAITE: I'm just trying to pick up the thread. The other one then is water. Have the water reforms gone far enough for you to benefit or see any result from it?

MR PURCELL: Not at this stage. I mean, water is one of our major issues. I was talking to the deputy premier this morning about this issue. We have, as you're aware, the pipeline from Perth to Kalgoorlie for the potable water. There is an equalisation on that cost because of just the sheer distance of getting it there and the cost of it. The community is not paying what it is actually costing to get it there. The biggest issue is water for the mining industry where they're using at the moment hypo saline water out of the ground and that is a limited resource which is not being replaced and people tell me that at the current usage that's only got a life of 10 years and there is nothing to replace that. This water is six to nine times saltier than sea water and it doesn't worry the industry. The industry can use that because that's all they want.

We are in the throes at the moment of negotiating - or there are a couple of companies, private companies, who are looking at providing either desalinated water from Esperance to Kalgoorlie for the use of the mining industry or there is another proposal to put a saltwater pipeline from Esperance to Kalgoorlie.

MR BRAITHWAITE: So your reforms in water - it's a finite resource and you'll only see it getting more expensive so the benefits of competition policy then is to preserve or ensure a continuation of resource that's got a limited life span at the moment.

MR PURCELL: Yes.

MR BRAITHWAITE: And the piping of potable water would be an older system.

MR PURCELL: The piping of the potable water is an expensive option. There are some very good economic benefits because the area from Esperance to Kalgoorlie would then become drought free except the mining industry, which are the major users of this particular water don't want that water. They don't want to pay for potable water which they don't need.

MR BRAITHWAITE: But in 10 years' time they might have to?

MR PURCELL: No, for their industry they will never have to. They want saltwater.

MR BRAITHWAITE: But I thought you said that was a finite - - -

MR PURCELL: Yes. Sorry, in 10 years' time, quite right, the other issue being - the other option of bringing saltwater to Kalgoorlie, even though it is going to be less salty than the water that's coming out of the ground, environmentally do we want to pipe saltwater into the centre of Western Australia? On the economics, as I understand it, piping that saltwater in, the mining industry per se would be interested in doing that because cost-wise it appears to stack up. Some of the benefits in that - for all of this to occur, both of the proponents are suggesting that they will actually extend the gas pipeline from Kambalda to Esperance which would then provide

Esperance with reasonably cheap power. But as pointed out, this might all change with the GST and the drop in diesel. So that, you know, a power station running on diesel could be providing energy at a comparable rate.

MR COSGROVE: Colin, you mentioned in your remarks to us that there were some state government policies which were not really helping much to bring about benefits of competition. I think that was broadly what you said. It was towards the end, I think. I wonder what you had in mind.

MR PURCELL: Did I say that?

MR COSGROVE: It was something like that I thought. I may have misheard. It was after you had been referring to the third party access issue for rail.

MR PURCELL: I made the point there, yes, that we believe that some of the infrastructure policies at a state level had not engendered competition as promised and these really relate to the corporatisation of the major utility suppliers. I mean, I can come back to the Shire of Jerramungup and what's happened with main roads and in regional areas those infrastructure things, when you start taking people out and they withdraw back to the city because of a whole host of things, then all of a sudden your school numbers drop and you lose teachers here and a doctor there and it just snowballs. There are those impacts because schools have a critical mass and policies are based on school numbers and as soon as they change you lose a teacher and if you lose the teacher, of course the husband or the wife is working in some other industry, they then leave the town.

MR BRAITHWAITE: Has Boulder got a separate local authority area to Kalgoorlie?

MR PURCELL: Kalgoorlie - no, they're the same - Kalgoorlie-Boulder are the shire, yes.

MR COSGROVE: Anything else you wish to - - -

PROF SLOAN: No, that was very interesting.

MR COSGROVE: Ray?

MR BRAITHWAITE: The first time I've seen a sponge city affect Perth versus Kalgoorlie because that's basically what it is. No, that's good, thanks.

MR COSGROVE: Thanks very much, Colin.

MR PURCELL: Thank you for the opportunity.

MR COSGROVE: My understanding is that there are no further participants so we'll conclude this hearing now. Thank you, everybody.

AT 1.10 PM THE INQUIRY WAS ADJOURNED ACCORDINGLY

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