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**TRANSCRIPT  
OF PROCEEDINGS**

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**PRODUCTIVITY COMMISSION**

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

**MR J. COSGROVE, Presiding Commissioner  
MR R. BRAITHWAITE, Associate Commissioner**

**TRANSCRIPT OF PROCEEDINGS**

**AT TAMWORTH ON TUESDAY, 29 JUNE 1999, AT 9.35 AM**

**Continued from 23/6/99 in Perth**

**MR COSGROVE:** Good morning, ladies and gentlemen. I would like to welcome you to the continuation of the public hearings on the commission's draft report concerning the impact of competition policy reforms on rural and regional Australia. We are conducting hearings today in Tamworth. It is our intention to make these hearings as informal as we can, but we do ask participants to be accurate in the information which they provide to us. We are seeking in particular factual evidence on the impacts of competition policy reforms, as well as reactions to the assessments contained in the draft report. We think that will assist us in preparing our final report which is due to be provided to the government at the end of August this year for its consideration.

I will be asking all participants to identify themselves and the capacities in which they are appearing before us today. I might mention that the hearings are recorded and transcripts of them are publicly available, including on the Productivity Commission's Web site these days, I might say. Mr Samuels, who is at the back of the room, will be able to explain how to obtain a copy if any of you wish to do so.

Our first participant today is the Tamworth City Council. Welcome. For the purposes of our recording will you please identify yourselves and the capacities in which you are with us today.

**MS HARRISON:** I am Genevieve Harrison. I am the strategic planning manager at Tamworth City Council.

**MR ROBERTS:** Peter Roberts; business and corporate development director.

**MR COSGROVE:** Thank you. We were very pleased to have a submission from the city council in our first round leading up to the preparation of the draft report. Are there any particular further points that you would like us to be made aware of in respect of that, or as I say, in response to our own draft report?

**MS HARRISON:** In terms of the draft report, we note the major finding which is that the competition policy is effectively being used as a scapegoat for all the other myriad of influences that are affecting the regional communities throughout Australia. We don't unfortunately have any additional quantitative evidence to offer you in terms of for instance the impact of competitive neutrality on local government. It would only be anecdotal, as was the previous submission.

Bearing that in mind, it is very difficult to then isolate the impact of the competition policy from the other reforms that are taking place within those communities. If you would like us to reiterate those influences as we see them in the previous submission, we can do that.

**MR COSGROVE:** I think we could probably take that as understood. We have had a careful look at all the submissions which we received. When you referred to competitive neutrality as being a difficult area to identify effects, would it be fair to say that for your particular organisation the effects have not been great, or is it too

**MR ROBERTS:** Yes, I suspect it is fairly difficult to isolate individual initiatives and what their impact is. The first two recommendations from your draft report we would be very keen to see implemented in the very short term and particularly that in terms of the educational process, making people more aware. It is increasingly difficult to draw a line between where, for example, national competition policy and its impact starts and finishes and where other initiatives that are occurring generally in that same area are also impacting on us.

If I can give one simple example, the introduction of the new accounting standard as it impacts on local government, AAS 27, now requires a much more commercial approach to the way we prepare our financial accounts. In line with that is the requirement that local government will now fairly and reasonably and openly distribute their overheads, but there are no adequate guidelines in doing that to tell you how much of your overheads are going to be allocated to a governance section which is the cost of running a local government authority and therefore operating in the community's interests and those costs which reasonably should be allocated to the activities of resealing your roads.

But whatever happens and however they are distributed, it impacts desperately on the cost structure of the resealing of the roads or the making of new sewerage channels or whatever. That I think is making us - - -

**MR COSGROVE:** You mean it causes significant changes in the way in which those costs are allocated?

**MR ROBERTS:** Those costs are recorded and then compared to the private industry. For example, I think Tamworth City Council right now is probably carrying costs in the order of 150 per cent over and above the actual cost, the labour cost and the material cost of doing a lot of those activities. We yet are to receive reasonable guidelines in how we are going to implement the requirements of AAS 27. Now, I know that is crossing over the paths of national competition policy, but they are working hand in glove and they clearly impact on each other. So the first two recommendations of this draft report I think are desperately needed in particular, so that we have some idea of where the lines are.

**MR COSGROVE:** Peter, has the council got into the business of actually competing on its own initiative against private sector suppliers of certain services in this area?

**MR ROBERTS:** In a number of areas the council clearly competes. We have adopted a philosophy at Tamworth city that says we are endeavouring to achieve three things in our ongoing activity. One is to be cost effective and operationally efficient; all those good qualities that we would expect to come out of any sound management structure. The other is to be relevant as a local government authority. If we are going to operate in that area, there is a philosophy that suggests that we have

to have some degree of capacity as a local government authority to do the things that your residents and ratepayers expect.

That in some areas obviously generates community obligations. So it is difficult to draw exactly where they exist. But the important thing I think is for Tamworth city to be able to demonstrate both internally and externally that they are and can be competitive with the local sector. There are areas where we are currently operating in straight competition. Historically, the council has been involved in some commercial activities, and I instance: it has run an abattoir for 27 years, it operates a caravan park, it has a sale yards facility. All of those types of activities are able now to be passed over and run in the private sector and increasingly I suggest that they will be. But historically they were the responsibility of local government. There was no investor that was prepared to come and set up a sale yard facility to ensure that the infrastructure around the city was being supported.

It was more important to ensure that you had your 180 people employed at the abattoir and therefore local councils took on that responsibility historically, than see everything killed in Sydney at Homebush. Now, I think we are moving away from some of those areas, but we have had to demonstrate a capability of being commercial in every sense of the word I think for some time and are continuing to do that.

**MR COSGROVE:** I am not sure what the current situation is with those activities that you have just mentioned, but if the council is still running them, have you had any challenges from private sector, potential private sector suppliers saying the council isn't operating these organisations on a full cost basis and we could run them more efficiently if they were?

**MR ROBERTS:** That rarely has been the case and the council has some involvement in land development. Clearly there is a strong feeling in some sectors of the community that residential land development is something that the private sector can do better than local government. Industrial land development on the other hand, because of its longer term nature, is less inclined to generate comment about unfair competition. They see that as more of the realm of local government to be involved in, because the returns aren't as immediate and nor are they as great.

The caravan park area, we have had very little complaint, but that is a reasonably competitive market with fairly narrow bands of operating in terms of costs and so forth. So people pitch themselves to particular segments. Now, of course our abattoir has gone into the hands of the private sector. We are now leasing that, because we see that is the best way to get ongoing growth and employment opportunity.

**MR BRAITHWAITE:** Would that have happened without competition policy?

**MR ROBERTS:** I think it probably would have. I think it probably would have because of the changes in the market itself. Long term, there is very little future for

people to operate in that particular industry unless they have the capacity to inject significant amounts of capital to upgrade and meet the ongoing changing and demand. Certainly, competition policy has enhanced that happening.

**MR BRAITHWAITE:** The caravan park for instance, that would be a very contestable market, wouldn't it?

**MR ROBERTS:** Yes.

**MR BRAITHWAITE:** Do you feel the council has shaped up more to its responsibilities under competition policy than it would have had it remained almost in a monopoly position?

**MR ROBERTS:** I suspect that certainly in Tamworth city's situation, that they have been going very much down a path of ensuring that they are competitive in the open market for some time and open and accountable, but there should be no doubt that the competition policy requirements have added to that. The situation I suspect now is that in our case it is no longer a requirement that local government will provide that infrastructure that leads to tourists coming into the city, to make sure that people spend in the general business area and it is likely that we will now move out of that business activity and put it out for long-term lease.

**MR COSGROVE:** Peter, are you aware of - or Genevieve for that matter - any particular effects associated with broader, I guess mainly statewide, although there are some national areas involved, statewide reforms to infrastructure service provision; energy, transport, telecommunications? We have tried in our draft report to draw some assessments of those effects in broader regional context than the City of Tamworth obviously - but have you seen, either in terms of the costs of some of these things that the council itself uses or the community more broadly, any effects, either positive or negative in changes in those areas?

**MS HARRISON:** Certainly within the power industry for instance, and again it is difficult to isolate the rationalisation that occurred with the local body, which was North Power, from the myriad of other influences as well, but I would have to say generally that whilst the commercial prices have in fact probably decreased, I don't believe that has occurred within the domestic - - -

**MR COSGROVE:** At the household level?

**MS HARRISON:** At the household level. Certainly there is anecdotal evidence - again I don't have any quantitative evidence to offer you - that the level of service that was offered before by the previous organisation is simply not there.

**MR ROBERTS:** It would be fair to say I think - and maybe it is something that we could follow up after today's meeting, to provide some information - but the general feel and feedback we are now receiving and I need to obviously give you support,

that we are very fast approaching, in terms of price, the price that electricity was at at the time before the introduction of the reforms.

**MR COSGROVE:** You mean prices have fallen - - -

**MR ROBERTS:** Prices have risen now and we are almost back to the same point again and that has caused some concerns, because there is very little doubt that the service levels have reduced at a local level.

**MR BRAITHWAITE:** That brings up a fairly important point about service. As I understand it, you owned your own electricity unit here, didn't you?

**MR ROBERTS:** Yes, many years ago.

**MR BRAITHWAITE:** And the state government has reimbursed you for that?

**MR ROBERTS:** I don't know.

**MR BRAITHWAITE:** But it is a matter of contestability. The argument I often get is that the more contestable you make a market, the more the service deteriorates as people are pressed to confine to a price, ie to the consumer, which everybody wants, and that service level is diminishing all the time. Have you got a view on that aspect of contestability versus service quality?

**MS HARRISON:** We would agree with you on that.

**MR ROBERTS:** Yes, I think we absolutely would agree with you. The difficulty of course is to find the point at which you are getting reasonable service for the price that you are paying. I suppose it comes back to basic economics, the supply and the demand curve. Exactly where are we prepared to pay for the service that we are wanting? I don't know if there is any better way than allowing the market to sort that out in the long-term.

**MR COSGROVE:** How contestable are these infrastructure markets in this area? I guess in telecommunications you have a number of suppliers, at least for long distance, maybe not for - - -

**MR ROBERTS:** Power is our biggest one. In a different forum of course we would be holding up our flag and extolling the virtues of eventually getting natural gas to our community, which is currently on the drawing board, but going through the machinations of trying to get EISs and government approvals and so forth. So that's something that we have to look forward to. Power is our biggest utility that has provided that opportunity and we've seen serious drops in prices, but as I said, the major concern is now that we're pretty much back to where we started.

**MR BRAITHWAITE:** The report - - -

**MR COSGROVE:** Is that - sorry. I was just going to ask is that pretty much an electricity sole operator or a - - -

**MR ROBERTS:** No, there's certainly a number of operators in the market that have made themselves available and local government authorities throughout the north-west have looked a number of scenarios to endeavour to maximise the service for the dollars that they're paying.

**MR BRAITHWAITE:** The report observes that most of the electricity advantages in prices has gone to the big users and not to the residential. Have you been able to get a price from the council - same price?

**MR ROBERTS:** Yes, we have. We've been able to group specific large electricity users together to be able to offer something to the power stations that are then happy to strike a deal, as it were. But I think that that's becoming increasingly difficult, to be able to accumulate a big enough parcel to be able to offer something that's attractive and as your community gets smaller - Tamworth is a reasonable size community - for those that are smaller than Tamworth, their ability to do that is seriously stretched and therefore very little room for movement.

**MR COSGROVE:** Although under the general process of electricity reform the threshold for the contestable customer is declining and I think, in principle at least, will actually be such that household users will be able to choose from different retailers by I think the year 2001.

**MR ROBERTS:** That's right.

**MR COSGROVE:** But also I thought from July 1 this year it will be possible for groups of individual users to combine to make a contestable bid at the lower threshold. So in other words, the trend of reform would seem to be making more easy rather than more difficult the kind of access to the contestable market.

**MR ROBERTS:** Yes. The concern I suppose - and only time will tell - is that as it comes down and eventually I recognise that it will get down to the household, the small individual user, there really isn't any movement in the price. The impact disappears.

**MR COSGROVE:** Yes, that may be. I'm not sure why that is occurring. We are aware that there was a fair bit of excess capacity, certainly in the New South Wales electricity generation sector, and that may now be being used up and having its effect on pricing. But would you agree or disagree that if you have more than a single supplier of a service like that, then there is likely to be in general a lower level of pricing than a higher level of pricing. In other words, what's your view of competition versus monopoly in respect of pricing?

**MR ROBERTS:** The theory - - -

**MS HARRISON:** I think it's the theory - I was just about to say that.

**MR ROBERTS:** The theory operates particularly well and we certainly wouldn't suggest that there would be any market collusion in any regard but enormous numbers of anecdotal evidence across all industries would suggest that there becomes a point where everybody is reasonably comfortable as the seller and the buyers will accept what's there because they don't have any option I suspect. It's probably better that I don't go any further than that. Could I also flag that the Tamworth Development Corporation/Chamber of Commerce has a representative to join us at this - I don't know if they wish to make a comment.

**MR COSGROVE:** They're certainly welcome to if they'd like to come forward.

**MR McINTYRE:** Just in regard to - - -

**MR COSGROVE:** I think we'll need to have you at a microphone, I'm afraid. Again, if you wouldn't mind identifying yourself for the record please.

**MR McINTYRE:** My name is David McIntyre. I have, I suppose, considerable years involvement in the manufacturing sector and export and today I represent as a member of the Chamber board, Chamber of Commerce, and as the deputy chairman of the Development Corporation. I'm not too sure just what area you wanted me to comment on the competitiveness of - - -

**MR COSGROVE:** I just give you the opportunity.

**MR McINTYRE:** Certainly the change in the electricity supply, it's made an enormous difference to the - it may repair itself in time but the service factor is one that concerned most people and one of the reasons is that whilst this break-up of the local supplier which was based in Tamworth was happening, they lost a lot of their more competent people. Then of course the facility is headquartered on the coast and Narrabri, which is probably 200 kilometres away, they consider it to be a sort of a suburb of Tamworth. So there are all sorts of problems with service or the lack of it. But as I said, it may repair itself in time as they get more experienced people but they did lose a lot of their good people.

One of the other reasons that the service is down is that a lot of the good people that they lost knew the whole set-up so well that if there was a problem they would say that problem is likely to be there or there, but as they have inexperienced people, then it's much more difficult for them to react as quickly. So I think that's been one of the real problems. As Peter has said, the cost factor seems to be creeping up and that seems to be more difficult to source alternatives. There is a limit, isn't there? You have to have a collective demand of \$1 million a year. Is that the figure?

**MR COSGROVE:** It varies. I think for electricity I thought it was 160 megawatt usage per annum or month; I'm not sure. That's coming down to one megawatt I think from July 1.



**MR McINTYRE:** That may help the situation.

**MR COSGROVE:** Yes. We've heard quite a bit during the course of this inquiry about diminished levels of service as a result of reforms leading to staff cuts and relocation of service centres, as you are saying in this case towards the coast of New South Wales. Is there though a willingness on the part of the customers to go back to the service providers and say, "Look, you're not giving us the kind of service we need," and then in turn for the service provider to respond, or is that something that you think is going to take more time to happen or not happen at all?

**MR McINTYRE:** That's certainly happening.

**MR COSGROVE:** I see.

**MR McINTYRE:** Yes, that's certainly happening but the real problem, as I mentioned, is the lack of available skilled people in the organisation and, as I say, it may repair itself in time but it's going to take a while.

**MR COSGROVE:** Do you mean the lack of skilled people in a particular location?

**MR McINTYRE:** Yes.

**MR COSGROVE:** As distinct from within the organisation of an electricity supplier in total?

**MR McINTYRE:** I guess I'm talking about local knowledge.

**MR COSGROVE:** Yes.

**MR BRAITHWAITE:** We're supposed to report on small business too, the effects of competition policy on that, and certainly what John is mentioning about electricity is one thing. Could I just interface the two of you? Do you find that your service from the council is improved for the costs you pay for your rates as a small business?

**MR McINTYRE:** From Tamworth City Council?

**MR BRAITHWAITE:** Yes.

**MR McINTYRE:** I think that's quite adequate from where I sit. It's not a subject that's been brought up to the Chamber's attention, nor the Development Corporation. So if we can assume that no comment represents a reasonable level of satisfaction, then that would be it.

**MR BRAITHWAITE:** Could I also ask about the cap? I understand the New South Wales government has put a cap on your rate rise. How inhibiting is that or can you live with it?

**MR McINTYRE:** I think it's becoming increasingly difficult and if I can give you one example, the rate pegging that was established for the 1999-2000 year in dollar terms will be just a little less in dollars than the new award that we've got to implement in October will cost us with our current level of staffing. So, in fact, we're going backwards in dollar terms because of the rate pegging compared to the award increase with our staffing. The only way you can handle that in the long term is in the first place to reduce staff and in the long term to reduce services.

**MR COSGROVE:** Or become more efficient.

**MR McINTYRE:** One hopes that that's the first attack that you've got to do, is become more efficient, but if that is an ongoing exercise there must come a time when efficiency is not the avenue that's left to you and that must then mean a drop of services. Yes, we can live with it for the time being and I don't see that that's something that in a political sphere we're likely to see changed, in the short term in any case. Local government is being forced to live with it but that also is contributing to I think the interest that is currently being shown by a lot of rural councils certainly in the amalgamation issue. How do we become more efficient? Is one of the ways of becoming more efficient endeavouring to overcome some of the problems that local government by its nature enforce upon us in terms of overheads and the cost of governance - which gets back to the AAS 27 question and the line between those sorts of initiatives and the introduction of NCP.

**MR BRAITHWAITE:** We talk in terms of competition policy as deregulating as far as possible. I got the feeling that with councils that you became increasingly more regulated than what you were before by state government direction.

**MR ROBERTS:** I think that there's probably a fair degree of truth in that statement. That would be generally supported.

**MS HARRISON:** Certainly, yes. Certainly there's a significant abundance of legislative reform that's being imposed from the state level upon councils throughout the state. I'd only instance the private certification where the planning legislation has been changed to facilitate the entry of the private sector into approving building applications and so forth. The impact of that hasn't fully hit Tamworth as yet in that potentially people in metropolitan areas could be approving building applications in Tamworth and there's obviously links there and concerns about loss of employment and so forth. That type of reform is only one of the many different types of legislation that's being imposed. Environmental is another.

**MR BRAITHWAITE:** One of the things we asked for in the request for further information was variations in jurisdiction's approach to implementing competitive neutrality at local government level. That was just one of them. But could you offer

a view of your relationships with the state government in comparison to local governments in other states - you know, the degree of cooperation, the guidelines, the contribution of some of the competition dividend back to local governments. Would you care to voice an opinion on that?

**MS HARRISON:** I probably don't have sufficient information in relation to that.

**MR BRAITHWAITE:** You haven't been able to draw any comparisons with other states, how they operate their local government?

**MR ROBERTS:** No, I don't think that I'd be in a position to make any meaningful statement on that quite honestly.

**MR COSGROVE:** Could I come back to the energy sector and more particularly the gas pipeline. We have, in our draft report, some maps which were given to us by the Australian Gas Association and they indicate that Tamworth will be linked up with a gas transmission pipeline some time within the next five years. Did you indicate earlier - I'm not sure - whether there were delays or impediments associated with that extension?

**MR ROBERTS:** That may be an overly harsh statement but that was the implication I certainly gave. We are going through the difficulties in seeking state government approvals and clearly there are a number of those. I think at one stage we had 55 government departments to talk to. So it goes on and on and on and currently of course making sure that EPA requirements and mining and energy requirements are being met sometimes becomes very difficult and one suspects that it's easier to leave it on the desk than give clear indication at this end. That's something that the process will work its way through. We would like to think that we will have natural gas here and therefore enhance our capability to be competitive with other areas throughout the state within the next 18 months or so.

**MR McINTYRE:** That has been further delayed now because of the many hold-ups through the various government departments. It's now been called for an EIS on it and I understand this will be the first pipeline of this type that's required in EIS, which is another several months' delay before it gets gas seriously.

**MS HARRISON:** Which follows on from 12 months of extensive environmental impact sort of studies and consultation with local communities, and it just seems to be just another hurdle that's really superfluous.

**MR COSGROVE:** But you would see it as bringing some significant competitive gains to the Tamworth region?

**MR ROBERTS:** Well, to the whole of the north-west region. It clearly is being extended and that is in line with the whole philosophy that if there are more players in the field that are providing a source of energy then competition will have a better chance of making an impact. Certainly there have been a number of people who have

indicated strong interest in being able to access natural gas. At the moment if that's the case then we're losing industry to - - -

**MR COSGROVE:** Are these large business customers?

**MR ROBERTS:** Yes.

**MR McINTYRE:** It mainly competes with the bottled gas market and other users of bottled gas, like for instance heating motels and the like of that. It will have significant cost advantages on that but very little advantage when it comes to competing with steam generated by coal versus natural gas.

**MR COSGROVE:** Why is that?

**MR McINTYRE:** Coal was at a very competitive price and I operated two plants, one in Tamworth and one in Main Cove, where we used to do cost comparisons between the energy cost per ton of product from similar processes and the coal-operated facility here was always marginally cheaper than the gas in Sydney. However, if you were putting in a new installation, the capital requirement for gas is ever so much less and so one would be tempted to sort of go down that path for a new operation. But for an existing one I think the people who have coal are more likely to stay with it.

**MR COSGROVE:** Is it too early though to say whether with that margin of excess capacity in electricity generation diminishing that the arrival of a gas pipeline would not induce some customers to shift from use of coal-fired electricity to natural gas?

**MR McINTYRE:** Not from my experience, unless there's a significant reduction - and I'm talking about the cost of gas in Sydney, and that would be quite competitive. So I don't think so, not from my experience and the information that I have.

**MR BRAITHWAITE:** What do you think would be the object if and when the interconnector goes into Queensland for electricity? We have an over-supply now, diminishing perhaps, but that greater spread of use of electricity, would you expect that to have some advantage for New South Wales in - - -

**MR McINTYRE:** Yes, I would expect it to increase to a level of competitiveness and I think that would reflect itself in the unit price.

**MR COSGROVE:** Do you think there would be any new enterprises established in this region on the basis of a natural gas pipeline?

**MR McINTYRE:** One of the first questions that the development corporation is asked from a prospective investor is, "Does Tamworth have natural gas?" That's almost always one of the first questions of someone who requires that sort of energy. So yes, it will have a significant difference.

**MR BRAITHWAITE:** Could I just ask a question on contracting on your main roads? This is from the point of view of private contractors who might wish to compete. What effect has that had on the council's activities on road-making and road maintenance and to what extent does the State Main Roads Department allocate the councils a preference on maintenance of their works in this area?

**MR ROBERTS:** I would probably have to get back to you with specific details. Certainly I am very much aware that the preference situation is reducing rapidly and markedly. We have seen right now a multi-million dollar upgrade of part of the highway in the centre area of Tamworth now being undertaken. Tamworth City in fact, using this as an example, lodged a tender for those works. We're now aware that the tender was \$230,000 under those that actually won the tender, but weren't able to meet pre-tender conditions because we hadn't sufficient experience on big jobs to satisfy the RTA's requirements nor did we have the quality assurance programs in place to meet their new demands, and therefore Tamworth City was ineligible, despite the fact that they had actually built for the RTA both ends of the road that we are now joining together.

So those are the sorts of issues that we're now facing, and one is concerned when you read in the paper the latest developments for RTA contracting out all of their works. That is likely to have a serious impact on the social fabric of places like Tamworth, and particularly those of a smaller population.

**MR BRAITHWAITE:** This is in central Tamworth?

**MR ROBERTS:** Yes.

**MR BRAITHWAITE:** What was the successful bid worth?

**MS HARRISON:** 230,000 more.

**MR BRAITHWAITE:** No, that was the - 230 was the difference?

**MR ROBERTS:** Yes. It was some millions, I would need to come back with the specific number.

**MS HARRISON:** About 5 million.

**MR ROBERTS:** Yes, about 5.4 million or something of that order.

**MR BRAITHWAITE:** And that went to where?

**MR ROBERTS:** A private contractor.

**MR BRAITHWAITE:** Where though? Where is the head office of the private contractor?

**MR ROBERTS:** Certainly out of Tamworth. I honestly can't tell you. I think it's Sydney but I'm not sure.

**MR BRAITHWAITE:** Did the RTA take your tender as non-conforming because you couldn't supply the quality assurance or was it a conforming tender?

**MR ROBERTS:** No, I think it was a non-conforming tender.

**MR COSGROVE:** Did the private contractor draw on any local subcontractors in the workmen?

**MR ROBERTS:** Very little.

**MR COSGROVE:** One other point which you made in your earlier submission to us was in connection with the withdrawal of government services from areas such as this. We have in some earlier hearings last week touched on the general issue of regional development and what might be sensible policy in that area. Do you have any thoughts on that? It's not an easy topic I know.

**MS HARRISON:** No, it's not. Other than as a consequence of the concern raised by the communities in relation to the withdrawal of services, I understand that it's now a requirement of the state level to prepare a social impact statement and that requirement is mandatory before a government department actually withdraws any services from a particular community. However, that particular social impact statement is only considered at the cabinet level. It's not a transparent or open process. There's no public - - -

**MR COSGROVE:** Is there consultation?

**MS HARRISON:** - - - opportunity for consultation, as I understand it.

**MR COSGROVE:** There isn't?

**MS HARRISON:** No. It's merely at the political level that that impact is considered. It's not thrown open to the wider community and in the interests of a better decision I think that possibly should be the case.

**MR BRAITHWAITE:** What about the situation of rail and transport, has that had an effect? Has there been cheaper prices as an effect of national competition policy here?

**MR McINTYRE:** The difference between rail and road?

**MR BRAITHWAITE:** No, has there been a reduction in rail freight?

**MR McINTYRE:** A reduction in rail freight.

**MR BRAITHWAITE:** And what about transport costs?

**MR McINTYRE:** I can't say for rail but certainly road transport, the costs have continued to come down, particularly with bigger operators with B-doubles and the like of that. It does enable the contractors to be more competitive. There is another factor in that, of why road transport is probably used more than rail is. There are several factors but whilst the line haul - and I note in the staff report which shows very clearly that the line haul by rail is somewhat less than road, but the difference is that road transport will go right to the point of delivery, almost to the point of usage, whereas if it's rail then there's another cost which, say, in Sydney and Melbourne could result in another \$15 a ton of product, if that's what we're talking about. So there is that factor, that whilst the line haul may be more competitive than road you've got the costs at both ends.

But the other thing about the transport side of it is that customers or users of the product now will nominate a day and a time for deliveries and the rail just can't compete with that. In terms of delivery, say, from Tamworth to Melbourne you would be very fortunate if it was within a day or maybe two days or sometimes three days whereas with road transport you can load a vehicle and it can arrive between 10.00 and 10.30 at a destination in Melbourne as required. So of course the trend is for users of product to minimise their stock levels and have the supplier keep that. So that's another answer to - for significant users of rail and you have a warehouse at some point, central point, like Melbourne, whereas with road transport that's hardly required. So there's more to the freight side of it than just the line haul.

**MR BRAITHWAITE:** Your road transport costs are competitive. They're coming down and your service is - - -

**MR McINTYRE:** Better.

**MR BRAITHWAITE:** - - - better.

**MR COSGROVE:** Has what they call national road transport reform played any significant role in bringing about those changes, would you say?

**MR McINTYRE:** Well, it has possibly helped but I'm probably not in a position to make a meaningful comment on that.

**MR COSGROVE:** Our general impression is that it hasn't moved as quickly as people had intended, things like uniform registration costs and regulation of newly available trucks and so on.

**MR McINTYRE:** I think that's certainly the way to go. I'm pleased that it's going that way.

**MR BRAITHWAITE:** Just probably my final - another comment. In connection with the council, have you been able to ascertain the costs to the council of conforming to national competition policy? I understand this involves valuations of assets and things like that. Have you been able to ascertain a figure within your administration costs for that, and also in the total but excluding the lease for the abattoirs, has your workforce maintained its level or is it coming down?

**MR ROBERTS:** The answer to your first question is no, we haven't been able to determine the costs and I don't think that we've actually sought to do so specifically as a task. That might be something that we could have a look at and come back to you following this. In terms of staff we've definitely seen staff being maintained, certainly aren't growing in numbers. They've been maintained or minor reductions, so there's certainly no growth. But at the same time we've endeavoured to maintain the numbers pretty much like they are.

**MR BRAITHWAITE:** Was your lease on a commercial basis?

**MR ROBERTS:** For the abattoir?

**MR BRAITHWAITE:** Yes.

**MR ROBERTS:** Yes.

**MR BRAITHWAITE:** There's no community service obligation in that?

**MR ROBERTS:** No.

**MR COSGROVE:** Any other points you wanted to draw to our attention, Peter?

**MR ROBERTS:** Only that we thank you and appreciate the opportunity of speaking with you, recognising that this is an incredibly difficult task that you have because so much of it from certainly rural Australia's point of view - and I suspect for everybody's point of view - is endeavouring to get some economic figures to ascribe to the social impacts that it has. Now, I know that can be done but it's not at all easy. It's not just about adding up numbers and coming out with the least number at the bottom, but endeavouring to quantify the social impact in areas such as rural New South Wales.

**MR BRAITHWAITE:** John, could I also say that I was impressed with your initial submission. We received a lot from councils around Australia and I put yours on a list of referral back to as something that was happening generally in country New South Wales, so thank you for the first submission too.

**MR ROBERTS:** Thank you very much.



**MR COSGROVE:** If there are any pieces of information that you feel you can provide by way of follow-up we'd be very glad to have them. A simple fax message or something like that would be fine. Thanks very much for coming along.

**MR McINTYRE:** I'd just like to compliment you on the quality of this. I thought, "That's going to be a dry old subject," and it was absolutely fascinating. I think anyone who reads it who has an interest in what happens in a region, I think it's very well done.

**MR BRAITHWAITE:** Do you want to put a book review on and we'll get a sale price on that?

**MR COSGROVE:** We'll try to do even better at the final stage, but thank you.

**MR COSGROVE:** I believe our next participant is the Hunter Economic Development Corporation. Would you, for the purposes of our transcript, please identify yourself and the capacity in which you are with us?

**MR JONES:** Certainly. My name is Bruce Jones. I am the information, technology and telecommunications project coordinator for the Hunter Economic Development Corporation. My background: 26 years in telecommunications. I worked in Telstra in Newcastle maintaining for the last five years the entire network from Newcastle up to the Queensland border. Tamworth comes into that area and I have known a lot of Tamworth technicians in the past and have worked and actually put some out of a job. I was actually done out of a job due to competition, but I am not here to bleat about that or talk about that aspect today, however, if you want to discuss it, certainly feel free to ask me.

The main reason I am here today is to talk about or raise the issue of your attitude towards telecommunications infrastructure. In the submission - and I do apologise for the name of it, The Death Knock For Regional Australia. This is a marriage of a public relations person along with a telecommunications person and I didn't put that bit on the top. However, I would call it more of a slow strangulation than a death knock. But the benefit of the audience, our argument is that telecommunications infrastructure should be raised in profile, it should be put in chapter 5 of the report, along with gas, electricity, water and road transport.

The reason for that is because within the report you have looked at it purely as an aspect of government policies affecting Telstra and then the provision of services to the regional communities. I would argue that with the competition policy it should no longer be Telstra necessarily you are looking at for the provision of those services, although they are responsible for the universal service obligation and we can discuss that further as time goes.

We feel that it is an indication of how the competition policy is going that you do see Telstra as being the only infrastructure provider in the bush and for that reason I think that is indicating a failure of your policies to the present point that we don't have strong competition improving the infrastructures to people in the bush.

**MR COSGROVE:** We may have given that impression, Bruce, and I'm sorry if we did. I think, however, you have put your finger on a structural aspect of the draft report which we ourselves see as needing some attention and we will be able to, I hope, improve that in the final version. But do I take your last comment to mean that you believe there is in fact quite a bit of competition in the telecommunications area outside the metropolitan centres?

**MR JONES:** Depends on the aspects. Can we look at a few? We will talk about the different aspects of telecommunications and information technology. You will see in my very brief submission that we gave to you that we discuss mobile telephony, we discuss normal telephony, we discuss data delivery. Yes, there is a lot of competition outside the metropolitan area as far as mobile telephony goes. That is

absolutely wonderful, except all it does is really it is like three people fishing; they fish in one little tiny hole and that is where all the fish are and you don't fish in the rest of the stream. That's what the three of them are doing.

The way that we are competing or the way the telecommunications policy is, there is no interconnect sharing of calls, therefore everyone goes for the built-up areas - 1000 people, 1500 people - and they will supply mobile telephony to those people there. But you have a lot of people living in the regional areas outside of that that don't have access to mobile telephony and also the roads between those major links don't have good mobile telephony coverage.

Indeed, in the Hunter, or the road between the Hunter and Tamworth, if you want to make it more widely thought of, the New England Highway has a lot of patchy areas and to go back a little bit, when I first came to this job 10 months ago we decided we would hold community forums in the smaller areas - Murrurundi, Merriwa; a thousand people round about - to get their concerns and to hear what they believe should happen as far as infrastructure in the bush.

Two-hour sessions and the first hour is bleating about Telstra and I don't tell people I used to work for Telstra at those sessions. Unfortunately, people say Telstra's mobile service isn't any good. "Why don't you go to Optus or Vodafone?" and they say, "That's what we meant." But they rely on Telstra's extended service, because Telstra's digital service throughout the area is superior still to Optus and Vodafone, because they do actually extend further along the highways than Optus and Vodafone and they also own the analog network, which is still widely used throughout the area. Some people say Optus has the analog network as well, but it is the same network as you are well aware, same infrastructure.

So that is just an example, so there is competition outside the metro areas, but it is where they can earn a dollar and that is purely how it is driven, the earning a dollar. When it comes to supplying the customer access network, which is the area from the telephone exchange out to the customer's telephone, that is an area where there is no competition and that is the area that is killing regional Australia. If you want to call it the last mile or whatever the acronyms are, it is called the customer access network or the local loop and at present there is no competition there and that is stopping the delivery of efficient data services. It is stopping people from using fax machines for goodness sake - we are talking 10-year-old technology here - and telephones are still noisy.

You asked of the last presenters is there a customer complaint forcing providers to upgrade or improve their services. We have had several delegations go to Telstra and different local government areas in the Hunter and for that reason we did have a forum going where Telstra's consumer general manager, national manager, would come up. The first one he came up and apologised and said, "Yes, we have dropped the ball and we are going to improve our services." Three months later he was moved out of his area. Another man came up and said, "Yes, we have dropped the ball, we are going to improve the services and we are going to put a new manager in

this area." He was actually lost back to Melbourne and so the Hunter still hasn't got its improved services. We have a new manager and he doesn't know what is going on either.

Nothing in effect has happened for the customer out of those complaints process that was instigated. It is very frustrating. When I go out to these community forums there is anger out there, total anger and it is not just about what people have, it's what they perceive the metropolitan people have that they do not have and that gap is increasing an ever widening pace. You look at the customer access network in the metropolitan area; Sydney, Melbourne and Brisbane, Telstra and Optus spent I think two billion in rolling out that optical fibre cable for the provision of pay television as well as telephony and data services. The country people are saying, "All that money in the industry, in the IT industry or telecommunications industry is being spent on those people, what are we getting out of it?"

What did they get? They got some STD calls dropped more at night than through the day, so it really doesn't help business that much. They get STD calls, as I say, at a cheaper rate, but not much cheaper. They get ISD calls, a very good rate and competition has really shown its hand there. That is terrific. However, it hasn't changed the charging structure within these areas in the Hunter region and I will talk about the Hunter region, because that's where I come from.

In the Hunter region we have something like 50 different charging regions. Within the Telstra charging regime, if you go between two regions and there is a region in between, you will get charged an STD rate on the distance between those two centres. That is absolutely ridiculous in today's technology. Up in Murrurundi, which is two and a half hours away from Maitland, if you make a call from Murrurundi to Murrurundi you use 64 kilobits down to Maitland where the node switch is and then 64 kilobits back again. I don't know the kilometres, but that is a hell of a long way. That's the cost of a local call.

If you call Murrurundi down to Maitland, you get charged at a rather high STD rate for using half of the 64-kilobit band width distance or whatever. So there is no technical reason why these tiny little charging areas should be there, but that is what affects regional businesses. The STD rates force up the cost of running a business and when you have spheres of influence like again in the Hunter, Merriwa and Muswellbrook, they may be an hour and a bit apart and there is a road between the two and so there is naturally businesses that work with businesses and that is an STD call. Frustrating.

**MR COSGROVE:** That sounds as though it could be a matter for attention by the ACCC in its regulatory role on Telstra. One thing you mentioned which I was interested by in this submission and that was the new satellite - if I can just read what you said:

The Federal government is currently considering the introduction of asymmetrical satellite services to provide high speed Internet access to country

areas under the USO. There service is adequate for early generation use of the Internet, however, sophisticated users such as voice over IP and video over IP -

I don't know what that means, but let's just assume - - -

**MR JONES:** I will explain.

**MR COSGROVE:**

Need fast data speeds in both directions. The technology is already a vital tool for business.

You are referring there - and I don't know whether I have - - -

**MR JONES:** You are, in chapter 6, talking about the universal service obligations.

**MR COSGROVE:** It wasn't so much that. I don't think I have it with me now, but I remember reading a statement by a Federal government minister, I can't recall exactly who - - -

**MR JONES:** John Tierney?

**MR COSGROVE:** I'm not sure, anyhow, indicating that this was really going to be a big breakthrough for telecommunications users in the bush. You seem to be saying it is not really that.

**MR JONES:** It's absolutely wonderful if you want to use the Internet for e-mail services only and I do talk about early generation Internet use and the later model generation Internet use, because it is an evolving thing. The Internet is a great way of communicating over distances rather cheaply, if you have an Internet service provider in your area and I am not going to blame the competition commission on that, because it is an evolving thing and there is no regulations on Internet introduction, that is a telecommunications industry problem and other government departments I believe. Networking the nation is purely a band aid on what should be there.

However, losing the train of thought, these Internet uses are evolving. They were introduced and terrific in libraries, you can download e-mail communications over distance, you can do research, look up books or whatever - download. If you want to use it as the next generation of communications, where you can talk over the Internet and where you can visualise over the Internet - that's the IP, Internet protocol. If you want to use those protocols you'll find it will be second rate over what they want to supply to, because obviously if you're talking it's got to be a two-way thing. When you've got this asymmetrical service the data going out from your PC out to the Internet service provider is still over a telephone line.

In the bush that might be 9.6 K or less. Telstra will say, "We only have to provide 2400 bits per second." So that's the bit going out. But downloading by

satellite is extremely fast. That's up above 64 kilobits per second. It might average out to 64 but it's not symmetrical, so therefore you can't take advantage of new uses. Internet service providers in the very near future will be providing full scale telecommunications, just like picking up the telephone and dial out over the Internet. The bush won't be able to take advantage of that. So I'm very, very disappointed in the decision to use asymmetrical satellite. It is an easy fix because Telstra and Optus have jumped and said, "We have this you-beaut fix for the universal service obligation."

I spoke to somebody fairly high up in Optus after that digital data inquiry was released, and said, "How did you let Telstra get away with skewing the results like that?" He said, "That was a tactical decision because we decided that we would be able to sell our product the same as they can sell theirs." It wasn't to help the people in the bush.

**MR BRAITHWAITE:** Can I just understand that, because I'm a little bit slow on technology - but what you're saying is the satellite is going to provide a superior service for which a lot of the lines in the bush will not be able to cope because they have got a slower speed?

**MR JONES:** The satellite - if you could use a satellite in both directions, very fast access to send data and receive data via the satellite to an Internet service provider, it's a terrific fix. It's hugely expensive and not really feasible for all of these people. So what Telstra and Optus have done is provided a service whereby you receive information from the satellite and the technology is such that it doesn't cost very much, maybe \$1500 for a dish and whatever. But to send the information to the Internet service provider you still use your telephone service. In a lot of regional areas the telephone service - the course to that customer or access network back to the telephone exchange is unsatisfactory for sending high-speed data.

**MR COSGROVE:** What would be your suggestion as regards telecommunications USO? At the moment I realise it's pretty minimal, although the government has announced that it's going to provide a somewhat higher level of USO. But where would you pitch it?

**MR JONES:** What they are aiming at - and if what they said, on face value, is correct - it's absolutely terrific. 96 per cent of Australia will have 64-kilobit access. That's exactly what I would like. But it's not what will be delivered. This asymmetrical mode of delivery is what they're talking about for a fair number or fair percentage of regional Australia, and that isn't truly what they're touting. So I'm not saying they're lying; I'm just saying you've got to look past that.

**MR COSGROVE:** So you see that as deficient, as I understand you.

**MR JONES:** Yes.

**MR COSGROVE:** How far would you go?

**MR JONES:** I think 64 kilobits in both directions is good.

**MR COSGROVE:** Do you have any feel for what that might cost?

**MR JONES:** If you read the digital data inquiry you would realise that it's not cheap. It's something like 1.5 billion, I think, they estimate it.

**MR COSGROVE:** 1.5 billion?

**MR JONES:** Billion, yes. Now, this probably isn't the place to bring it up but we've got to talk about it - is the third sale of Telstra. As soon as that was brought in, for all intents and purposes total deregulation should have occurred. You should have sold the whole lot. The government isn't in a position now to force Telstra to do anything like that for the universal service obligation, because the ACCC would step in and say, for starters, "That's going to upset the share price of Telstra."

**MR COSGROVE:** I don't think the ACCC could intervene on the grounds that it would have an adverse effect on Telstra's share price.

**MR JONES:** All right.

**MR COSGROVE:** I think that would be a concern more for the government than the ACCC.

**MR JONES:** Well, they're still the greatest shareholder. I'm a shareholder myself and I wouldn't like to see that. But I would have thought the ACCC would have been involved because that would affect the competition or the ability to compete then between Telstra and other providers, because of the outflow of cash that would have been forced into that direction - just my thought.

**MR BRAITHWAITE:** But even then, spending that amount of money you mentioned, you would only still reach 96 per cent of Australians?

**MR JONES:** Telstra uses 96 per cent because basically the other 4 per cent are so remote that our present technology - except satellite - would find it all but impossible to reach. They have a system called a digital radio concentrator system which is used in very, very remote areas, where present technology is difficult to go. So I agree with them that you can't win everything. But in particular my interest is the Hunter and in the Hunter we're within that 96 per cent where it is possible.

**MR BRAITHWAITE:** But the problem is the 4 per cent, even though they're small in number, would be a huge part of country and rural Australia.

**MR JONES:** They certainly would. I brought up the whole universal service obligation and the 65-kilobit asymmetrical bandaid, if you want to call it that, for the USO down at the Networking the Nation forum, talking to the board down there

about it. The general consensus was, "Yes, but it's achievable." As far as I'm concerned, you know, saying, "We're going for an easy fix because it's achievable but it's not really what is required" - I think that's letting the country down, I really do. I've raised the same issue down at the National Office of Information Economy down at the Barossa Valley. I spoke and presented at a two-day forum down there and raised the issue again, and everybody agrees that this is better than nothing - is the attitude.

**MR COSGROVE:** It's certainly an improvement.

**MR JONES:** It is.

**MR COSGROVE:** I would say a significant improvement.

**MR JONES:** Yes.

**MR COSGROVE:** I don't know how much importance people anywhere attach to the voice-over or the video-over protocols.

**MR JONES:** Yes, at the moment, you know, you say that attaching importance to it - and you're right. If people don't know it's available, they don't think it's important to them.

**MR COSGROVE:** Well, we know it's available and we use them to some extent in our own organisation but in a very limited fashion, partly because of the expense.

**MR JONES:** Right. However, let's go back and look at this now from a regional development perspective, which is - you know, we are Hunter Economic Development Corporation. We see our little towns dying. They're dying not totally because of lack of infrastructure but they're dying for a lot of different reasons. Just one of those reasons is business is not willing to - and we'll talk small businesses here, because Internet is a great thing for small business. It's absolutely wonderful. I mean, you can e-mail people and you can download and research and you can have a Web site and advertise and you can sell over the Internet - you can do lots of things - talk to suppliers. It's absolutely terrific.

So when it comes to a quality of life thing, people in small businesses in regional areas have got a great quality of life but their businesses aren't that successful. In Sydney, where they've got infrastructure and they're close to the suppliers and whatever, small businesses are quite successful - I mean, they're the highest employer in Australia, small business. Yes, they're there but they don't necessarily have the lifestyle. A lot of people in Sydney would like to move out but can't.

So what we see is that this imbalance here - lifestyle on one stage and business success on the other - should be overcome if possible. Now, the way to overcome it



is to have the infrastructure that gives these people the ability to move out to regional areas and still take advantage of new technology.

**MR COSGROVE:** Do you think it's as simple as that though? You seem to be posing here kind of a regional development solution, motivated by telecommunications infrastructure.

**MR JONES:** Keep in mind who I am and my position. I'm not saying it's that simple. However, I look at it from my perspective, and you then have to go away and look at it from another perspective.

**MR COSGROVE:** You are touching though now on another - and I think perhaps broader point - made in your submission, where you say

The result of competition policy will be a faster flight from rural and regional Australia to metropolitan centres.

How is it that you see competition policy having that effect?

**MR JONES:** Very interesting you say that - the same person who wrote the death knock for regional Australia. Yes, the attitude there is that the perception - and it is a perception here quite often - the perception is that you can't do anything in the regional areas to succeed, because of this infrastructure, therefore you have to move. It's not just small business. You look at other possibilities of having good infrastructure for Internet - fast up and downloading of data. It's great for education. So young people, instead of having to move out of their area to do a degree, can do their degrees remotely. Southern Cross University has got excellent remote teaching facilities. It's not so good - but it doesn't have to be because it's got a population around it. So you then get into the social fabric of the town. What can youth do? Youth can train in town.

**MR COSGROVE:** I understand what you're saying but I'm not sure whether there's a close link there to competition policy. What you seem to be saying is that a certain level of infrastructure should be provided.

**MR JONES:** Yes.

**MR COSGROVE:** Now, maybe you're right, but that's - well, at the moment at least - largely a matter for a government owner of our main telecommunications provider to decide.

**MR JONES:** Well, can we go back a little bit from that and see if we can help that argument a little bit. Yes, I'm saying infrastructure has to be there but I'm also saying that it's competition that's driving the infrastructure to be in places of population because that's where the dollar is. It's right back to that initial fishing in that pond - for mobiles etcetera etcetera. So if there was a dollar in it, it will come to this area. That's what the competition policy is really - well, I can't say "because it is yours" -

but that's the way I perceive the competition policy as being - is to make businesses more efficient, therefore costs drop down. It is happening in metropolitan areas. You can see that. It's happening. ISDN costs are down in metropolitan areas because of competition.

So that driving force that your platform is based on isn't occurring in regional Australia. Therefore I bring the whole thing back to you, as far as IT and T - is that the overall competition policy is not forcing - not that you can force into competition. The overall platform is forcing - if you want the other way - is forcing infrastructure to be built up in the cities for competition but not in the country.

**MR COSGROVE:** Yes.

**MR JONES:** Therefore that imbalance is growing.

**MR COSGROVE:** If we leave aside the mobile telephone issue - and I don't wish to diminish it.

**MR JONES:** No, that's fine.

**MR COSGROVE:** But if you're thinking about Internet access and a couple of protocols you've mentioned, do you need to draw a distinction between places like the lower Hunter, let's say, and Narrabri? In other words, is competition failing to deliver what you've rightly referred to as the metropolitan benefits, to what I might call the larger provincial areas of regional Australia?

**MR JONES:** I'll say at the moment competition - not necessarily the competition platform that you're working from but competition within the industry - yes. The people of Narrabri - I'm pretty sure it's Narrabri I'm talking about now - could not attract an Internet service provider.

**MR COSGROVE:** Not even one?

**MR JONES:** No.

**MR COSGROVE:** Not even Telstra?

**MR JONES:** However, there's a telecottage out there - I think it's Narrabri - a telecottage out there who, through Networking and the Nation, the bandaid I was talking about, have Internet service provider out there. Coolah is another one.

**MR COSGROVE:** Yes.

**MR JONES:** Coolah is a wonderful little place. It's 900 people - no, it's not. It's nowhere near that. It's 350 people.

**MR COSGROVE:** Yes, I've been there.

**MR JONES:** I went straight into the public toilets after a three and a half hour drive and I walked in and there was a plastic tidy and I thought, "Isn't that nice. That would have been burnt out in Newcastle." The dray in the park is underneath a carport, that would have disappeared. The town has got a great amount of esteem. Have you been to the telecottages there, I don't know?

**MR COSGROVE:** No.

**MR JONES:** No. They could not attract - I'll talk about Coolah. I think Narrabri was the same but in a different way. Coolah could not attract an Internet service provider. They went to BigPond, they went to Optus and they did not have any success. The cost was going to be terrific for the community itself. So they formed a little IT and T task force and they found one person in the community who used to work in an IT section in emergency services and so on who built a point of presence through Networking the Nation. They built a point of presence, they deliver to the people in the surrounding areas Internet access for \$1.05 or \$1.10. Absolutely amazing.

Down at Merriwa, which is a bit of a half hour away and is in the Hunter Valley, Coolah is just outside, we have an Internet service provider who doesn't put in a point of presence but he's got a redialling facility which really does get congested very easily and is very poor quality for the people in that area. He charges between 3 and \$4 an hour and that's how much it costs him to put his point of presence at Muswellbrook through Networking the Nation, again through the libraries, and then put in a redialler. He's got to recover his costs because it's a couple of local calls to get that there.

The people in Murrurundi don't have local Internet access. All they've got is the national providers like BigPond. For 1300 you get in if you think that's cheap but it's not, it's \$7 an hour, \$4 plus \$3 usage. Ridiculous. So they're forced to use after-hours, the cheaper \$3, for so many hours that Telstra have bid down to another Internet service provider a long way away. So that's competition, not necessarily the competition policy in action there. Where there's a lack of people there is no competition.

**MR COSGROVE:** Sure.

**MR BRAITHWAITE:** Could I take you back a step? You were in Telecom-Telstra for a long time.

**MR JONES:** Yes, PMG first.

**MR BRAITHWAITE:** With their competition policy how would Telstra have addressed this problem of the 4 per cent? They wouldn't have, would they?

**MR JONES:** They addressed it by giving them basic telephone service but that was it. Through, as I say, these digital radio concentrator systems, which was the best technology around but probably isn't any longer.

**MR BRAITHWAITE:** I'm talking about the improved technology, Web sites and all of those type of things.

**MR JONES:** Yes.

**MR BRAITHWAITE:** How would they have addressed it had they not gone into national competition policy?

**MR JONES:** If it was still a government concern?

**MR BRAITHWAITE:** Yes.

**MR JONES:** I think that if they were still a government concern, their Internet arm, which is BigPond, that business division would not have been there surviving, making a dollar - as it is today, every division has to make money. It wouldn't have been in a situation where it had to make money. It might have been in a situation where it had to keep its costs down but not make money. Internet, I would think, would have been seen as just a local call because BigPond, the points of presence could be placed anywhere in Telstra at no real cost because all the telephone exchanges around Australia now - almost all of them - are joined together by optical fibre. We've got an extensive optical fibre network throughout Australia.

**MR BRAITHWAITE:** What you're saying is that there would have been a fairly massive cross-subsidisation?

**MR JONES:** I think there would have been, yes. If not massive, a - - -

**MR BRAITHWAITE:** Would that 4 per cent still have got the service? It would have been a very expensive - the latest technology - - -

**MR JONES:** They would have gotten the service but maybe because of the limitations of - you're talking about today's technology and that regime. It would have been possible to do, yes.

**MR BRAITHWAITE:** I'm not discounting anything else you said but I - - -

**MR JONES:** That's fine. I'm submerged in this subject.

**MR COSGROVE:** I think I've taken it as far as I wished, Bruce. Are there any other points you want to make for us before we end?

**MR JONES:** I will talk quickly on employment issues, if I could, in the telecommunications industry.

**MR COSGROVE:** Yes.

**MR JONES:** Can I ask you a question of the report?

**MR COSGROVE:** Yes.

**MR JONES:** In employment, page 251, figure 10.1.

**MR COSGROVE:** Yes, I have it.

**MR JONES:** Now, are they national figures or are they national figures with metropolitan taken out, because this report is about regional - - -

**MR COSGROVE:** I understand it to be national figures.

**MR JONES:** Right, well, that's another argument I have with this reforms on rural and regional Australia. I think we should be pinpointing there the effects on employment in those industries in regional and rural Australia.

**MR COSGROVE:** We'd like to but I don't think we were able to obtain that data.

**MR JONES:** Funny about that, isn't it?

**MR COSGROVE:** I don't think there's anything sinister about it.

**MR JONES:** I think - - -

**MR COSGROVE:** In fact, the Bureau of Statistics is now providing more in the way of non-metropolitan, metropolitan classifications of employment data than they used to.

**MR JONES:** Right.

**MR COSGROVE:** But at this level of detail it's not yet available and I honestly don't know whether they have plans to do so.

**MR JONES:** No.

**MR COSGROVE:** So the only alternative we have, which we have tried to pursue, is with the employers themselves.

**MR JONES:** Yes.

**MR COSGROVE:** To date we haven't been successful in digging that out. I take your point.

**MR JONES:** I strongly urge you because it is a quality document, as the last people said, and I think that sort of thing - an issue that your document would never pick up is the fact that the jobs that are out there now aren't necessarily as skilled or have the same level of knowledge that was out there. I mean, in my last three years my job was to centralise the intelligence of the network maintenance groups back to Newcastle and unfortunately I did several people out of a - good friends of mine - out of jobs in that situation, to the point where we'd done such a good job that they moved it all down to Melbourne and told me to move down to Melbourne and I wasn't going to do that but it was my turn. So I politely parted company with Telstra as well.

**MR COSGROVE:** Yes, that's a significant point and it's another one which I think we'd find almost impossible to ascertain information on.

**MR BRAITHWAITE:** Well, Bruce, I think we did look at some figures that seemed to indicate that the reduction in employment in regional country Australia was probably greater than what it was in metropolitan area.

**MR COSGROVE:** In proportionate terms, that's right.

**MR BRAITHWAITE:** In proportionate terms, yes, but when you take a percentage out of a country town of course you're removing a lot more people who are vital than what you are in the capitals.

**MR JONES:** Yes, that's something I read out earlier on.

**MR BRAITHWAITE:** That's probably the point you make, yes.

**MR JONES:** Yes.

**MR COSGROVE:** There's the subtlety that you mentioned, the skill levels too.

**MR JONES:** That's right. To that point and the skill levels, I had actually given a submission last year which somehow didn't make it to you. Now, it was through the HEDC at the time. However, it's not what I'm here to present today but if you would like that unofficially or personally, as a personal submission.

**MR COSGROVE:** We certainly would, in whatever way you'd like to provide it to us. If we can treat it as a piece of information available to the inquiry as distinct from a normal submission, whichever you prefer.

**MR JONES:** Yes, that actually documents the centralisation of exchange maintenance over the last - from what I remember writing about - over the last five years. So, yes, that gives you some information.

**MR COSGROVE:** Glad to have it.

**MR JONES:** That gives numbers in towns as well.

**MR COSGROVE:** Thank you.

**MR JONES:** So you may have that and could I offer you a draft copy of the audit and report I've written on information technology in the Hunter region which is what I've been doing for the last year.

**MR COSGROVE:** Certainly, thank you.

**MR JONES:** Thank you for your time and it is well worthwhile what you're doing.

**MR COSGROVE:** Thank you for helping us at this stage. I think we'll take a short break now, allow people to stretch their legs and resume in about 10 minutes.

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**MR COSGROVE:** Our next participant is Roger Epps. Roger, you're with the department of geography and planning at the University of - - -

**MR EPPS:** University of New England, yes. I'm a senior lecturer and my main interest is rural planning and resource management and also in economic development, particularly in inland rural areas.

**MR COSGROVE:** I understand you'd like to speak to this note you've just kindly given us, so go ahead.

**MR EPPS:** Yes, that's right. I do have a short paper and I'll read through this. I'll probably elaborate on a few points. If you've got any questions at all, just pull me up as we proceed. I guess when one reads a publication such as the report you provided us with, there's a multitude of issues one would be tempted to address. I was just going to start off with one broad generalisation and then focus in particular on the issue of water resources, and I know that most of the material that I've come across has related to New South Wales but there are many issues I think or principles that would be generally applicable at a national level.

But I'd like to start off with an observation in relation to competition policy in general. Whilst I can fully appreciate that the thrust of this inquiry is predominantly towards investigating competition within the sectors, many government policies have tended to redirect resources between investment opportunities. For example the capital gains tax exemption on owner-occupied residences has drawn an increasing proportion of financial resources into housing property investment rather than other more employment-creating enterprises. By virtue of the most promising locations for such speculation this taxation policy has undoubtedly become an additional factor working against most of rural Australia. I feel that it is thus critical not to look at the impact of competition policies solely on individual services, resources and sectors without examining it in the broader context.

Now, I want to focus specifically on water but I think much of this same point that I've just made is still applicable to water, and I'll come to that towards the end of the paper. I wish to turn to a specific resource issue which has fortunately begun to attract greater attention: water supplies for irrigation. It is an area where I have long advocated a change in thinking. The past rationale for water resource development at public expense was to develop new irrigation enterprises and create employment, particularly regional employment in inland Australia and the work of Keith Campbell from the University of Sydney and so on is ample example of that.

Yet in areas of the north-west of New South Wales we have witnessed substantial gains in the asset base of those provided with water entitlements, yet a declining population in those areas led ironically by the numbers employed in agriculture. I've got a table here and for those of you who can't see the paper in Moree Plains in 1986 the population was over 17,000. In 1996 it dropped to 15,500. Interestingly, the proportion of people involved in agriculture had declined even faster. In Narrabri shire in 1986 the population was 15,500 and in 1996 it had



dropped to 14,000, a drop of about 1500. Yet in agriculture which only employed 2096 in 1986 - a fairly small proportion of the population - this had dropped down to 1590 in 1996. In other words, there was a 25 per cent drop in the number of people employed in agriculture through a period when there was development.

So economic development is obviously not about supplying water. It is about adding value to a limited resource and returning a dividend to the investors, particularly the community, because after all we are the ones who have paid for the infrastructure. Despite opportunities in dry-land agricultural area being limited, producers have progressively achieved substantial improvements in efficiencies. However, the scope for new dry-land enterprises and the resultant profitability is inevitably partly determined by seasonal circumstances. Therefore to some extent we see two inland Australias emerging; those with a substantial economy based on irrigation and those not.

Given the potential to expand the scope of agricultural production through irrigation, there is the distinct possibility for population growth, as has been noted in Griffith, New South Wales, which probably had about the highest estimated population increase in the last couple of years. Led by the working group, the COAG water reforms were developed and were followed by the states, and in New South Wales there was the Government Pricing Tribunal in 1995 etcetera. These initiatives have begun to focus on the issue of fair pricing of water and, more importantly, on the value added to the resource. The recent report *Water in the Australian Economy*, which was published in April 99, which I strongly recommend people look at, it was prepared by the Australian Academy of Technological and Scientific Engineers and the Institute of Engineers Australia, and it indicated that in 1995 to 96 the value added per megalitre per unit of water ranged from approximately \$65 for rice and 270 for cotton to 460, 550 and 640 for fruit, grapes and vegetables respectively.

Not only is there an increase in the value of output but employment has increased in the more intensive industries. Interestingly, the Cole River Valley irrigators who are the east coast of Tasmania, where users pay - and sorry, these figures are about four years old - from 45 to 110 dollars per megalitre in a full cost recovery pricing - and this is probably 10 to 20 times the cost of most irrigation water at the same time elsewhere in the country - have moved to higher-value crops such as peas, turf and brassica seeds. I know these may not be appropriate crops, all of them, in the north-west but the principle is what I'm getting at. Apart from lifting production value this trend has increased local agricultural employment, although mainly casual, and because of the general high value per unit weight of what they're producing, these products such as the cabbage seeds are competitive in distant markets, and you'll be pleased to know that Tasmania exports cabbage seeds to Germany - probably the home of the cabbage, I don't know.

Governments cannot direct enterprise options but clearly a full cost recovery including a partial recovery, depending on the useful lifespan of existing infrastructure costs and full recovery of new developments, will go some way towards focusing on improving the value added to the water. However, the pricing

must account for other related costs. The first of these is the transmission cost to point of view and I was pleased to see that that was mentioned in your report. However, these should be discounted by any quantifiable environmental benefit that may accrue in the passage of that water, particularly if that supply delivery was in accord with a typical natural seasonal flow for mimicking the natural system. So sure, transmission costs must be taken into account. But if you're sending umpteen megalitres of water down the Darling system to a user down near Mildura somewhere at Wentworth, obviously this is benefiting the river system so the transmission costs have to be balanced against the environmental benefits, not a very easy task anyway but it still should be taken into account.

The other side of the coin is the environmental cost of provision of irrigation supplies. Obviously a difficult item to assess, it is still critical. It is only when these full costs attributable to water impoundment and distribution for irrigation have been reconciled that tradeable water rights can operate in a realistic market. Unfortunately we appear to have, sorry, put the cart before the horse in most states on this matter. With all costs accounted for we are in a better position to achieve a competitive market for water. However, it is believed that there is a justification for water providers to draw a premium for each megalitre which will ultimately provide greater returns for irrigators and the community. It has ramifications in relation to other aspects of service provision in rural Australia, particularly where there has been difficulty in providing additional, more interesting and challenging employment - and I'd like to add a comment too that I fully endorse the comments made by the previous speaker about the change in employment opportunities in regional Australia. We need more challenging employment, more interesting employment, not just jobs too.

My point is, what I'm getting at here, is that what I'm looking at is providing some extra opportunity, some scope, for developing these enterprises associated with irrigation and providing the spin-off to the community. Now, how are we going to do this? What I'm suggesting is that we need very, very strong leadership from the government. This is in relation to greater government-funded research in two areas: firstly, new horticultural and other associated enterprises including the increased fostering of cooperative ventures for production, processing and marketing. Now, here, what I'm really strongly getting at - and I know that various state governments have been really pushing for cooperative ventures to get going - there's no way smaller individual agricultural producers have the capacity to research new products, to research the marketing, the processing and so on, and it's an area that I feel really needs greater leadership and perhaps more carrots at the end to encourage more people to move into cooperative ventures and also perhaps to fund some of the research that's necessarily.

The second area is into new irrigation and production systems. Well, perhaps I'm wrong here. Perhaps we don't really mean new irrigation systems, but look at the scope for further developing more efficient, more effective use of irrigation water. Certainly new production systems, there is a lot of scope and most of those people who visited Europe and Israel and so on are well aware that we are a long, long way behind in terms of refining our production systems. In relation to the latter it has

been demonstrated that substantial savings in water use can accrue through improved techniques and new research is beginning to identify mechanisms whereby weed, fungal and pest control can be achieved through trickle and other water systems.

Several years ago I was involved in discussions with somebody actually from the Tamworth agricultural research station where we were looking at the possibility of distributing through trickle systems systemic pesticides which would go through the trickle system and be taken up by the plant. So there would be then no need for example to use aerial application of pesticides and that huge conflict area would be largely dissipated. Of course they can use fungicides through these systems and for many years people have been distributing fertiliser through it. But the point I'm getting at is that with appropriate leadership and supportive research that this could make such options, which are going to lead to much more effective use of the water, a viable reality for the producers.

So I'm also pointing out to - and I mean, I don't have to but it's necessary to indicate that with our grave problems in terms of salinity that more approaches along these lines will be highly beneficial. Should we ignore the demands of the environment, we do so at our great peril. Leadership is needed by government. By supporting research into improved profitability through new enterprises for produces and increasing water use efficiency and value adding to water, there is a justification for increasing the environmental flows in the river systems. So if we can make a saving on the one hand in our production system and also an increase in the value of production, we can also get a more significant benefit into the river in the form of increased environmental flows.

Apart from research, there is also a critical role for government in ensuring a greater integration of agencies across the necessary sectors and to provide leadership, information and coordination, particularly for related industries, including irrigation equipment manufacture. If there are going to be several hundred thousand hectares under some new form of irrigation, what a tremendous boon if regional Australia was in a position to be involved in the manufacture and supply of such systems.

Whether this can be broadly achievable is a moot question. Certainly in my other research I have come across, still, the boundaries between government agencies and different tiers of government which impede the progress of such developments. In conclusion, it is felt that a more competitive market for water has the potential to substantially improve the economy of those regions endowed with irrigation supplies. However, the move to full cost recovery, including infrastructure, transmission and environmental costs, must be a preliminary, before the market for water rights can be a fully fair system in terms of the community's stake in this national resource.

Then, by virtue of government supported research, competition for water allocation has the potential to move much of the irrigated areas to a higher level of production and increase employment and population, and of course that flows on to an improvement in services for the community etcetera. This strategy, with appropriate leadership and integration, can be firstly a win for the irrigators through

increased returns; secondly, a win for associated new industries, be they in the manufacture of irrigation equipment or further processing and marketing organisations. It could be a win for the environment through improved river management. It could also be a win for the community in relation to employment, population and maintenance of services and a win for government at all tiers, by a greater national resource equity and a high benefit cost ratio. Thanks very much.

**MR COSGROVE:** Thank you, Roger. That is quite an interesting account. You will be aware that we raised some questions in the draft report on a number of aspects of water reforms. If I'm understanding you correctly, you would probably have little difficulty with the general pricing principles contained in the COAG water reform - - -

**MR EPPS:** No, that is true. I think the principles are there. I think a lot more detail needs to be applied, particularly in terms of transmission costs and whether or not they can be supportive of meeting environmental needs. If of course the transmission cost is as you will find in the Riverina, many, many kilometres to the side of the main distributary system, then obviously that is all just a loss. But if you are using, say, the Darling system and managing to maintain an enhanced environmental flow through distribution or transmission of water to users, I think that should be taken into account.

But what do you do, though, if you have improved environmental flow to Bourke but then, of course, the water level drops and the river flows backwards once it is extracted there? Obviously it is a difficult area to account for, but certainly I think those sorts of issues need to be taken into account.

**MR COSGROVE:** On that transmission cost aspect, how would you handle the private cost and the potential social and environmental benefit? We cited the example in the draft report of some people in the Lachlan River system who were saying that you had to release six megalitres of water to deliver one megalitre to somebody at the end of the transmission system. So a lot of water is going out to provide that particular user with one megalitre, but on the other hand, as you were pointing out, there may well be some environmental benefits - - -

**MR EPPS:** That's right.

**MR COSGROVE:** - - - which could be of some private value to the customer at the end of the transmission system; it might not. It would, I think, in your framework, be seen as having some general social benefit. So do you continue to charge the private user for the transmission cost or do you reduce that private charge because of a social benefit? That is a really tricky - - -

**MR EPPS:** It is difficult and I am not an economist in a position with all the hydrographic data in front of me, but obviously if somebody is using that water at a time of the year when normally you would be expecting to see high flows in the river in a natural system, obviously that is mimicking the natural system and I think that

issue should be taken into account, whereas if the person wants water distributed down the system and that is a time of the year when there is normally a low flow, there is obviously negligible environmental benefit. In fact there may be a disbenefit in that case. So I think it is a matter of looking at those river systems and assessing whether or not (a) there is an advantage, or (b) there is not, and taking that into account. I guess what I am trying to - - -

**MR COSGROVE:** But essentially you start from the point of saying that the person at the end of the transmission system should be charged the cost, the full cost of delivery of water?

**MR EPPS:** The full cost of the water, yes, but that there not be a penalty for any environmental damage in fact if that person is assisting the system. Sorry, just something that I have not seen in the literature yet, but I think everybody here would appreciate that some rivers do have high flow periods, and certainly the Murray system is one, and we can help that. But more so, we can help preserve the environment by encouraging people to use crops which have a water demand which is going to be in accord with the natural system. Then a lot of our problems with the ecosystems, particularly the Murray and Darling systems - mainly the Murray system - will be minimised. It won't go away, but it will be a lot better than it is, without necessarily any major cost in terms of the value of production in that region.

**MR COSGROVE:** Are you able to assist us with another what I think essentially is a pricing issue, namely how to apply and charge for the costs of either new storage infrastructure or refurbishment of existing storage?

**MR EPPS:** I think the refurbishment is a very interesting issue, particularly because I can see they are going to be necessary in many river systems in the medium term, maybe 10, 20 years, as some systems are going to need to be rehabilitated, perhaps because of sedimentation or other problems. I am personally of the opinion that unless there is a demonstrated benefit that flows through to the broader community and I am a regional development person myself, I would think that cost has to be taken into account in the pricing of the water to the users.

But if there can be a demonstrated flow-on effect to the community, that we can look at discounting that cost, but according to the literature I have read there is no venture yet where the investment in water infrastructure has actually led to a return to society over and above the cost. There may be some, but certainly the literature I have read so far has not indicated any. Certainly Keith Campbell in his work was highly critical of this sort of investment and said, "Gosh, if we had invested all the money into irrigation development, into dry land production systems, we may have actually done better as a society as a whole." Still, it is easy to see all these things in retrospect.

In terms of new systems, I think provided the environmental issues can be appropriately accounted for and maintained without significant degradation, that the idea of a group of potential users putting forward the funds towards building the

infrastructure is perfectly reasonable, provided there were appropriate allocations for recreation use and for any urban centres along the system. That is effectively what happened in the Coal River Valley, that the people there put up the contribution towards, or it was costed in the water, the cost of providing the infrastructure. That is why their water - at the same time they were paying the minimum of \$45 and a lot of irrigators in New South Wales were paying \$3.50.

Now, those people didn't say, "Gosh, we can't produce because the water costs too much." It has changed their thinking and they said, "If the water is costing us that much, how can we make a profit on it?" That is why they have moved to these higher value industries which, as I also pointed out, have created employment in this area. I think that is the principle that I am trying to demonstrate in this and with leadership in terms of support from government, particularly in terms of research and extension, demonstration and things, these sorts of things, we used to have them years ago, but there is very little now, it has been left to the private sector. But instead of it being a general approach to irrigation research, it will be research into cotton production, or research into citrus or sultanas or something. There is no broad approach to how you can best get value out of the water production.

Obviously it is not going to be in the interests of cotton cooperatives to encourage people to plant vineyards or fruit trees or vegetables in areas where cotton is currently produced, because that will upset their economies of scale in the production and the ginning and marketing etcetera.

**MR COSGROVE:** You are touching there on the question of possible adjustments in people's lines of business that might be associated with changes in water prices. From what you have studied, are the significant adjustment costs incurred by communities where the price of water has risen by the magnitudes you were referring to earlier and they have not been able, either quickly or in some cases perhaps ever, to step in to a higher value area of activity or does it occur more or less quickly and with essentially transitional costs?

**MR EPPS:** I don't know of any research that I have come across in that. I can only use anecdotes and that is perhaps a bit inappropriate in this scenario here. But I had discussions with irrigators in the Coal River Valley, because that particularly interested me where they fully funded the scheme in the water pricing. There were grumbles about how much they had to pay and this, that and the other and I said, "What has it done to your property?" He said, "Well, I suppose it has gone up in value," and I said, "Substantially?" He said, "Yes, it has. We have irrigation supplies now and that has immediately lifted the value of that property." I said, "What about your value of production, net of costs?" He said, "Yes, in actual fact that has gone up too." He said, "I have had to learn a lot, I have got into new production systems."

He said one of them was in turf farming and had never actually been in turf farming at all before, but this person had gone out and done the research and the groundwork and was then able to move into a lot more lucrative business and when I was there it was autumn, but there were a lot of casual employees there working in

the area and this is the thing that really came home to me. I am not an academic, mind you. I left Sydney many, many years ago and spent eight or nine years on the land. I have looked after an irrigation farm, I have been a racehorse trainer, building contractor, shearing contractor, you name it. So I see different things in different places - and I have also been an banana grower for eight and a half years - and when I see a lot of people working there, that now in the context of regional development that I am involved in really means things, this is jobs, particularly if it is jobs that fill a large span of the year.

This also ties into this whole problem of provision of services in inland rural Australia. If we have more jobs, there are more people to provide services for and the impacts of competition policies are going to be reduced, only marginally, but at least it is heading in the right direction, because there is a bigger marketplace there. I shouldn't digress, but I will do this very briefly. I have just finished a year's research looking at Wagga and Tamworth and new firm formation in those areas. It was particularly interesting how people have a mindset to how they go about their business. People go to Wagga because there is a lot of people there and they set up a business because it seemed to be - you know, in the past it has been growing and so on - a good opportunity.

In Tamworth it's a different ideology. Many of the people that started up firms in the last six or seven years - and these were particularly in manufacturing or warehousing distribution, ones with the capacity to look beyond the immediate town - many of them started up by saying, "Well, Tamworth is not big enough for this. I've got to look at the regional, the state and interstate," or, as two people have done, started up business and were exporting, because their mentality was, "Well, we can't compete in this sphere, we've got to look further afield." I think in many of the cities such as Wagga a change in attitude is going to overcome so many of the sorts of problems they have. It's not a matter necessarily of funds or things of that nature; it's a matter of how you approach the situation. I have digressed a bit but it did seem to have some relevance to what you were saying.

**MR COSGROVE:** My colleague I know is keenly interested in water reform. What would you like to ask Roger?

**MR BRAITHWAITE:** Look, just going back on the pricing arrangement, as we understand the NCC is still coming to grips on this whole issue of water and maybe that's why there's such a lag in it. But one scenario that was painted to us is that you get an infrastructure, you value it - even though it might be a sunken asset, ie, that you, the community, has paid for it through your taxes - you value it, and then two scenarios flow from that. You then ask for a return on your capital, of a figure - which in the minds of a bureaucrat could be anything from zero to whatever. The other scenario is that you charge the depreciation of that asset as part of the price of the water - no sweat on that. The other one is that, having done that, they then say you should have a sinking fund to replace that asset in X number of years' time, and then the sinking fund component is also added in to the price. It seemed to me to be

a result of double dipping. If you wanted a sinking fund, surely all you would have to do is put aside the value of the depreciation into a sinking fund.

**MR EPPS:** I couldn't agree more. Yes, that's right.

**MR BRAITHWAITE:** So you don't agree in the double dipping - - -

**MR EPPS:** No.

**MR BRAITHWAITE:** - - - but you would agree on one of the other - - -

**MR EPPS:** No - especially too if we can start to see that there are benefits that are flowing through in terms of other industries that are benefiting from that irrigation development. If there are new enterprises, more intensive activities, we are starting to see what the whole system was implemented for in the first place - to create irrigation infrastructure and reap the benefits of it in terms of employment and local economic activity. So certainly double dipping would be very much unacceptable on that basis, should these sorts of results appear.

**MR BRAITHWAITE:** Just a thought that occurred to me when you were talking about evaporation at the end of the line and things like that: has anybody ever contemplated that evaporation is a natural part of the environmental issue?

**MR EPPS:** Yes.

**MR BRAITHWAITE:** We talk about the environment as being water going down a stream.

**MR EPPS:** Yes.

**MR BRAITHWAITE:** But isn't it just as equally a part of an environmental concern that there should be an amount of evaporation?

**MR EPPS:** Exactly. This happens to many of our river systems in this country. They flow inland and evaporate away in the process.

**MR BRAITHWAITE:** So your point is that somebody at the end of a canal, taking one megalitre of water from what started out as six megalitres - that five megalitres should be constructed as an environmental contribution?

**MR EPPS:** Only if it's flowing at the appropriate time of the year, because it's not achieving the environmental benefit if it's flowing six months out of phase with when a normal high flow would go down that system, unless - sorry. I think we're getting down to fairly fine detail and I would need to be a hydrologist - - -

**MR BRAITHWAITE:** That's what we want to do.



**MR EPPS:** Well, you know, I agree with the principle that, yes, if there is an added loss due to transmission, that that should be costed into the price of the water. But if it is achieving at the same time an environmental benefit we should encourage that type of use of water if it's in fact mimicking natural systems. But unfortunately most of our water extraction takes place close to the source and the people down at Wilcannia and Mildura and places like that where I used to live, they just have to wear the problems, because the water has already been extracted and there isn't the potential benefit for that environmental benefit.

**MR BRAITHWAITE:** Right. To what extent is the whole aspect on COAG's attitude to water being led by Victoria?

**MR EPPS:** I wouldn't know, to be quite honest.

**MR BRAITHWAITE:** There seem to be differences between the Victorian approach and the New South Wales approach.

**MR EPPS:** That may be so. From my reading of the COAG report, these things didn't come strongly home - that there was a big push by Victoria in preference to other states.

**MR BRAITHWAITE:** No, not so much a push but the experience of Victoria - because they seem to have been handling the Murray and the Darling for longer than anyone else - that whatever is good for Victoria is good for the rest of Australia. As a New South Welshman, you would agree with that?

**MR EPPS:** In actual fact, yes, because - no, I am agreeing on very important seasonal grounds, because they are a winter rainfall environment, whereas most of New South Wales is marginal or a summer rainfall - sorry, not marginal; either season. The problems that they have in Victoria are exacerbated because of that seasonal difference. Yes, there would be very much a change in thinking - and they may be better people at arguing a case and perhaps have their position imposed upon others, I don't know. But certainly, yes, Victoria is a very different system climatically and agriculturally, particularly in irrigation agriculture, than much of New South Wales.

**MR BRAITHWAITE:** From the way I read your attitude towards research, you're suggesting that that type of research is an adjustment program. We're also looking for comments on adjustment programs.

**MR EPPS:** Yes, I think it is certainly a combination of both research into better systems of irrigation production - new enterprises - and in encouraging people to make those adjustments. But the Land and Water Research and Development Corporation has funded many projects on these sorts of issues and I have yet to be convinced that any system that's planned for facilitating adjustment is going to reach all the right people, because generally the people who are on the ball, who can see

things, are the ones who are probably well down the track in terms of adjustment anyway - it's a matter of their thinking - whereas the people you really need to contact are the ones who are not going to respond either to available information or perhaps strategies for facilitating adjustment.

To be quite honest, I had eight or nine years full-time on the land and I've seen a dramatic change - sorry, that was in my earlier years - I've seen a dramatic change in the thinking of most agriculturalists. Many of the ones who were not in a position to adjust, if they didn't have substantial financial resources, they have moved out of that land or been put in a position where they have no scope to make change. But in general the majority of agriculturalists that I have been coming across recently have a very, very different thinking. They're looking for new avenues. If they see an appropriate adjustment they will move towards that.

I think the cotton industry is one of the most excellent examples of the research, the innovation, the distribution of new ideas and the acceptance, the adoption of new ideas - has been very, very dramatic. But it is a fairly recent industry and the people coming into it have had a different background and a different approach - many of them - and those who haven't been sort of visionaries in their field have generally only had to look to a neighbour or two to get those ideas and to see what they are doing and to lift their game.

I think what I'm getting at, though, is that adjustment is going to be much easier in some sectors, particularly when there's a very tight industry structure and good communication and good adoption, but there are going to be many sectors where people either won't want to, are too old to - I mean, what's our typical family farm, two adults in their mid fifties and no children at home. They're not necessarily in a position, financially or careerwise or whatever, to make substantial adjustments. I think there's going to be, understandably, a large element like that.

**MR BRAITHWAITE:** To what extent would trickle irrigation, for instance, apply to cotton? That's flood irrigation. The costs of putting in trickle as against the cost of paying a higher price for more water, the economic - - -

**MR EPPS:** I visited the research station - and there may be other people here who know things even better than I do, but this was just 18 months ago - because I was particularly interested in looking at a new system that they were trying using neem, which is a natural pesticide. They were distributing this through the trickle systems. Systemic uptake by the plant was hopefully going to make it relatively immune to pests. But I was going there partly on the basis of research by the team up there - I think Constable was the name of one of the people. Is there somebody here who - - -

**MR .....**: Greg Constable.

**MR EPPS:** Greg Constable, yes. He had done research which indicated in those conditions that the water saving wasn't going to be substantial. It might have been in the order of 15 or 20 per cent. But interestingly, in his trials there was generally an

increase in production from those areas, partly I guess because you've got a lot closer water management. But once again, I'm not a technician in the field. But in Emerald in central Queensland there are irrigators there who have achieved savings of 50 per cent on their water use.

Now, different soil types are going to have different responses to these systems. Of course in Israel, where they've got a lot of sandy production systems, trickle irrigation is spot on because most of their loss would be distributed through the soil. So depending on soil type, you're going to get a very substantial saving in some situations, a minimal saving in the other. Sure, there were costings done on the trickle irrigation systems, but by the same token the charges for the water were nothing like a full cost recovery and they are also somewhat dated now.

I also think that these trials were one-off trials, although maybe they did them a couple of years, but they hadn't developed to the extent - they had furrow irrigation systems. They hadn't developed the trickle irrigation systems - the management, the production and all that - to anything like the same degree. So you were comparing one system that had been developed over 30 years with another one that had been trialed for a couple of years. Admittedly there may have been other experience elsewhere that could have been brought to bear on that but I don't think that the full potential of those systems and the full costings were evaluated, in looking at the most efficient systems. We weren't comparing like with like.

**MR BRAITHWAITE:** You're mentioning there that we could develop into two types of rural industries in Australia, those dry farming and those on irrigation. To what extent could cotton be grown on a dry farming basis and where, and what would be the difference in result?

**MR EPPS:** Look, sorry, I'm not an expert but I have heard, certainly in the Gunnedah district, that the dry land growers there in a reasonable season are doing particularly well. This is partly because they don't have anything like the infrastructure costs and the other management costs that are associated with irrigation. So given a reasonable season, yes, I think there's a lot of potential, which comes back to another point - this whole problem that confronts rural Australia - that we just don't have reliable forecasting long term. You can't plant a wheat crop or whatever - perhaps a crop of radishes because they have got, what, six weeks before maturity. But you can't anticipate what the weather is going to be in six months' time.

As we are starting, fortunately, to improve our forecasting capacity and people have realised the importance of the great Southern Ocean in terms of driving our weather patterns, yes, we've got a real chance that we can start looking at these systems. So you will then have a reasonable estimate of whether or not it's profitable to sow a dry land crop of cotton. But we're still a long way down the track. We still don't understand the systems, except people are starting to recognise - particularly the CSIRO - how important what is happening down south is in terms of our weather patterns. But once we start developing that we have the chance to be a lot sharper in

our production systems in dry land Australia and be able to say, "Well, if it's going to be minimal rain we'll only sow 15 kilos of seed wheat, instead of 30 kilos if it's going to be a better rainfall system." We just don't know these things but I think we're moving down that track.

**MR BRAITHWAITE:** Just one last question, do you think a sleeper licence has a tendency to eventually overuse the resource of water than what might be normally available, if they're allowed to stay there as a sleeper licence.

**MR EPPS:** That's probably the case. I feel that the water pricing should be much more related to how much you actually use and I think that this may well rectify some of those sorts of problems. But, look, I'm not really in a position to comment on that. I'm sorry, I just, you know - - -

**MR BRAITHWAITE:** Just one last question, to what extent have you a sympathy with your South Australian irrigators and water users who say they're pumping out of the sewer of the Murray?

**MR EPPS:** Yes, that's a very, very interesting point and I'm not sympathetic necessarily with the irrigators there but despair at the incapacity of us as a supposedly educated society to manage our river systems better than what they are at present.

**MR BRAITHWAITE:** Has the COAG got some means by which it could rectify that?

**MR EPPS:** I think it set an example which is being followed by different states to different degrees but once again that's only an observation from the outside. I wouldn't like to make any definitive comment.

**MR BRAITHWAITE:** I think we've wrung the last drop of water out of that one.

**MR EPPS:** I think so.

**MR COSGROVE:** Let me just try one more drop. During our consultations in the course of this inquiry, Roger, I think the main concerns that have been raised have come from people who don't like the idea of having to pay more for water and also from those who believe that they're likely to face reductions in the amount of water allocated to them, essentially for environmental reasons. Now, from what I've understood of your presentation this morning, while you might want to say something about those concerns you're really indicating that the adjustments that are involved in a water reform process in this country should be viewed a little more optimistically than that, that you think, in effect, the changing particular in the pricing arrangements governing water are likely to induce increases in the value of our production through changes to higher value crop production and, if I've understood you rightly, you also seem to be seeing some significant environment benefits coming out of all of that. Is that a fair assessment of what you have in general terms been saying?

**MR EPPS:** Yes, look, I am not sitting here as a person who is out to get irrigators and make sure they pay more because of this, that and the other. I am trying to look at the big picture. I am trying to draw examples from elsewhere, where there are circumstances far harsher, so to speak, than where we are at present. Yes, I also am suggesting that there will be an environmental improvement in that and you suggested that yourself. That's what a cut in allocation may do. Hopefully it will address environmental concerns first.

But what I'm trying to say is that I think we need to have - with margins pretty low in most industries you haven't got the scope to gamble on a new venture. We need to have a much better idea before we make an investment. We also have to, in some instances, raise finance, and banks and so on are going to want to be a little bit more certain of the outcome. If we do have an appropriate research project in terms of these sorts of opportunities you can move into them with much, much greater certainty. Also, I know, from myself starting up a whole new venture from scratch, you had to learn pretty quickly as you went. Fortunately, if you had a cushion, financially, to cover the mistakes, that's fine, but, as I said, most people don't.

So if we can have leadership, and I'm not here talking about governments providing massive direct support, I'm talking about them acting in a facilitatory capacity in terms of developing knowledge, developing understanding of production systems. Also, we need, and are developing this, much greater links to our potential markets. We've got to go to the markets and work back to here, say, "Can we produce something for that market," rather than produce something and then wait for people to buy it. I must say I'm delighted to see that these sorts of things are slowly happening but they have to be demonstrated to the people that there is this capacity to link what you produce with a market and have some, not necessarily guarantee of returns, but a reasonable indication of the best way to maximise your opportunities.

**MR COSGROVE:** But if we accept that, so far as the water reforms themselves are concerned, would you see, in general terms, their effects as being incentives for improved economic performance and, if I've understood you again, perhaps also in terms of somewhat stronger growth in regional areas?

**MR EPPS:** Yes, that's certainly what I'm viewing the situation to be, that it is - but I think it's got to be a bit of a carrot and a stick approach. Yes, I am particularly interested - I mean, if I've come here with a bias it's because I ardently feel that there is still a future for rural Australia but it won't be on the basis of handouts and subsidies and supports, it will be on the basis of it being competitive, particularly in an international market.

**MR COSGROVE:** Thank you very much.

**MR BRAITHWAITE:** Just one - sorry about that. You talk about dry land farming, to what extent have you had experience with the key line system, Dr Yeoman's system, the key line system?

**MR EPPS:** I've not actually managed a property with that sort of system but I have viewed several of them. Of course they were all in situations which lent themselves well to that system. I don't know how the economics of those systems are going these days but certainly the Yeoman system was always one that people looked up to and sort of marvelled at. Certainly 30, 35 years ago it was something that was very, very special. I must admit that I don't hear much of the system these days and I can't really say just how effective it is but I think that there's probably scope to further develop the Yeoman system on the basis of 30, 40 years further developments in agriculture.

**MR BRAITHWAITE:** Should be a good insurance for dry land farming though, shouldn't it, as just an insurance?

**MR EPPS:** Perhaps, yes. I wouldn't like to commit myself on that. I'm sorry, your questions are getting just a little bit - I mean, I could have a stab at it but I'd rather sort of speak on the basis of some knowledge rather than guess.

**MR BRAITHWAITE:** Fair enough.

**MR COSGROVE:** Roger, we should treat your presentation note to us today as a submission from you?

**MR EPPS:** Yes, except I've found a few typos in it. I'm sorry about those.

**MR BRAITHWAITE:** Don't you worry about that.

**MR EPPS:** If I can cross those out. But actually I've got that probably on electronic - I can e-mail that to you, to your office if that would be a help.

**MR COSGROVE:** Yes, that would be fine.

**MR EPPS:** That will save somebody transcribing it all.

**MR COSGROVE:** Good. Thank you very much.

**MR COSGROVE:** Now, I think our next participant is Colly Cotton group of companies. Please come to the microphone. Please identify yourself and who you're representing.

**MR CAMERON:** My name is John Cameron. I'm an adviser to Colly Cotton Ltd. I'm a development economist and I've been associated with Colly for I think about the last 15 years on and off in a consulting capacity, so I've seen them develop substantially over the years to what they are today. Just by way of background, Colly until fairly recently was a large publicly listed corporation principally involved with cotton production, ginning and marketing. The principle farming property is Collymungle station, which is located at the confluence of the Gwydir River and the Barwon River, in the north-west of New South Wales between Moree and Collarenebri. So from a water usage point of view it's in a quite interesting position because it draws water from the regulated Gwydir system and it also draws water from the unregulated Barwon.

**MR COSGROVE:** By regulated you mean subject to storage?

**MR CAMERON:** Subject to storage, that's right, and subject to a licence or licensing provisions and a licensing amount of water.

**MR COSGROVE:** Okay.

**MR CAMERON:** Believe it or not, today my presentation is based on water and water pricing.

**MR BRAITHWAITE:** It's the theme of the morning.

**MR CAMERON:** But before I go on to that there's a couple of points I think that the last speaker raised that jogged my memory on a couple of points because Colly has been very heavily involved in the issue of water pricing through its involvement with the IPART hearings in New South Wales. We have made very significant representations to IPART and the methodology used by IPART during their deliberations in setting water prices. The bottom line of all the material we've provided IPART is that we effectively believe that some of their fundamental principles are incorrect, and I would like to draw your attention to those, on the basis that they're policy-related and they don't bring in a fair competition into the water industry, which of course is very difficult.

With regard to the price of water or the cost of water, so many people talk about water price or the cost of water as being what the government charges the irrigator, for \$3 a megalitre or \$10 a megalitre or \$100 a megalitre or whatever it might be. The irrigator doesn't look at it like that and I think that it's very important. What the irrigator looks at is how much it costs to apply that megalitre of water onto his country and that is made up of a number of cost, which include of course the government charges or the DLWC charges. But coupled to that is the issue of water reliability and no-one - or the previous speaker didn't discuss the issue of water

reliability and the impact that has on pricing or the cost to the irrigator of actually irrigating or putting a megalitre of water onto their country.

It's quite interesting, for one of Colly's submissions to IPART I actually did some homework on that and I concluded that for Colly or for irrigators in the north-west of New South Wales on the Gwydir system, which is extremely unreliable, as opposed to irrigators on the Murray or the Murrumbidgee system, which is extremely reliable, the cost per megalitre, given 100 per cent reliability, is about \$44 a megalitre. When you factor in the reliability of the Gwydir into the equation that \$44 jumps to, in the calculation I did, over \$100 a megalitre. So we were sort of arguing right through this whole pricing process that, "Look, guys, the price of water is 3 or 4 dollars a megalitre." To the irrigator, it's not 3 or 4 dollars a megalitre because there's a whole range of factors that impact on that to push that price up to the order of \$100 a megalitre when you consider the reliability factor of the river and the fact that the river has been over-committed.

**MR COSGROVE:** Is part of this that you're not able to gain access to water when you need it? What is the significance of the reliability factor?

**MR CAMERON:** There's not enough water in the dam.

**MR COSGROVE:** Not enough, I see.

**MR CAMERON:** There are dry seasons when the - - -

**MR COSGROVE:** But if you are - I see, so - I'm not sure I do. Are you paying for water which you're not receiving?

**MR CAMERON:** No, but what you're doing, you've developed your infrastructure, okay?

**MR COSGROVE:** Yes, on the assumption that it will be there?

**MR CAMERON:** On the assumption that it will be there and of course many farmers - I mean, it's a commercial decision, right, so I'm not necessarily complaining about that - but many farmers have developed their country on these river systems that are less reliable now on the basis that the reliability would have been higher than it is now.

**MR COSGROVE:** So they're carrying big fixed costs?

**MR CAMERON:** They're carrying very big fixed costs. If you compare the Gwydir system to the Murrumbidgee, for example, my calculations show a cost per megalitre delivered or delivered to the field down there of about \$20 a megalitre. So the costs up here on the Gwydir are about five times that. It's just to give you an indication of the impact that reliability has and what farmers in the north-west have got to do to try and improve that reliability factor.



**MR BRAITHWAITE:** I'm very interested in that cost of delivery. Are cotton farmers so sophisticated now they can go onto a farm and they can give you the price of delivery of that megalitre onto the property? Do they take that as one of their management tools?

**MR CAMERON:** Yes, they do. Perhaps not each of them but the water issue is so sensitive and so extremely important to them that they've got to know the price of water because those - it's sort of getting back to the issue of drip, for example. Why aren't farmers all using drip? And while I can't guarantee it to you, I'd be pretty sure in saying that if drip was viable farmers would be using it. The problem is that there's an added capital cost to drip to save 15 or 20 per cent, and if you had 100 per cent reliability year in, year out that would pay for it, the problem is that you haven't got that 100 per cent reliability. If you've got 50 per cent reliability the capital cost of the drip system suddenly doubles for the years that you can use it. That's a very rough analogy.

**MR COSGROVE:** But I guess the price of water is another ingredient of that determination.

**MR CAMERON:** Yes. The issue of employment is very interesting that my friend raised. I mean, going back to Collymungle I find the data extremely difficult to come to grips with. But, you know, out on Collymungle back in the days when it was a sheep and grazing cattle property I think there were half a dozen people employed. Well, today there's in excess of 100 full-time jobs out there, so I have difficulty with that. With regard to the issue of South Australia I think one of the things that we do have in eastern Australia now of course is the Murray-Darling Basin Commission and I think their function is to try and look at ways of ensuring that this massive irrigation or this massive river basin can deliver the water quality that's needed down in South Australia.

Of course the Murray-Darling Basin Commission, associated with four states as signatories to it, is currently implementing a series of caps through the various river valleys, which I'll touch on later, because a very significant part of that in New South Wales is the effect the cap will have on irrigators like Colly and what the government is trying to do to minimise the impact of that cap to existing irrigators as opposed to potential irrigators, in the form of people that are holding sleeper licences.

**MR BRAITHWAITE:** You have given us a deal on sleeper licences but I'd like you to explain it a little bit more.

**MR CAMERON:** Sure.

**MR BRAITHWAITE:** To what extent, what numbers of sleeper licences are there on the Gwydir at the moment?

**MR CAMERON:** Basically none. I think it's of the order of 1 per cent. So as far as the Gwydir is concerned it's not worth discussing, because one of the things about the Gwydir of course is there is massive irrigation development along the Gwydir and the licences are extremely valuable, and people that haven't developed their licences have sold them and the waters have transferred up and down the river system. Where the sleepers are important as far as Colly is concerned are the sleepers on the Barwon and the sleepers on the Barwon are - again this is a rough figure - of the order of 50 per cent of the total volume of licensed water on the Barwon, from what I understand.

Now, what the cap is going to do, the cap as imposed by the Murray-Darling Basin Commission, the cap is going to set the maximum amount of water that can be drawn from a particular river system which is divided up amongst other river system, or other rivers within the overall system, to the 93-94 level of development. So what that means, even in our instance and Colly's instance which was fully developed in 93-94, that means that as sleepers - when they implement the cap - which they haven't yet because they don't know quite how to do it - when they implement the cap, as sleepers come in, because the amount of water that can be drawn has been set at the 93-94 level of development, that means our share of the water out of the Barwon is eroded and it means that we're sharing our history of use with people that have zero history of use. It means that our level of development, which was developed on the basis of our licence at the time of 93-94, our access to water, to water that area, is going to decline and we've made - - -

**MR COSGROVE:** What do you think would be the significance of that? I realise this is a somewhat hypothetical question because you may not know exactly by how much your allocation of water is going to decline. But I mean, are we talking here about marginal changes or substantial changes?

**MR CAMERON:** No, I think it could be substantial. It could be substantial, and of course the rule that - - -

**MR COSGROVE:** With what effect on your production?

**MR CAMERON:** I can't. I mean, I'd love to be able to but I can't.

**MR COSGROVE:** I might put my question another way. Do you have much capacity to change the way in which you use water in order to maintain a given level of production or are you at what they call these days world best practice?

**MR CAMERON:** It's quite interesting because the cotton industry in Australia is probably the most - certainly one of the top one or two most efficient cotton industries in the world, there's no question about that, as far as water use efficiency is concerned. They're always working to improve efficiency and that's one of the things that's so wonderful about the industry: it is continually working as an industry to improve that efficiency. Of course they're doing it in all sorts of ways. It's not only, whether we should use drip or whether we shouldn't use drip. They're doing it by

reducing the growing season of the plant, for example, and because they're reducing the growing season of the plant it does need less water, and the growing season of the plant in the last dozen years has been pushed in by six weeks or, you know, a significant length of time. So we're always sort of creeping in on that issue, but I think it's going to be very difficult for there to be a quantum leap as far as productivity gains are concerned.

**MR BRAITHWAITE:** Can I just take that cap question up. The cap goes back to 93-94 level of development or level of licensing?

**MR CAMERON:** Yes, level of development. That's the terminology that they use.

**MR BRAITHWAITE:** Now, level of development means the water use in that year?

**MR CAMERON:** Yes, they say, "Back in 93-94 there were this many hectares developed, and that many hectares developed should have used that much water, if we can multiply the two, and you get that amount of water."

**MR BRAITHWAITE:** See, that level of development is raised by 50 per cent of the users of the licence and the other 50 per cent sleepers. So what you're saying is that if that is the equation that the cap effectively halves your - - -

**MR CAMERON:** It could have effectively halved. Yes, it could have that degree of impact. Of course our argument has been that because we've invested the capital into our farm and done what we've done with it, that the sleepers, because they've got no apparent - I mean, a licence is for a period of five years, as I'm sure you know.

**MR BRAITHWAITE:** You're telling me now.

**MR CAMERON:** So it's not a good that you own forever and we've always maintained that the licence should be provided on the basis that it's an asset that should be developed for the good of the state, to improve production.

**MR COSGROVE:** So there are no permanent water licences?

**MR CAMERON:** No.

**MR BRAITHWAITE:** Do you pay anything for the licence when it's issued?

**MR CAMERON:** Yes, but it's a marginal amount. There are no new licences. There's a total embargo on licences now. When licences were issued prior to the embargo there was no fee for licences. But of course now you can buy licences on the open market and of course the price is enormous.

**MR BRAITHWAITE:** This is where the sleepers get the benefit.

**MR CAMERON:** And this is where the sleepers get the benefit.

**MR COSGROVE:** And other licence holders.

**MR CAMERON:** Yes, and other licence holders. But of course if you've developed your farm on the basis that you have an irrigation licence, you can't - - -

**MR COSGROVE:** But one valid only for five years.

**MR CAMERON:** That's right, they're all valid for five years.

**MR COSGROVE:** What happens at the end of the five years?

**MR CAMERON:** They're generally renewed.

**MR COSGROVE:** With no extra charge?

**MR CAMERON:** That's correct.

**MR BRAITHWAITE:** Do the banks lend on that five-year licence?

**MR CAMERON:** I can't answer that question. I suspect yes, because it's intrinsic in the value of the land. But once you've developed your land for irrigation my view is that the licence is locked to the land because there's no use you selling the licence because all the money that you've spent on developing your country for irrigation becomes worthless.

**MR COSGROVE:** But isn't that like saying that it's a privately owned asset when in fact it's not? If it were, it would be sold in perpetuity to the owner. In fact what you have is a five-year lease of a government-owned asset.

**MR CAMERON:** That's right, that's what you've got.

**MR COSGROVE:** So it seems as though the government, presumably on behalf of the community, is taking a view that these water licences are not to be allocated permanently to any particular use.

**MR CAMERON:** That's right.

**MR BRAITHWAITE:** So it's no different from the milk quota then.

**MR CAMERON:** No.

**MR BRAITHWAITE:** No different whatsoever.

**MR CAMERON:** Not as far as I understand, that's right. What many irrigators have been able to do is take advantage of surplus flows, which is non-quota water, and store it on a farm, okay? But much of this advantage is going to go too when the cap is imposed because the river can be going down - and huge volumes of water can be going down - and when it's surplus to requirements downstream now they say, "Look, you can pump and it won't be debited to your quota or to your licence amount." So you pump it, put it into on-farm storages, and farmers have used that very effectively to overcome problems of river reliability from regulated rivers. But of course there has been a cost associated with that in the form of other farm infrastructure.

**MR COSGROVE:** But that's a normal commercial judgment that a property would make.

**MR CAMERON:** Absolutely. With regard to the sleepers, I think our position on that has been - and it's public I think, is that we think that water licences should be there to be developed and used for production, and we feel that if water licences can't be and if they are going to impact on production facilities that have already been established, then the government should not renew those licences.

**MR COSGROVE:** But why would the government not also be interested in seeing new forms of production emerge as a result of development of a sleeper licence? What is it about an existing form of production that should have priority over a new one?

**MR CAMERON:** It is there already and it is a more efficient use of capital, because that capital - - -

**MR COSGROVE:** If it is a more efficient use of all of the factors of production, then I would agree with you, the market would presumably accord that particular activity those factors of production that it needs. But if it is not, I can't see why an existing economic activity should have priority over another one which might induce higher overall incomes for the community.

**MR CAMERON:** I think that is fine, you get no argument from me with that, but the history is that these farms are not developing.

**MR BRAITHWAITE:** So what is a typical sleeper licence? Is it just owning land adjacent to an irrigated area?

**MR CAMERON:** That's right.

**MR BRAITHWAITE:** And just never putting it to any use?

**MR CAMERON:** That's right. In the Barwon Darling system they are just scattered up and down the river.

**MR COSGROVE:** I guess this all comes back to the value which the community places on water and that value appears to be rising.

**MR CAMERON:** That's right.

**MR COSGROVE:** As reflected I guess in what the sleeper licence holders now believe they have. Isn't that a reason for trying to introduce with appropriate property rights, some sort of normal marketing in water to - - -

**MR CAMERON:** Yes.

**MR COSGROVE:** - - - allow trading to occur extensively?

**MR CAMERON:** Absolutely, you get no argument from me or us on that at all.

**MR COSGROVE:** But you seem to be saying though that you don't want the sleeper licences activated or renewed, whatever the terminology is.

**MR CAMERON:** I think the thing is that there are impediments to transferring those licences now. So if Colly, for example - or not necessarily Colly - anyone - wanted to buy, if there were a whole bunch of sleeper licences down at Bourke that we felt would be useful to us, which would give us greater security, then there are impediments transferring those licences from Bourke up to Collarenebri.

**MR COSGROVE:** What are those impediments, John? Are they governmental processes?

**MR CAMERON:** Yes, government process.

**MR BRAITHWAITE:** Stream players too?

**MR CAMERON:** Stream players, that's right.

**MR BRAITHWAITE:** So those sleeper licences go as far down as Bourke?

**MR CAMERON:** I think so, yes. I can't tell you what the distribution is, but it is very significant.

**MR BRAITHWAITE:** But the government would have the opportunity on a renewal of saying to a licence holder, "You haven't done any of that for five years, why should we relicence you?"

**MR CAMERON:** Absolutely.

**MR BRAITHWAITE:** Do they exercise that?

**MR CAMERON:** No, they don't. Then when questioned on that, it seems that the answer is purely political. It is something we have really hammered and we can't get a satisfactory answer. We can't get a rational answer.

**MR COSGROVE:** Any other points?

**MR CAMERON:** One of the points that we have a fundamental problem with water in New South Wales with the New South Wales government is that the New South Wales government is a regulator, it's a supplier, it's a price setter and it is a major user. So the New South Wales government is doing all of those four things in the irrigation industry. We think that there is tremendous conflict created by it trying to do those four things.

**MR COSGROVE:** The regulator though is independent. Am I right?

**MR CAMERON:** The price setter is meant to be independent too, with IPART, but obviously there is tremendous pressure put on IPART from organisations like COAG on the issue of cost recovery for example. The issue of cost recovery is very interesting, because IPART and the New South Wales government appear to be totally obsessed with the issue of cost recovery and no-one really has been able to confront us and tell us that the cost recovery that they are aiming to achieve is a valid cost recovery if the cost recovery is in fact an efficient use of public resources and if it is transparent.

The industry as far as I'm concerned, or Colly in particular, has no problem with paying a fair price for water. The thing that we have a problem with is not being able to have input into seeing how that is determined.

**MR COSGROVE:** When you say you can't have input, I take it you can and do make submissions to IPART as you were saying earlier - - -

**MR CAMERON:** That's right.

**MR COSGROVE:** - - - a review of pricing arrangements. Are you saying that IPART does not make transparent the basis of its decisions?

**MR CAMERON:** IPART is fine, it's the department that is a problem, the Department of Land and Water Conservation that is a problem.

**MR COSGROVE:** So the problem is with the supplier of the bulk water?

**MR CAMERON:** That's right.

**MR COSGROVE:** Does that mean that it doesn't conduct itself in a way consistent with IPART's rulings?

**MR CAMERON:** I think it attempts to, but I think in many instances it is unable to.

**MR COSGROVE:** Are there grievance procedures available to firms - - -

**MR CAMERON:** I don't think so. One of the things we have suggested, again I have said many times that we don't mind paying for our water, because what we want to do is improve the service that these guys provide. We want to improve our water reliability, because that is the thing that is at the forefront of our mind, improving the reliability of water.

**MR COSGROVE:** How would you see that being done? Is this a question of additional storage facilities?

**MR CAMERON:** It is a whole host of things. It could be that. I mean there are growers, there are irrigators on the border river system that have built in conjunction with the department in New South Wales and Queensland, dams that are to be fully commercial. It is terrific stuff. As it is at the moment, the New South Wales people in the north-west are not allowing that to happen. It is not transparent. While they continue to persevere with this issue of cost recovery without it being fully transparent, our view is that there is no incentive for these people to perform, because if they are going to continue to have full cost recovery awarded to them, there is no incentive for them to lift their game.

**MR COSGROVE:** That's where I would have thought the regulator had a role to play.

**MR CAMERON:** Same person.

**MR COSGROVE:** No, this is IPART.

**MR CAMERON:** It's the New South Wales government.

**MR COSGROVE:** Not really, at least not meant to be.

**MR CAMERON:** I quite agree with you.

**MR COSGROVE:** I would have thought IPART was looking carefully at the costs involved in water supply and setting a price, allowing for a rate of return on top of those costs. Are you saying that - - -

**MR CAMERON:** One of the things we have consistently asked for is an approach using standard costs, the term we use in accounting to be standard costs, whereby we can agree what is a fair cost for the department to charge for full cost recovery. No-one is interested in talking about it. All they are interested in doing is achieving full cost recovery on the department's charges as they have recorded them. We would



like to see a standard cost system developed in consultation with the department, IPART and irrigators, with a return - - -

**MR COSGROVE:** Yes, I think those people will have a legitimate role to play in the process of ascertaining the basis of the cost properly to be allowed for in the pricing decision by IPART, but at the end of the day, as I understand the system, IPART should be saying, "This is our ruling on the charge."

**MR CAMERON:** I quite agree with you, but - - -

**MR COSGROVE:** You seem to be saying there are some fundamental flaws here in the implementation of it.

**MR CAMERON:** Yes, as far as I'm concerned there are fundamental flaws.

**MR COSGROVE:** So it is not really the design of the way cost recovery should work, it is just that it is not working?

**MR CAMERON:** Yes.

**MR BRAITHWAITE:** Just on cost recovery, that would mean there would be a huge difference in price from the Gwydir water from the Barwon water, because you have the infrastructure on the Gwydir - - -

**MR CAMERON:** That's right, if there was full cost of recovery.

**MR BRAITHWAITE:** Yes, full cost of recovery. So what is the cost recovery they have to get out of the Barwon as compared to the other?

**MR CAMERON:** There is basically none.

**MR BRAITHWAITE:** Just a royalty on water?

**MR CAMERON:** Yes, there is effectively no mechanisms, apart from an administration cost of administering the department.

**MR BRAITHWAITE:** What is the difference in the price of water between one and the other?

**MR CAMERON:** Nothing - I haven't got my material, but as far as I know it is not significant.

**MR BRAITHWAITE:** It makes the previous question I asked about the pricing of water and the depreciation and sinking funds and everything else quite irrelevant, doesn't it?

**MR CAMERON:** I can't tell you that. I will find out - - -

**MR BRAITHWAITE:** I would be very interested to know, because that is a fundamental flaw in the pricing system. There should be a common royalty on water from one stream as the other - one would think so. Then you add to one the cost of supplying it.

**MR COSGROVE:** In the end of course the price of water should also be determined by the level of demand for it, not just the cost of supplying it. You have to have both parts of the demand supply diagram there, which again is the basic case for a stronger market arrangement in water trading.

**MR BRAITHWAITE:** The cap applies to both systems, doesn't it?

**MR CAMERON:** That's right, yes, it does. But the cap is administered differently, so there is an overall cap for the Barwon Darling system and then the cap is broken down into different river systems and is applied differently according to different river management committee recommendations. What the Barwon is trying to do now is come to grips with that and make decisions as to how the cap on the Barwon Darling can most effectively be implemented.

**MR COSGROVE:** John, to help me to try to gain a better feel for what this particular area of national competition policy reform might mean for cotton producers in New South Wales, how significant a component of Colly Cotton's overall production costs is the cost of water?

**MR CAMERON:** It depends how you would define the cost of water.

**MR COSGROVE:** You tell me how that - - -

**MR CAMERON:** If it is the price - - -

**MR COSGROVE:** The amount that you use - - -

**MR CAMERON:** The price that we pay the Department of Land and Water Conservation, it isn't high. But if you bring into account the reliability factor, the fact that we have the huge investment that we have and the fact that in one out of every two years we don't get the water we need, the cost is very significant, because it is only water that prevents us from getting crop every year.

**MR COSGROVE:** What does "very significant" get to, half?

**MR CAMERON:** No. As I said, here we're talking about \$100 a megalitre and if you apply eight megalitres a hectare - so it's obviously extremely significant. If you're talking about the \$4 or \$5, whatever it is, that the department charges, you can see that it's not. But I think at all times you've got to continually remember about that reliability factor.

**MR COSGROVE:** So is this a good area in which to be growing cotton?

**MR CAMERON:** Without doubt, one of the best in the world.

**MR COSGROVE:** Despite the high fixed costs because of unreliability of supply.

**MR CAMERON:** I mean, given reliable water supply - but that's our decision, you see.

**MR COSGROVE:** Yes.

**MR CAMERON:** When we went there we knew that Gwydir was not the most reliable river in the world compared to the Murray or the Murrumbidgee. But climatically - - -

**MR COSGROVE:** It's for other reasons.

**MR CAMERON:** - - - it's an extremely attractive region. Of course, what has happened is the river has become less and less reliable and that has had a significant impact. We're very fortunate as far as Colly is concerned, that we've had the Barwon to draw on, whereas a lot of other people - well, most other people in the Gwydir part - - -

**MR BRAITHWAITE:** Is it less reliable because it has been over-taxed, over-licensed?

**MR CAMERON:** Absolutely, completely over-licensed.

**MR BRAITHWAITE:** Could I turn to other areas of competition policy. You mentioned electricity here. I'd like to hear the view on electricity freight, rail freight, transport costs.

**MR CAMERON:** I'm very much a water man.

**MR BRAITHWAITE:** But you mentioned electricity.

**MR CAMERON:** No, that's right. I mean, Colly was very - it wasn't me, but Colly was very heavily involved in matters associated with power and we operate two gins, two cotton gins which are very significant users of power or energy generally and there's no question that the recent reforms in the industry have led to significant savings for Colly in the area of power - very significant. I can't tell you much more than that.

**MR COSGROVE:** The original submission which we received from Colly Cotton raised the question of water titles. I can't find the precise mention, I'm sorry, at the

moment. I think it probably related to the sleeper licence issue. But if we leave the sleepers out of the picture what is your attitude or Colly Cotton's attitude towards the COAG principle on separation of water rights from land title?

**MR CAMERON:** It's fine.

**MR COSGROVE:** It's fine?

**MR CAMERON:** But as I said, I think that it's somewhat academic because once your land has been developed the licence is stuck to your land, because for you to sell your licence, it means that all the money you've spent developing your country is wasted.

**MR COSGROVE:** Well, I can see that that could be a fixed cost, but a rational investor will put that behind him or her and look at what can be obtained from the trading of water access - - -

**MR CAMERON:** I agree. I mean, from that perspective that's fine.

**MR COSGROVE:** Yes.

**MR CAMERON:** But in reality, I mean, the cost of developing land for irrigation is enormous. It's of the order of \$2500 to \$3000 a hectare, okay? Now, that original land may have cost \$100 a hectare as grazing country; \$200 a hectare. So the reason that you're going to spend that \$2500 or \$3000 a hectare developing it for irrigation is because there's an irrigation licence that you own, that you can draw water and apply to that land.

**MR COSGROVE:** Or you could trade the water to another - - -

**MR CAMERON:** Or you could trade the water to another person. So as soon as you spend the \$200 buying the land as grazing land, you spend the \$3000 a hectare developing it. The machinery doesn't matter because you can sell the machinery. That \$3000 or \$2500 to \$3000 that you've spent developing the land for irrigation is wasted once you dispose of that irrigation licence.

**MR COSGROVE:** Any more questions around?

**MR BRAITHWAITE:** Just I'll get the transcript on that one, because that's a fairly significant - you know, it's almost saying that once you've committed to cotton growing irrigation, the land is of no value otherwise - not quite that - but certainly the value you put into it, you're going to have a huge - unless you can get a very good alternative to cotton may be the land has been over-capitalised for any other use.

**MR CAMERON:** For example rain-fed cotton production, for example out at Colly, I couldn't tell you how many years you'd be able to grow it but I'd suggest it may be only one year. I wouldn't like to be quoted on it, but you certainly would not

be able to achieve a rain fed crop every year. So it's unlikely that you would be able to grow summer crops to take advantage of that land development.

**MR BRAITHWAITE:** Do you only grow the one crop of cotton a year?

**MR CAMERON:** Yes.

**MR BRAITHWAITE:** What's the percentage of dry land cotton farming in Australia as against irrigation, do you know?

**MR CAMERON:** Cotton, it's very small, comparatively very small.

**MR BRAITHWAITE:** I was on one just a few weeks ago.

**MR CAMERON:** It depends how you measure it. Do you measure it in bales or do you measure it in hectares?

**MR BRAITHWAITE:** I think this bloke measures it in hope, prays for rain at the right time. But he was quite happy doing it. He knew there'd be failures.

**MR CAMERON:** Yes, it can be good. I think you mentioned Gunnedah for example. Gunnedah, the rainfall reliability is that much better than Collarenebri for example. Ideally the best place to grow cotton is where there is zero rainfall, total desert environment, because that way you can completely control water use. But that's if you've got irrigations.

**MR BRAITHWAITE:** And that's what they say in the Vertigan with sugar. They don't want any soak lands or water. They just want it to come from the irrigation.

**MR COSGROVE:** Okay, I don't have any further questions.

**MR CAMERON:** Thanks, gentlemen.

**MR COSGROVE:** I think we will break for lunch now and aim to reconvene at 1.45, and at that stage I expect our participant to be the North and North-West Pharmacists Association.

(Luncheon adjournment)

**MR COSGROVE:** Our next participant is the North and North-West Pharmacists Association. I'd be grateful if, for the purposes of our recording, you could identify yourself and the capacity in which you're with us today please.

**DR BROWN:** Thank you for the opportunity of being able to be here today. I would have to say that at half past 4 on Friday I didn't know the meeting was on.

**MR COSGROVE:** Excuse me, I'm sorry to interrupt but I think we'll need your name on the tape-recording.

**DR BROWN:** Yes, I was coming to that.

**MR COSGROVE:** You're coming to that - sorry, beg your pardon.

**DR BROWN:** And this is a rather rushed presentation which got typed at 11 o'clock this morning in Quirindi and then I came up. My name is Sel Brown and I'm vice-president of the North and North-West Pharmacists Association. This association extends from Quirindi to Coonamble, Lightning Ridge and down the Great Dividing Range to Walcha and Tamworth and the area is about the same size as Tasmania. Our association consists of some 80 pharmacists and over 60 pharmacies, with around half of these being in one pharmacy towns. For reasons that will be explained later, I've again divided these pharmacies into those west of the Newell Highway and those east of the Newell Highway.

Two years ago every pharmacy west of the Newell Highway in the area from Dubbo to the Queensland border was for sale - every one of them. The average age of the owners of these pharmacies is greater than 60 and the area covered is about a third of the area of New South Wales. Since then three of these pharmacies have been sold, leaving around 30 pharmacists having to sell before illness or increasing age or both cause closure. Most of the pharmacies are viable, well run businesses and return better incomes and lifestyles than comparable city pharmacies. However, a number of factors stop city pharmacists from coming to the country. I believe that the impact of competition policy reforms and the flow-on effects will only add to that reluctance to venture across the Great Dividing Range.

I own two pharmacies, both of which are described as essential pharmacies - that's a pharmacy in a one-pharmacy town, a specified distance from another pharmacy - and both near Tamworth. For brevity I'll only speak about Quirindi. Quirindi is a rural town with a town and district population of about 5600 people. The population has been much the same since 1918. It is 65 kilometres from Tamworth and services a large area to the south-west, east and north-west of the town. The Quirindi area is totally agricultural and there's little secondary industry. In the past five years some 300 jobs have been lost, around half from the closure of a turkey processing factory. The rest could be as a result of the competition reforms.

North Power have eliminated 30 jobs, Telstra about the same and the railways at Werris Creek have reduced their staff over the last few years by two-thirds or 400 people. Many of those people lived in Quirindi. In 1918, remember the population

was the same then, there were three pharmacies in Quirindi and when I came to Quirindi in 1961 there were two pharmacies employing four pharmacists. Now there's only one and employs one full-time owner and one part-time pharmacist, and this would be typical of most north-west towns. What concerns me and our association is the trend to close pharmacies is escalating. The main reason many pharmacists remain in business in western one-pharmacy towns is a reluctance to close. I've included two letters from such pharmacists. Do you want me to read those?

**MR COSGROVE:** As you wish. I think we could read them at our leisure, but if there are important points in them that you want to draw to our attention today then do so.

**DR BROWN:** I might read the first one because it has got big social impact, if that's all right.

**MR COSGROVE:** Yes.

**DR BROWN:** Is this reasonably confidential?

**MR COSGROVE:** No, we have the capacity to take on board information on a confidential basis, but the hearings are public and we're taking a recording which will be publicly available. So if you regard these letters as having any confidential material I think you should ask us to treat them accordingly. That's up to you.

**DR BROWN:** No, I don't think either would mind. The first one is from Jim Riley who's a pharmacist in Mungindi:

We have a remote and isolated pharmacy in Mungindi which is situated on the Queensland-New South Wales border. The hospital is a 24-bed modern hospital about 15 years old and is in Queensland. The doctor's surgery and home are in New South Wales but owned by the Queensland Health Department. The doctor is paid a wage by the Queensland government as medical officer and has the right to private practice within New South Wales, with relieving doctors supplied. His salary is around \$75,000 a year. Surgery and home, electricity, car, are all provided free.

We have had our pharmacy for sale for over five years with two agencies as well as Sigma and Fauldings, and we have not had even one inquiry. Such is the apathy of pharmacists who, if they tried country living, may well find it very enjoyable. Most of these pharmacies are viable businesses.

He's talking about the ones west of the range:

Perhaps more incentives should be given by government for them to come. Ours is not an isolated case as most of the pharmacists in my position are getting on or are old and won't keep going forever. What is going to happen to

rural pharmacies? This is a problem all over Australia. Are they all going to be health and beauty aid shops? Taking scripts to the nearest town is not always a feasible solution. We are 122 kilometres from the closest pharmacy. Also another point to consider, our doctor has stated that he would not stay if the pharmacy closes and I think this applies in many cases.

Yours Faithfully, Jim Riley

PS I am 69 years and seven months and do have health problems -

he has had a stroke some years ago -

as most people have my age.

And that's symptomatic of what's happening in the western side of the Newell Highway particularly, that the pharmacists there are over 60, they want to sell out. They have such a strong affiliation with their town and with the health problems of the towns that they won't close the pharmacy and walk away. The second one came - I'll read it too. It's from a relieving pharmacist who is presently - today and tomorrow anyway - at Collarenebri:

I've requested to submit a short piece on the pharmacy situation pertaining to Collarenebri. I'm a relieving pharmacist who was asked to work for a short period there. Unfortunately I have to assume somewhat of the role of an undertaker. The pharmacy is closing as of June 30 and I will be overseeing the demise of pharmacy services to this town. The nearest full-time service will be in Walgett, approximately 70 kilometres away, and the people of Collarenebri will only have a depot-type arrangement for their pharmaceutical services. These will be particularly hard on people living out of town and for those with acute illnesses. They will have to arrange their needs to be before 11 am and not on weekends at all. This will be particularly difficult for rural workers and acute illnesses, for example asthma.

I hope that the committee can come up with some useful ideas to prevent this situation from happening in other small communities. It marks a further stage in the decline of the quality of life of people in similar situations. If you would like an elaboration on any of the issues I have brought up, please feel free to contact me at my home address.

R.S. Cotterill, 13 Covelee Circuit, Middle Cove.

The first one of those two, the one that's closing tomorrow, the fax is very poor. We had four goes to get the fax to even be able to be read, I'm afraid. So if you think the quality is not so good, maybe it's the phone lines. The second one was handwritten as the typist is out of town at Mungindi and there's nobody there that Jim could get to type it. These are some of the problems you have of course in small towns. But we're used to those sort of things. They don't really worry you.



The point I wish to make is that the impact of government policy will only cause many more pharmacies in one-pharmacy towns to close. Some of the government policies which could have an effect are as follows: electricity deregulation and the loss of jobs from that, railway deregulation and the loss of jobs from that, Telstra deregulation -

again the same -

changes -

and we're talking about pharmacy only here -

changes in government policies impacting on pharmacies -

like the diabetic scheme, where all the diabetes supplies are available through Diabetes New South Wales or Diabetes Australia at a rate that's cheaper than pharmacy can compete. Like, diabetic strips you can get - if you're a pensioner, you can get two packets on the health scheme for \$3.20, but you can buy them from Diabetes Australia for 50 cents each. However, most pharmacists are agents for the Diabetes Association because they feel that people need to have them there and then. But to my way of thinking that doesn't seem to be a reasonable sort of amount of competition.

Medicare easy claim facilities and health fund payments -

and there would be lots of others we could think of -

that could be lost if the pharmacy closes. In conclusion, I believe that pharmacies under threat of closure in most of the area covered by the North and North-West Pharmacists Association. I believe that in the input of the competition aspects, deregulation is yet to be experienced, as the ramifications are felt right through rural society.

I believe that deregulation - the effects of deregulation to now are nowhere near as great as they're going to be from now on. Every day we listen to the radio we hear some of the flow-on effects, like the DMR now having open contracts. What happens to the jobs in Bourke? That's a fairly big DMR town, if I remember rightly - all these sort of things. I think the flow-on is going to be much greater than the effects have been so far.

Pharmacists will not go to rural outback New South Wales unless the rewards are far greater than offered elsewhere. Maybe a practice subsidy of a significant amount may ease the situation. But I believe a long-term solution, to train more tertiary students in country areas as pharmacy and medicine and almost every other one, is an example of the large problem of attracting qualified people to come to rural Australia.

Thank you. I hope that will suffice.

**MR COSGROVE:** No, thank you. On that last point that you mentioned, it is the case now, so far as doctors are concerned I think, that the government is putting in place a kind of rural training - or internship schemes. I have forgotten the precise - scholarship, is it? So maybe something might be possible there. But I'm interested particularly of course, given our terms of reference, in your statement that these various reforms to infrastructure areas - electricity, railway and telecommunications - are producing a loss of jobs, with feed-on effects. You mentioned your own experience I think in Quirindi. I'm sorry, are the figures in this?

**DR BROWN:** Yes, they are.

**MR COSGROVE:** Yes, I see. Now, 300 jobs have been lost in - that's in Quirindi itself or the area around?

**DR BROWN:** That's Quirindi-Werris Creek, in those two together in that period of time, in that three years.

**MR COSGROVE:** Yes.

**DR BROWN:** But the railways in Werris Creek lost 400 jobs in about seven or eight years.

**MR COSGROVE:** Yes. How much of the total employment in that area would that be? It seems a significant number of people. Are you able to tell us how big total employment is in the area? Maybe we could find that out for ourselves.

**DR BROWN:** Yes, I wouldn't think there would be many more than, say, 1200 jobs in Quirindi altogether, so it's probably a quarter. Some of those jobs would be part-time jobs, particularly in the turkey processing.

**MR COSGROVE:** Of course, yes. I was going to say the turkey processing factory is a different matter from the electricity, railway and telecommunications. North Power, you've said 30, Telstra about the same, railways seemingly much bigger. Well, I mean, I don't doubt what you're telling us. We need to keep asking ourselves what other effects of those reforms might be occurring and in particular whether the improvement in the general productivity and performance of these enterprises has led to more competitive positions on the part of other producers, whether they be rural producers or not. On the face of it one would think that a relatively small area like Quirindi could be a net loser from all of this. It's hard to know without actual comprehensive information. But do you have the impression - I assume you do - that this area of Quirindi-Werris Creek as a whole is declining in population and employment, or not? Are there other industries which are emerging or growing?

**DR BROWN:** There are no secondary industries much going. There's always the carrot that's coming - like, there's a lot of mining exploration being done and there is coal underneath the - health is a big employer of people. Our nursing homes and aged care facilities are pretty good in Quirindi and employ around about 200 people. But outside that, really in small towns it's only luck if you manage to get a good secondary industry I think.

**MR COSGROVE:** Service activities apart from health - anything of that kind?

**DR BROWN:** Health is a big one. There would be others but not a lot, and there are very few government positions in the town.

**MR COSGROVE:** Now, what do you do, do you think, in this situation where you have a reluctance on the part of new or younger pharmacists to go into the north and north-west of New South Wales? Many regions of course face similar circumstances. One thinks in particular about remote mining locations, where in those cases typically the mining company itself pays well above average earnings to attract young miners, or probably even old miners to come along and work there. Here you're in essentially a self-employed industry, aren't you - apart from the big chains I suppose. Are they very present in country regions, big pharmacy chains?

**DR BROWN:** Not in small towns.

**MR COSGROVE:** No. They go for the provincial centres I suppose.

**DR BROWN:** Franchises are, but again there's not a lot of commercial sense in being in a franchise in some ways either, because it's a long way to your next competition.

**MR COSGROVE:** So apart from the community itself somehow or other being willing to in effect subsidise the commercial income that a pharmacist could earn in a small rural town, you'd probably be looking at some sort of government intervention, would you, to help?

**DR BROWN:** I would think so, yes.

**MR COSGROVE:** Is there any other way of doing it? The towns are declining, I take it at least in part as a result of some competition policy reforms but for other reasons as well I think. So the task of turning that around in some small areas is probably pretty difficult. You're working against the normal operations of markets really, trying to do that.

**DR BROWN:** Yes, it's very difficult. The other problem is of course, as you get smaller and as the banks leave town and the other things, the number of movers and shakers in small communities reduces and you don't get quite as much input into developing a town, and all of us get busier. I mean, I'm somewhat busier than I was about 10 years ago. We've gone from four pharmacists down to one and a bit. So

you don't have much time for charity work and things like that, and community work - not like I used to.

**MR COSGROVE:** Yes. I remember during our initial round of consultations in some small towns we were told that the community - by which I think was probably meant the local government - was actually trying to overcome problems in attracting doctors, or retaining doctors, by providing free - I think - accommodation, maybe a car as well. Is that sort of approach viable for pharmacists, would you say?

**DR BROWN:** I think, as I sort of said in my paper, there's got to be an advantage in a pharmacist going to live in the country. Either they've got a social advantage of living in the country or they've got monetary advantages of living in the country. For a long time the monetary advantages have been there. The rural country - because of lower rents, and the wages stay the same and your gross profit probably is slightly better than in the city - has been good, but that's being eroded now by some of the actions of government, like the diabetes thing and flu. Every year our gross profit on dispensing prescriptions is dropping. It has dropped 2 per cent in the last two years. That means that the difference, the margin between - - -

**MR COSGROVE:** Sorry to interrupt. Is that a regulated fee, is it?

**DR BROWN:** Yes.

**MR COSGROVE:** Yes.

**DR BROWN:** It's a fee paid by the government. You get a 10 per cent mark-up on your prescriptions and a set dispensing fee, which is \$4.30 - I think it is. The dispensing fee is indexed and the mark-up of course varies with the cost of drugs, but as the cost of drugs goes up, the percentage comes down. Our gross profit is dropping and that's narrowing this balance, and of course it's making country rural pharmacy less attractive than it was maybe 10 years ago.

**MR BRAITHWAITE:** You've long lost the monopoly of catering to certain lines of goods that have now been taken over by supermarket chains and things like that.

**DR BROWN:** Yes, in the country we tend - - -

**MR BRAITHWAITE:** In the country you may not to the same extent, or you have got other lines you sell?

**DR BROWN:** Probably both. We probably do a little bit better than our city friends in over-the-counter things, and we sell a wider range of things. I think that's probably the best way we can survive.

**MR COSGROVE:** From the particular point of view of the terms of reference which we have been given for this inquiry, apart from what you might call infrastructure-related effects of competition policy reforms, there has just been

established, I think I'm right in saying, a committee, a special panel, to review regulations governing the operation of pharmacies - their ownership, where they can be established, I think those two matters in particular. Are you able to give us any views on those matters? I mean, they're being reviewed of course, because they are restrictions on competition in this industry. It may be that after the review is completed they will still be in place, because a public benefit is perceived to flow from those restrictions. On the other hand it may be that the outcome is that those restrictions should go. Would the outcome of that review be likely to have any bearing on the adequacy of pharmacies and pharmaceutical services in country areas?

**DR BROWN:** Retailing is a dynamic industry and it responds to change very readily. I'm trying to think from a small town's point of view and most of my talk has been on small towns. Even though we represent places like Tamworth and Armidale and places like that, it's not what I really wanted to talk about. I left this part out of actually what I was going to - I thought about it and I left it out, because I thought, well, the Pharmacy Guild and the Pharmacy Society would be much better qualified to talk on the things than I.

However, if there were open ownership and unfettered opposition you could get people who would think, "Oh well, opening a pharmacy is a licence to print money, we'll go and put a second one in in a small country town," and then lose both of them. That could easily happen, because the return investment in pharmacy is no better than almost any other store these days. It's only the prescription part that holds it up, as a circular thing. Also, the fact that we carry accounts and we carry large volumes of stock and things like that mean that pharmacy is perhaps not as great a money return per dollar invested as supermarkets certainly are. Their stock turns could be four or five times pharmacy because pharmacy is so much smaller and has such a larger range of stock.

**MR BRAITHWAITE:** Would you see a rural pharmacist scheme working, bearing in mind there is rural doctor's scheme that the minister is trying to get up at the moment? How would you attract people into a country, because even though they might train in a local university or train in a local pharmacy, the trend seems to be that once they are trained they go to a heavier populated area for a lifestyle. Have you any ideas of how you would attract pharmacists to the rural areas?

**DR BROWN:** I believe the real problem is that if we train people in Sydney - when you leave school you are, say, 18 by the time you have finished your training. It is a four-year course and there is another year of graduate after that; you are up to about 23. You have formed most of your social attachments. If you are going to return to the country, having been trained in Sydney, then you usually have to convince two people that they have to come back to the country and those people have to leave their friends.

The most successful training that has been done - this is from my experience - has been the medical school at Newcastle University where people from the country go there and there are more people from Newcastle University go and practise in the

country than there are people from the country go to Newcastle University. I have certainly tried in my time in more official things in pharmacy to get a pharmacy school in Newcastle University and didn't get too far with it, but there is now a pharmacy school in Wagga. If you think about Wagga, not everybody who goes to the pharmacy college in Wagga can get employed in Wagga, because there are not that many pharmacies and hospitals and other things where pharmacists can work, so those people tend to want to come back.

They did a survey last year that said out of 160 students there were only 40-odd that didn't want to go and practise in the country. That makes me believe that that is the secret to it, that we have to train more professional people in rural areas so that they get the taste for rural life and they don't form the social attachments in the metropolitan areas as much.

**MR COSGROVE:** If that approach were not available for some reason or other, could you conceive that a kind of travelling pharmacist system might be viable? I am thinking of what happens for many remote areas with medical services. You might have a dedicated obstetrician, say, in Adelaide, who hops on a plane once, maybe more a week, and goes to deal with cases in remote areas. If it is okay for specialist medical services, you would think, even though it mightn't be an ideal solution, that you could do something like that in pharmaceutical services as well.

**DR BROWN:** I think that has some merit. The real problem is that you have to have a pharmacist on the premises all the time you are open. When you talk about these people like - Collarenebri has had a big problem with this, because the gentleman who owned the pharmacy in Collarenebri was very sick before he died and they had long periods of time when they found it very difficult to get relieving pharmacists to go there. It is always harder to get pharmacists to go to the rural areas, but there are some people who absolutely love it. I could see great benefit in those sort of things. I have even thought that maybe there are ways of large numbers of pharmacists being able to sort of buy some of the western town shops and work in them four weeks a year or something like that, but under the present regulations that is not allowable and whether it is practical or not I'm not sure either.

**MR COSGROVE:** Not allowable because they would be located too close together do you mean?

**DR BROWN:** No, a pharmacist can be involved in one partnership which can own up to three shops, or he can own three shops on his own and that's the maximum. So if you sort of bought the pharmacy in - - -

**MR COSGROVE:** Rather a constraint on growth if you are an efficient chemist, isn't it?

**DR BROWN:** It is a constraint on growth, but it is there to prevent pharmacies being opened without pharmacists being there.

**MR BRAITHWAITE:** A company structure could own any number of pharmacies, as long as there is a pharmacist at each one of them - a corporation?

**DR BROWN:** Companies can't own pharmacies now, only pharmacists can own pharmacies.

**MR COSGROVE:** Yes, I think the only place where it is different is the Northern Territory, where you don't have to be a pharmacist to own a pharmacy, I was told when I went there.

**DR BROWN:** I can understand that.

**MR COSGROVE:** I don't think I have any other particular points to discuss now. Do you have anything further?

**MR BRAITHWAITE:** No, I think you have listed the areas of disadvantage and the areas of advantage and it is not dissimilar to a lot of other comments we have heard coming from country areas, that once one goes the other goes. But you do get some very positive feedback from some of these places that might have been diminishing and coming back in other ways. I think you have described it very well actually. Thank you.

**MR COSGROVE:** Nothing else you want to say to us?

**DR BROWN:** No, if I can be of any help, please let me know.

**MR COSGROVE:** Thank you very much.

**DR BROWN:** Thank you for allowing me to speak.

**MR COSGROVE:** We have now I think representatives of the Country Women's Association. Please come forward. As with our other participants, I would be glad if you could indicate your names and the capacities in which you are appearing today, please.

**MS VANCE:** My name is Mrs Barbara Vance and I am chairman of the study and investigation committee of the Country Women's Association of New South Wales. I would like to thank you very much for the opportunity of being here today to comment on the draft report. Our study and investigation committee was set up by the association to study and investigate pending legislation and matters of concern to country women and their families and it is in this capacity that we are very grateful to be here today to learn of the work you are doing. I would like to ask my secretary, Mrs Connell to read you our comments. Thank you.

**MR COSGROVE:** If you wouldn't mind just mentioning your name as well please?

**MS CONNELL:** My name is Mrs Carol Connell and I'm the secretary of that same committee.

**MR COSGROVE:** Thank you.

**MS CONNELL:**

Although many of the major concerns and recommendations have repeatedly been acknowledged in numerous submissions by the different parties, we feel there are some areas which must be addressed more closely and acknowledging that this draft report has been prepared by the Productivity Commission, this in itself immediately places emphasis on the economic viability and although as a nation we must continue to strive to achieve economic viability, government must recognise that we, all Australians, don't live in an economy, we live in a society.

Many of the proposed reforms equate change with reform and therefore reform must obviously be for the better. Economic rationalism does not take into account social impact. Although many short-term impacts have been highlighted, the longer term impacts on communities, regions and in fact the whole of Australia have not been acknowledged, nor has there been any attempt to address the inequities.

In the overview, it was interesting to note that the commission had travelled widely in rural and regional country Australia, holding discussions with almost 1000 people from all walks of life. It is our view that 1000 people from throughout all of rural and regional Australia hardly constitutes a fair cross-section of views, even though the commission felt it had travelled widely. It is also interesting to note that the commission's task is not to promote NCP,



but to investigate the effects of NCP on people, businesses and communities, especially in country Australia.

This statement alone implies that NCP is now and will continue to be implemented by government, regardless of impact on rural and regional Australia. In relation to population change, it was stated that of 578 towns with a population of between 1000 and 20,000 in 1986, almost half grew by more than 10 per cent in the decade to 1996, of which most of this growth was in coastal towns.

Whilst coastal towns are considered country, they certainly are not rural. With increasing unemployment, particularly in rural Australia, it is far more likely for families to choose to live in coastal areas where services are much more readily available and consequently lifestyle is a premium consideration. Small towns are withering, but not necessarily in population, but in service availability. For many families, moving is just not an option.

Although there is evidence of improved productivity from NCP reforms which has led to reductions in costs and prices across most infrastructure services, including electricity, gas, rail, ports and telecommunications, many of the benefits derived from competition in these areas has benefited the business sector, as the benefits have not been passed on to the consumer.

Service quality is questionable in rural areas. In north-western New South Wales, some communities or individual consumers have had to wait in excess of 10 days for repairs to be carried out by Telstra. Many of the individual consumers in this situation are extremely isolated and have come to rely heavily on the provision of telecommunications. Crediting an account does not correct the problem.

This is a prime example of competition policy failing miserably in its commitment to rural Australians. Even though since January 1998 minimum service standards were introduced, these standards vary by geographic area. We must question why. Surely all Australians deserve a quality of services. Once again, under the terms of reference, Background, it is stated the government wishes to ensure that the benefits of increased competition in the economy flow to all Australians, including those living in rural and regional Australia and that the implementation of competition policy promotes efficiency, economic growth and community welfare.

Yet under the heading Jobs in Country Australia, it is stated that overall the effects of bank branch closures are to be transitional, although in combination with other factors, they may contribute to the decline of some small towns. It has also been stated the deregulation of the petroleum industry is intended to increase competition and benefit motorists and that this has already happened with the advent of the independent petrol retailers such as Woolworths.

Prices once again in north-western New South Wales have not decreased, but have remained basically the same.

Although governments have at their disposal policy instruments to mitigate the adverse effects of some reforms on some country communities, it has also been stated that generally available measures such as social welfare payments, job placement services and general support for retraining will be sufficient to manage the adjustment burden. It is time for governments to recognise that social security payments, job placement services and support for retraining is not a viable option in many instances.

Social security payments hardly can compensate for full-time employment and much higher income support. Job placement services cannot place people in positions if work is just not available. Finally, retraining for many persons, particularly those in the older age bracket, is just not viable. Governments must also acknowledge that with the decline of services in rural and regional Australia, employment options within that community are not available which consequently requires families to sell their home and move to another area. Whilst this is certainly an option, one must question who will buy the homes when employment is no longer available and if the homes are sold, they are usually sold well below the real value, which restricts families purchasing another home in the short term.

The community is dependent on agricultural commodities as their direct income or as indirect income, that is farm workers. It is significant to note that the ratio of costs of production relative to the prices received by farmers for their output was four times higher in the 1950s than it is today. Consequently, the term "get big or get out" in relation to farming and Australia's dependence on international trade, has seen the decline of the smaller farms and the increase in larger farm holdings. This will undoubtedly continue to snowball until eventually the family farm will no longer exist.

It is increasingly apparent that Australia's farming enterprises are becoming more corporatised, although this is not necessarily directly as a result of NCP. The reduction in government assistance to farming and other industries has compounded the inability of many industries to survive. Although most Australians would agree that competition policy is essential if as a nation we are to survive as an economic entity in international markets, it is also imperative that government accepts and responds responsibly to the effects NCP will have on rural and regional Australia.

Government must assist the rural communities affected directly by NCP through consultation, alternative income generation and economic assistance in the short term. There is an obvious lack of understanding by governments both past and present during periods of drought, enterprise development, diversification, land care development etcetera that rural industries require monetary assistance in the form of grants not loans as the ability of that

business to repay a loan or to even qualify for a loan is not understood. Whilst governments cannot be everything to everyone, comprehension of actual reality is severely lacking.

In relation to water trading, the Victorian government stated moving water to users who value it more highly has the capacity to make new developments possible without the need to construct new dams. Although we agree that our river systems must be managed more efficiently in relation to water allocation and environment and ecological sustainability we do not agree with the concept of water trading as put by the Victorian government.

Water trading, or the selling of water/irrigation allocation licences from one river system to another will eventually result once again in the over-allocation of water from one system and consequently the decline of water quality. Australia must begin to value water more highly rather than continue to take from the environment without thought of the long-term effects. We do agree that the allocation of water licences should be linked from state to state where river systems are linked.

As country Australia relies heavily on road transport governments, both state and federal, must ensure sufficient funding is made available for both the upgrading and maintenance of all state and national roads. Many country roads are poorly maintained and governments must be made more aware of the importance of country/rural road grids, not only as a means of transport of goods but also as a means of communication and interaction.

Following the corporatisation of Australia Post in 1989, all Australians expected services to be at the very least maintained if not improved. Express mail supposedly ensures delivery in some cases overnight, for which the consumer pays. The assurance of overnight delivery cannot be adhered to and consequently the consumer has paid for a service which cannot be delivered. Government be the watchdog to ensure services to which a provider has made a commitment are maintained.

The deregulation of statutory marketing authorities must be investigated much more closely. Since the deregulation of retail milk prices it became obvious that NCP and deregulation are not always for the best. Before further deregulation were to occur in any area there must be full consultation with the vendors and the consumers. Deregulation should not be taken for granted by government. Deregulation of retail trading hours has been of benefit to many rural communities although some small retail businesses may have been disadvantaged. We feel the majority of Australians have benefited from the introduction of extended hours of retail trading. These hours also particularly benefit part-time workers and shift workers.

In summation, whilst there have been and are benefits to the community from the NCP it is apparent that rural Australia as opposed to regional Australia has

not been able to capitalise to the same degree and ultimately has lost in many areas, particularly in the quality of services. The loss of employment prospects and ultimately population in rural communities is of great concern. It is unfortunate that this draft report did not distinguish between rural and regional Australia as rural Australia is being and will continue to be affected more dramatically by NCP than regional Australia. Should there be a winner it will obviously be regional Australia as business enterprises will only establish in larger more economically viable communities rather than communities reliant on agriculture and with high unemployment rates. It is essential that government acknowledges the problems facing rural communities and ensures support is made available.

Thank you.

**MR COSGROVE:** Thank you very much. I think it's pretty clear you've taken a very careful reading of the draft report and I don't think I could attempt to react today to all of the very considered thoughts that you've provided to us, for which we are very grateful. The point you make about rural Australia being different from regional Australia is I think one which we might need to reflect upon. In fact, I recall at a couple of places people were telling us we had to really look at three R's - regional, rural and remote.

**MS CONNELL:** Yes, that's right.

**MR COSGROVE:** Now, to some extent we've been constrained by the unavailability of the necessary information to conduct an analysis at that level of geographic detail. We have good population statistics and some other social data to enable us to distinguish between rural and regional but once you move into economic and social analysis in a broader way it's really pretty skinny, I'm afraid. We don't have a lot of information to play with there. I guess there are a couple of points I should try to clarify.

You've suggested that more or less by dint of our name we're not so keen to look at social effects and I suppose it's true that for much of its history this organisation has had several labels over the last 80 years, most of its work has been of an economic analysis kind but increasingly we're now involved with matters which require us to look as carefully as we can, given our information constraints, at social effects. For example, there's a draft report to be released relatively shortly on the gambling industry, which is bound to have quite a bit to say about social matters.

We did an inquiry into charities four or five years ago, and in this one, I mean, our terms of reference do require us to look at social effects as well as economic. We're trying to do it. It's not always easy, again because of the difficulty of getting your hands on really useful, relevant information but we've tried to take account of things like losses of employment, deterioration in service provision, adjustment issues - and I want to come back to that. Maybe we haven't done as good a job of that as we should have but we have tried.

I could imagine also some people, on a different matter - that is, what is rural and what is regional - having different views. It strikes me for example that many of the dairy farmers with whom we've spoken to date, even though they might be on the coast and in fact in some cases quite close to capital cities even, would probably still tend to see themselves as rural as much as regional. So to some extent it's in the eyes of the beholder.

Now, as I said, I wanted to come back to just a couple of specific issues. One was what you were saying about adjustment - the lack of understanding about the circumstances faced by rural communities during periods of drought and so on:

Rural industries require monetary assistance in the form of grants, not loans -  
and -

Governments have to have a comprehension of actual reality.

I can't find the words now but I think at one point - - -

**MS CONNELL:** There it is. It's on page 3.

**MR COSGROVE:** - - - you're really suggesting that governments need to try to do a fair bit more to help rural communities which are in decline. Now, it's not easy to see exactly what they can do. There is already, as you have pointed out, an array of social safety net measures of one kind or another. There are some more specific agriculture-oriented programs to help people adapt to change. But I was wondering if you had anything more concrete in mind there - or perhaps it could be something that you could discuss further in your association before you finalise your submission to us. I mean, our perception is, at least at the draft report stage, that it's quite a mixed bag in terms of successes and failures that governments have had in trying to assist industries in particular, whether they be located in the country areas or in the metropolitan areas. They can step in with the best of intentions but with the worst of effects, if you know what I mean.

**MS CONNELL:** That's right, I know what you mean.

**MR COSGROVE:** Not always. I think there are some examples where things have gone a little better. But this is an area which we have addressed today, I would say, in pretty much a conceptual way, without coming up with a great deal in the way of fresh insights into how communities can be assisted by their elected representatives. If you had any experiences, through the association's store of knowledge or any fresh ideas in that area, then I think we would be very glad to have them, because there may be some important issues of this kind associated with the implementation of competition policy reforms which may call for a little more in the way of government intervention than presently occurs. But I would have to say that as of the draft report

we hadn't really been able to confidently say where and how governments might successfully step in to help.

One area may well be decentralisation, if you like, of government services of one type or another. We have had a number of people say to us - and you yourselves might have mentioned it I think - that in recent times governments have centralised a lot of agencies, offices, or other matters like Telstra depots and railway workshops and the like. Now, at the same time we have governments, at least at the levels of the Commonwealth and the states, saying, "We believe in regional development and we've got in place a regional development policy." So they seem to be cutting across their objectives.

**MS VANCE:** But they don't seem to be getting anywhere, do they?

**MR COSGROVE:** Well, they may not, but they may in fact to some extent be contradictory. Some things that they do might be genuinely seeking to - and perhaps achieving some success in bringing about some regional development. At the same time they're taking other actions which are really cutting across regional development.

**MS VANCE:** They take it away.

**MR COSGROVE:** That's another difficult area I think. Experience suggests it's a difficult area for governments to get right.

**MS VANCE:** The cutting of government services to many regional areas has caused a lot of hardship really.

**MR COSGROVE:** Yes. Is that across the Commonwealth and state governments, would you say, or more so one than the other, or not?

**MS VANCE:** Not more so.

**MR COSGROVE:** It's been common to both.

**MS VANCE:** I think, you know, the state with the - and taxation, education, health services - I mean, a bit of both. Someone brought up at our meeting the other day that people should regard rural communities as a large strong tree, with branches covering the whole of the nation. But when the branches are cut off by government services and other services being cut off, the tree will wither and die, and then what happens to the nation? It bears thinking about, doesn't it.

**MR COSGROVE:** Yes, well, in the end I think it's a question of community social preferences. I think we're seeing in fact this - at least if you think of the population in the capital cities and the population outside the capital cities - there was a really big shift away from the non-capital city parts of Australia in the earlier parts of this century, you know, up until about 1970. The country, broadly defined here - you

know, everything except capital cities - their share of the total population halved, from about two-thirds to one-third in the first 70 years of this century. Since then it has been relatively stable, although, as you and others have noted, within the country you've got movements away from the hinterland to the coast, from smaller towns to larger provincial centres. So there's quite a bit of demographic change occurring and it's not easy to generalise.

**MS VANCE:** The young people looking for work.

**MR COSGROVE:** Yes, to some extent I think that's right. But they also seem to be expressing personal preferences as to where they wish to live, even if they might be able to find employment in other locations. We've been to some places, for example, where we're commonly told - country places I mean - "We can't get enough skilled tradespeople." We have very low rates of unemployment by the current national standard, maybe 3, 4 per cent instead of 7 or 8. So it's not as though in all locations there are not employment opportunities for people, but for some other reason they are deciding they'd rather be elsewhere. It's difficult to put a stop to people's wishes as to where they choose to live.

**MS VANCE:** It has been brought home to us that there's a lot of young people who are retrained in these new schemes, but there's nothing at the end of the training for them and living at home with the family - they'd prefer to live at home in many cases, but they feel they have to go and try to find employment somewhere else.

**MR COSGROVE:** Would you say that's more the tendency in the smaller towns or is it common also in regional centres like Tamworth or other - - -

**MS VANCE:** It's common in both.

**MR COSGROVE:** I see.

**MS VANCE:** Another thing that is brought to mind that you might like to know about, that has been a matter of concern to us, the Rural Retired Farmers Assistance Scheme, do you know of it?

**MR COSGROVE:** Yes, I've heard a little about that.

**MS VANCE:** There has been a lot of problems.

**MR COSGROVE:** I hadn't known that.

**MS VANCE:** The conditions - I think it was a wonderful idea of the government in the initial stages, but implementing it doesn't seem to be very successful. There has been a lot of hardship and a lot of - - -

**MS CONNELL:** The guidelines are very narrow, with Centrelink anyway - at least they were and I imagine they still are - so that if it was a family farm and there was

sort of, you know, mum and dad and, say, the son working there, regardless of the size of the farm depended on the income of that farm as to whether that farmer qualified for any assistance at all. Apart from farm income, if the farmer's wife was working, that income was also taken into account. Now, that may all seem very nice and sort of, you know - and that's okay. If she's working, obviously there's extra income coming in. But as a farming enterprise in itself it wouldn't be viable, or it wasn't viable in many cases that I'm aware of anyway, without the income, without outside income. And that's what isn't taken into consideration, I don't believe anyway.

Also, as far as employment is concerned in rural areas I think you've got to take into account - I don't know, the Bureau of Statistics when they take their figures or whatever, but a lot of the employment in rural areas is of an itinerant nature anyway, it's seasonal, and I don't think a lot of that is taken into account either. Having studied statistics, I mean, there's many ways you can get your figures so - - -

**MR COSGROVE:** Yes. Do you see any particular implications of that itinerant nature of the workforce from the point of view of competition policy reforms?

**MS CONNELL:** I suppose in rural Australia, in north-western New South Wales in particular - we'll talk about that because that's the area that I know. But certainly sort of in the cotton industry or sort of in the grain industry you have a lot of itinerant workers there. I guess in respect of competition policy, yes, everything is becoming more corporatised and of course technology is taking over. So therefore we do have the need I guess for less workers. But I don't know whether - I'm not too sure that competition is going to really impact I guess significantly there. But yes, that's just another consideration.

**MR COSGROVE:** Another point you referred to, which you might be able to help us a little on, is petrol prices.

**MS CONNELL:** Yes.

**MR COSGROVE:** You've said that despite the advent of independent retailers such as Woolworths, prices in north-western New South Wales have not decreased but have remained the same.

**MS CONNELL:** Basically the same, that's right.

**MR COSGROVE:** Yes. So there was no effect on retail prices once Woolworths set up?

**MS CONNELL:** In Gunnedah for about two or three weeks, yes, and it was just marvellous to think that they actually dropped their prices for about two or three weeks. But then there was the increase again and - you know. I mean, that just really isn't good enough as far as I'm concerned.



**MR COSGROVE:** What time period, how long I should say, have Woolworths been in Gunnedah?

**MS CONNELL:** Have they been in Gunnedah?

**MR COSGROVE:** Yes.

**MS CONNELL:** As with the petrol.

**MR COSGROVE:** With their own petrol station, yes.

**MS CONNELL:** Gosh, I don't know, probably - - -

**MR COSGROVE:** A year or two?

**MS CONNELL:** No, I don't know. It would be probably about six months, probably six or eight months, probably not all that long.

**MR BRAITHWAITE:** What you're saying, fuel prices decreased for a while.

**MS CONNELL:** For about three weeks, yes.

**MR BRAITHWAITE:** This is generally over all the - - -

**MS CONNELL:** This is generally across the board. I'm just talking about Gunnedah now.

**MR BRAITHWAITE:** No, that's okay. And then the price is raised again.

**MS CONNELL:** Yes.

**MR BRAITHWAITE:** Did it raise again at Woolworths?

**MS CONNELL:** Did they rise at Woolworths? I don't know, because I didn't go back there. I mean, they're usually about one or two cents - - -

**MR BRAITHWAITE:** Yes, it's a discount situation.

**MS CONNELL:** That's right.

**MR BRAITHWAITE:** You've got to produce the voucher, yes.

**MS CONNELL:** Yes, so that's - - -

**MR COSGROVE:** Yes. We've seen this phenomenon of course as we've been travelling around and the pattern seems varied. There are some country towns where,

so we're told, the arrival of Woolworths has had a sustained impact in lowering the retail price of petrol. But there are others, such as the one you were just describing to us, where it seems to have been a temporary effect.

**MS CONNELL:** Very temporary, yes.

**MR COSGROVE:** I don't know why that should be so.

**MS VANCE:** It was temporary in Tamworth too. It didn't go down and stay down.

**MR COSGROVE:** Woolworths seem to be genuinely seeking an increased share of the petroleum retail market, which would - - -

**MS VANCE:** But then you have to take into consideration the psyche of the country person who doesn't like to see the fellow down the road, you know, being put out of business, so they don't always go to Woolworths. I've torn up so many of those discount vouchers. I won't go to Woolworths. I go to the fellow - well, he's got a family to look after. We look after our own, sort of thing.

**MR COSGROVE:** Yes.

**MS CONNELL:** And perhaps that does come back to a collusion between private operators, whether we like to admit it or not, or whether it seems fair or whether it doesn't.

**MR BRAITHWAITE:** Could I just ask what the breadth - the scope of New South Wales your membership is drawn from? We're in Tamworth, we're quite likely to assume it's all around Tamworth. But how widely spread is the membership of your committee?

**MS VANCE:** The membership of my own committee takes in western Wagga, Junee, Adaminaby, Nambucca Heads, Coffs Harbour, a fair bit of the state there.

**MR BRAITHWAITE:** So you've got some coastal towns or coastal regions in that too.

**MS VANCE:** Yes.

**MR BRAITHWAITE:** No, I was just wondering what the extent of it was. So your presentation is able to get a fairly good scope of things.

**MS CONNELL:** Very wide, yes.

**MS VANCE:** Very wide. Albury, we've got another one, a member from Albury, down there.

**MR BRAITHWAITE:** We have made some requests for information and perhaps the next witness will probably be able to deal better with the SMAs. You know the effect of the SMAs on country and regional Australia. But one that you might like to comment on - and I'm not sure how applicable it is in New South Wales, "The efficacy and costs and benefits of fringe benefit taxation concessions and income tax zone rebates." Now, I'm not sure to what extent New South Wales participates in that, but it is a form of adjustment through a tax system. Have you got any views on that?

**MS CONNELL:** Can you just read that again to me please.

**MR BRAITHWAITE:** "The efficacy and the costs and benefits of fringe benefit taxation concessions" - because in some places this applies to rural producers and also lines - "and income tax zone rebates".

**MS CONNELL:** Well, I think for rural New South Wales they're really important. I mean, once again it comes back to the previous speaker who we were talking about. How can we encourage people to come to the country, come to rural Australia? Fringe benefits, all right then, you have a house supplied, electricity, power, car, things like that. They shouldn't come under the fringe benefits legislation, as far as I'm concerned anyway. That's another way to get people there and I think the other thing is that in rural Australia, in employment situations, as much as you have a basic award rate - although a lot of that has probably gone out the door now with negotiation - you still have a basic award. But if you have those other things on top of that, that all adds up together. But perhaps in your cities you won't get the fringe benefits down there. You'll probably get a higher rate of pay, I don't know. I don't know what happens and I don't particularly want to know.

**MR COSGROVE:** It depends on the employer's taxation perspective, I think, and the employees.

**MS CONNELL:** Yes. But that's another way of encouraging people to come to the country, is to sort of ensure that those fringe benefits are not taxable if they're not taxed.

**MR BRAITHWAITE:** Yes, a lot of the packages that are in the city are based on fringe benefit taxation as far as the package.

**MS CONNELL:** Yes.

**MR BRAITHWAITE:** And I can understand your point that in the country those things are basically a necessity to get your pharmacist or your doctor or somebody else - - -

**MS CONNELL:** That's right, yes.

**MR COSGROVE:** Anything else?

**MR BRAITHWAITE:** No, just the quality of services interested me. You know, what's your broad perspective with national competition policy about the quality of services that are now being offered across the board, are they improving or just remaining static, or getting worse?

**MS CONNELL:** I suppose it just probably depends on what area you want to pick really, but I wouldn't necessarily say that services are improving. Certainly in some cases I'd have to say that they've probably declined. There seems to be less services within a particular service area. I'd leave it at that. That would just be my opinion anyway. Within particular services areas I think there has been a decline. Perhaps in other service areas there has been an increase in service quality or whatever.

**MR COSGROVE:** This too is an area which we found difficult to get on top of, information-wise.

**MS CONNELL:** Yes.

**MR COSGROVE:** But the Australian Communications Authority, an independent federal body, now compiles - I think it's quarterly information. Anyway we've calculated it over the year 1998 on the fault repair performance of Telstra and what that showed was that the remote areas were actually not being very well serviced at all, you know, with performance only about half what the standard required, but interestingly that the rural areas were actually getting better quality service than the metropolitan areas.

**MS CONNELL:** Well, it must vary depending on which region.

**MR COSGROVE:** No, I take your point about the different standards that apply. You know, it's fixed within one day in the metropolitan, two days in rural and three in remote. These figures are based on those standards.

**MS CONNELL:** Yes. I do know that - well, Blatta area which is up near Moree, I know they've been waiting now for at least - up until last week it was 10 days, to have their phone fixed. Now, it wasn't due to any sort of flood or drought or any such thing. There was nothing at all like that and that has been going on now for something like 12 months, 18 months, and they will have it fixed. The phone might work for a few days a week or whatever. The next minute it's out again for another 10 or 12 days and it's just promises, promises, promises and nothing happens.

**MR COSGROVE:** Mind you, I have a close personal acquaintance who used to work for the old PMG in Queensland and in his youthful days he was telling me it took four years to fix a switching station.

**MS CONNELL:** Thank goodness we've come a long way.

**MR COSGROVE:** So we need to keep in mind sometimes the historical perspective.

**MS VANCE:** When we have anything go wrong with our phone we have to wait for them to send people down from Taree, all the way up to Tamworth. It doesn't make sense to me really and sometimes they have to stay overnight. Well, I just shake my head - and the same with North Power. We have to ring Port Macquarie once we have a blackout and, "Oh, well, we don't really know what's happening yet. We'll let you know," and it might take an hour and they come back and say, "Well, somebody should be on the job soon." Well, we never had that problem when the local fellow was here. There was never any problem at all. The quality of service was there. As far as Telstra's concerned, well, I'd rather not say anything but the public telephones here are just shocking.

**MS CONNELL:** But I guess that is just up to the individual provider, isn't it?

**MR BRAITHWAITE:** The comments you are making, they can be given right across Australia and it comes back to the compilation of this and you just wonder with these type of complaints you are talking about, the 10 days on, 10 days off type of thing, whether they are subject to an official complaint that is registered. That is the other point, too.

**MS CONNELL:** Yes, I do know that complaints have been made and I don't know whether people just don't register - whether Telstra don't make a note of it, or whether, as has happened previously, where you make a complaint and then after 10 days it is wiped off the computer or whatever and then you complain again. I know that does happen in government departments, Commonwealth departments in particular.

**MR COSGROVE:** There is now a specific standard, customer standard guarantee which on pain of meeting it, can involve a penalty to the carrier involved. Maybe it too doesn't work as it was intended to.

**MR BRAITHWAITE:** I have just noted your comment about the rural rage issue, that the maintenance isn't there and trying to attach that to a national competition policy philosophy, are you concerned that with national competition policy that the government might feel less obliged to make special cases for roads, for water, those other infrastructure things than what they might have otherwise, because national competition policy might give them the excuse to opt out. Was that your concern?

**MS CONNELL:** Yes, it is a way to opt out of that responsibility. I think regardless of what comes under the national competition policy, regardless of what is deregulated or privatised, there has to be a watchdog somewhere along the line and to me it should be the government - or maybe it should be private, I don't know. It just really depends on what the perspective really is, on which one it is, but yes, there is always that option to opt out.

**MR COSGROVE:** We do thank you very much for the effort you made to react to our draft report and we understand you will be processing this submission perhaps a little further and then send it on to us?

**MS CONNELL:** Yes.

**MR COSGROVE:** We look forward to the final product. Thank you very much.

**MR COSGROVE:** Now, we have as our next participant the New South Wales Farmers Federation. We would be grateful if each of you could indicate your names and the capacities in which you are with us today please.

**MR PERRETT:** Thank you. My name is Keith Perrett. I'm a farmer and grazier from Gunnedah. I also sit on the executive committee of the New South Wales Farmers Association and I am deputy chairman of the business, economics and trade committee of the association.

**MR GIDLEY-BAIRD:** Angus Gidley-Baird, research assistant with business, economics and trade committee of the New South Wales Farmers Association.

**MS JORDAN:** Beverley Jordan, economist at New South Wales Farmers Association.

**MR COSGROVE:** Thank you very much. I see you have provided some further material for us here. I haven't had the time I'm afraid to look at it today, but you might wish to draw the main points of it to our attention.

**MR PERRETT:** Thank you. Good afternoon, commissioner, and good afternoon, ladies and gentlemen. Firstly, thank you very much for the opportunity to present to you this afternoon. The association appreciates very much the opportunity to present in person to you.

The New South Wales Farmers Association represents some 15,000 farmers which are engaged in broad agricultural pursuits from oyster growing, intensive agriculture, sheep, cattle and grain production. I am elected each year at our annual conference which is held in July which is coming up in about three weeks' time, where we determine our policies as it relates to farmers and issues. We represent farmers on a full range of issues from their businesses to what affects their lives, such as social issues as well.

The association supports the thrust of national competition policy. We certainly welcome the general direction of the Productivity Commission's report. We recognise and we welcome the long overdue recognition that the benefits are less likely to accrue in country areas as they are in metropolitan areas. We support the recommendation that there be no across the board extension of the national competition policy target dates and that the reform process continue broadly as planned. There needs to be some changes to the implementation schedules, but these need to be negotiated on a case by case basis as necessary.

Our members' concerns are mainly with the failings, whether perceived or actual, of the implementation process to deliver the benefits that the policy promises. We wish to make it very clear that our concerns are with the failings of the process, not with competition policy itself. The principles we endorse and we support. However, if the reform program is to continue with the

support of country Australia, these failings will need to be effectively addressed.

Such things as promises of standards of service, such things as a reduction of costs not flowing through to the country areas need to be addressed. It would be fair to say also that country Australia is probably getting tired of the promises of government or the failings of governments to deliver on those promises. We can't afford to lost the momentum of the reforms that improve the way we use out scarce resources. It must be maintained to ensure benefits are realised Australia-wide, but more must be done to ensure that these benefits flow back to regional Australia. Any decision to halt the national competition process will only serve to delay the future benefits.

Competition policy has the potential to produce benefits for all Australians, through lower input prices, improved level of services and increased economic growth as a direct result of these efficiency gains. Reforms to the domestic market are a major reason why the Australian economy is able to grow and reduce unemployment through a period of world economic crises in which nearly 40 per cent of our export markets have been in deep recession. The ratcheting up of our economic efficiency is integral to our survival in the face of globalisation to our ability to take advantage of opportunities that might arise from the next round of trade talks, particularly the rural sector. The rural sector relies on the export market and the only way we can increase our profitability is through increased efficiency and a reduction in our costs. We would hope that competition policy can deliver that.

The reform process is only partially complete. Some programs have a way to go, such as electricity reform in New South Wales, where costs have fallen for big business by average of 30 per cent, yet we are yet to see the flow on of the benefits coming through to rural Australia. Other areas have to be reviewed and some areas, such as labour, have been excluded and we see that as a failing, the inconsistency of competition policy where some sectors are excluded.

Your work has illustrated what country Australians already knew, that the theory does not always work, that the benefits do not always flow back and that country Australia is more likely than metropolitan Australia to bear the costs of reforms, especially those reforms that go wrong and we can cite the examples of the egg reforms in Victoria, milk deregulation in New South Wales and Victoria as reforms that haven't delivered the expectations that they should have under competition policy.

It is in this context that we are disappointed that the commission has not seen fit to make recommendations that improve the accountability under the process. There are feelings that the national competition council does not understand the marketplace and does not follow through with its reforms. There needs to be some assessment of the implementation process and the outcomes of the



reforms, if only to prevent the same mistakes from occurring in the next review.

The association certainly welcomes the acknowledgment that rural and regional Australians will not receive the same level of benefits from the reform process as those in urban areas and that the costs they face will tend to be higher. We believe this is attributed to the relative lack of contestability in regional markets. This limits the choices available to those required to adjust to changes. Virtually what we are saying is people living in regional and rural Australia should not be discriminated against because of where they live. Our businesses need to compete on an equal footing that our city counterparts do.

There is an Australian maxim that there should be a universal minimum standard, a standard of service, a standard of access to basic services without discrimination on the basis of location. We certainly see that there is an unacceptable vacuum developing in this area. Regional Australia shouldn't be disadvantaged for the creation of private monopolies and there is the potential under competition policy for this to occur if the marketplace is not properly understood.

We therefore seek guarantees that the same level of services provided to other Australians is available to the regions at an affordable price. Price is not the only issue. We need to ensure that that level of service is there as well as the price being competitive.

I note the comments of our previous speakers, that certainly in the field of telecommunications we do not seem to be able to access that same level of service that our city counterparts do and I have already given you the example of electricity reforms, where the cost reductions have accrued to the big end of town, but they certainly haven't flowed through to rural and regional Australia. The government needs to make good on what service obligations it has already given to us, such as Telstra's 64-kilobit access.

The association acknowledges that national competition policy does not preclude the use of these community service obligations and we certainly welcome your statement that national competition policy should not be used as an excuse by governments to abrogate their responsibilities for the provision of adequate services to country communities. However, I would have to say that we are disappointed that the Productivity Commission has not explored the difficult issue of defining CSOs.

I would have to say we can contrast reluctance of the governments to go down that path of defining some of those CSOs with their readiness to include compensation payments in their budgets to what they would determine needy people in relation to other legislation to other legislation going through.

Further research is certainly required to determine the actual costs and benefits

of national competition policy on all Australians and in particular, those living in rural and regional Australia. All reforms should only proceed on the basis that the benefits outweigh the costs and not simply to fulfil national competition policy obligations. The benefits and the costs of national competition policy must be better communicated to those people in rural and regional Australia.

Currently, people are not seeing the full picture and therefore they cannot form an accurate judgment of what national competition policy is or isn't delivering. The government needs to address the legitimate concern that individuals in rural communities are disadvantaged in the process because of market failure and because of the lack of understanding of what national competition policy should deliver.

Rural Australia is less likely to reap the benefits and more likely to face greater adjustment costs than metropolitan areas and the NCC certainly recognises that the benefits of reform may weigh more strongly in favour of urban communities with access to markets with vigorous competition. The level of information provided to the public on the principles and workings of national competition policy has been insufficient. More effort needs to be made to inform all members of the public as to what NCP involves and requires.

While the association endorses the reports and recommendations that reviews should be based on genuine public input, with greater transparency and we are disappointed that the commission does not go further and attempt to address the systematic imbalances inherent in such a process. Rural and regional Australia are unfairly disadvantaged and inadequately resourced to fully participate in the review process, particularly in those processes dealing with the reform of infrastructure services.

Participation requires a high level of technical expertise and a reasonable commitment of time and resources. Governments must ensure that sufficient resources are made available so that rural and regional Australia have equitable opportunities to participate in the review process. The process relies on public regulators holding public consultations and reviews in ever growing numbers in rapid succession. In infrastructure reform, those who stand to gain the most have better access to technical expertise.

Individual consumers such as farmers do not have the resources to match the necessary level of technical support. The debate in these review processes is anything but balanced.

I can relate to you some of the reviews of grain marketing organisations, where those who stand to gain the most from the adaption of their belief of what competition principles should hold certainly had much greater resources available to them, such as multinational trading companies, than those of individual farmers who stand to lose the greatest.

Funding should be provided to ensure that user groups are properly resourced to the minimum, through increased funding to agencies such as ABARE, to fill the void of information, and can participate in a balanced debate in the review process. In the event that the NCP will affect specific rural communities and industries more heavily than in other areas of the state, a need for specific assistance, beyond that which is provided in general assistance, is required. Compensation should be provided to those people most disadvantaged by reform. I note that the NCC suggests that additional assistance should be offered to those directly affected by particular reforms.

The association welcomes the recommendation in the draft report that governments publish and publicise guidelines for the public interest test. Again we would encourage you to develop this further and to strengthen the recommendation. We believe it's important that the application of the public interest provisions is more consistent across reviews. There is little or no guidance or consistency in past reviews on determining the relevance and the relative importance of the different criteria in a particular reform.

We have battled to change the very wrong impression people have that all agricultural marketing arrangements are unjustified protection at the expense of the consumer. We would suggest that these should be assessed on an individual basis, to determine their net worth to the economy and the community as a whole. The NCC has indicated that compulsory marketing arrangements will be retained if it can be demonstrated that they provide an overall community benefit and are the only feature way to obtain that benefit.

However, the NCC needs to understand how the marketplace works, how producers react and think and how larger companies would react if some of those protections for individual producers are removed, and it needs to understand that the removal of some of those measures may not necessarily flow through to the consumer.

If I could give you the example of, say, malt barley, where less than half a cent of barley per glass of beer goes into the production of that beer, it's very hard to ascertain that the community will receive a benefit if the price of barley is reduced.

In closing, I would like to commend you on the work you have done but urge you to strengthen the recommendations to address some need for improvements to the current implementation, to prevent the net costs accruing to country Australia and to assist country Australians to participate on equal terms in the process.

Thank you.

**MR COSGROVE:** Okay, thanks, Keith. I should perhaps clarify what the draft report said about the effects of NCP on rural and regional Australia. I think the story

is in two parts. The first part, which stemmed from our analysis of the effects to date, did suggest that the effects had flown first of all more to large enterprises than to small enterprises and, secondly, to a greater extent to businesses than to households. That led us to the view that in that early stage - effects to date - it probably was the case that the principal benefits had flown to the metropolitan areas rather than the country areas, although I don't think we have said - and I would need to read the relevant bits of the document again - but I don't think we actually said that even to date there had been, if you like, overall net costs to rural and regional Australia.

The second part, which was based on our attempt to try to find some indication of what the long-run effects of policy might be - and for that we used some regional economic modelling - indicated that if you looked at rural and regional Australia as a whole, accepting our definition of what that was, that over say a period of five to 10 years there would be net gains in output and - well, except for one region - and also for all regions in terms of output for a person working. But - and this I think was the interesting point - there was quite a diverse set of results across the regions. Some of them - particularly if one looked at employment, estimated employment effects, also on the output side - would do very well, and others would do rather poorly.

So I think the main long-run story that we were trying to portray was one of a quite differentiated set of impacts, but as I say, if you take our definition of rural and regional Australia as a whole, we felt that there would be gains over all, but a diverse pattern. I was interested though particularly in what you were saying about the implementation failures as you called them, in areas such as service standards and I think from what we have heard again today, there probably are some significant problems there, but more in terms of my question to you now, the failure of these reforms to deliver cost reductions for people in the country.

As I said, to date we do think that the main benefits have flowed into the metropolitan areas, but in our earlier discussions around country Australia we heard from a number of rural councils for example, if they were sufficiently large and you have to bear in mind that there is this minimum contestable usage of electricity to be able to negotiate price reductions, but a number of them had received what they regarded as quite worthwhile declines in their power bills and there are also some large businesses of course in country areas which would again be able to benefit from those savings in power costs and also so we were told, in improved freight costs, maybe not everywhere, but in this state we certainly heard there had been some significant improvements there and also in Victoria.

Of course the gas deregulation notably in Western Australia, but not only there, has, so it would seem, had some significant benefits for country areas as the pipelines have been extended into those areas. Would you not agree with those - - -

**MR PERRETT:** I would certainly agree that larger councils and larger businesses may have achieved some better prices for their electricity and hopefully those prices would then flow through to the consumer. But on an individual basis and on a small

user scale, particularly farmers, those benefits are not flowing through. In actual fact we can see the costs increasing. At one stage when we had the previous set-up of county councils delivering electricity to regional Australia, to rural Australia, there were certain amounts of money that were built up and held by those councils which were there to provide infrastructure in the future, which were there to provide maintenance in the future.

When the state government in this state decided to go down the path of reforming the electricity industry, what it did is it relocated those funds from those individual county councils and they were lost. What is now happening, the electricity providers are not reducing the prices to rural communities or to individual farmers, but they are going down the path of wanting farmers to now pay for the maintenance of the lines or the poles and the equipment that is there to service their electricity needs. We have certainly seen a push from some councils to register poles as private poles and as they need to be replaced they will be at the farmer's cost and where the farmer believes they were already paid for, the farmer believes that he had already paid a higher price for his electricity in the past and therefore that maintenance would be done across the area that was controlled by that county council. So therefore those costs are not flowing back individually.

**MS JORDAN:** If I can just add to that, essentially I think the point that we were trying to make clear is that we believe that the reform process actually hasn't yet delivered what it has the potential to deliver in rural areas, particularly to small business and to operations like farmers and the electricity reforms in New South Wales are a good example, because particularly for rural business it is only if you are a significant user of power that you are yet able to access those reduced fees. So I think the sense that we were coming from there was in supporting the idea that the reform programs need to continue, because rural businesses are bearing the costs now and if the reform program slows, the benefits that could accrue to them won't or won't be delivered as quickly.

The other point was the illustration Keith gave you about private poles I think is quite a good example of how the imbalance exists in a review process that is probably one of the better examples of a consultative open process. The way in which that happened was as part of the normal review of the regulated tariffs and the costs of maintaining those poles was already within the regulated tariff. The, I think lack of resources available to individual users means that they are not able to be continuously part of that review process in quite the same way as the companies that stand to gain from increases for example in those regulated tariffs.

**MR BRAITHWAITE:** So what you are saying is there has really been no real statement of principle about how these reforms will take place and as they do go ahead, various governments implement their own interpretation of how they might do it. They will get the tariff on one hand but they then don't spell out what might happen - - -

**MS JORDAN:** Even where that reform process is open to public participation, particularly with infrastructure reforms, to really participate in a balanced debate you need a fairly high level of technical expertise. Now, the companies that are participating in that debate can afford to bring that expertise to the table. User groups can't, and as the government cuts its funding to government research bodies for example, that information isn't even available from what we think of as the traditional sources of it.

**MR BRAITHWAITE:** I did notice a certain inconsistency in your statement where you mention there shouldn't be any halt in the process and then you turned around and said, "Reform should only continue if benefits outweigh the costs." There seems to be a contradiction in those terms. So what did you mean by, "Reform should only continue"?

**MR PERRETT:** If you go back to the original concept of national competition policy under Hilmer there was certain provisions in there to ensure that individual communities or the costs of competition policy reform were not - sorry, the benefits were not outweighed by the costs, and we need to state that time and time again, that those benefits need not be outweighed by the costs. The process itself must continue to deliver the expectations.

**MR BRAITHWAITE:** So what you're talking about then is liberalisation, or not liberalisation but a closer look at public benefits, community service obligations, statutory marketing reviews. Are you happy with the process there?

**MR PERRETT:** I think the process has been inconsistent. If we look at the review of the ABB in South Australia and Victoria, there was a private economist was engaged to put forward a report, which was very selective in the data it used. If you'd selected any different sets of data you could have come up with numerous differences in the outcome. Certain data was selected there which I believe gave a biased viewpoint. If we then look at the review of the New South Wales Grains Board - which are two very identical sorts of boards: the Barley Board and the Grains Board deal with similar grains, similar structures. The minister in New South Wales appointed a review panel which was made up of ourselves - a representative from ourselves, a representative from the Grains Board, then some economist from the Department of Agriculture plus a number of people that would represent private traders.

Certainly the private traders had vast resources available to them. There was some economic modelling attempted to try and ascertain whether there was a net public benefit. At the end of the day it was very, very difficult for that modelling to ascertain whether there was or there wasn't a public benefit. The modelling needed was far too complex and I would say was not assisted so much by the input of those from the private sector either that saw a great advantage in having a market deregulated. If you look at the very aspect of - a marketing board is there to market the grain on behalf of growers, whereas a private trader by its very nature is there to

maximise its profits. If you look at that scenario, the loser will always be the supplier of the input.

**MR COSGROVE:** What's the difference between trying to make a profit and trying to provide a service to growers? Must there be a difference?

**MR PERRETT:** There is a difference in the way it actually takes place because the profit does not flow back to the grower and does not flow back to those rural communities, and that's the major difference.

**MS JORDAN:** There's not necessarily a difference in objective. There is a difference in outcome for the individual farmer. But I think one of the points there, if we look I guess beyond the actual issues around the grains boards, is the difference in the process used. Victoria for example was a fairly non-inclusive process with the appointment of an individual consultant. The New South Wales process was a lot more inclusive, a lot more open to public scrutiny, and there's that inconsistency in the actual approach adopted.

Another inconsistency that I think is of major concern to individuals who stand to lose out of the review, but I think is also one of the contributing factors to the level of confusion that I think you've found in the public mind about national competition policy and the role, it comes back to that public interest test and the way in which there really haven't been any clear, consistent guidelines and the way in which it's interpreted differently within each review process. I think if we could get to some level of consistency in really what that means and what is an acceptable way of measuring it - - -

**MR COSGROVE:** Do you have in mind what I might call a degree of codification of that test? At the moment, as you know, there are various considerations - a non-exhaustive list, I might say, of considerations set down in the competition principles agreement with no weights assigned to them at all. Do you people favour a move towards, as I say, something less flexible?

**MS JORDAN:** I would say not, because I think you do need the flexibility to ensure that the criteria that you are actually looking at are relevant to the particular review. But where I think it would be helpful is if there were some greater clarity on how within a review process particularly the stakeholders could be involved in determining which are the relevant criteria and perhaps even determining the weights that are given to those criteria, and I would take the stakeholders as a fairly wide group.

**MR COSGROVE:** How wide?

**MS JORDAN:** Bearing in mind that with a lot of these reviews you would need effective representation of the consumer interest as well.

**MR BRAITHWAITE:** Do you see any inconsistency between reviews within the state on SMAs?

**MS JORDAN:** Absolutely.

**MR BRAITHWAITE:** You even see it at that level?

**MS JORDAN:** Yes.

**MR BRAITHWAITE:** They're foreign to the boards, the way they interpret - - -

**MS JORDAN:** Yes, because even where you might have a similar process in that a review committee is appointed and that review committee has a certain flexibility in the process that it adopts, because there are no guidelines the public interest test may be applied fairly rigorously versus may be applied very narrowly, if at all.

**MR BRAITHWAITE:** We have been challenged to get neutrality with statutory marketing boards as far as the review is concerned. That's not quite as easy as it sounds because even if you get strict neutrality the producer is not involved in the - who do you get involved? There have been some criticisms right at the outset of the process that the bureaucrats were too heavily involved, and I think that came from one of the papers of National Farmers.

**MR COSGROVE:** The SMA reviews have of course produced a range of outcomes. That, I suppose, doesn't preclude your view that there has been inconsistent application of the public interest test, but it doesn't indicate that the system is working in such a way that a particular type of outcome is emerging all the time. I don't know whether that amounts to much but it at least removes the suggestion that competition is winning all the time or competition is losing out all the time.

**MS JORDAN:** I'm not sure that enough work has been done to really make a good assessment of whether there is any relationship between a particular review having chosen a particular approach and that I think is one of the points that we would like to raise. There really doesn't seem to us to be a critical assessment of the outcome as it relates to the particular process followed.

**MR COSGROVE:** One point made to us at our hearing in Perth last week in this area was that one effect of reforms resulting from reviews of SMAs would be that inefficient producers of a particular rural product would no longer be viable and would need to leave the industry, and that if the remaining producers wished nonetheless to operate in a cooperative way in their dealings with buyers of their products that they could do so by voluntary agreement rather than having the force of legislation behind the statutory marketing arrangement. Do you have any reactions to that as a possible effect of reform?



**MR PERRETT:** That shows a lack of understanding of the marketplace, not just in Australia but overseas, and the relevant advantages that we do have over our overseas competitors by having larger boards or statutory marketing authorities putting together large parcels, controlling quality, and being able to guarantee delivery of a product to an end user - and you have to remember that a lot of the time where we're selling our grain to overseas markets that we're dealing with a statutory marketing buyer. So we have a single desk buyer at the other end of the chain and it would be very, very difficult if you had a number of cooperatives or a number of individual producers trying to compete with each other against that one buyer.

**MR COSGROVE:** You don't think there's an intermediate option of having a single grower cooperative which is, as I say, not enshrined in legislation but suits the producers to deal with the market that way?

**MR PERRETT:** Bev will be softer on that question than I will.

**MS JORDAN:** I think that's an option but I think that the problem that you have with that is how do you deal with the practical issues of free riders and individuals competing around the edge, and I think the association's point of view and I think a take on what you described out of the Perth hearing is that that comes from accreditation presupposition that just because you have a statutory marketing authority you therefore have inhibited competition and you are therefore carrying inefficient producers at a cost. I think the association's position is if that's the case and if it can be demonstrated that that is the case, then you have a case for reform under national competition principles and that goes back to what we were referring to about moving away from reform for reform's sake and making sure that we actually do have a case for reform where the benefits outweigh the costs.

Where the association would be coming from is that it is not demonstrable that just because we have statutory marketing authorities we do have a significant cost and it's that sort of thing that we think needs to be better tested in a more consistent process.

**MR COSGROVE:** Apart from the cases of rice and dairying, and in an earlier period eggs, are there any other rural statutory marketing authorities which have already been dealt with in New South Wales? Where are you at on grain - that's federal, is it?

**MR PERRETT:** No, there's state and federal.

**MR COSGROVE:** State and federal.

**MR PERRETT:** The review has taken place. The final document has gone to the minister and the minister has not yet released that document or the findings.

**MS JORDAN:** That's at the state level. We get the federal level - - -

**MR PERRETT:** The review of the Australian Wheat Board has not yet commenced. It will commence in the year 2000.

**MR BRAITHWAITE:** You've got the single desk seller up until 2000 - - -

**MR PERRETT:** 2005.

**MR BRAITHWAITE:** Sorry, the bug has already got me - 2005, yes. And so those reviews leading up to that have yet to take place.

**MR PERRETT:** Yes, well, the first review of the Australian Wheat Board - and you'll be aware that the Australian Wheat Board becomes a private company tomorrow, not a statutory organisation any more - that will take place next year but there is guaranteed - the single desk provision is guaranteed in legislation to stand until the year 2005. It will be up to industry to demonstrate that there are net benefits to the Australian community and economy as a whole, that the benefits will flow through from the maintenance of that single desk. That's certainly what we'll be aiming to do in the year 2000.

**MR BRAITHWAITE:** Certainly when you mentioned failing as a principal, when you only mentioned two I was rather surprised. From what you're saying there are a few others.

**MR PERRETT:** Yes.

**MR BRAITHWAITE:** One is the lack of consistency on public interest tests, possibly the community service obligations. You know, you might wish to review that given a bit of time. Could I come back to that point of labour not being in the competition policy, and obviously this is one dear to your heart too. Don't you think that even outside of not being included in the national competition policy, that over the last three to four years a lot has been done to deregulate the labour market, quite independently of national competition policy?

**MR PERRETT:** That flows back to a government objective. The government of the day had an objective to move down the path of deregulation of the labour market and the associated costs with labour but there is still certainly a certain amount of regulation imposed by governments and a certain lack of freedom in the labour market that I would suggest disadvantages certainly our members of employed people and certainly disadvantages business, and we can go beyond just the actual cost of labour itself to associated costs such as workers compensation and so forth that are regulated and that are not, in our minds, open to close scrutiny or competition. So it's not just the actual labour itself but associated costs. Do you want to add to that?

**MR BRAITHWAITE:** The federation's experience with the rail and port - you know, NCP policy, it won't be favourable?

**MR PERRETT:** National competition policy - and I stand to be corrected - did not apply to ports in its original concept - if I'm correct - to shipping.

**MS JORDAN:** Although it did apply to port authorities - - -

**MR COSGROVE:** Well, it's caught up under the reform of public monopolies, where a port is a public monopoly it isn't - - -

**MS JORDAN:** It did apply to port authorities and I think that part of the process has been generally favourable in New South Wales, although it's pretty hard to see - well, it's easy to see how those benefits have been masked by the fact that another significant part of that port operator hasn't been part of the national competition process. As far as rail goes, I think that's another area that we would look at in much the same vein as electricity. For a number of reasons within New South Wales that process appears to have stalled and benefits haven't been adequately delivered from that. One example is in how the maintenance has yet to be brought under a competitive regime.

**MR PERRETT:** There has been minimal benefits. It's a process that was started where the rail was split into three different groups but, yes, they've tended to stall. If it had kept going, the benefits could have flowed through but they haven't as yet.

**MR COSGROVE:** Yes, I think there's still an issue pending on third party access to the rail network which potentially might deliver significant benefits. I need to keep a little eye on time, I'm afraid. We have one other person wanting to speak to us this afternoon. But, Graham, do you want to - we've covered the ground? Are there any other points which you people would like to make us aware of?

**MR PERRETT:** No, I thank you very much for the opportunity to appear before you and thank you for the hearing we've had.

**MR COSGROVE:** Thank you very much. Should we regard this set of comments on the draft as a submission from the Farmers Federation, or do you wish to do further work?

**MS JORDAN:** I think you can expect an expanded submission, probably more detailed.

**MR COSGROVE:** We look forward to that. Thank you very much.

**MR PERRETT:** Thank you.

**MR COSGROVE:** Now, I understand our final participant today is the New South Wales Farmers Chicken Meat Group. Is that correct?

**MR HEPPLEWHITE:** Yes, thank you.

**MR COSGROVE:** Please come forward.

**MR HEPPLEWHITE:** Ted Hebblewhite is my name. I'm the secretary of the local chicken meat industry group, New South Wales Farmers.

**MR COSGROVE:** What would you like to tell us, Ted?

**MR HEPPLEWHITE:** Thank you, Mr Chairman. When I was putting these notes together I had a computer on the right-hand side which showed me the temperature, humidity, the average weight of the birds and sheds on my farm, and the designer of this particular program is going to be in this room in seven days' time from Israel to iron out some of the problems we're having with some of his computer-orientated chicken guided ventilation type computers. Now, I just raise this - absolutely nothing to do with national economic policy, but to give you an idea of the status of the industry in Tamworth. It's really at the cutting edge of the technology because it's like everything else, when you come late into the industry you can build it much better than somebody who has gone before.

The shedding up here, I understand, and the ventilation and the computersation of the shedding here is very much better than in some other areas. In fact computers are not generally used throughout the industry, I understand - and I'm using second-hand knowledge for that. But the industry is doing well here. We're in a low-humidity area. A lot of farms on the coast are finding that they're getting bronchial problems in the stock because of the high humidity there. Cooling sheds in the summer is very difficult because the fogging system is aggravating this high humidity, where we have very much lower levels of humidity during the summer periods here. The grains are being grown in quantity in the paddock alongside the mill here.

The consumer has to pay for the grain to be shipped from here to Sydney or Brisbane, to those processors who operate there, and it's a three-to-one job. The one ton of carcasses that is sent to both those centres from Tamworth is three tons of grain for those processors who are on the coast. It's a two-to-one and when you take the legs and neck and inside out, of course you've got the other. The local processor is planning to move the whole of his operation here from Sydney because of the tremendous pressures that are being placed on sheds in Sydney at the moment. Wollondilly Shire, I understand, under no circumstances will accept any extra shedding in that area and the pressure is mounting as other shires take on a similar attitude.

But there's only one processor here. There is, however, strong competition between the growers. They have what they call a pooling system. The grower that is

able to look after his birds best presents them with less stress, a nice optimum temperature, a low humidity in the later stages of growth, population rate - can put his birds into the processor using less feed per ton than the person who doesn't. So he gets extra money as a consequence of doing that and there's strong competition between the growers. The thing against this of course, not too many growers swap too many ideas. But there's a big plus on that; the other growers go and find out from somewhere else how to do as well as the first ones do.

There's strong competition between - in fact even better competition between the processors. The local processor here is putting chicken meat on the market in Brisbane and Sydney at a few cents a kilo less than other processors and he's always stretching the market that way and upsetting other processors by doing it. But he's in a position to do it. He must pay an average of \$14 a ton for freighting his feed into the mill here whereas those in Sydney and Brisbane have to pay something between 32 and 39 dollars a ton to get that feed to Sydney.

Now, let's talk about this economic theory. Implementation of economic theory would mean that the fee being paid to growers here would be less than it is at the moment. The reason for that is of course he has no competition. No other processor is going to rush in and say, "Oh, I'll pay you what you're getting at the moment or 2 cents less." The banks who have lent up to \$14 million in this area are getting just a shade anxious about this, because there's absolutely no equity for that \$14 million, except the fact that the growers here are linked to a price or a fee that has been paid in Sydney and that link, is I know, aggressive to the economic policy. But lower that fee and this area should become attractive to another processor to come in and utilise those growers, who are now receiving a lower fee for growing chickens.

But only in the last 12 months Parry Shire and Land and Water Resources Department has refused two equal-size industries that wanted to settle in Tamworth a development application, because they say, "Ah, no water." Now, this really upsets the economic theory. It doesn't allow it to work properly. Those of you who have flown through the Summakine Valley will know there's an enormous channel feeding the four inches of rainfall areas right down the south where they grow cotton and other things from melting snow in the north on The Rockies. That same project is not possible here until we can ask the environmental lobby to start letting rivers to be diverted into the Peel and to enable us to start damming whereas all dams seem to have been stopped.

The future of Tamworth, the future of the second processor ever coming to Tamworth and allowing the economic theory to work is not going to be able to happen until firstly, on the process of being allowed to come here by a department, a government department, and secondly, the pressure being put by the environmental lobby on the damming and the supplying of water into the inland. These two factors in themselves stand in the way of allowing the economic theory to work here, and I'm just wondering if we can't ask the commission to regard the chicken meat industry in Tamworth as a desirable manifestation, pushing back barriers, setting up in a climatically suitable position close to grains, where owners and environmental factors

have been cared for from the outset, relieving Sydney and Brisbane of one of its most vexatious problems.

If that is desirable, is there a case for regarding this as an infant industry which should be nurtured until these other factors can be overcome and a second processor can set up here

and allow the economic theory to work? Is there a case for reopening the water debate? The gravity feeding of coastal rivers sourced in the hills surrounding Tamworth and Armidale is a very real and practicable solution to this problem. We've got to flush out the Darling. We've got to allow waters to go down to the Peel during drought periods as well as other periods as well as other periods. We get half the rainfall of the coast.

The Americans, where a more freer market is able to operate, are able to put chickens on the Asian market in a way that we can't. While these restrictions on our development occurs and while these extra costs are occurring - now, every time anybody asks for water in the future it's going to be a scarce commodity and there are going to be competing interests wanting to pay more for every megalitre of water. While that situation exists the cost of water is going to go up here to a point where it would be absolutely impossible for us to get chickens onto the Asian market, where we really have a moral responsibility. We have the resources here in every way to produce an excellent commodity in the way of grains, chickens. The chickens have a by-product in the way of fertilisers to put on the cotton fields, where the cotton people will tell you that the soils are absolutely clapped out but chicken manure will fix it up.

So there's an opportunity to really make things happen and yet we are stymied by the environmental movement and by this lack of water, and by the fact that we cannot get people to understand that we must let economic theories work. But there are so many things sitting in the way of these economic theories working, I'm just wondering if it's right to expose the fledgling industry here, which is so up-market as far as the shedding is concerned, the efficiency is concerned, the productivity, and let that sort of die at a point where really it's in the national interest that it should flourish. It's only if these resources in Tamworth and region can be fully utilised to feed those in the Asian basin - and I've said that. I want to thank you for allowing me this brief interlude and we do have a great deal of money invested. A lot of people have put their shirts on the industry here and it looks as though they could be in trouble if they are not allowed to keep some sort of stability in the industry here with Sydney.

**MR COSGROVE:** Yes. I'm not sure I've ever been a great fancier of the infant industry theory, I must say. Infants tend to remain such for a long time in many cases. But what you've put to us could I think fall better into the category of maybe some artificial impediments to rural growth. I think you said the local council has refused, on the grounds of inadequate water supply, to allow - - -

**MR HEPPLEWHITE:** Land and Water Resources in New South Wales have told them to refuse it.

**MR COSGROVE:** I see.

**MR HEPPLEWHITE:** Parry Shire has knocked two substantial industries back on the basis that there is not sufficient water and they're saying, "Oh, go and compete for water along the river amongst the irrigators," which is allowing the economic theory to work. But if you're going to also restrict the amount of water coming down the river by not allowing the entrepreneurs to go up and divert rivers, put in dams, whoever, because the environmental movement is so strong - I mean, the moment Captain Cook put his foot in Botany Bay he started to upset the environment. I mean, we really have got to look after the environment, and growers here are putting in their three rows of trees. They are making sure they're a certain distance from fences and making sure that owners are not a problem, otherwise they will get immediately into the same problems as they do in Sydney.

The disease problem is a paramount one at the moment and very much in the news, and sheds are being very carefully placed widely apart, so that if one shed group gets infected it will not mean that the whole of Tamworth is wiped out as far as birds are concerned. Mangrove Mountain had a lot of sheds in very close proximity to one another. I think the 20 sheds that were depopulated, it was two kilometres to the next row of sheds that were not. I think, you know, there's very much more than two kilometres between sheds here as a general rule, except - and I think we were talking earlier - when you go to Moonbi. There is a problem there and they have got to foresee the problem and start depopulating that area and spreading it out.

**MR COSGROVE:** Tell me, what degree of price tolerance would the local industry have as regards the price of water? If you had to pay the price of water that cotton irrigators are paying in north-west New South Wales would that be an uneconomic proposition?

**MR HEPPLEWHITE:** Most of the water is ground water and it's on a different basis. There's no flood irrigation for example. Cotton people seem to have a wish for flood irrigation and of course all the water is covered here in Tamworth. I can't think of any farms that use dams for example or pump out of a river. They are all - and they're chlorinated and then they're given a certain amount of iodine before they're given to the chickens, except in one situation where we had an IB outbreak here.

**MR COSGROVE:** So this is all ground water?

**MR HEPPLEWHITE:** I imagine I'm right in saying that all the farms here would be on ground water, yes.

**MR COSGROVE:** Access to that is regulated by DLWC.

**MR HEPPLEWHITE:** I think that's the - yes.

**MR COSGROVE:** And you must apply to put another bore down when you require it, so they've done some hydrological studies I guess, on the basis of which they're saying there's a limited life supply of water there and - - -

**MR HEPPLEWHITE:** I think they're saying, "We need double the rainfall and allow it soak down there," but we just don't get that. In some years of course - you can go through four years of very dry conditions and the underwater situation is desperate. People are carting water onto farms and putting it into their tanks.

**MR BRAITHWAITE:** So the water is not an excuse, it's a reality - a scarcity of water?

**MR HEPPLEWHITE:** It's a reality.

**MR BRAITHWAITE:** For any other industry.

**MR HEPPLEWHITE:** It's a reality and it's one of these things that can be adjusted. That's our submission to you: if we were allowed to wipe away the political pressure that are stopping you doing this.

**MR BRAITHWAITE:** How far is the watershed that goes to the coast as against the watershed that comes here? How far from Tamworth is it?

**MR HEPPLEWHITE:** Dawson can be diverted. There's a dam up here that's - I'm sorry, Coburn has got a dam on it but it was badly constructed and didn't allow the gate to - or it didn't have a gate to rise from the bottom and allow the muck to run through when it accumulated. So it has got no dams on it. But the opportunity to put extra dams along, above Chaffy, I would think would be there.

**MR COSGROVE:** And the (indistinct) dam in relation to your area of activity - or is it not available for - - -

**MR HEPPLEWHITE:** It's a fair way down. It's a half an hour drive west from here.

**MR COSGROVE:** Yes, I probably know where it is, yes.

**MR HEPPLEWHITE:** I think it would be a little bit remote. You know, if we were just able to put some sort of steadying influence on the river as it came down with weirs it'd be better than nothing. But we allow the water to rush through and we watch it and think, "Oh, wouldn't it be nice to get a bucketful," you know. There are ways of containing that. From a Tamworth point of view, to have a dam which can be easily let out when a storm is pending for recreational purposes would be just magnificent. But we seem to be stepping to one side of it.



**MR COSGROVE:** Yes, the COAG water reforms essentially say that a new dam can be constructed, provided it is economically viable and ecologically sustainable. Now, those broad objectives or requirements of course involve a lot of testing. But do you believe that the reforms are, for reasons of environmental pressure, incapable of having application according to those two principles in this area? How serious is the problem of getting a new dam constructed in this area?

**MR HEPPLEWHITE:** I imagine Dr Brown would be up here like a shot. I got the impression that he's not going to let dams be put up anywhere in Australia until we can convince him that we have an obligation, and a moral obligation, to feed a few more people than the local population in Australia.

**MR COSGROVE:** He's only one member of the national parliament. I mean, there are certainly many others. He's in a position of greater influence.

**MR BRAITHWAITE:** He is a Tasmanian.

**MR HEPPLEWHITE:** He does have a lot of money at the moment.

**MR COSGROVE:** I mean, you have ministers for regional services and others in the federal government who I imagine - again, assuming that those two guiding principles of new dam construction could be met - would be quite keen to support new water storage if they felt it was doing something to enhance the capacity of regional development almost anywhere.

**MR HEPPLEWHITE:** I think we've got to start trying, I really do. I personally haven't been involved with those that have tried, but I have given submissions to those that have been taking the problems further. But we haven't been successful. The mayor of Moree told me recently, he said, "You've got absolutely no hope." Now, he was trying at that stage to turn more water into the Darling, to widen the Darling, but found absolutely strong resistance by those who were on the coast, who believed that the freshes were responsible for the fish population for (indistinct) line. Now, I wonder what they do in four years of drought? How do they get their populations of fish going then?

**MR COSGROVE:** Well, they do talk about the effects of drought on fisheries, believe it or not.

**MR HEPPLEWHITE:** Perhaps we could artificially have a fresh down there every now and then, but send two-thirds of it or three-quarters of it back this way at the same time as you're giving them a a quarter fresh of the dam that you put up in the New England range there, and there are three very, very good craters there that would not cost very much to block and have a gravity feed into rivers on this side of the range.

**MR COSGROVE:** Well, it's an interesting case.

**MR HEPPLEWHITE:** Yes.

**MR COSGROVE:** Thanks for drawing it to our attention. Graham, anything further?

**MR BRAITHWAITE:** No, just to ask the question: those two other industries you were talking about, they weren't necessarily chicken processors?

**MR HEPPLEWHITE:** No, they weren't. Actually I tried to ring Parry Shire before I came in this afternoon, to just find out what the names of them were - and whether it's private or not, I don't know.

**MR BRAITHWAITE:** And it's just water that restricted them?

**MR HEPPLEWHITE:** It was just an industry that wanted to set up in Parry rather than Tamworth, which is - the boundary is what, about five kilometres, 12 kilometres out, and they weren't allowed to because of this water problem, yes. The state government department was responsible, rejecting. Parry wanted to go ahead.

**MR BRAITHWAITE:** Have you seen your state member and federal member about this?

**MR HEPPLEWHITE:** I haven't, no. Bet she knows about it though.

**MR COSGROVE:** Some advice from a practised hand.

**MR HEPPLEWHITE:** Yes.

**MR COSGROVE:** Thanks very much for drawing it to our attention.

**MR COSGROVE:** I'm not sure there are any other participants. I did have word earlier to Tony Sorenson - - -

**MR SORENSON:** I might make a quick comment, if - - -

**MR COSGROVE:** If you could. I'm afraid it will have to be quick, like about six or seven minutes, Tony. I'm afraid we're on an airline schedule which gives us no longer. You might again indicate to the transcript who you are and where you're from, Tony.

**MR SORENSON:** Yes. Tony Sorenson, geography and planning, University of New England. I made a large submission to the inquiry around about October last year.

**MR COSGROVE:** Yes, it was very helpful to us, thank you.

**MR SORENSON:** Nothing I think I've heard today really contradicts what I said in that submission and I'm not about to change what I said there, except in one respect I think. It has become increasingly clear today that this commission is really compromised by a set of other events going on, quite independent of national competition policy. What I'm referring to is the fact that for the last century, or possibly even more, regional Australia has been affected by a large range of factors that have largely operated independently but have been, in one way or another, adversely affecting large parts of regional Australia.

If you have a look at your own figures in both the reports that has been circulated and in fact two separate documents that I've got that contain working papers which went into this document, you will see that NCP reforms will deliver in terms of employment or output or in terms of wealth to regional Australia comparatively small impacts relative to the large range of other things that are going on. In particular I was taken by one table in one of the supplementary reports. I think it's table 4.14 on page 108, which indicates a range of economic factors occurring including general economic conditions, agriculture and mining terms of trade and productivity and capital growth in the mining sector, and one or two other things.

If you have a look at those effects, they are rather larger than the effects of national competition policy. So I think we've got to be very realistic here and just acknowledge that national competition policy is going to add only a relatively small one-off contribution to national economic well-being, albeit one which I think in terms of your figures is worth having. But it is rather masked by the preponderance of the other factors which are more important and, as I said, included things like terms of trade in the agricultural sector. Now, this sort of duality of causes and effects poses some immense problems for two of the issues which a lot of people have raised here today. One is this process of adjustment and the other is the public interest test.

If I am correct in saying that you've got two events occurring simultaneously, one of which is rather larger than the other, it becomes extremely difficult indeed to identify exactly what the responsibility of national competition policy is to adjustment. In other words, what adjustment effect is it having? The same, I think, flows through to the public interest test as well. Obviously if you're going to try and work out what public interest effects national competition policy is going to have, it is being shared at the same time with all of these other things that are going on.

Consequently it makes me wonder whether in fact in terms of getting the valuable NCP effects off the ground that one should be paying very much attention at all to these adjustment processes or some of these public interest tests. I'm speaking in very general terms of course. It may be that in particular aspects of NCP and in particular instances in particular places, that one would want to look at adjustment processes and the application of these tests. But in the general run of things one might start asking whether in fact the existing compensation mechanisms in government under, say, social security arrangements don't pick up a lot of the slack.

Now, I think these sorts of views that I'm putting across mightn't be terribly popular but I think in general they're fairly realistic. I note that in the adjustments section at the end of this report here that you do take a very hands-off approach and indicate that you don't feel that there are many things that the competition council for example can do to alleviate some of the difficulties that are going to arise in various places and in various sectors through the introduction of competition policy. When I made my original submission last October I emphasised repeatedly I think the problems of the impacts that national competition policy might have. However, the modelling in this document convinces me that the problems that I foresaw then I think were overstated, and I think that that's one of the big benefits to come out of the modelling process that the Productivity Commission undertook.

**MR COSGROVE:** That's nice to hear.

**MR SORENSON:** I think I will leave my comments at that, but you might like - - -

**MR COSGROVE:** Thank you, Tony. That's very helpful to have your reactions. I don't think you'll get any disagreement from us that the overall impact of NCP, while not something that we should not grab, is small relative to those more powerful, longer-term influences. We do have the feeling - and the modellers could express it more efficiently than I can - that the eventual long-run gains will probably turn out, however, to be greater than those which are shown in this document, mainly because the nature of the modelling at this stage of our expertise is not really capable of picking up the way in which behaviour of firms and even government-owned enterprises changes as the pressures of competition become more intense. I think there is a more or less continual process of improvement that tends to be put in train and unfortunately the model can't capture that.

Yes, I certainly agree it's difficult to identify the adjustment effects coming from NCP per se and I think really my attitude to that has been to look more at

possible adjustment problems from change, as distinct from NCP in itself. But even there, as I was indicating earlier today, it's not easy to decide what might need to be done in addition to the existing arrangements to help people cope with change. On the public interest test, that's a more interesting question that I'll have to give more thought to. But I think you might be able to do a little more there in the way of analysing the possible effects of changes. It's true of course that there's still a lot of other things under way, but you have a discrete event and, at least in principle I think, you should be able to say what are the likely benefits and costs of that event notwithstanding the other things that are affecting country communities. Anyway I'm afraid we're too near to our departure time for the cab to the airport.

**MR SORENSON:** Could I just say one thing which I do think is important?

**MR COSGROVE:** Yes.

**MR SORENSON:** I don't want to belittle a lot of the complaints that were raised here today about the problems of rural living. But if you accept what I said, I think it evolves to state and federal governments to become more considerate than active change managers, to identify the kinds of problems that were raised and to try to tackle them in a concerted way. But that then takes - that changes you outside of the realm of the Productivity Commission.

**MR BRAITHWAITE:** And I think we're all mature enough to realise at the end of the day state and federal governments can do the type of adjustment they want at any time of the day.

**MR COSGROVE:** I think on that note we will end our hearing in Tamworth and we will be resuming in Albury on Thursday, thank you.

AT 4.23 PM THE INQUIRY WAS ADJOURNED UNTIL  
THURSDAY, 1 JULY 1999

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