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TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

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

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

TRANSCRIPT OF PROCEEDINGS

AT TOOWOOMBA ON MONDAY, 12 JULY 1999, AT 10.35 AM

Continued from 7/7/99 in Bendigo

MR COSGROVE: Good morning, everybody. I'd like to get this public hearing in Toowoomba under way. As you know, the hearings relate to the Productivity Commission's inquiry into the effects of competition policy reforms on rural and regional Australia. It's our intention to make these hearings as informal as we can but to assist us with our further work we do ask that people provide accurate information to us in their presentations. We have released a draft report, as I think people will generally know, and we're seeking in particular during the course of these public hearings factual evidence on the impacts of competition policy reforms as well as reactions to the assessments contained in our draft report.

I will be asking all participants today to identify themselves and the capacities in which they are appearing and I should also mention that the hearings are recorded and transcripts of them will be publicly available, including on the commission's own Web site. Our staff member, Mr Bill Henderson, sitting at the back of the room, will be able to help any people who wish to obtain information about how to obtain copies of the transcripts. Now, our first participant today is the Queensland Farmers Federation and as I indicated a moment ago, I'd be grateful, gentlemen, if you would identify yourselves and the capacities in which you are with us today.

MR ARMSTRONG: My name is Richard Armstrong. I'm the president of the Queensland Farmers Federation.

MR DALTON: Graham Dalton, I'm the executive director of the Queensland Farmers Federation.

MR COSGROVE: Thank you. You gave us a submission during the earlier phase of this inquiry. I'd like to thank you for that. I imagine you have some further things you'd like to put to us now.

MR DALTON: Mr Chairman, just by way of quick introduction, we do have a prepared response to the draft report and I'll obviously leave copies of that for you to take away.

MR COSGROVE: Thank you.

MR DALTON: That goes through each of the recommendations in turn. In fact, I'll table them now because you may want to explore them with us. There are some detailed questions the commission asked of people to respond to, I think they were of a more technical nature and we will respond to those in writing in the next day or two but if you wish to elucidate any of the details now obviously we can do it orally. I think I'd like to hand over to the president of the federation, Richard Armstrong, now to just do an introduction I think to the issues we wanted to raise in response to the draft.

MR ARMSTRONG: Okay, thank you. First of all, we consider the report to be an excellent report in terms of getting out into rural and regional Australia and getting the information and getting the signals that were out there in terms of a whole range

of issues of living and working in regional Australia. The report certainly identifies problems and also identifies I think fairly and accurately that the reasons for a lot of the difficulties in the bush are outside of the control of governments and really are as a result of global market pressures. A very good example of that, and we're all familiar with it, is the decline in terms of trade, for farmers particularly and as well for miners, since the World War II. I think that tells a lot of the story.

If I can just move in and just make some constructive criticism of the report. We feel the recommendations are very soft, are so cautious to the extent that it puts very little pressure on government to bring about change. The recommendations are caged in words and phrases that would make government response one of not having to think outside the square in terms of the challenges of rural and regional Queensland - I keep my comments to Queensland, they probably apply to Australia but I'll keep them to Queensland. Where, in fact, I think the challenges in rural and regional Australia demands a lot of creativity and there is a need to think outside the square in fact. I think this report does fail significantly in prompting governments for a creative response.

If I can just raise a number of specific issues. In relation to some of our rural industries that are having difficulty and for one reason or another - now, you've got the dairy industry that's going through an NCP review or has gone through one and it could well face some major changes in terms of those who will be able to compete, it could well be facing a reduction in its numbers and a reduction in its production. But without trying to say what the situation will be there is a lack of optimism amongst dairy farmers and the effect that it might have on those communities where that industry is significant. We believe that there is a role for government to give a sense of partnering when an industry is facing a difficult future. They don't feel they've just been thrown to the wolves and they have to find their own way through it, there is a very genuine sense that we will walk with you through this as you come to terms with at all.

Change is about winners and losers and I think that what is really needed is a sympathetic and a compassionate response to those who are finding the adjustment process difficult and a very strong sense of partnering. I think another good example is the pork industry that suffered very badly as a result of international market forces. I mean, there's a whole range of reasons why there were difficulties between pork and the government of the day. I'll leave that aside but the net result is that you've got an industry, you've got people in it - and I want to stress the people who felt very much abandoned and facing futures for themselves and families very much in the sense of being alone. Now, I will say that the package in the end that was given to the pork industry they might not want to praise it to the roof but with applying some independence I think it was a reasonably fair package. But you've got an industry there that would see government that when they were wanting to get some help and some compassion and some - I used the word some partnering on their way through difficulty, it simply wasn't there.

So if I can summarise some of that. This partnering, you need a strategic view

in terms of these industries, where they are placed in the international marketplace and some assistance and partnering from government. In a strategic sense there would entail some sorts of assistance to help them through that difficult time. If I could just touch one broad area, and we've said this on a number of occasions, that there is a lack of vision for rural and regional Australia and rural and regional Queensland and it is this - now, people talk about vision and it's a very loose word but let me encapsulate it a little bit more: that we in Australia as a community which is highly urbanised and we need to ask all ourselves what do we want for rural and regional Australia. Putting it in very simple terms, because rural and regional Australia isn't homogeneous - I mean, it's about little towns that are stretched up the coast of Queensland and it's about the outback and difficult things are driving those difficult areas and there's a lot of complexity there.

I guess what I'm doing is restricting my comments to the outback, to west of the ranges, and asking Australians what do they want with this huge mass of Australia. Do they want it? Do they want people to live out there with confidence and with a sustainable future? I think that question needs to be asked because it probably will come with some extra effort and extra cost and extra national effort to do it. But if that vision is there and that's what Australians want to see, that are being vital and they get a sense of reward out of that themselves, then that's the sort of thing that will give the government the political impetus and everything that follows from that to go and do it.

That report never brought these things, never conjured up this sort of debate and thinking about really having a vision for rural and regional Australia, the people of Australia challenging them, the government picking up that challenge, which I believe will be positive. I think so many people in the urban Australia would want that. I know it's a difficult one when you've got high levels of growing poverty in urban Australia, street kids, all that sort of scene and you want to go and develop sustainable industries in outback Australia. The challenges are immense. I never would present they were easy. But I think the question needs to be asked and I think there are solutions. So it never challenged us from that point of view.

If I could go down to some more specific issues for Queensland. I think water is - we believe that a lot of outback people would believe that we're very much a frontier state still. We've got untapped water resources. To a degree we feel that it is trendy that this feeling of having wild waters, untapped waters, is very good for a community and that's the sort of community we should be fostering. Yet on the other hand we hear that if we can develop our resources in a sustainable manner that is totally consistent with good economic and environmental practice it's got to be a good thing.

But we think that the NCP has raised the bar in terms of the development of water, particularly on environmental issues, that the very, very best slant you can put on it will slow it down, slow it down very, very significantly. I could go into great details there as to why this has happened in terms of the WAMP programs and everything that we're carrying out in Queensland, which are taking an eternity to

work

through and come through with the conclusions and the results, where we can make firm decisions in terms of the allocation of water out to those people that will use it and of course to the allocation to other people and the environment.

So we'd like to see that whole process, in terms of water and the reforms of water, slowed down significantly. I think in terms of managing this whole resource up here and getting to the objectives that COAG have asked us, I just don't think we're going to get there with any great degree of comfort anyway.

MR DALTON: I think that's an overview of the concern we have. A report that's highlighted serious concerns in the bush that points out, as Richard said, that many of the concerns arise not from NCP but from changes in technology and the way people live and want to live, but nevertheless notes that NCP, at the margin, has had more benefits for city people than those in the bush and, as Richard said, our concern is that I don't think it grasps the vision that perhaps the opportunity this wide-ranging report provided. Our response basically supports many of the recommendations of your report but we are proposing about eight recommendations for you to consider. Two of those relate to water, one is providing at least a five-year extension for the implementation of the reforms. It is just a very, very complex process and I think everyone has underestimated the complexity of just even doing the water allocation and management planning and the modelling and so on that's necessary to get into the trading environment.

Also we're asking you to look at some compensation or adjustment assistance for those adversely affected and it looks likely that some people, as a result of the water allocation and management planning process which NCP is supporting, may well lose entitlement and therefore some opportunity for production. We're asking you also to propose guidelines that include an appraisal infrastructure and takes into account the very long-term social as well as economic benefits. I think they are probably implicit in the public benefit test but not necessarily in some of the water work that's been done.

We're asking for initiatives to meet the communities affected. We're asking for a vision from government. As Richard said, there is a desperate need for vision that will take the vast part of this country forward. We're asking also that we have a single agency of government that can handle some of the change process and importantly - and I think this is the crux of what QFF is saying - is that I think it's time now for the Commonwealth government and the council of Australian governments to use this report as an opportunity to reconsider the NCP approach, to take it forward. It's now a number of years since it was implemented and particularly to look at the impacts and some of the regional issues that have arisen from it.

Also I think probably to put something of a new vision, whether it's NCP or whether it's COAG looking at rural and regional Australia I think is a matter of terminology but I think it's time for the Commonwealth and the state governments to get together and really look at initiatives for rural and regional areas. Now, I think probably that's the overview. The detail is in our submission. I don't know if you

want to work through the recommendations in turn or - I'll throw it over to you, Chairman.

MR COSGROVE: There may be some that I and my colleagues want to discuss but a couple of more general reactions to what you had to say I think first. The question of whether our report is the right vehicle for the development of a vision for rural and regional Australia I think is not clear to me. Our terms of reference require us to look at the effects of national competition policy reforms in particular on what we're calling in our report country Australia and to consider some other factors which are also having an influence on country Australia, to the extent that we think there are ways in which the flow of intended benefits from competition policy reforms can be enhanced or insofar as we detect that they are having adverse effects on country Australia then we've been asked to come up with suggestions as to how that situation might be improved. I think that probably comes short of developing a vision for rural and regional Australia but some people may take a different view on that.

Do people want the outback, which I think is related to your question of vision. I'm sure many people want the outback and I don't see that the outback will become devoid of people. In fact, the principal movement of people away from country areas, not merely the outback from country areas to the capital cities, as we've indicated in our draft report, occurred in the first seven decades of this century and since then if anything it seems the proportion of our total population living in the capital cities at least may be no more than stable and probably declining slightly.

Now, that still leaves open the question of people living outside capital cities who are on the coastal fringe as compared with inland locations but I would say if you're looking at this question of do people want the outback then I think most of the decisions taken by Australians about that matter were taken some time ago. There are ways we think, as we've indicated in our draft report, in which at least some of these competition reforms will help to make it easier for people working and living in country areas to do better than in the absence of the reforms. But that's a big issue on which I'm sure we'll hear more about today.

I'd be interested to hear a little more from you about two things really. You mentioned that our recommendations were cautious, too cautious and lacking creativity. I haven't had time of course to look at the recommendations in the document you've given us this morning but I take it you would say that they are the sorts of creative ideas that we should be giving consideration to or if you have anything more on that to say I'd be grateful.

Secondly, this notion of partnering between governments and an industry going through a period of change, you cited the dairy industry. As you mentioned, the competition policy package does contain a set of public interest considerations which are to be taken into account and it had been my impression that in the case of the Queensland dairy industry at least and I think New South Wales also decisions had been taken by government on the basis of a review of the industry which did result in a degree of assistance, if you like, by postponing the arrival of full competition in that

particular industry. But I was wondering whether you had in mind more than that kind of use of the public interest considerations of NCP in this suggestion about partnering.

MR ARMSTRONG: Can I just first of all respond - we didn't expect the report to give a vision for outback - for rural and regional Australia at all. The point I was wanting to make is that it prompted a process whereby that nationally the people of Australia would articulate certain things which would enable governments, Commonwealth government, state governments to pick it up and then start articulating a vision that would be owned by a lot of Australians.

MR COSGROVE: I see.

MR ARMSTRONG: I just wanted to make another point, that you can't talk about rural and regional Australia as a homogeneous entity. It is a continuum from places like Noosa Heads or to Winton and living Noosa Heads and Winton is living in regional Queensland but - I think I've made my point without having to go any further. I don't think the report really did look at some of these issues in detail. The sponge effect that you talked about, I think that would be to spell out and saying this is the regionality and economic drivers in terms of the sponge effect scattered around regional Queensland. That would have been interesting to see whether population drifts were going etcetera to get a greater understanding of this sponge effect which has really taken over, as you identify, in a very big way. But it's not a homogeneous thing, rural and regional Queensland, it is very complex and very different.

That was the vision, I handled that. We talked about the public benefit test in terms of does that pick up the sorts of things that spoke about partnering and whatever. Those public benefit tests, what's in there is so broad that you could argue from that point of view that what is on the piece of paper would have to cover all contingencies. But I've heard this debate before, that when you actually apply it and then the perceptions of the application of it, has it worked and has it been successful, it's well short of the mark. The perceptions of the results of applying the public benefit test, the perceptions of that out there in the community is one that it falls well short. Now, that's perceptions, yet what I'm saying is that when you look at what is there you'd think you should have no problems at all in terms of a community saying, "Look, we've got problems with the changes that have resulted out of decisions here. We should be able to plot our way through it."

MR DALTON: Could I also add we only have media reports and a press report statement put out by the premier and treasurer of Queensland but on that basis it would appear that the National Competition Council has recommended substantial withholding of payments to Queensland under the second tranche of the NCP. According to those reports it was done on a concern about the dairy review and about some of the water review and yet we feel this state has gone through the due process associated with the public benefit test. I'll repeat, we have thriving communities built on water infrastructure development in this state. There are new houses being built in St George and Dirranbandi, we have a sugar industry to a significant extent

expanding

on the availability of water, we have - just drive into Emerald, we can replicate those sorts of developments in outback Queensland if the governments of this state are not constrained from water development, particularly on environmental grounds but also on some questioning of whether there is a public benefit from it.

We've got two concerns associated with that. One, the public benefit test is being questioned with hindsight or appears to be, according to the comments we've seen; secondly, it is providing a constraint on development, albeit it's supposed to not do so, that it's there. I think the proof of the pudding is in the eating and we're starting to eat it now. We have asked by the way for a copy, if we could see it, have access to the comments by the National Competition Council that were made to the treasurer. We understand they're not available for public consumption.

MR COSGROVE: I know that the report of the NCC to the government on its assessment of the second tranche commitments under national competition policy should be publicly available when the government has taken its decision on that.

MR DALTON: We agree it should be but when - - -

MR COSGROVE: I don't know; not too long though, I would think.

PROF SLOAN: Can I just pick up on this vision thing. I mean, I think we're very keen to get ideas, although I wonder whether the vision thing is an idea. I mean, I'm surprised in a sense that you're keen on this because, of course, our previous Prime Minister was keen on the vision thing too. First of all, we of course don't have a political process that can articulate in any specific sense what Australians want as a whole and it may be if you ever said that, if you had some citizen initiated referendum, given that the vast majority of people live either in the cities or on the coast, they might actually conclude that they don't really care much about what happens in the outback, so I don't know where that would leave your vision thing. It seems to me that you'd have to wear that if you were advocating that process, but it seems to me that that process is very unlikely.

So, I mean, it goes down to sort of moving from that bigger idea to some more specific ideas. I'm surprised also, given the market savvy of farmers that they'd really be interested in these partnering arrangements. The idea that the government - and let's face it - its bureaucrats would have good ideas about a strategic view of where industries go, it seems to me that we haven't got very good examples of bureaucrats who after all aren't involved in the industry, having any good ideas at all about where industry can go. Perhaps the most famous example from Japan was when the bureaucrats bitterly opposed the Honda company from getting into cars because Honda would never make good cars and they'd never succeed in the market. If I was in your position I'd be very loath to feel at all optimistic about what governments can offer in that partnering sense.

MR ARMSTRONG: Governments - let me just draw right back to some of your comments. You said you thought that farmers were so marketing savvy that they

wouldn't listen to governments or want governments - is that what you said?

PROF SLOAN: No, they may be bad marketers but they understand the markets in ways the bureaucrats would never understand markets.

MR ARMSTRONG: Okay. The simple fact is that most farm commodities are subject to extremely complex global pressures and the price-setting mechanism in terms of what a farmer can do on his farm out at Chinchilla, he's helpless. He puts a commodity onto a world market and a whole range of complex forces determine the price. The simple fact of the matter is that governments in Europe and governments in the United States - and there's a very celebrated example right now with lamb - certainly respond to farmers who are going through difficult times in terms of price. That has been the pattern for decades and decades. Farmers in Australia and farmers in Queensland - I think it's easy to talk of the national effort here. Australian farmers have to find a home for 80 per cent of what it produces. We're totally at the mercy - and I'm exaggerating a little bit to make my point - of the global marketplace. That is a pretty rough game to play in terms of farm commodities, particularly when you've got huge nations like the United States, huge blocs like the European Economic Community, distorting it all.

The farmer sitting on his farm in Chinchilla, he's left alone to deal with all of that; that's pretty awesome. As I said, the whole deal in farming has just declined decade after decade in terms of margins since the Second World War. I don't mean this personally but you could almost be seeing here today, "I'm not taking a compassionate view towards the lot of farmers. I mean, I just feel they should be left out there coldly in the marketplace to handle it."

PROF SLOAN: No, I didn't - - -

MR ARMSTRONG: But this is where I come in with this partnering. It's not so much that governments can really add a lot in terms of the bottom line for farmers and I think there's probably expectations with a lot of farmers that governments really can help a lot and perhaps even governments owe them. That would not be the position of the farm lobby in Queensland and Australia. I mean, we are extremely self-reliant and that's the best way to take us through, but I'm talking about just a little bit of positive - it's about confidence, it's about the psychology of confidence. If you've got an industry in Australia - and I'll finish on this point - the pork industry is probably a good example. I mean, the industry is in a mess internationally with oversupply.

You've got an industry in Australia that can stand in an international sense but in order to ensure that you've got an industry, by the time the international situation corrects, you need a government just to provide some assistance and that means some psychological confidence that we as the producers can button down, tighten the belt and say, "We will survive because there's a lot of people saying we do have a future and we'll come out of it." That's where it comes in and that's what I'm talking about in this partnering. It really is in a strategic sense; it's more in a strategic sense than in

an actual dollars and cents assistance sense, although I wouldn't rule out something

there, particularly if it is connected up in a strategic sense. You've got to have a whole business plan and a whole lot of strategic issues identified and carrying those out in order to get the government assistance. Partnering is about confidence, it's about a little bit of compassion and that would go a long way.

MR COSGROVE: I think when the governments in 1995 agreed on this NCP package, they would probably have said that they were taking a strategic approach. By that I mean they had in mind that the implementation of increased competition in a number of government enterprises and other parts of the economy which are important suppliers to people living in the country as well as in the cities, would become more efficient and thereby help to reduce the costs paid by farmers for those products and also to receive better service. Now, I'm talking obviously about things like the cost of power, the cost of transport, the cost of telecommunications. Have your members had any experiences with those changes as a result of NCP? Is there insufficient competition available to them to help bring down those costs? Could you tell us something about what has happened in those areas?

MR ARMSTRONG: It's all anecdotal, isn't it?

MR DALTON: I'll start with water first. I don't know if many farmers are going to get cheaper water out of this process and your own report notes that.

MR COSGROVE: Yes, that's a different case.

MR DALTON: A different case. I don't know many farmers who are going to get cheaper electricity out of this process. We went to the marketplace to see if we could get cheaper electricity and we were told the franchise arrangements were probably the best we could ever get and we'd better fight to hold onto them. So I can't see electricity coming down. Prof Quiggan argues that the fall in prices in telecommunications is largely technologically driven rather than competition driven but I haven't got the economic modelling capability to test that hypothesis. All I'm saying is that it's open to debate.

But what I will come to is, here's a report that documents communities in a lot of crisis, high rates of youth suicide - appallingly high; health services not available; high levels of unemployment and frequently much lower levels of income than the rest of the Australian nation. They are serious community problems. What we're saying is, not that government should help industry but government should have a vision for those communities in that large part of Australia that's west of the ranges and that is in fact not doing as well as the rest of the nation and that's documented in your report. I agree with you, I don't think this report should have set out the recommendations to address community problems but what it could have done was highlight the need for them to be addressed.

MR BRAITHWAITE: Particularly on the vision aspect. I can tell you that I've got a vision that the bush will continue and prosper. I've got no problems with that, but when you talk about a vision from governments or from this committee or from

NCC,

you're mouthing a platitude in a way that unless you actually direct your attention to an industry, to a particular situation, you have a grand vision but it's the little visions that go with the grand vision that are important. National competition policy means that some of the industries do come with a very sharp focus - statutory marketing authorities - but I also understand in Queensland there's quite a few of the industries that were never subject to protection by legislation and they've been doing fairly well - and I think cotton is one of them and I know the beef industry is another.

So when it comes to where we go - and I'm just asking the question - the government partnering, where does that start from? Does it start with a statutory marketing authority under review and the public interest test looks at that very carefully to say that in the dairying, if we take that away, what are the partnering arrangements? What's the effect? That's a very isolated example but is that what you mean?

MR ARMSTRONG: Are you referring to the dairy industry?

MR BRAITHWAITE: Dairy industry specifically.

MR ARMSTRONG: I think it's an excellent example. One thing I've learnt, there's a constant change going on in the community and business, there's constant change. You've all heard it, it's so simple: there are those who win handsomely, so much, and then those who lose. The ones you hear from are those who lose. They are the ones that we've got to spend our time on and giving them a helping hand. I thought I would have just bashed to death this idea of a little bit of compassion, the psychological confidence and it's this partnering and just helping them through this adjustment process. They'll probably end up living somewhere else, doing something else - you go and live in a country town, you lose your job, you lose your business. You've probably got to sell your house, take your kids out of school, leave behind a support base that will help you through all these changes which you probably wouldn't have to go through in the city.

You come home, you've lost your job in the city, you say, "Dear, I've lost my job but you don't have to think about selling the house, you don't have to think about taking the kids out of school, you don't have to think about losing your support base." I mean, we can move farmers off the land so easily and there are nice packages now in moving them off the land but there's a whole different set of circumstances. I've laboured this point of partnering and getting alongside those people who are losing in the adjustment process. I could talk here today about a lot of good things about NCP and competition policy, and there are a lot of good things about it, but I guess we're not here to talk about the good things, we're here to talk about improving it and making it better.

PROF SLOAN: I suppose my concern is that there's no point in governments giving false hope. You think of the industries or cultural sectors where the government has been so involved, in fact they've been the biggest failures. So my point is that I want ideas and I want examples. You think of the wool industry, you

think of those

decades of government intervention which have ended up in disaster. It seems to me that we don't know if our governments can intervene in a way that actually does help the farmers in the longer term.

MR ARMSTRONG: First of all, if you can show me a rural industry that's got the level of support and help that our manufacturing sector in Australia has got - - -

MR COSGROVE: Dairying is the best example. It has much more assistance than any manufacturing industry.

MR ARMSTRONG: You're right actually. You've shown me one. But generally the point is, we are a sector in the Australian economy - and I don't have to go on with it.

PROF SLOAN: But this is Ray's point, there's the cotton industry and the beef industry where the government basically got out of the way and they do well. Whereas the industries where they try to intervene has just by and large been a disaster.

MR ARMSTRONG: Let me get on the same tram. On the whole, the Australian rural industry and farms have received very little support. There are some exceptions. Okay, let's get that ticked off well and truly. The farm lobby in Queensland in Australia is of the view that if governments are about picking winners out there in business, it's a business for them to stay out of. If you look around the world, that is the case; if you look in Australia, that is the case. We're not asking for any wholesale assistance in picking any industry that's got a great future and it will take over the world. I'm just saying again - and I'm getting very repetitive - that sometimes the whole global mix is that an industry and those people in it are really going to feel some hard times and just a little bit of compassion and a little bit of dollars and cents and a strategic direction is the thing that will take them through.

That's the point I'm making. I'm not talking about wholesale assistance because I think we've all been around long enough. I know a lot of producers wouldn't like me to say this but wholesale assistance in picking winners - I'll put a very soft view on it - it is a very dangerous business to be in.

PROF SLOAN: It's a very social adjustment that you're focusing on.

MR COSGROVE: Yes, I wonder if we could try to distil a little more information on that. The final chapter of our draft report discussed this question of adjustment costs and what governments might do to provide assistance to people facing significant adjustment. Essentially what we said was that there is already in existence an array of social support measures which we thought should be the first port of call for a number of reasons which I won't go into here. But we also indicated that there may be circumstances in which the shock associated with the particular change can be so concentrated, occur in a short period of time and hit an area where the opportunities to adjust naturally are limited.

So in those circumstances we felt there may be a case for governments to consider more specific adjustment assistance and we set down some guidelines which we thought might help governments to operate specific assistance of that kind. As I said, I haven't had a chance to give it careful consideration but should I read some of these recommendations as indicating that you would see governments doing more than that?

MR DALTON: We've agreed with those recommendations on specific adjustment assistance where it's warranted if there are large regionally concentrated costs. We support those. I'll come back again though, I do not think that will solve the problems of rural suicides amongst young adult males. That's symptomatic of a serious problem of confidence in the bush, in certain parts of it. That recommendation will not lift incomes, it will not improve medical services. So what we're saying is, yes, that's good but you need to go further. We said the report is not strong enough in its recommendation to government that there are problems, they need to be addressed, set in place a process that will start to look at the wider community issues. So I hope that answers it.

MR BRAITHWAITE: On that question of suicides, of course, there is a general program available from the Commonwealth that's been rather extensive over the last two years, perhaps not targeting rural suicides where the report says there's a greater influence, but governments are moving in that direction. In what way can we better target the bush in that regard?

MR DALTON: I do actually have a background in social welfare. It's very, very hard to do anything about specific issues such as suicide. I went through the Aboriginal deaths in custody and the problem continues. It's much better to give hope to a community and job opportunities to someone and try and have some sort of welfare program that might address suicides. Confidence in the bush would go a long way to resolve the problems of suicide. I'm not trying to be smart about it but that's the basis of it- sound communities with hope and optimism are healthy communities.

PROF SLOAN: Can I just ask a more specific question on this issue of where there's regional concentration of adjustment. I mean, there seems a possibility that that will be so in respect of the Queensland dairy industry. If the dairy farmers leave the land, what happens to the land?

MR DALTON: I have no doubt that the marketplace will find a use ultimately for that land and it will probably extract the greatest return. I have no doubt that ultimately will happen. I agree the marketplace is a great decider in terms of how we use resources but there always has to be some intervention in the marketplace for social reasons. I'll just give a very quick example. If local governments didn't intervene in the marketplace in terms of land, we would have industry besides hospitals, and a total mix in social terms would be totally unacceptable. So you need intervention in the marketplace in that regard. In the case of the dairy farmer leaving

the land, there are social consequences in small regional communities that I spoke

about before that the dislocation of that person, the family, the kids - I went into all of that. Eventually that would all right itself.

That land would end up with the best productive use but there's always the cost of change; not always, there can be a cost to that change and we've identified some of that today. The key to that is small communities. You don't have a dairy farm in Queen Street in Brisbane.

MR BRAITHWAITE: Could I move away from the adjustment question on to your original submission where there's quite a lot of criticism about the conduct of the SMAs, not so much the SMAs but some of the reviews. But I have a feeling you meant the SMAs - where you said there's an aggressive approach by government representatives on those reviews, and also you questioned the cost of being able to meaningfully provide a participation in those reviews. Would you like to comment from the point of view, is it any better now than what it was?

MR DALTON: I think we've completed most of them, as far as I know. That was written at a time when we were going through a number of them - sugar, dairy and the chicken meat one. My comments on the costs reflected the chicken meat industry where literally - and I'll be careful with my words - we would have had difficulty funding the operations of the committee plus the need to go through a review process without raising the levies. Of course, the levies couldn't be raised until the NCP process had been finished. So there was a fair bit of cost on us and that's a very, very small industry. I know in the sugar industry, the review cost was in the millions. You quote us as saying that some of the reviews are ideologically driven. I didn't want that taken out of context.

What I meant was, I think economic theory finds it difficult to identify total welfare benefits where some of the assumptions of a competitive model are not met and if the information - as a good example, for instance, if all the participants in the market don't have equal information, making one part more competitive than another part, may not increase the total welfare. Now, that's probably sucking eggs for you people, but what I'm saying is I think a lot of the people involved in those reviews felt that a little competition here was a good thing per se, by itself, without any attempt to model the wider consequences. The public benefit test was put in there to allow that modelling of the wider consequences. What I'm saying is I think a lot of the participants in the review weren't particularly sophisticated in that view of the need to do it.

MR COSGROVE: Yet the outcome of the sugar review, the dairy industry review, the rice review in New South Wales, was not for the application of complete deregulation of those marketing arrangements. In varying respects, each of those cases resulted in partial deregulation which would tend to suggest that the public interest test is working to some extent.

MR DALTON: I don't dispute that. My comments were on the process and to be polite would seem to be a very robust view for the immediate and apparent benefits

of

competition without testing. Obviously other heads on those review processes have prevailed in those cases, but it was a comment on process and you did ask us for those comments.

PROF SLOAN: That point about the theory is second best and that's of course why you have an actual competition policy to make sure that things aren't exempt and that everything is in fact moving towards - - -

MR DALTON: Yes, we haven't disputed that.

PROF SLOAN: We of course do recommend in the report that there be some possible extension of time given to the water reform process and you have nominated five years, but I notice that you said something that made we wonder whether in fact you don't have sort of mixed feelings about this, that you knew the WAMP process was taking an age, implying some sort of frustration with it. I think when we were down in New South Wales it seemed to me that the elongating of the process has some real frustrations and cost to it, because there are players there who this issue of optimism and certainty and stuff is not necessarily helped by drawing out the process and they have taken an age to get the training system going in New South Wales and people are very frustrated by that.

It seems to me that if there are going to be new rules and that psychological - it's almost better to, well, "Tell us what the new rules are and let's get on with it." Whereas if you go for five years going to committee meetings every two weeks, it could sap confidence, don't you think?

MR ARMSTRONG: Well, it can. Here in Queensland we had a minister who made public statements at the start of this process which indicated that once we have worked out way through all of this there could be significant change in terms of the allocation of water in this state. Now, that really did sap confidence. Then we had the minister turn round and say that at the end of all this process the change will be absolutely minimal and whatever change we have and it impacts negatively in terms of a water allocation, we certainly will look at every adjustment mechanism that we can bring to bear to minimise the economic impact on the various users of the water and you can feel the confidence starting to restore. So it's all about confidence.

We understand that in dealing with this very precious natural resource you need to understand it and it is very, very complex. You have underground water, you have overland flows; huge things which impact on exactly what ends up in the water of the major water courses. We need to understand it extremely thoroughly to manage this resource with certainty for the long term. We need to do the process. It needs to be done properly. No matter how long it takes it needs to be done properly. We make that point. You can manage the confidence thing I believe if the appropriate leadership is given and I think we are trying to do that here in Queensland.

So I think your question is right. Dealing with a process that you will get change at the end of it can be destabilising, but you can do it in a way that says,

"Look, we can anticipate some of the results of this and it certainly will be that if there is any adverse economic impact in terms of businesses, then we see it as our role to partner you and I will go back to that argument. We won't leave you alone. You can rest assured that we will be as creative as we possibly can to find adjustment mechanisms to minimise any adverse economic impacts." This is the sort of language that is needed.

MR BRAITHWAITE: Richard, it's quite right in New South Wales that the farmers there are looking for certainty and yet on the other hand the government seems to be procrastinating and that is only a two-year procrastination. If you took a five-year procrastination, you will start thinking in terms of what the environmentalists would do to every decision that was going to be made on water in Queensland - a complaint in New South Wales that the goalposts are moving further away all the time with delays and it is a committed stream, there is no doubt about that. There is no suggestion of new water or things like that. I just gathered from that that they were concerned about these goalposts they keep moving and the irrigators wanted certainty.

MR ARMSTRONG: It would be nice to have the process over and done very, very quickly, but at the same time I think the more compelling argument is this resource. It is just so valuable and to understand all the complexities of it are absolutely important and you can do it in a way as I have just said, which does maintain confidence. I am not in New South Wales. I do understand and have heard all the time of the awful problems associated with it. We got off to a bit a bad start here in Queensland, but I think that is being pulled around a little bit. It is being pulled around. I have said my bit, Graham, even if you have to contradict me - - -

MR DALTON: No, not at all. I was just going to add that I am not even sure that we have the hydrologists in Queensland to do it in the time-frame you are talking about. It would be a shame to do it without hydrologists having some input.

MR BRAITHWAITE: The blame doesn't come back on national competition policy then does it?

MR DALTON: Not at all. We haven't said so. What we have said is I think it would be more sensible to take a five-year time-frame than a two-year time-frame.

PROF SLOAN: I was just genuinely trying to be helpful, because it seems to me that the New South Wales experience is that they would really rather a shorter deadline because it has been a very unhappy process down there and partly because of the uncertain time-lines that the goalposts keep changing.

MR DALTON: But it is also complex.

PROF SLOAN: It is.

MR COSGROVE: They have had river capping or water allocation capping

problems there with the caps being changed from time to time, but they were particularly concerned about the time being taken to establish proper water property rights to facilitate trading arrangements and also with the amount of time taken where water trading already occurs for irrigators to know how quickly they can get their water. It was something like seven weeks I think for that whole process to be complete.

MR ARMSTRONG: John, there is concern out there and if you came back in 12 months' time we might be telling you a different story. It could be that there needs to be a greater pace in terms of handling these things. But today I think maintain the confidence for the users and then carry out the process of understanding and change as well.

MR BRAITHWAITE: Can I ask you in your submission that you are yet to send in if you will be making any comment on the zonal tax rebate or the fringe benefit tax?

MR DALTON: I think the National Farmers Federation should be responding to some of those more national elements of the report. If they are not, we would certainly be happy to comment. It is a mechanism that could be useful.

MR BRAITHWAITE: I thought particularly in Queensland it was a very important issue in terms of what you are considering about the cost of living in the bush.

MR DALTON: Can I just also say the report is fairly scathing, some of the sixties, seventies are thrust on regional development, but looking back, I'm not sure Canberra itself would have happened if the market had been allowed to prevail without some political intervention.

PROF SLOAN: Definitely not.

MR DALTON: I don't think Townsville was an accident. The government has made decisions about the placement of infrastructure, army bases, universities and so on. So an interventionist approach can sometimes succeed and governments can walk away from this intervention and leave a thriving community in place.

PROF SLOAN: Although we had a good quote at Albury-Wodonga which said that this place had only got going since the government pulled out.

MR DALTON: That may be chronology, not causality.

PROF SLOAN: Yes, that's right.

MR COSGROVE: Is there anything else you wanted to say to us before we move on?

MR ARMSTRONG: Just one other comment. I got the feeling that importance of a vision for the outback might be doubtful. We are all suspicious of visions,

particularly when politicians talk about them and I want that to be a serious comment. Community is very suspicious. But I think this is a case where - I mean I think the people that live in the outback would love a vision articulated of themselves. It is important. Farmers' numbers have halved. The numbers are going down. I don't want to go through all that again. I think the people living out there would welcome it and you said that some of our city cousins might take a very selfish view. Can I tell you that market research shows that the city cousins would take a very positive view about the people who live in the outback and about the outback. It is very much in a spiritual sense very much part of their ethos. I don't think we have challenged it.

I just wonder whether John Anderson was going down that track in terms of trying to articulate a national viewpoint for the Australian outback for it to be sustainable and the people out there to have confidence in its future. I know one thing is for sure and I will finish on this note: I know the people who live out there would like to see it.

MR COSGROVE: Thank you both for coming along and appearing. Could I just ask you before you go, Richard, should we treat the document you have given us today as a submission, even allowing that you are providing us with some further paper?

MR DALTON: That's the overview of our response.

MR COSGROVE: Yes.

MR DALTON: You have asked some technical detail about irrigation, water and so on and we will respond to some of those technical questions, for instance the CMIC and I think it is the statutory marketing authority, a tribunal which regulates contracts - a few of those sorts of things.

MR COSGROVE: Good. Thank you very much.

MR SPRINGBORG: Thank you very much, commissioner. Lawrence Springborg, deputy leader of the opposition.

MR COOPER: Russell Cooper, coalition spokesman for primary industries.

MR COSGROVE: Thank you, we would like to hear from you.

MR SPRINGBORG: Commissioner, associate commissioner and assistant commissioner, thank you very much for the opportunity to be able to come before you this morning and to make a presentation. Mine is a verbal presentation and I will quote from some notes to try and keep it succinct. There were a number of things that I heard this morning relevant to the Queensland Farmers Federation's submission, however, that I think are relevant in what I have to say that I will talk on as I go through.

MR COSGROVE: That's fine.

MR SPRINGBORG: I would just like to make this opening comment and that is that national competition policy, if not implemented sensitively, dehumanises and treats people, particularly those that are most powerless, as nothing more than unsustainable commodities and dollar signs. I think that is something that I hear so much when I move around Queensland and particularly move around my electorate. I would like to back the two major elements of the Queensland Farmers Federation submission in relation to water and that is an extension of at least five years for the implementation of comprehensive allocation and management planning, that is in the WAMP process and I want to expand on that in a little while, also the call for review of the process relating to adjustment assistance.

The COAG agreement on water reform, I think they had their first meeting in Hobart in about February 1994. I was briefly minister for natural resources in Queensland and my former DG who is still the director general of the department, was actually instrumental with Sir Eric Neale and some others in actually drafting that COAG agreement on water reform. I remember having some discussions with him when I was minister about the way the principles which were set out there had become then divergent from what was then being expected by the National Competition Council after it was agreed to in April 1995. I think this is the key about how you go about implementing these things in a sensitive and sound way.

It would appear that the original prerogatives of COAG with regard to water reform and then the oversight responsibility of NCC are probably a little bit different to what was envisaged at the time. Just with regard to those recommendations, those two key elements from the QFF, I think they are in line with recommendations in the draft report. The other issue raised by Mr Armstrong this morning regarding the vision, I would back his call for a vision. I note that Assistant Commissioner Sloan drew some concern that people, the ones that we represent, mightn't be overly keen on visions, considering that Paul Keating had visions as well.

What I would say is that it depends upon the relevancy of the vision. I think it is probably fair to say that the visions that we are talking about with Paul Keating were probably not necessarily relevant to disempowered middle Australia and that's the people that we are talking about here to a fair extent. When we are in government, I believe that we had something that was visionary in the area of water infrastructure development in this state, a \$2.1 billion package over a 12 to 15-year period and that gave some hope to people in rural areas. That's what I'm talking about; tailoring objectives that people can actually understand.

Broadly, the parties to the NCP agreement of 1995 gave solid consideration to water related reform issues and it was indicated at that time that there should be a review after five years and that is the operation and the terms of the agreement. I think one of the great difficulties, commissioners, we have when we are dealing with water is that we are dealing with something that is very, very difficult, because we are talking about fundamentally changing the way that it has been historically done to a complete new way insofar as the reduction or elimination of cross-subsidies, bringing in the transparency principle, recovering the operational cost, maintenance, refurbishment. That takes a considerable period of time and that has been one of the difficulties.

In the original document which COAG agreed to in Hobart, it was indicated that these things had to be predicated on the resources which were made available or resources which were available at the time. That is why, Commissioner Sloan made a point earlier on with regard to, "Okay, we should be trying to condense the process so people have certainty" and then we have this other call which would seem to be divergent from that, where we want to be extending things. We are dealing with probably two different issues. The Fitzroy WAMP for example has so far been three years in the making. It is the first one in Australia. We have the draft WAMP; we are probably another year to 18 months down the track.

It is simply a matter of resourcing where you have the hydrologists, you have a lot of people from the Department of Natural Resources tied up in developing these water allocation management plans. They are very difficult, they are very complex, you have to make sure you have data integrity and you have to make sure that your reference panels are having feedback or input into that process. That's one of the things, having the community consultation and data integrity. Over here we have the border rivers WAMP, we have the Condamine Blond WAMP, we have the Merry River WAMP, we also have the Burnett catchment WAMP: we have all of those over here waiting to be done. That's what we are saying, we do need to look at extension of those processes, because we don't have the resources. I mean if you had an extra hundred million dollars you probably wouldn't have the resource - they are proving to be extremely difficult.

The way Queensland is doing it, whilst it may be frustrating, has been better than New South Wales and there was some mention - they had an arbitrary process where they went in and said, "This is indicative and then we will work from that and now they are finding there has been some problem with their data integrity, all those

sorts of things and they have had to work either side of that. So we are saying let's get it right up front. That is some of the problem there. For most of our history, water provision in Australia has been a public responsibility involving not only strong cross-subsidisation in many instances, but no attempt at full cost recovery. These policies underwrote the development of a very considerable percentage of the agricultural output of this country and they were in line with similar policies in relation to a number of other crucial services that were historically treated in the same way, that is road, rail, power and more recently telecommunications.

Inland Australia would not exist in anything like its current form but for these policies. It is arguable whether Australia would exist at anything like its current level of population, or its degree of wealth, but for these policies as well. They were instrumental in the very foundation and growth of the country. The commission makes the point that the significance of agricultural production now has a much more limited role in the national economy than it has had historically and I think that is a point that few of us would disagree on. However, as was indicated by the representatives from the QFF this morning, those that have water do have a far more productive place and a far more buoyant place in agriculture in inland Australia and Queensland than those that don't. They indicated the likes of St George, Jurinbandi, Emerald and also Gundawindi, if you want to look at some examples in Queensland. That clearly is the case, but the fact is that Australia lived off the backs of its farmers for the past 200 years.

Now we have decided to comprehensively change the ground rules and maybe there is some good reason and we don't argue that there is good reason moving towards a more competitive environment and doing away with some of those things that have held back I think from people becoming a little bit more productive and making sure that we have a far more sound base on which to make decisions. However, we would caution against a broad scale or broad brush approach to changing the way that it is, because we do in particular risk undermining the entire fabric of rural and regional economies.

There is also a general acceptance I believe of the need for more realistic pricing when it comes to water. That was something that we are moving or I was moving to in Queensland when I was the minister and the current government is moving towards it as well. But those sorts of things can't be achieved overnight. For example, if somebody has been paying \$12 a megalitre for water, if you are going to treble or quadruple that, that takes a significant period of time before you can get to that particular level and there may need to be the maintenance of cross-subsidies as long as they are transparent.

An issue that I would just like to touch on very briefly and this is where what is being expected by the National Competition Council and what realistically can be expected in Queensland are probably two different things. That is that under the principles we have to look after the environmental concerns and we would all agree with that. However, the concentration should be in the areas such as Fitzroy, Merry River, Burnett River; those catchments further north. But let's look at the

Flinders River system for example where there might be one or two applications every now and then for a water harvesting licence.

It cannot reasonably be expected I believe to then put the entire resources which would be needed into doing a water management plan for that particular river system for maybe the extraction of less than 1 per cent of its flow. That is I think a very, very important point as well. We need to have realistic goals and realistic objectives as well. Let's concentrate on the areas where we know we have a problem and those areas in the future, if there is going to be further development then we need to be looking at a more extensive water management plan.

I believe that you heard from irrigators at Albury for example of repeated arbitrary changes to water allocations and prices that have made planning in that very important agricultural area all but impossible. In Queensland, irrigators are confronting the same challenges. In relation to the quantity of water that's going to be available in the future and the cost of the water that's going to be available in the future. They are confronting similar issues in the context of property valuations where properties that have traditionally been weighted for their irrigators' value are now being downgraded, or their irrigation value are now being downgraded as they are in the Albury region.

This is an issue which should now be reconsidered by parties to the national competition policy. Your draft recommendation across a number of areas concerning NCP is that governments give further consideration to so-called adjustment assistance. This is clearly an area government should address in their five-year review. Finally comments on full cost recovery and the relationship between government's performance on the national competition policy re competition payments - the issue of full cost recovery should be one to be considered by parties to the agreement in their five-year review. Some observations were made by Assistant Commissioner Sloan at Albury which I've read to mean she favours full cost recovery now for projects built prior to the implementation of national competition policy.

To my way of thinking that would be problematic, because it is problematic as well to ensure full cost recovery for any new scheme which government might want to build in the future, and the simple reality of that is economics. You might have a scheme such as the Nathan Dam for example where something is very economically viable and environmentally sustainable; that is the impact on the river and environment are manageable. There's going to be some impact, but you can manage it. However, the difficulty of course is that if you went to those irrigators and said, "Well, look, we're going to give you an allocation, this is your allocation. It may be between 50 and a hundred per cent depending upon the flow in that particular system. You give us \$1000 a megalitre," and that's impossible. We've got an interesting exercise there where we have a private sector developer who is looking at building that particular dam, and they themselves are having difficulty in garnering the finances from those people that will be necessary for the development of that dam.

If you're dealing with high security water, namely for industrial-type purposes -

might be a coalmine, might be a power station - then those people might be able to pay thousands of dollars a megalitre, but when you're dealing with bulk water for irrigation, it's very difficult to be able to recover the value that is necessary to make an enterprise viable. So this is where government has traditionally footed the 100 per cent cost of the construction of the storage and then has sought to recover from the irrigators the cost of maintenance and delivery.

PROF SLOAN: It's not the government though, it's the taxpayer.

MR SPRINGBORG: Well, the taxpayer - - -

PROF SLOAN: The government don't - - -

MR SPRINGBORG: Okay, taxpayer government. I mean, it's a moot point. What I'm saying is it's done through the government.

PROF SLOAN: It's a whole lot of non-users that pay the costs.

MR SPRINGBORG: Well, that happens with a lot of things.

PROF SLOAN: Decreasing in size.

MR SPRINGBORG: Well, it happens with a lot of things. I mean, we can get into a broader argument on that if we want to, but what I'm saying is that we've also had a situation where irrigators have been increasingly more willing to kick the tin, and when we went through our assessment process for the development of new water infrastructure in Queensland as a part of that \$2 billion package of which 1 billion of it was from private sector, the other billion was from government. So we had overall private sector prepared to contribute half of the cost, and that's divergent from the past where we had a situation where government traditionally did that. So we do have a willingness on the part of irrigators to pay what they reasonably can for the capital cost, and then pay an ongoing charge as well. So we are seeking a change there.

PROF SLOAN: That wouldn't make a cost benefit analysis - - -

MR COSGROVE: It's not in other a viable project.

MR SPRINGBORG: Okay, but if you look at the Snowy River project, you would not be able to make that pay in today's terms if you had irrigators contribute to that particular scheme because they would not be able to afford to, and it's right across. We tend to single out dams as being the big problem here, but we've got a whole range. It is the same social infrastructure that would exist in the cities for a range of other people. I mean, whereas people in cities for example might be able to enjoy the latest and greatest sporting complex - it might be \$15 million worth - the important thing for people in rural areas to underwrite their viability is to have a weir or to have a dam. Their social infrastructure isn't as great, and this is - all I'm saying is we need

to change our mind-set and have a greater understanding about the needs of city areas or regional areas compared to rural and outback areas, and we tend to be living in this mind-set.

Okay if we want to say, "You foot the 100 per cent bill," then we'll close down rural areas because effectively we won't be able to have that infrastructure out there and everything that goes off it. I saw some figures with Fairbairn Dam in central Queensland. It was built in the mid-1970s - returned something like \$200 million to a local thriving economy and allows them to be able to maintain decent social infrastructure - schools, hospitals and a range of other things in those communities. So I'm just saying that if we're going to use the attitude that - make farmers pay the full cost, \$150 million or whatever, up-front you can't do that, but there are probably other ways of doing it over a longer term.

MR COSGROVE: If I could just interpose, one thing that needs to be remembered in all of this is that it is a national competition policy, and that's what governments explicitly agreed to, and you can get yourself into a situation where one state's irrigators may be paying the full cost of the infrastructure which is delivering water to them, but irrigators in another state may be receiving assistance with the cost of the water that they're using. Now, that creates a competitive distortion which would tend to disadvantage the state where the irrigators are paying the full costs of the water they're using in their production. I think there was, back in 95, a genuine attempt to try to set in place policies which would effectively remove distortions to either interstate trade or distortions in the competitiveness in global markets of particular parts of the country.

MR COOPER: Can I just make a point - one point?

MR COSGROVE: Sure.

MR COOPER: Sorry to interrupt. The taxpayer as we're aware - we know that they're not a direct user of the water because the irrigator does that, but the taxpayer is a consumer and they're quite happy to eat the product produced by the irrigator at a reasonable price. It wouldn't be at a reasonable price if the irrigator had to pay the lot. There probably wouldn't be any; I just want to make that point, that the consumer taxpayer is involved.

MR COSGROVE: I understand, Mr Cooper, but as you heard the Queensland Farmers Federation people telling us, that's just the sort of approach which Australian farmers have to battle against in foreign markets because in some overseas countries, attempts - more than attempts; policies are in place which do have the effect of cheapening the - sorry, that's not the right word; of assisting producers in ways which then works to our disadvantage, and isn't it the same thing?

MR COOPER: No, I don't believe so. I think it's a case if you're going to feed your people and you're putting your people first - which most countries do, and it would be nice if we did, but as far as feeding your people is concerned, then they I'm sure

would be prepared to contribute something toward making sure that they can (a) be fed in the first place, secondly at a reasonable price. That's the point I want to make.

PROF SLOAN: The point is they're having to pay higher taxes for disadvantage, so therefore they've got less money to spend on other things. So economists will figure this out as being not a sensible thing to do.

MR COOPER: Well, economists may well do that - may have their own argument to put. Certainly I wouldn't be arguing from their point of view, but I would certainly argue from a producer, as a consumer, something we've done for 200 years seems to have worked fairly well, and that's the point I am making; that governments have contributed through the taxpayer to making sure these things can happen in the first place such as Snowy Mountains Authority and many other projects, and to that all that away now and leave it just to the producer to foot the bill means that development stops.

MR BRAITHWAITE: Can I ask you - we're talking about your projects. Could you advise me of the Burdekin Dam system, a very small one, the Teemburra Dam system - is full cost recovery on that now implemented on the basis that the - there was a capital grant but it has been disregarded, and as to - - -

MR SPRINGBORG: The Teemburra Dam?

MR BRAITHWAITE: Teemburra Dam and the Burdekin.

MR SPRINGBORG: The Burdekin I can't off the top of my head, but I can undertake to get that information. Teemburra I understand - that was under the sugar infrastructure package. There was one third, one third, one third or thereabouts, so you've already had the - well, okay, you've had the contribution from the state government and the Commonwealth and also the canegrowers themselves. I would understand that what would be happening there is the maintenance, the refurbishment, the delivery and those sorts of things would now be - there would be full cost recovery there, but I would have to just double-check on that.

MR BRAITHWAITE: The irrigators contributed a third.

MR SPRINGBORG: Yes. Well, the cane industry.

MR BRAITHWAITE: And the two governments contributed a third each which was then sunk. There was no recovery on that.

MR SPRINGBORG: No, that's as I understand it existed. I think that happened back in Ed Casey's time.

MR BRAITHWAITE: It really goes to the current - - -

MR SPRINGBORG: Yes, it was around about that time, but I can double-check

the information that I've given you there and just - if there's anything different, I'll pass that onto you as well.

MR BRAITHWAITE: The point I'd like to make is that this is a new scheme and was started only with the benefit of that infrastructure arrangement around the sugar agreement - the SMA - and when they're looking at the established water costs now in the south, there's still argument going on as to what's a sunken asset and what isn't, as far as cost recovery is concerned.

MR SPRINGBORG: Can I just turn very quickly to the COAG agreement on order of form of 25 February 1994, and this is the point - I mean, all we're trying to do is change the ground rules. This was what was put in place back then. With regard to pricing, it indicated to the adoption of pricing regimes based on the principles of consumption, base pricing, full cost recovery and the desirability of removal of cross-subsidies which are not consistent with efficient and effective service, use and provision. Where cross-subsidies continue to exist, they may be - that they be made transparent.

What I'm saying is that we're able to have the cross-subsidies, but what we've been doing in Queensland is moving in a way that can be implemented in a decent time-frame towards the elimination or reduction in cross-subsidies to make sure that we do recover the cost of refurbishment, to make sure that we do recover the cost of maintenance, and also delivery. We're doing that. There's been a significant step which has actually been made. It's not about being inefficient. If you're looking at something that or you're saying to people, "Go out there and borrow \$2 million to actually contribute to the construction of this dam, and you do it," you're not going to have some of them happen. So therefore you then cause the diminution in your rural productivity and the help of some of those rural communities, and that's what we're saying. There's a balancing act, and I'm not sure that we necessarily have the balance right, and there's going to be a significant step made when we get to the end of the process where we want to go that we would have started from, and that's what I'll say with regard to that.

I'd just like to conclude now because Mr Cooper will want to be talking about things regarding dairy industry and others. A concern that I have is with regard to the National Competition Council becoming involved in such things as the St George off-stream storage, for example. This was something that was approved by government before the middle part of the 1990s, and there has been some difficulty with land-holder issues, the final design of things, and about \$13 million to \$15 million were actually allocated by the government to actually construct that particular storage, and it's not necessarily a new storage. On the surface it may be, but it's to make up for the lack of capacity with regards to Beardmore Dam which is 85 - I think it's about 85,000 - well, it's 25,000 megalitres less than what it was when it was built because it wasn't surveyed right and there might have been some siltation. So it's to make up that, and it predates the Murray-Darling cap.

So we now have the National Competition Council coming in there threatening

to withhold competition payments because of that particular dam saying there were environmental issues. As I said, it predated the Murray-Darling cap, and they're also indicating as I understand that it should come out of the competition payments. I don't necessarily agree because it's an issue that was budgeted for by government some time ago. Just to conclude on this issue, you mentioned power reform earlier on when you were talking with the Queensland Farmers Federation, and one of the difficulties that we do have - and I witness it - is that regional and rural communities won't necessarily be able to share in all or maybe any significant amount of reforms or advantages from national competition policy.

If we look at power for example, if you look at a single wire earth return system, there is very little advantage in any power authority or any competitive entity coming in there and saying, "Okay, what are your power needs. We'll be able to deal with our competitors on this, because you're up the end of a swirl line for example, you're basically a cost to the system as it is." What our people have been seeing with regard to power reform in rural areas - they're probably some significant advantage to major industrial users and maybe urban users and the major regional centres - is that these service depots have been closed down and they've been pulled back. So they're now being served by a depot that's 200 kilometres away, and the headquarters are now being moved further away for that particular power authority. So what I'm saying is there are some problems. There are some advantages, but rural people aren't necessarily going to be sharing in them, and I've concluded.

PROF SLOAN: But the big gain would never have been expected to be in direct power use but in indirect power use, and perhaps the best example is with fertiliser which of course is an extremely energy-intensive industry, and as a result of the NCP you now have the pipeline up to Mount Isa and you have Western Mining involved in fertilised production. That would not have happened had it not been for the power reform. I don't think anyone on this panel would be saying that farmers as direct users of electricity would benefit, but certainly indirectly the benefits may be quite large.

MR SPRINGBORG: Well, there are some people who will indirectly benefit more than other people - - -

PROF SLOAN: Yes, of course.

MR SPRINGBORG: - - - and there will be some people who directly benefit more than others. I think that also if you look at that situation with Mount Isa, we're also very grateful that nature plonked a big phosphate deposit out there which enables us to exclude it, and also now enables Mount Isa Mines as well to use their sulfuric acid to be able to enhance it as superphosphate. So there are a number of factors there that have been beneficial, but not every person out there - farmer - is going to use superphosphate. Some are as well. What I'm saying is that we can talk about flow-on, direct and indirect things, but some people are going to directly benefit more than others, and what we're saying is that some people will be concerned that they're

not sharing in it, and will cause them to question any benefits that might flow or might not flow from national competition policy for themselves or other people.

MR COSGROVE: No policy can be guaranteed to deliver exactly the same result for every person in the community. It's impossible.

MR BRAITHWAITE: Well, sir, we're very interested in the electricity situation in Queensland. Do you know of anybody who might be addressing the commissioners in this regard?

MR SPRINGBORG: I'm not sure.

MR COSGROVE: I also understand that Mr Borbidge is going to be appearing before you maybe in Canberra, and I would imagine that he would be addressing the issues of national competition policy on a more macro basis.

PROF SLOAN: Just for the record, I'm not an assistant commissioner; I'm a full commissioner.

MR SPRINGBORG: Indeed.

MR COSGROVE: Mr Cooper?

MR COOPER: Thank you, Mr Commissioner. I've got a submission here which I'd like to read in. It will probably take five minutes, but a few comments beforehand - and I'm quite happy to come back to the points that I make. I think a lot of points have already been made, but for the record someone challenged me and the coalition in Queensland to come before you and make our submission and put our money where our mouth is. I do so, but I don't do so lightly in that I could just say thanks for that, and we shouldn't have to be here in the first place because the concept of national competition policy is one that was put together I believe as an academic theory, and a few politicians got hold of it and thought it was a good idea at the time, and a few other politicians fell in like lemmings, and we are where we are now.

I say that because we, I guess, as politicians feel the effects from our constituents from our people, probably more than others because of obvious reasons, and that I have no doubt at all that there are probably some beneficiaries as far as NCP is concerned. I just haven't met any of those people, but I know that they do exist in other areas. What I want to see is some of those benefits come through to the rural and regional sector of Queensland, but Australia as well, and we were always told in the very beginning that this was a good idea, and that don't worry, it will be okay in the long run and that everyone will be okay. Well, I think it's five years now, and as I said, we've seen a lot of pain and hurt out there, and certainly a lot of damage to people's lives and livelihoods.

In that breath - and I don't mean to emotionalise this, it's just that suicides have been raised and I received a letter, as no doubt other politicians received, on Friday from a mother who blamed me as a politician - and no doubt others - for the death of her son to suicide because of our policies. Our policies are often policies that are

foisted upon us. She hopes I feel guilty and that - I don't know about feeling guilty; a lot of these things are perceptions, and maybe it's a perception in her mind - I certainly feel dreadful sympathy, but if it was true, it would be worse, and this is the sort of thing that we're dealing with every day. I will not say I lay the blame of everything on national competition policy as such. I do not. There are perceptions out there and perceptions mean a lot, and therefore perceptions have to be cleared up, and then if the marketers of this - the people who are promoting it - think it's such a good idea, perhaps they could tell those who are not the beneficiaries of how much longer they've got to hang in there and how much more pain they have to put up with until some of these benefits actually flow through to them so that they can survive, and that's what it is - a matter of survival.

So to those people who made their statement recently, had politicians thought a little bit more about national competition policy before the implemented it - and if you look at the debates in federal parliament, it's obvious not too many do much about it - then maybe we wouldn't be getting into these situations, and maybe we can think things through a little better - politicians I'm talking about; not you - before they actually become policy and before we actually start implementing these things. So we do have two Australias now I believe as a result of this sort of thing going on. We have those who are well off and benefiting and the new poor which I believe is rural and regional Australia, and as I said for all sorts of reasons.

The classic case I think just recently before I start reading is the US land policy just recently whereas we had the pork initiative last year - I think the Productivity Commission reported and made some recommendations; I think one of those was for a 10 per cent tariff and said, "Oh, no, we can't do that." The US didn't seem to have many problems introducing tariffs when it suited them, and it seemed to suit them the other day just recently.

MR COSGROVE: I think the commission's report said the government could impose a tariff.

MR COOPER: No, I said that.

MR COSGROVE: We advised to do so, yes.

MR COOPER: No, you're right. That is what politicians are for. I mean, you made the recommendations, they were not adopted. They should have been adopted quite clearly in my opinion, but they weren't. I'm saying that other countries, namely every other country in the world, look after their people, their producers number 1 first, and the Americans have no hesitation in doing that as far as lamb was concerned, and I want to make the point - simply make the point that you make recommendations, and I sincerely hope there will be more recommendations forthcoming from the things that we're talking about here.

A lot of the things that have been mentioned by the QFF I naturally concur with because we have similar views, but my submission to the inquiry particularly relates

to

the impact of national competition policy on Queensland primary producers and primary industries. Queensland primary industries are diverse in nature, diverse in their operation or diverse in their operating environment. A number of industries such as beef and pork have historically operated in an unregulated environment. Others such as dairy, sugar, chicken, meat industries operate in an environment regulated to varying degrees. This regulation has not come about by accident. It has been necessary because of the nature of particular markets, the infrastructure requirements of particular industries, and the nature of the respective products, and it has generally played an enormous role in the successful development of those industries as a whole, but importantly on a regional level.

Queensland is Australia's most decentralised state, and primary industries often underpin the economies of those regions providing income, jobs and supporting service industries. The dairy industry is a classic example, having a significant presence in the south-east - Darling Downs, Wide Bay, Burnett, Central Queensland and North Queensland. In towns throughout those areas, the dairy industry provides the economic backbone which supports the entire community. Without regulation in the form of supply management and farm-gate price, it was shown by the Queensland Dairy Legislation Review Committee when it undertook the NCP review of that industry that many of those communities would suffer.

For instance a town like Monto, the removal of farm-gate regulation and expected decline in farm-gate milk prices would see many farms' viability reduced resulting in farmers leaving the industry. The flow-on effect would be a drop in production which would impact on the town's processing plant, threatening its viability and those jobs it provides. The further flow-on effect is the impact of those lost jobs and earnings on service industries in the town. While Monto is a very localised example, dairy industry authorities point to the similar situation in an area like the Darling Downs on Toowoomba's processing plant if deregulation proceeds, but is a very, very real possibility that it will not be able to proceed, and that is something that has to be taken into account.

A further important point to consider is experience in other states and the imbalance in market power between different sectors of the production chain. To use the dairy industry as an example again, there are now only two major processors in Queensland with a third under development. In other states the situation is no different. On top of that - and this is a figure that has been put to me - about 86 per cent, that may be arguable, of the retail sector is controlled by the big three; Coles, Woolworths and Franklins. Queensland recently followed southern states in deregulating its processing, distribution and retail sectors of the dairy industry. New South Wales did so in mid-1998. In that state retail prices rose 3 cents a litre three months later, while the farm-gate price under regulation was forced to decrease from 53.35 per litre to 50 cents per litre - deregulated. Vendors suffered reduced margins from 11.5 cents a litre to 6 cents a litre, and processors reportedly suffered a reduction as well.

The end result was income was passed from the consumer and the productive

sector straight to the retail sector. In Queensland three months after post-farm-gate deregulation on 1 January this year, both major processors increased their prices by 6 cents a litre within days of each other. Producers and consumers are therefore justified in their questioning of why so much effort and expense is being spent examining so-called anti-competitive arrangements which simply deliver farmers a reasonable price when the benefits of such deregulation and the level of competition in other sectors is highly questionable. NCP has tended to be too narrowly focused in its application, sometimes almost to the point of being pedantic. When there are serious inequities in other areas of an industry. NCP has been regarded as a threat to rural and regional Queensland, and indeed as far as the draft report is concerned, concedes the benefits may not be flowing through to certain areas.

NCP comes on top of a host of other pressures on rural and regional Queensland including declining terms of trade, adverse government policy on issues such as land management, globalisation, drought, and the withdrawal of government and banking and private sector services. In this climate NCP is yet another assault on the livelihood and the lifestyle of rural and regional Queenslanders. All too often, (1) the purported benefits of NCP reform have not been conveyed to these people - that's the point I made before; (2) these communities do not identify a need for this reform and therefore do not have any ownership of the process or (3) they have identified the reform as posing a threat to their livelihood, lifestyle and community. There is the perception, which has some considerable basis, that NCP reform is simply the pursuit of an unproven and damaging economic theory.

Government departments and agencies like the NCP have played a significant part in creating this perception with their zealous pursuit of textbook theory, their tendency to outweigh social considerations with economic objectives and their apparent willingness to use NCP as a mechanism to deregulate for deregulation's sake rather than examining the regulation in place and properly identifying costs and benefits and if the case is made for retention of that regulation, to accept it. The perception has not been helped by the NCC's threat to the federal government withholding competition payments to the states. This whole carrot and stick approach or dare I say blackmail to the NCC and federal government warrants review under COAG they point to a glaring shortcoming of the NCP process which I would submit your committee make very strong recommendation.

Most of Queensland's primary industry NCP reviews are still awaiting completion or the results of those reviews are still awaiting introduction to the parliament and there is considerable uncertainty amongst primary producers as to the impact on them. This uncertainty comes in a climate of general uncertainty. I certainly welcome your committee has gone beyond its terms of reference and reported on this wide range of issues affecting rural Australia. I do think that the draft recommendations could reflect this more and that I would like to see them more definitive and stronger. Many submissions have outlined the need for the federal government to adopt a vision, as we've heard before, of rural and regional Australia and policies which help create this vision. I see nothing wrong with having a vision. I don't think it's dreaming at all, I think you have to have a goal, so you can call it

goals,

visions or whatever, and I do believe that that is absolutely necessary.

So I submit that a recommendation along these lines also be made and COAG which would be the appropriate forum in my opinion. While much attention has focused on deregulation, there has also been too little regard paid to the necessary adjustment time and the need for adjustment packages. It often appears the federal government wants to reform but is not willing to pay for it and instead has forced rural and regional communities to pay for it through the loss of industries, income and jobs. Finally, I submit that a recommendation be made for COAG to reassess the application of NCP and the reform process, including the development of adequate transitional arrangements and adjustment packages.

MR COSGROVE: Thank you, Mr Cooper. I'm interested in what you were saying about NCP being a package driven by ideology. It is about seeking the introduction of, as I said earlier, more competition in the provision of various inputs in particular to all parts of Australia, yet you said that we didn't have enough competition in the dairy processing sector or perhaps in the retailing sector. In other words, that particular comment seemed to say that you too see benefits flowing from competition. So what is it about national competition policy itself that makes you say it's ideologically driven and leading to the demise of rural Australia?

MR COOPER: Well, that has been proven. As I said before, in my first foray, was that perceptions are there and if we can be shown the benefits of national competition policy please show us, and if those who are getting benefits, we would like to see those benefits start to flow through or filter down whichever way into the sector that is being hurt. On the issue of the dairy industry as far as regulation and deregulation is concerned, I made the point that under deregulation consumers were paying more, the farmer is getting is less and the retailer is picking up the cream, pardon the pun. That is happening, that has been proven in Victoria and was proven in New South Wales and Queensland.

The point I'm making is regulation seems to be working for everyone. Deregulation works for one sector only, and that is the retailing sector. That's the way it has been proven.

PROF SLOAN: Except the Victorian dairy farmers are in favour of deregulation.

MR COOPER: Because they have 63 per cent of the volume, yes.

PROF SLOAN: Because they are efficient.

MR COOPER: I hope you are not implying Queenslanders are inefficient - I think you have heard the reaction - because Queenslanders are not. It's a volume thing. Victoria has 63 per cent of production, Queensland have about 8 and so therefore they are the big babies down there who want to try and control us in Queensland - no question about it.

MR SPRINGBORG: Even with your indication, commissioner, of their efficiency, the Victorian consumer is paying more.

PROF SLOAN: Well, it was a very distorted market - - -

MR SPRINGBORG: That's right.

PROF SLOAN: - - - as a matter of fact, so it's very difficult to figure out what happens.

MR SPRINGBORG: What I'm saying is we had a guaranteed system in Queensland and which we knew that there needed to be some change to fit with it. I mean, we were able to maintain some supply management, able to maintain the farm-gate price. We don't know how long that's going to happen. We wanted five years, of course, but the Victorian situation, you're quite right, will impact if the Victorian farmers decide to go down the road of deregulation, there is little doubt about that. But I suppose what we were talking about was the situation where we were able to maintain in Queensland something that was generally working well, returning and making available a wholesome, fresh product at a very reasonable price to consumers and that was something we were able to maintain.

There are other issues, some of them within the control of government, others like the Victorian dairy farmers own deliberations which might change that. I mean, we can't do anything about that, but certainly on the government policy viewpoint we can.

PROF SLOAN: It's interesting though, Mr Cooper, you say that you acknowledge that NCP is being used as a scapegoat and it is an issue of perception, but in fact in what you read out you are in fact, I think, feeding those misperceptions about policy.

MR COOPER: No, I'm not.

PROF SLOAN: Let us not forget that this is an arrangement which was signed by all the governments and the NCC itself is only an advisory body. Of course, if the Queensland government wants to go its own way, it's quite entitled to. There's no undermining of the sovereignty of state government.

MR COOPER: No, that's my point.

MR SPRINGBORG: Can I - - -

MR COOPER: No.

MR SPRINGBORG: Sorry, when you've finished.

PROF SLOAN: It's important that important, influential people like you make that clear.

MR COOPER: Each point that you raised as far as my saying that the NCP was - I'm feeding on it. I'm not feeding on it, but my submission is based on my constant, continuing and endless discussions with people around the state, people who are affected by NCP. I didn't say that NCP was just a scapegoat totally and all perceptions. Some of the things may be perceptions, some of the things are perceptions and sometimes NCP can be used as a scapegoat by others to try to get a benefit. What I'm saying is, and I believe your role is in there to define that so that people can see where the benefits are, what the causes are, cause and effect and so on. So that's the point I made in that regard. You made another couple of points I would like to - - -

PROF SLOAN: We do have some recommendations about the need for better communication and understanding.

MR COOPER: Sorry, you made a couple of other points to me.

PROF SLOAN: This policy was the result of freely entered into payments between the governments.

MR COOPER: Government role you mentioned.

PROF SLOAN: The NCC is only an advisory body.

MR COOPER: Yes, I will come to that, too. But the government role as far as we were concerned when we were in government, the Borbidge government made a commitment back - you can only make commitments as far as you can to farm-gate price and supply management and similarly when this new government came in, they made similar commitments again - and we supported that - as best as they can possibly keep it. The worry here, of course, is the Victorian factor. It is not that they're more efficient at all, it's just they have huge volumes and they would like to control the world and they would certainly like to control Queensland and we don't agree with that.

So we have said we will hold the farm-gate price, this is with the government as well, at 58.9 and we'll continue to support supply management. That is something we want to continue to do. As far as the National Competition Council is concerned, yes, you say it's an advisory body, it gives strange advice sometimes or in funny ways because it does try and direct, as it did try to direct our Premier Borbidge at the time as far as building dams were concerned, be it the Nathan Dam or whatever. That sort of thing to my mind, I don't mind getting advice and I don't think any government minds getting advice, but I don't like being told and directed by these bodies who don't have to face the people.

MR SPRINGBORG: Can I make one point on that, commissioner. I think it's a very important point that you do raise. Sure governments entered into it and I think that we also need to consider that there should have always been a degree of

flexibility. I have spent my time principally talking about the COAG principles on water reform because I had a director-general that was involved in that. They knew what the intentions were and the difficulties in being able to deliver that down the track and the time-frame which would be required in actually doing that.

It's just not as simple as the government deciding to pull out and going its own way. One thing that of course the NCC can recommend is that the tranche payment, the competition payment, which would be forthcoming, state part or all of that may be withheld if the government doesn't meet its particular commitment - that is one issue. One thing I would like to ask you as well, I also understand that there is a potential implication under the Trade Practices Act for any instrumentality or body that doesn't necessarily go along with what might be within national competition policy or what is agreed. Is that right or not? Okay. That's one thing that I actually heard.

But certainly on the tranche payment side there is a problem there. What I've tried to do today, the policy issues which concern us aside, there are some practical implementation issues in the water area which I do believe that you need to be aware of because some of these things are problems and they are causing government to have a more protracted problem in getting to say, the construction of the Nathan Dam which is going to be private sector constructed, for example, or approving an off-stream water licence, for example, in the Flinders River. There are a number of things there that do need to be considered.

MR COOPER: Can I just finalise one point that Ms Sloan made on the issue of the agreements having all been signed off by previous governments, and it's true. I believe as far as Queensland was concerned in about 95, roughly in that area, it was Prime Minister Keating and Premier Goss who signed off on the agreement for Queensland, and as I said in my opening address that other governments and politicians fell in like lemmings and they did. It doesn't mean to say because you're on a tram and believe that someone says that everything you're doing, "This is going to be good for you," or that if there are problems which we have found that have arisen that you should just continue blindly on that path.

So we're saying that while a lot of people didn't know what they were talking about in the first place and we had this foisted upon us, it doesn't mean to say we just accept it. That is why we're before you now to say there is a problem and a lot of people are hurting, industries and business - we've been through all that - are hurting and we are now having this and I welcome the review quite frankly in that it does give us an opportunity to express those views and to be realistic and honest in how this all happened in the first place in the hope it may never happen again.

PROF SLOAN: It doesn't actually paint politicians out in a very good light, does it, to suggest that you didn't understand the implications of what you were getting into.

MR COOPER: I'm saying those who thought this was a good idea at the time in the very first place, I believe, made a mistake and I don't believe you just go on blindly

following that. If it was wrong in the first place then you confront that and you deal

with it so that we don't all end up going down the tube.

PROF SLOAN: As I say, there are no limitations on the state government making these decisions, it doesn't undermine the sovereignty. But the nature of the tranche payments, of course, were that because of the competition reforms additional tax would flow to the Commonwealth which would then be reimbursed to the states. Now, in the absence of those reforms, there is no basis for the tranche payments. So a state government need not feel aggrieved by forgoing those tranche payments.

MR SPRINGBORG: I would be very intrigued to see the figures that were able to quantify that and I find it an intriguing argument. If we want to go back to the dam issue, for example, we're having arguments here and concerns about taxpayers cross-subsidising the construction of a dam which ultimately would return over a period of time, like the Fairbairn Dam, hundreds of millions of dollars to the community. So I find some of the arguments a little bit intriguing.

What I'm saying is if you can quantify to me that there has been a disadvantage to Queensland, insofar as tax flowing to the Commonwealth, because we haven't gone down the track of competition payments, so therefore we're not entitled to as much back, then I would accept that argument, but I haven't seen anything along those lines to date. All I'm saying is we're dealing with the objective - - -

PROF SLOAN: Except that was signed by the government.

MR SPRINGBORG: Okay. There is an objective and objectives are reviewable and there is implementation. What I'm saying is the objectives are fine. Some of the implementation and some of the issues that have come to the fore further down the track insofar as water reform, which I'm addressing specifically, there is a problem with, that's all I'm saying and we need to be aware of it, and look at addressing it.

MR BRAITHWAITE: I'm interested particularly, Lawrence, in your comments on the principles versus the practical. I think that's a very important point that you've taken principles, COAG has agreed on it and the implementation of them aren't quite in accordance with those and I would be interested if you had those available too, just so we can check them out. I can understand your concern about politicians of the day. Could I say not only in the Commonwealth parliament do they give blistering good speeches in support, but I know that some of your state colleagues in the coalition also gave some very good speeches in support. Now, let's put that aside.

Really one of the recommendations we made within the report was that there should be no general extension of time because we felt that it was in the hands of COAG to create the meeting and get the extension, if they felt fit. Now, we weren't saying that there should be absolutely no extension of time. We were saying it is within the powers of the states in the jurisdictions to sit down and renegotiate. It wasn't expressed in those terms, but it was the underlying principle. I think it's very important that we had said to us at Albury that the sovereignty of the states had just been dismantled and everything else. It hasn't been, but you quite rightly identify the

pressure that comes on with the tranche payments.

One of the submissions was so bold as to say right at the beginning of this, not so much a submission but a statement, that the NCP was just an attempt by the states to get its hands on more money without realising the implications of what they are doing and I think there might have been something in that that might have been correct. Having said that, the sovereignty is still there and as I understand the role of the NCC comes up for review under legislation in 2001. So the review is there which means that the COAG and the state jurisdictions should have some power to be able to express their sovereign rights. There is the threat of the tranche payments, certainly if you go against the water principles as they're currently laid out, but that should be correctable.

I think the Courier Mail yesterday and the editorial, for those who read editorials, said quite rightly, "If Mr Beattie is so strung up about this, he should persuade his other jurisdictions to be able to make the correction within the frame-work of that." Just lastly, because dairy is not an industry I know a lot about, but I get the impression that irrespective of what the states do under their sovereign rights in saying what they want on a review of the SMA that at the end of the day what Victoria does is going to influence all of eastern Australia, it doesn't matter what Queensland does. So it is not necessarily an NCP matter. Except in adjustment processes it is a matter of what the Victorians do.

MR COOPER: I take your point, I think you would realise that, Ray. There was this push for deregulation through NCP and that's on at the same time as well as the dominance of Victoria in the marketplace is another factor absolutely, you know that. It is both.

MR SPRINGBORG: Ray, you asked that you would like some more information with regards to the difficulty between the objective and the implementation. If I could ask leave of the commissioners, if I could supply that information in writing it might be of assistance to you as well.

MR COSGROVE: Thank you.

MR SPRINGBORG: If I didn't make the point enough in my contribution, I apologise, but I understand that there's a very important role for COAG in this as well, but the point is that you are moving around Australia looking at a review or addressing issues which are of concern with regards to the application of a national competition policy. We are presenting them before you and the Productivity Commission is a fairly influential body, there is little doubt about that, and also the National Competition Council is very influential and I just hope that its influence in being able to determine the outcome of some of these things is not greater than the government, that should be its master. That's all I'm saying, so we have an opportunity to address these things to you.

MR COOPER: Can I just finalise too and support Mr Braithwaite in his statement.

They're relative to the responsibilities of government, state and federal both, and politicians state and federal both. You've said it, they have the power, they have the authority to ameliorate and in this sense control national competition policy and should not be using it as an excuse to be able to implement change and blame someone else for it. Politicians should have the power, they are the ones responsible to the people, they pay every three years and therefore they should be held responsible, they should be given the tools to do the job and that should be made clear that they can - and whether they will or not is another matter - but they can intervene as far as national competition policy and all that flows from it. Am I correct in saying that?

MR COSGROVE: I would have thought so using the mechanisms that way.

MR BRAITHWAITE: You have a unique opportunity here, for once the government and the opposition agrees.

MR COSGROVE: Before we go on to our next participant could I try to get a general understanding of how you see the main effects of national competition policy on this state. From what you have told us I think it would seem that you feel that the deregulation or the potential deregulation of the dairy industry will have adverse effects on dairy producers and maybe not bring about benefits for consumers of milk. If you have some concerns about the possible effects of water reform - and I think Mr Springborg mentioned closure - particularly the development of new dams and also that implementation of competition reforms may lead to the closure of some service depots.

MR SPRINGBORG: Possibly with regards to electricity and so on.

MR COSGROVE: Yes. So they're the potential negatives as you see them. Are there positives? I think you said briefly you thought there were, but where would you see them emerging?

MR SPRINGBORG: All right. I think there are a couple of areas where we would be able to have some benefits. With regard to property rights - water property rights - for primary producers, I think there are significant benefits for those particular people. If the water which is their allocation is converted into a property right for them, I think that will be a benefit because that will allow them something where there is future ability to plan and it becomes a value object for them as well, as long as, I believe, it needs to be done properly on a catchment-by-catchment basis and those sorts of issues are being worked through at the moment. Water allocation management planning - I think that once we get over the frustration - it is a very important thing, I don't disagree with it. I think it's important to do a proper environmental assessment of the catchments which are being used for consumptive use, whether that's industrial or agricultural, we have to do that because we need to make sure that we have a proper environmental allocation.

We need to make sure then that we are able to properly manage then our

consumptive use - that's for irrigation, industrial use - and make sure that we give as near as we possibly can an allocation which people can plan with. So there are some benefits there. I mean, I think the point was made earlier on with Mr Armstrong is when we're dealing with these sorts of things we tend to talk about the areas that are of concern to us because they're the areas that we want to change. The issues where there are benefits, I mean, we tend not to talk so much about them because they're the ones that people tend to agree on. But they are the two issues that I think have got some potential advantage.

MR COSGROVE: Beyond water, would you agree that telecommunications reform has been beneficial to people in country areas?

MR SPRINGBORG: Not to rural people.

MR COOPER: Can I give you an example of that in that regard because I've just only not long come back from another visit out west of Dalby in that area out there, and power you mentioned, Mr Commissioner, as well as telephone, fax and TV, their services out there are a disgrace. As far as the power is concerned - which is something that can be addressed at a later time - very often they do not have what we call 240-volt power. It's very much under-powered. They can only run 210, 215, or they can only run say two appliances at once. In some cases they might want to do - - -

MR COSGROVE: I guess it has always been the case.

MR COOPER: Sorry?

MR COSGROVE: That has always been the case.

MR COOPER: This is not the case that I know of, as I've now moved to the city. I know I've always got power. We can run any number of appliances that we like.

MR COSGROVE: In the country areas the line - - -

MR COOPER: It doesn't have to be that way. That's why I'm making the point that while the advent of electricity was good, when we were able to get electricity we went out of our 32-volt plants and we were all very happy about that - 1965, in my own case, it's a fair while ago. Since then, going back to my people, and I constantly do - they can only run two appliances at once. It's a very interesting point in my opinion because if they want to use the microwave they'll have to go and turn the washing machine off to be able to do so - their words, not mine. A lot of them can't get television, they have to pay for it and get pay TV. I mean, I've got it and they don't.

PROF SLOAN: That hasn't got any worse with NCP.

MR COOPER: No, that's not - you asked the point - - -

MR COSGROVE: No, that's what I was asking. I was asking what, other than the water reform area of NCP - - -

MR COOPER: You mentioned telecommunications and you mentioned giving you some examples.

MR COSGROVE: I'm sorry. I meant by that what has national competition policy - - -

MR COOPER: It's nice that you have an opportunity to know that things are not improving in any way, shape or form as far as those services that I mentioned are concerned, including telephone, and when they do I'll be the first to give whoever a big tick, but they're not. That is something of real concern as far as - - -

MR COSGROVE: There have been price benefits, you would agree, I would assume?

MR COOPER: Price benefits for?

MR COSGROVE: Long distance phone users.

MR COOPER: There may have been. Often the good news doesn't come through, it's all bad.

MR COSGROVE: Yes, I think that is the case.

MR COOPER: But if I could just finish. You mentioned the dairy industry. There are no benefits for the dairy industry in that, I think we've pointed out pretty clearly. We have about 1650 dairy farmers in Queensland. If the full deregulation process occurs by 1 July 2000 the dairy industry believe they could lose up to 600 dairy farmers yet again. Constantly happening down over the years, they have been reconstructed and refined and out of the industry for so long, so that is a very detrimental effect in that regard.

The price, as we have said, in Victoria you will find - who moved to more deregulation earlier, they are paying about 14 or 15 cents a litre more. The consumer pays that. The producer doesn't get it. The consumer pays through the neck and the retailers pick it up. Similarly, in Queensland we saw where it went up 6 cents. Retailers got it, consumer pays more, producer doesn't get any more. So you can see the beneficiaries of deregulation and it's certainly not the consumer, it's certainly not the producer.

MR SPRINGBORG: There are two issues I would like to briefly respond to. The power - okay, I think in some of the situations is it hasn't necessarily got any worse, it hasn't got any better. When some of those swirl lines were put in in the sixties, surveys were done of towns, "What will you have?" "A toaster and a washing

machine." Well, now they have a toaster, they have a washing machine, they have a microwave, now they have a deep freezer and all of that sort of thing, and that's loading the system down. There is little doubt about that.

One of the problems, though, that we're finding, as things are becoming more and more competitive, is that there is a lack of expenditure into those low return areas for capital infrastructure that is required to bring it up to a standard that will actually take the demand which is being placed on it by the new equipment that people have got. Also, we've got some of the old poles that are basically on the verge of falling down. So we're seeing things patched up more and more and more and more. That is one of the problems.

So we're seeing not the expenditure in those areas that we would like to see there. For example, there is a lot more that could be done in the summer season with regards to lightning devices, to stop you going out with every storm. Because things are becoming more competitive, power authorities are paying dividends to government, those sorts of things, we are finding that they are the easy areas for power authorities to be able to pull back on, you know, and that helps enhance their profit margin over here. So there are some issues in the enhancement and the maintenance of essential infrastructure.

PROF SLOAN: They only give money to the government - the dividends, give money to the governments - to do what they regard as important social work.

MR SPRINGBORG: Absolutely. I mean, government is using the electricity authorities as a milch cow as well. I've got little doubt about that. I mean, I said that with what I just said.

PROF SLOAN: But if they have based the valuation on upgrading the electricity facilities in certain towns then they would do that.

MR SPRINGBORG: There are two issues. That point is a relevant point but it's not the only point. There is also the issue of the necessary expenditure is not going to be made out there because there are only one or two people and really, if they complain a bit, you know, what is the problem. If they complain to authorities, you know, a couple of people, they can be ignored. I mean, that is one of the issues. We have seen it.

In my area of Northpower in New South Wales - I live down near the border - we are seeing it more pronounced than the reforms in Queensland because they are a lot more advanced. So we are seeing the service depots move back a bit more and we're seeing some of the infrastructure issues there as well. What I'm saying is government, I think on its own and through NCC, has a role in actually reviewing some of these things a bit further down the track to make sure that those people don't lose out as the major industrial users actually get an advantage out of it or other people do get an advantage, because there are winners and losers.

On phones, while technology is great and there are lower call rates for long distance calls, that is magnificent - talk all you want after 8 or 9 o'clock for \$3 - that's great. But it's not much good if you've got an old deteriorating copper cable and you've got a situation where people are now taking two weeks to come out where it used to take three days. That's what we are seeing in some of our rural areas. Technology is excellent in a lot of areas, but we're not able to actually get to it because the money is not being put in to upgrading the infrastructure - that's the cable into the place - and also there are not enough people to fix the faults.

MR COOPER: And I know it's not NCP's fault. I do know that. You try and mobile in your travels and see how far you go.

MR BRAITHWAITE: Could I come back to the electricity. How contestable is the market in Queensland?

MR SPRINGBORG: Very contestable for major users I think over 10 megawatts and I'm not sure what - there are probably other things to come. It's not my area, but certainly the contestability is there for the major users.

MR COSGROVE: Thanks very much to both of you for taking the time to come to Toowoomba for this hearing. We are grateful to you.

MR COOPER: Thank you.

MR SPRINGBORG: We very much appreciate the opportunity to speak with you.

MR COSGROVE: I think we'll take one more participant before we break for lunch, and I believe that's the South-West Regional Council of the Queensland Chamber of Commerce and Industry. Mr Wood, is it?

MR WOOD: Yes.

MR COSGROVE: Would you please introduce yourself for the transcript and the capacity in which you're with us?

MR WOOD: My name is Richard Wood. I'm a director on the South-West Regional Council of the Queensland Chamber of Commerce and Industry, and I'll be addressing a submission that I sent to the commission - - -

MR COSGROVE: Yes, we have that, thank you.

MR WOOD: I forewarned you of my speech, so I would like to kind of reiterate on some of those points.

MR COSGROVE: Yes.

MR WOOD: First of all can I just thank the commissioners for the opportunity for the chamber to put on public record their considered views. My report was ratified, approved by our council meeting in June, and it received board consensus. Competition is the underlying dynamic which drives the market-based commercial and economic system which best serves to create wealth and enhance living standards and benefits for all. Inversely, impediments to competition reduce the pace and the dividends of economic development and growth at a cost to all. Interventions which impede competition in pursuit of political or social objectives often impose greater costs than benefits upon economies and often disadvantage those they are purported to help.

Competition policy must work to optimise commercial and economic efficiency acting as a powerful stimulus to economic development and growth where governments seek to achieve some sort of social equity or other redistributive outcomes on the basis of public interest or public benefit. These be pursued through other policy channels such as taxation and/or public expenditure. The South-West Regional Council's overwhelming policy objectives include (1) prompt and effective implementation of the agreed national competition policy regime within Australia at all tiers of government, and (2) the adoption under the auspices of the World Trade Organisation of effective and transparent competition policies which reinforce trade and investment liberalisation.

Specific and near-term policy objectives include (1) ensuring consistent application of competitive neutrality rules including action to identify and/or obviate inappropriate implementation, (2) monitoring the structural reform of government business enterprises, in particular the separation of regulatory and monopoly and competitive functions, (3) encouraging access to essential facilities in ways which

stimulate competition in otherwise restricted markets, (4) promoting registration, regulation review and reform which delivers a substantial reduction in the burden thereof on commerce, industry, and (5) monitoring pricing oversight and reform processes to ensure charges and the like by government agencies and business enterprises are based on competition and efficiency criteria.

An effective national competition policy regime is not a discrete stand-alone initiative, but an integral part of Australia's essential micro-economic reform imperative, while sectoral reforms in areas such as aviation, telecommunication, post or electricity are necessary, competition policy embraces a more structured cross-sectoral approach. Both approaches should be regarded as complementary and reinforcing rather than as alternatives or mutually exclusive. Competition policy must expand the nature and breadth of competition applying extensively across the Australian economy principally by tackling head-on unnecessary and unjustifiable barriers to effective and efficient competition. Competition policy must focus on liberalising the domestic business environment to allow winners to self-select and thrive commercially, and ensure greater empowerment of consumers in the marketplace.

Competition policy should open to existing and potential businesses new commercial opportunities in areas previously dominated by or reserved for government operators. It will expand competition in previously restricted markets. Competitive neutrality means ensuring GBEs have no net advantage over private sector companies by reason of their government ownership. Such advantages have traditionally included tax exemptions or concessions, easier less costly access to finance, or less stringent corporate compliance and financial reporting obligations. Implementation of competitive neutrality must include the establishment of consistent, effective, objective and transparent complaints mechanisms to ensure such reforms are not used by governments or their agencies to exploit monopoly or dominant positions in the marketplace, especially in the delivery of essential and/or infrastructure services.

Commerce and industry welcomes efforts by governments to implement appropriate competitive neutrality regimes through the corporatisation of larger GBEs, and the commercialisation of other significant undertakings, both of which create more discrete operating entities with greater transparency in their commercial conduct. Privatisation has also been used, and its wider and deeper application is encouraged. The nature and operations of government business enterprises or GBEs have changed markedly over the past decade. Less importance is now being attached in the public good roles, GBEs operating as efficient business organisations, albeit government-owned. This trend is most evident in the corporatisation of a sizeable number of GBEs and highlighted in the privatisation of an increasing number of such entities.

Commerce and industry considered it is essential GBEs be fully and equally subject to competition policy requirements ensuring a level playing field for a rules-based competition between public and private sector companies. GBEs must

also be subject to appropriate structural separation; that is separating the GBEs'

natural monopoly, competitive and regulatory functions. In the former instance, separating the monopoly from the competitive functions, commerce and industry considers this is essential to ensure there is no unfair advantage arising or cross-dividends flowing from the monopoly to the competition exposed activities. In a later instance, separating out the regulatory from the operational functions, commerce and industry remains firmly of the view it is totally inappropriate for the GBE to be both player and a referee in the marketplace. Such a dual role contains the inherent risk of GBEs lacking full objectivity in regulatory matters, and conferring upon itself unfair competitive advantage through the regulatory regime it designs and administers.

The importance of infrastructure reform is underlined both by its economic significance and its traditional poor performance. Four government-dominated sectors in Australia - energy, transport, communications and water supply - account for as much as 16 per cent or \$1 in 6 of the operating costs of most Australian industries. These sectors are also major resource users often in competition with the private sector. They are also important determinants of the efficiency and competitiveness of Australian commerce and industry in both domestic and international markets. Similarly various reports have consistently identified evidence of poor performance including poor capital and labour productivity, excessive and inefficient use of material inputs, inappropriate pricing practices and poor financial performance.

Competition policy must stimulate infrastructure reform through the access to essential facilities regime and sectoral reform initiatives in key infrastructure areas such as communications, electricity, gas, water and all elements of the transport chain. A consistent objective and transparent regime dealing with access to essential facilities which cannot be reasonably be duplicated by actual or potential competitors is an important element of competition policy. In determining access arrangements, the implementing authorities must be sensitive to the implications of their decisions on access, especially terms of conditions, but also charges for existing and new investments. Commerce and industry continues to support the corporatisation of the broadest possible range of government commercial-style activities, and a compelling presumption in favour of privatisation where the activity has a commercial orientation and/or operates in a competitive marketplace.

Legislation and regulation review and reform is a continuing obligation for governments beyond the liberalisation of competition in a national economy. Such reviews should examine inter alia barriers to competition such as restrictions on who is able to enter a market and how those already in a market are able to conduct themselves. Occupational and professional licensing arrangements are relevant in this regard. The onus of proof should fall on those advocating the intervention to justify the need and the efficiency effectiveness of the proposed approach over alternatives in objective, rigorous and transparent public inquiry process. The threshold applying to the existing national competition policy regime interventions should not restrict competition unless the benefits of doing so to the community as a whole outweigh the costs, and the objectives of the intervention that can only be

achieved by restricting

competition are sound.

Commerce and industry supports additional work to enhance the transparency and identify the net benefits, costs of legislative and regulatory interventions in the business environment through the publication by all jurisdictions of exhaustive compendiums, of legislation, regulation applying therein. To ensure robustness of these compendiums, those items of legislation or regulations not included shall be taken to have no effect. The pricing of commodities, products and services plays a significant role in the efficiency and effectiveness operation of the market. Any policy actions or interventions which distort prices weakens business competitiveness and economic efficiency and must be held to an absolute minimum. Commerce and industry believes that the competitive marketplace is the most efficient and effective form of prices oversight. Where governments seek to apply formal prices oversight arrangements, this should be done consistently and transparently, in particular to GBEs operating in non-competitive markets.

Such prices oversight arrangements should also be independent from GBEs whose pricing arrangements are being assessed. The pricing arrangements of GBEs should primarily reflect the efficient allocation of resources in the sustainable operating competitiveness in the marketplace. Pricing for infrastructure and/or essential services should be based on economic ahead of social considerations. Where governments impose performance requirements on GBEs such as rate of return objectives, these should not have price-distorting effects. Community service obligations should not be funded by price-based cross-subsidies, but from publicly accountable fiscal allocations. The South-West Regional Council believes the primary objective of competition policy is to maximise the effective and efficient competition across the Australian economy, commerce and industry in order to promote economic efficiency and growth and underlying international competitiveness.

However, in pursuing these goals the chamber acknowledges the guiding competition principles, recognised restraints on competition can lead to net public benefit, although these first must be subject to examination in open, transparent, rigorous public inquiry processes. The South-West Regional Council believes that public interest and public benefit tests under the national competition framework are best applied in ways which maximise the effective and efficient competition across the Australian economy. In this regard, the primary considerations are international competitiveness and economic efficiency and growth. However, the chamber notes other considerations identified by the competition principles include sustainable development, social welfare and equity, industrial relations, regional development, and the interests of consumers.

The South-West Regional Council further believes the public interest or public benefit should be examined over a long-term, not a short-term time horizon given the tendency for costs to emerge before benefits in most reform processes. Commerce and industry expects a high degree of consistency in the application of public interest and public benefit, tests between jurisdictions, industries and sectors, failure to

deliver which can produce uncertain, and distort, commercial decision-making.
However,

any exceptions or cases for special treatment should be allowed only after an open, transparent, rigorous public inquiry process with clear reasons being made to the public for the decisions taken, and evaluation of alternative means for achieving the preferred outcome.

Where government seeks to achieve some social equity or other redistributive outcomes on the basis of public interest or public benefit, these be pursued through other policy channels such as taxation and/or public expenditure. Contrary to the implicit nature of competition policy, implementation of prevailing competition regimes in Australia have traditionally been the monopoly responsibility of a single agency, the Trade Practices Commission. Commerce and industry welcomes the division of responsibilities in the management of the national competition policy regime, the creation of a National Competition Council to advise on policy and adjudicative issues, and the reformation of the Australian Consumer and Competition Commission to deal with administrative and enforcement matters.

The National Competition Council should continue to provide policy advice to Australian governments at all levels on the development and implementation of the agreed national competition policy regime, and on the allocation of the identified competition dividend payments. While commerce and industry accepts the initial rounds of assessments and competition dividend payments needed to give added weight to political considerations, subsequent performance assessments and the quantum of any payments must be based solely on delivery of meaningful outcomes rather than demonstrations of reasonable effort. To underpin continued business and public confidence in the council, appointments thereto must be based on merit, being relevant to substantive experience in commerce, law and/or management rather than political affiliation or representation of a sexual interest.

Finally the globalisation of commerce and industry and the liberalisation of trade, investment and capital means competition policy can no longer be regarded as an exclusively domestic policy issue. The nature and reach of competition per se and of competition policy in different national jurisdictions can have a profound effect on the competitiveness of both Australian exporters, and those using imported inputs in their domestic business activities. Commerce and industry observes the World Trade Organisation - the WTO - and many of its national members, including Australia, have recognised the tight link between international trade and domestic competition policy liberalisation. While the WTO and its predecessors have achieved much in liberalising trade and commerce between nations, the same progress has not been achieved in breadth or in depth in liberalising competition within the other nations.

Commerce and industry supports the consideration of competition policy issues within the WTO process including the expected millennium round both as a discrete issue and for its linkages with trade and goods and services and investment. I'll answer any questions.

MR COSGROVE: Thank you, Richard. You've painted a more positive picture of the national competition policy reform package than others who were speaking to us

this morning. There are two particular aspects that I'd like to ask you about. The first comes from the - no, let me go back one stage further even. You're the South-West Regional Council of the Chamber. How far north and east does the area covered by your council go?

MR WOOD: North would include the Burnett region out to the border, the west, and we include the Locke Valley and then down south to the New South Wales border.

MR COSGROVE: To the border, yes, okay. In the written submission that we received from you on behalf of your council, you stated that regional and rural Queensland has already benefited from some earlier reforms - - -

MR WOOD: That's right.

MR COSGROVE: - - - which are compatible with or are expected to flow from implementation of NCP. Then you went on to give some examples which on the basis of my reading seem to relate mainly to southern or western parts of Australia.

MR WOOD: Yes, they're probably more far down the track of deregulation. To use an example of what we should expect in terms of transport costs and electricity costs and gas costs to some extent being reduced - so I've used that example of what to expect here.

MR COSGROVE: Are you confident that those sorts of benefits will emerge in Queensland?

MR WOOD: I think so. I can't see any reason why not.

PROF SLOAN: Although presumably the delay connecting up to New South Wales is - - -

MR WOOD: Yes. Well, a national electricity market having been contestable - I have a bit more of an idea of the industry. They're slowly coming in tranches. I think last year they had the high-end users like the mining industry and a lot of the government-owned buildings and I'm pretty sure that probably starting from the end of June just passed, that the next tranche were medium-sized businesses. So probably by this time next year the householders can expect to benefit, but what commerce and industry is interested in is actually expanding the pie rather than trying to cut the existing pie up into smaller pieces, and we believe by competition in those government sectors, reducing costs would allow that to happen.

PROF SLOAN: There is that issue between the policy and the implementation, and I wondered whether - I'll give you an example I heard which was about Queensland, and that is that the shield of the crown that many of the GBEs have of course was lifted, but there wasn't perhaps as much thought given in to the redrafting of the Trade Practices Act.

MR WOOD: Exactly.

PROF SLOAN: So there has been this case which you're probably aware of down on the Gold Coast. Queensland Rail, of course, goes down there now and they charge \$7, and that has basically driven the bus company out of business because they charge \$14, and a case was brought to the ACCC, but in the legislation there has to be intent. So they asked the Queensland Rail officials, "How did you come up with \$7," and they said, "Well, it seemed like a good number." In other words it wasn't based on any notion of cost recovery or anything, but the plaintiff couldn't prove that there was any intent there. They didn't really intend to drive the local bus company out of business; that just happened. Have you got other examples of sort of implementation?

MR WOOD: With the Gold Coast area, that goes down to Robina, and some bus companies would exploit everywhere around the coast from there. Before I think the Coachtrains was the direct link from, say, Roma Street through to the Surfers Paradise and all positions in between. I think the \$7 you're referring to is probably on a weekend.

PROF SLOAN: Yes, but the point I'm making, I'm just interested in sort of implementation issues, and you were saying in effect - and I can see your constituency, but you want private sector operators to be competing on equal terms with the public sector, and that indeed was the intention of national competition policy, but there has been a bit of a ditch in terms of the implementation, and I'll give you another border example that we've heard of your private sector operators are rather fearful or think it is probably quite expensive and complicated to take a complaint to the ACCC. It's not a very accessible process to establish competitive terms.

MR WOOD: I would be surprised if that was the case. They are there as a watchdog. I'm sure they would investigate any reasonable claim. From that point then they would get advice on where it would be actionable from there, but I think I did do a bit more research into the specifics of the retailing sector which I didn't submit, and a big concern to our board is the concentration of market dominance amongst some of the major chains, and some points I would make there just briefly, the criteria for competition restriction would be because there's all sorts of implications that I'm not sure if you'll take into consideration that - things like divestiture of investment capital and how would that be implemented, and things like how would the divested holdings be distributed and what day, who would determine that day, especially when these are public listed companies, and to artificially intervene in a market like that is not quite as cut and dried. A lot of issues need to be considered, so maybe that answers your question a bit more about implementation.

PROF SLOAN: Yes. Well, they're policy, but they're clearly implementation issues.

MR COSGROVE: You had some interesting remarks about the implementation of

the public interest or public benefit test, Richard. If I've understood you correctly, what you seem to be driving at is some form of differential weighting of the considerations listed in the competition principles agreement to be taken into account as public interest matters. Is that - - -

MR WOOD: Yes, to some extent.

MR COSGROVE: And you've said that in the application of these tests, the primary considerations are international competitiveness and economic efficiency and growth, but you then go on to - the chamber I should say goes on to note other considerations identified in that agreement such as sustainable development, regional development and so on. How should we interpret what the council is putting to us there? It's an important area I think for this inquiry.

MR WOOD: Perhaps as I said there, over the long-term rather than short-term time horizon, because costs always seem to pop up beforehand. So I think taking a long-term view would be more appropriate I think.

MR COSGROVE: Right, but what about the relative significance of what you might call economic efficiency considerations linked to growth and these others such as, as I said, environmental matters, social welfare, regional development and so on.

MR WOOD: Well, some people on my board took the view that the government has no business whatsoever in competing in the marketplace with other businesses. They should corporatise and pay tax like everyone else. That was one view. So the public interest and public benefit tests, well, perhaps maybe there needs to be consultation and probably more of a clear definition of what - region to region it will vary. I mean, what's important to my region will be different to what's on the Sunshine Coast or in North Queensland. Different industries apply. A big growth industry around here is tourism.

PROF SLOAN: How would you see the region for which you have responsibility going? We seem to have had very, very mixed messages as we go around Australia, and we've been to a lot of places, and of course some people I've met have said, "We don't want the bush. We don't want regional and rural Australia talked down as a matter of fact," and we have been to areas which really are doing very well.

MR WOOD: Yes. Well, I'm originally from Chinchilla, and they have a very gung-ho economic development officer sitting on the council, and the whole (indistinct) is very cooperative, and they - like Stanthorpe for example, they have the olives, and so each town I think is still a community, and perhaps this urban drift, as we talk about happened - has been going on for decades, and it's not necessarily as a result of it, even though people like to pick on NCP as a scapegoat, perhaps the council needs to be more of - I don't know - a seller of the policy. I'm not here to sell a government policy by any means. I'm trying to put more of a positive spiel on it. We certainly see benefits as a chamber, but maybe more of a role is to be more of - you know, be a seller of the policy perhaps as well in terms of managers.

PROF SLOAN: But you say you've got tourist operators in your area.

MR WOOD: Yes.

PROF SLOAN: Presumably they have been doing quite well, have they?

MR WOOD: Of late - it's very much tied - Toowoomba for example is a bit of a catchment area. It's a service provided to the bush in a big way. So when there's a drought or when there's - commodity prices have decreased, we certainly feel it, and when there's rain after a period of drought, obviously the farmers tend to get rid of the cobwebs in the pockets and don't spend nearly as much, and just to repay the bankcard. So with tourism it's - even though it's an industry that doesn't necessarily produce anything you can put on the table, it's a service industry. It's probably applicable to even a different public benefit test to something that's produced and consumed.

MR COSGROVE: Just two questions: is the policy you've just enumerated - that's the Queensland chamber's policy, just not the south - - -

MR WOOD: No, the south-west, but interestingly - - -

MR COSGROVE: It's only the south-west policy.

MR WOOD: Interestingly enough it's being distributed amongst the other regional councils and gone to our chief economist in Brisbane, and there seems to be broad agreement there as well from what I understand.

MR COSGROVE: The other thing is you were here this morning in the commission when the water debate - - -

MR WOOD: I was present, yes.

MR COSGROVE: Do you have a view that the NCP can handle that situation on the basis of what Queensland might need as against the historical infrastructure in other states?

MR WOOD: It's a very good question. As the role that our board sees for government is in the sunken costs in terms of the water management not only in times of drought but to look after flood management as well, that's the role for government in terms of infrastructure of form and certainly the position that the board takes. So sunken costs is a big issue for our board.

MR COSGROVE: Positive view?

MR WOOD: Yes.

MR COSGROVE: They have a positive view of it.

MR WOOD: Yes. The council may like to reinforce even more in terms of not - it's not intervention. It's just creating the environment for the lower costs and for winners to self-select as I say rather than being interventionists. I think creating an environment is certainly the way to go, and I think it's been referred to on this table already about the government just needs to know when to get out of the road.

MR BRAITHWAITE: In connection with electricity, what's the - can Queensland sustain its use of electricity if it goes interstate or does it need new generation - - -

MR WOOD: No, we're having to bring on board two more mines, one near Brigalow and one near Millmerran. Both have finished their impact assessment studies and are being constructed in a short term. There's the railway line that's being proposed to be constructed that goes from Brigalow all the way around through Jandowae up to the Tarong power station. That's absolutely necessary in the short term, otherwise in 15 years or so, that Tarong station would be out of action. So in terms of the national market, we need to have those generators operating there otherwise we would need to take our electricity from interstate.

There are various infrastructure proposals in our region. We're very excited about it, especially the one at Millmerran in terms of just the extra wages it will bring to the local economy.

MR COSGROVE: Just one final question, Richard, again in the public interest area. That section of your statement ended by saying:

Where governments seek to achieve some social equity or other redistributive outcomes on the basis of public interest or public benefit, that these be pursued through other policy channels such as taxation and/or public expenditure.

Again that leads me to think that the council does seem to place a much higher weight on economic efficiency elements of the public interest test.

MR WOOD: Over the sake of equity things.

MR COSGROVE: Yes.

MR WOOD: Yes, I agree with that.

MR COSGROVE: That's the right way - - -

MR WOOD: You would be correct in saying that.

MR COSGROVE: Is there anything else you wanted to say before us?

MR WOOD: No.

MR COSGROVE: Thank you very much for making the submission to us. We'll need to take a luncheon break, and I'm sure people will need some sustenance at this time. I think we'll try to resume at 2 pm. Thank you.

(Luncheon adjournment)

MR COSGROVE: Let's resume now. I'm sorry we're back a little later than I'd hoped. Our next participant is the Civil Contractors Federation.

MR DODD: Commissioners, Graham Dodd is my name. I'm the executive director for the Civil Contractors Federation, Queensland branch. Commissioners, thanks very much for the opportunity firstly of being able to put a submission in on the original inquiry and also to speak to that submission today. It's not my intent to go through that original submission, but I'd certainly be happy to answer questions from it, but I'd just like to talk to that if I could, on some of the developments.

MR COSGROVE: Yes.

MR DODD: I guess from the perspective of the federation, we don't see the national competition policy as the problem, but probably the implementation of the policy that the federation has been very supportive of our government at all levels during the transition periods going back to 95 on endeavouring to have that transition period flow as smoothly as possible, and hopefully to be as fair as possible to all participants within the industry. At that stage we saw the opening up of government business units or the involvement of government business units into the contracting arena as an extension of the number of players in that field and certainly the number of competitive contractors that would be in that field, but we felt that that would probably be off-set with the amount of work that would become available through the policy in opening up more of the internal works to competition.

I guess the reality over the period has seen that the private sector hasn't been a beneficiary in any terms at all of the national competition policy and its ability to secure more work. In fact the ability to even tender for work has decreased over that period of time, and that's of a major concern to the contractors that are involved in that industry. So we certainly appreciate the community service obligations that that surround government organisations both at state and a national and local level. We felt that certainly those obligations seem to be the overriding aspects of all the decision-making to provide or how the work is to be allocated, and we're not suggesting that we'd like to see any of the distant rural communities suffer as a consequence of the national competition policy, but we think that the policy implementation has not only protected them, but it's allowed the opportunity for the government organisation in the more built-up areas to also use the same parameters to increase their involvement in the industry.

I guess also at the same time is that there are private contractors in all major provincial cities and areas throughout the state, and therefore any effect throughout the state on a private sector does affect - it's also felt by the private sector, not just the government organisations if there's a cut-back in the amount of work that is available to them. Over that period of time we've seen quite a substantial decrease, and I guess if you look at - the main indicator for that would be the work that comes through Main Roads, certainly in the roads area, but there has been a substantial drop-off in not only the amount of work that's been run by private contractors, but the ability and the number of tenders and the dollar value of those tenders has dropped considerably

over that period of time.

While that happens and there's no certainty of growth and profitability within the industry, then our international competitiveness from the private sector can't grow because we're not going to - if there's no opportunity for work, then there's no growth within that industry. We see that the best way of the policy operating is to improve the contestability of the work that's going to - that is available, not only to tender, but available throughout the industry. The industry itself is significant. The civil engineering industry represents something close to \$4 billion, and almost half of that is tied up one way or another with roads infrastructure. So it is a very significant portion of the infrastructure development, particularly in Queensland, and I believe so in other states, and when that's affected, the whole industry is affected.

We're going to see a major downturn in civil engineering works on the east coast of Australia over the next couple of years with the drop-off of the work that's happening in the south-east corner of Queensland with the Olympic projects in New South Wales and the transit projects in Victoria, but to replace that significant amount of work is going to be difficult for any government. Therefore everyone has got to survive on the small amount - not the small amount, but the amount of work that is then left in the marketplace, and if that's not contestable, then the opportunity for private sector is diminished again on the ability to be able to get into those areas. So we see contestability being a major issue, and with the implementation of - the correct implementation of the ECP policies, we believe that would have been a far greater spread of benefits across all sectors of the market rather than those that have benefited from it.

When I say there's been benefits achieved, the opportunity has been taken by government organisations at various levels, and certainly don't get me wrong, I'm not suggesting every government organisation has taken the opportunity, but a significant portion of government organisations have taken the opportunity of commercialising their operations to put themselves in the marketplace and be able to contest or be in a position to contest work within their regions. Now, this not only has - we have not seen the amount of public spending increasing over that period since NCP was implemented, we've seen an increase in the activities of the government organisations into what was originally the private sector domain. So that portion of their work has also been affected to a great degree.

I guess the emotive issues of protecting the community service obligations in a lot of the communities has overridden what the real results of what's happened with competition policy, and also the effects of the large amount of work that's up in the Brisbane area, but if we could compare the works that have gone out to or have been awarded in open tender since 1994 on the national highway and regional road network which was in place prior to the south-east transit system and the Pacific motorways being in place, we saw back when NCP first came in that the private sector was undertaking or being awarded about \$120 million worth of work each year out of a budget allocation for construction and maintenance of about 550 million. We were obtaining a fair share of that.

Over that period of time, the allocation of funds has increased to something like \$667 million. So there has been more than a hundred million dollar increase, and at the end of this financial year, the private sector was awarded \$95 million worth of work. That's a significant decrease in the amount of work that they were originally undertaking without even having the opportunity to contest work that has been available with the increase in the allocation of funds.

MR COSGROVE: Could I ask, Graham, are those figures officially established? Who prepares them?

MR DODD: They're figures that come out of Main Roads. They relate to works that are awarded over \$300,000 which is the majority of their major works. You have minor works and works that are provided under internally priced contracts that would make up the difference in the budget allocations, but the works released over 300,000 which is the works that go out to the open tender position. Minor works can be contested under less stringent requirements than the open tender markets. What I'm trying to do is compare oranges with oranges and fill you in, but the open tender market was - we were obtaining \$119 million worth of work in 94-95, and this financial year we only obtained 95.

You can say we haven't been successful in obtaining work in the open tender, but the total amount of work that went to tender decreased over that period from 158 million to 124 million. So there was less work going to tender even though there has been a considerable increase in the allocation of funds for road construction and maintenance.

PROF SLOAN: Sir, why do you think that is?

MR DODD: I think the opportunity has been used certainly while the Pacific motorway and the set program has been under way to say that government spending in open tender is significantly higher than it was two or three years previously. Unfortunately with those projects they're at such a high level that the multinational and international companies are the only ones that can tender for that, and when you look at the companies that I represent, which are the private companies throughout Queensland, we can't even get registered on - be put on the registration list to register for those jobs or compete for those jobs.

MR BRAITHWAITE: Has there been a tendency to increase the value of them instead of breaking them up into smaller lots as they would have been before?

MR DODD: Most certainly, and I think even the small packages have increased, and I think there are some efficiency gains in putting a smaller package together. We certainly are of the belief that the \$100 million and \$200 million packages do supply the efficiencies that I believe they obtain from them, and I guess we've yet to establish that because those jobs aren't completed at this stage.

PROF SLOAN: Do you think the - I think it's local governments, isn't it, Main Roads itself? Are they competing on equal terms with their members?

MR DODD: We don't believe so, commissioner, we're not suggesting that there was any impropriety there at all, but if work is allocated on the mentality-priced arrangement between the client and the contractor and the majority of their work is being undertaken in that manner, they have a direct advantage before they even get into the tender process. At the moment they're looking to maintain a hundred per cent productivity, and I know that's the aim of the Main Roads, and I wouldn't be sure - each council would have a separate policy to that, but in essence they're looking for a hundred per cent productivity. That's meaning that they want to keep their full employment of their own people on a full-time basis.

That doesn't exist in the industry. It certainly doesn't exist in the private sector, but if they win or two contracts a year, they've got to try and then either maintain workforces or substantially downsize and then re-establish themselves to take on another contract which is a cost that's not borne by the councils or the government themselves.

PROF SLOAN: So are you suggesting therefore that they're prepared to price to get the project in order to keep their workforces intact?

MR DODD: What I'm saying is that they're not contesting anywhere near the amount of work that they were two or three years ago. They are now getting the work provided to them under these community service obligations on an agreed price contract. Therefore there's no contestability in it at all.

MR COSGROVE: This is an interesting point because we've often been told, including in this state, that one of the costs for rural communities is the loss of local roadworks contracts to private suppliers. Often it is said people who might come, say, from Brisbane or another provincial area of the state, with - as the story goes - the money disappearing from the local community whereas previously it would have stayed there. Does the answer perhaps to that conundrum - it's not the story you're telling us - lie in the fact that many of those projects would fall below the \$300,000 threshold or - - -

MR DODD: I don't think there's been an increase in the number of projects around the \$300,000 project. The minor works projects hasn't increased or decreased substantially over that period. It's difficult for me to get hold of minor works - obtain the value of that, because they are contracts that are negotiated on a district-by-district basis. But you can get a feel for it on the overall expenditure, so we would feel if it's increased by 5 million or decreased by 5 million it wouldn't have been a great deal over that period of time.

MR COSGROVE: I'm not as interested in the total amount or change in the total amount of those contracts but in the shares of the local councils' workforces, vis-a-vis the private contractors' share of that business.

MR DODD: I must admit, we don't get a break-up of what's allocated and what's undertaken by councils and what's undertaken by Main Roads. What we do get hold of is what's gone out to tender and what's been undertaken by our chaps. What we do get is the information on what is awarded in those \$300,000 tenders. There was only \$3 million awarded to local government in that open tender process and I believe that was only one contract. So the majority of the work is being given to them on internally priced contracts or the small contracts. No-one else coming into the area could establish and do it anyway because for a project under \$300,000 it would be difficult for anyone to come outside the district to set up.

They're locally based arrangements that would be handled from persons within the community. Similarly, there was only \$26 million won in open tender by the Main Roads business units this year. One contract alone was 17 million, so they're not contesting the market and we don't believe the implementation on the NCP is being directed correctly when the amount of work that's not being contested is being allocated out and therefore not available for open competition.

PROF SLOAN: Who makes the decision? I mean, is that in issue? We heard in the previous submission that to do this properly you really need a separation between the regulators or the decision-makers on the operations side. Was there an issue in Main Roads that, you know - - -

MR DODD: I think from the policy side that comes from the management side from within Main Roads on where they want to really direct their funds and how much employment and how much growth they want to see in their own operations. In terms of the separation, I believe that's more a district effect. But from the areas that we've seen and the audits we've been involved in, the real separation is not there. A private contractor does not have the opportunity of establishing his depot within the Main Roads depot. Almost always, the construction unit and the corporate unit are in the same premises, even though there may be Chinese walls and that type of thing. The opportunities of that close association between the client and the contractor is not available to the private sector.

One of our suggestions was that there be complete separation or that all work be made contestable. Our reasons for putting those recommendations in, we just can't see - and there's been a reluctance, and probably a financial reluctance, to separate completely the construction units or the business units from the corporate sector in terms of having them set up separately. Secondly, it would be difficult for them to establish construction or maintenance units that just did the uncontested work and leave a separate unit to do the contested work. The only option to it we see is that all work should be contested.

MR COSGROVE: What about the opportunity which is meant to be available to your members in circumstances where a local government is out in the marketplace competing for these tenders and you feel that they're not doing so on the basis of full cost attribution of their offer to take a complaint to the competitive neutrality

complaints office - I'm not sure what its title is in this state. But is that - - -

MR DODD: In Queensland you have the Queensland Competition Authority. They will only accept complaints by an aggrieved party, so it has to be a contractor that believes he has been disadvantaged by the actions of the government. In most cases the smaller contractors are loath to go into that process - - -

MR COSGROVE: For fear of losing future contracts.

MR DODD: Contracts, yes - and the opportunity for their representative organisations to take those issues up is not there. Secondly, we've looked at the ACCC's route a couple of years back but after about \$15,000 of legal interpretation and that type of thing, our financial ability to carry those issues further is very much limited and I think the governments are aware of those restrictions on ourselves.

PROF SLOAN: When we went around the regions - particularly in Queensland - and we spoke to a lot of local government people, they were very keen to maintain their workforces - their road-making workforces - and therefore there was not great enthusiasm for contracting out because the point was made that the contract would be awarded to an operator and the workers wouldn't be living in the region and therefore the benefits wouldn't be captured by that region. Have you got any response to that?

MR DODD: I can sympathise with the small regions, and we've got the same problem with the multinationals that are coming in and taking the works on the motorway and that type of thing. Their profits are going overseas and they're bringing in contractors from interstate. So we have some sympathy with that area and certainly, as I said previously, we're not looking to denigrate the communities - the communities in those areas that are mainly affected. But let's face it, the majority of the expenditure in roads and roads infrastructure is on the coastal areas. I won't quote a figure but a substantial portion of it is in the more populated areas where the opportunity for local contractors - and we have contractors right throughout the state and we have contractors in Goondiwindi and Emerald and Mount Isa and all up the coast - the opportunity needs for those locally based contractors to also take on that work.

We made suggestions in the past that there's probably an opportunity with the smaller works and that type of thing of bulking them up to a degree that if outside contractors worked within it - when I say "bulking up", make it over longer periods of times. If there was construction or maintenance work required and it was over, say, a five-year project, then outside contractors couldn't maintain employment outside of the region because it just wouldn't be viable to maintain the staff from elsewhere. There's got to be opportunities of both councils and governments and the private sector working together to maintain employment in those areas. While they're sympathetic with it, there are 11 and a half thousand people directly employed in road construction and maintenance. A substantial portion of that is in the private sector.

MR COSGROVE: Even in the inland or western parts of Queensland, would that

be the case?

MR DODD: Yes, they are fairly substantial. One of our biggest contractors lives in Goondiwindi. So we do have contractors in those areas. I'm not suggesting we've got one into Builyan or something like that - and they're the areas that I think need to be protected. Again there's not much expenditure in those areas. We're not targeting councils per se to say, "We want contractors to come in and destroy those areas." What we're looking at is for established Queensland contractors that maintain employment in this state to train people to be competent operators and road construction workers within this state to have the opportunity of having work to apply those skills.

MR BRAITHWAITE: Could I just get in the back of my mind, is the Main Roads Department in Queensland a contracting agency in itself?

MR DODD: It has a contracting agency within itself. In fact it has two; it has road construction services which is RTCS, and they also have a plant hire division which actually hires out equipment to themselves, to councils and to the private sector.

MR BRAITHWAITE: How much of the work would they command?

MR DODD: I don't know the exact figures but based on the government budget reports that come out on a yearly basis, their annual turnover is in the order of about \$240 million.

MR BRAITHWAITE: So that's a substantial part of the \$667 million that's available.

MR DODD: Considering the plant hire is another \$30 million on top of that too.

MR BRAITHWAITE: The question that the chairman asked a little while ago about access to the competitive neutrality - or the agency, in your original submission where there seems to be a very blatant case up in the north that was given to us that I would have thought should have gone to the agency. Is there a real fear that by putting it onto the agency to investigate that they will lose jobs?

MR DODD: Commissioner, there hasn't been one submission made to the Queensland Competition Authority outside major electricity issues. There hasn't been one issue relating to roads. We've actually had the representatives from the commission address our members and advise them of issues that would be relevant to take before the commission but there's still very much a resistance to take those issues up, especially independently.

MR BRAITHWAITE: The other issue is, in Queensland it's rather unique, as compared to the other states that the Main Roads Department has allocated the Queensland council in three zones, and the western zones almost get as of a right up until a year, that I can't mention, to do that work on maintenance and anything that

Main Roads wants to put out. There are two other regions and the further regions become more contestable. You have no problem with - and I think you've already answered this - that third region getting that work and maintenance?

MR DODD: Absolutely not, commissioner. What we have at the moment, even though those three areas were implemented by the previous government, we've got back to one area rather than three. One job has been won in open competition over \$300,000 by a council in Queensland in the last 12 months. That's not competition. The opportunity is for councils there if they can't win business in open competition - and I'm suggesting they haven't contested work, they've only been successful once. The policies have been set up, if they're not successful in winning an open competition then they can negotiate agreed price contracts with the government to maintain the viability and the workforces of those councils. That goes right across the state.

MR COSGROVE: Are the terms of those contracts made public, after the event at least?

MR DODD: The internally priced contracts?

MR COSGROVE: Yes.

MR DODD: No.

MR BRAITHWAITE: Victoria has a system of compulsory competitive tendering of 50 per cent of their contracts. Do you see any room for that in Queensland?

MR DODD: If we could have the Victorian model replicated in Queensland we'd be quite happy but I think it's got to be horses for courses and again, we've worked with the governments at all levels to have a meaningful and progressive implementation of the NCP. I think there was some pitfalls in the Victorian model in almost changing overnight but certainly we've seen some of the advantages that at least the work is contestable down there now. The councils have got to put their work out to tender and the government has got out of the contracting business themselves.

MR BRAITHWAITE: Is there a system of pre-tender in Queensland that allows one of your contractors to pre-tender on a contractor on the basis of previous experience, and if you haven't had that previous experience you're just put out of the list. Is that a situation in Queensland?

MR DODD: We have a pre-qualification system that you must be pre-qualified before you can tender for government works, particularly operated by Main Roads. That system allows you to take on work at a certain level and once you build up credentials within that level you can move to the higher level. The unfortunate part about that is that it only goes up to about \$30 million. Once you get over that your financial arrangements and that would have to be done on a pre-registration basis and only those companies that have overseas backing and public company backing has

the financial wherewithal to be able to maintain the financial requirements to undertake

the \$100 million projects.

MR BRAITHWAITE: You see that in pre-registration and putting a deposit down that most of your contractors can take a contract, what are you saying, up to about \$100 million on that pre-deposit arrangement?

MR DODD: No, I'm sorry, we're on crossed wires on that. This is a pre-qualification - pre-registration, there's not a great deal of that. There may be tender deposits required and you may - with councils you need to be on the listings to be able to provide it with the tender. But certainly with Main Roads, you cannot pick up documents or be issued with tender documents unless you are pre-qualified in the first place to that level of work that they're actually putting out to tender.

MR BRAITHWAITE: Does amount of tender deposit required in some contracts prevent some of your members participating?

MR DODD: The tender deposits haven't been a major issue. We wouldn't want to see that to be a growth area, mainly because if you've got a tender for 20 or 30 tenders, to get one or two, you have a lot of money tied up in tender deposit. If they're a few hundred dollars it doesn't make a great deal of difference but if they become \$20,000 and that type of thing, it's similar to the security requirements that are required on a private company. He can only establish bank guarantees and insurance bonds to the value of his assets. You can only increase your assets if you increase the amount of work that you're involved with. So unless you can increase your amount of work you can't increase your assets unless you're making substantial profits out of it and this industry doesn't have substantial profits. So you're really limited on how far you can go up on the side of the company that you are at the moment.

MR COSGROVE: Graham, I'm not sure whether our questioning interrupted some other points that you were wanting to put to us.

MR DODD: No, I think the questions you've asked - I didn't want to reiterate what was in the paper or in the inquiry. But I felt there was an opportunity of putting forward - I guess the misrepresentation that the private sector has been a benefactor in this NCP - and I can appreciate they're emotive issues when you go around the country with local councils and that type of thing. But the reality is that we haven't got the work.

MR COSGROVE: Okay, thank you very much.

MR COSGROVE: The next participant is the Rural Policy Institute.

MR McGOVERN: I'm Mark McGovern, and first of all I'd like to thank you on behalf of the Rural Policy Institute for having us here. Last year when the initial presentation was on, I was here along with John Searle and some others. That was a fascinating day, and I remember saying at the time, in some ways the terms of reference for this commission are a poisoned chalice and what you'll end up doing with was a fascinating thing, and a thousand people later or more, you've come up with an interesting report but one which I think is deficient in a number of ways. Some of these deficiencies, partly to respond to information that you've requested but also partly to point out what we think are some pretty serious flaws which we hope, since this is a draft report, we will address in the final report.

MR COSGROVE: Mark, before we go any further - I'm assuming that your colleagues might also wish to speak - could we perhaps get each of you on the tape, names and affiliations for our transcript recorder so that she will then be able to pick each of you up easily.

MR McGOVERN: What I was planning to do was give each about 10 minutes during the time we've got and just to introduce the speakers in order of speaking - - -

MR COSGROVE: I think individually by voice might help.

PROF SLOAN: It just helps with the transcript.

MR REES: Ben Rees, farmer and economist from Miles in south-west Queensland.

PROF KOLSEN: Ted Kolsen, formerly University of Queensland.

PROF JENSEN: Rod Jensen, formerly University of Queensland.

MR COSGROVE: Thank you.

MR McGOVERN: Okay. What we'd like to do is first of all call on Ted who is an ex professor of economics and if I remember rightly, John, has met you before.

MR COSGROVE: Yes, he's responsible for my failings.

MR McGOVERN: So Ted is well regarded in the whole issue of theoretical bases of competition as well as the whole issue of competition policy, Part X Trade Practices, and lots of other things. So to Ted.

PROF KOLSEN: Thank you, Mark. Just an explanation to say that I was a member of the a Commonwealth government panel that was looking at Part X of the Trade Practices Act which at the moment the Productivity Commission has got under its observation and what I've read so far, it's certainly a great improvement on what

the Industry Commission would have done. Anyway, with that little compliment, I'd concentrate just on the national competition policy and the marketing of rural products. I realise that one could spread oneself so thin that in the end it becomes meaningless. Perhaps if I just stick to that, my colleagues will obviously do other things as well.

A lot of debate has already taken place. First of all, perfect competition seems to be taken as some kind of a benchmark in all of the discussions, including yours. Nobody has ever mentioned the theory of second-best. You would be sufficiently well acquainted with the fact that the second best really makes a mess out of the first best. Really, we live in a world to which second-best theory applies, not first best. It's about time that it's recognised somewhere and I was hoping that that might be done by the Productivity Commission. So far as the marketing of rural products are concerned, I noticed - although you mentioned them - there isn't sufficient recognition of the market imperfections in the chain that runs from the rural producer to the final consumer.

We seem to jump from the rural producer straight to the final consumer. But there is imperfect information, risk and so forth and so on. But most important of all, if we take just one particular chain, we've got the rural producer, processors, wholesalers, retailers and final consumers. Now, in the only benefits test that I was concerned with these people were just left out of it. In other words, it was said, "Well, we'll make certain assumptions about what's going to happen to the processors and the wholesalers, retailers. We therefore say that if there's perfect competition in the rural producers, this will automatically produce a reduction in the prices to the final consumers." No research of any kind was undertaken. It was simply said. Now, this assumes, as you can appreciate, that all the other participants in the market are highly competitive, strictly speaking, perfectly competitive.

When you look at the processors, who are almost always oligopolistic - and everybody crawls up at that word because it makes for certain complications that they would rather not hear - and if you look at the major retailers for much rural produce, you're looking at Woolworths and Coles, and they're almost duopolies. Can I put it this way, that examining, using a public benefits test to look at what happens if you deregulate some aspect within that chain and that aspect happens to be at one end of the chain where there's already a high level of competition and where in fact the only market power exists because there is this regulation, and then to assume that there isn't any imperfection in the rest of the market until you get to the final consumer, is in my opinion, totally unwarranted.

We know from oligopoly theory that it is just as likely that if you do that, in other words if you reduce the price at which the produce is now sold from the rural producer to the processor and from the processor to the wholesaler and retailer and from the wholesaler and retailer to the final consumer, it's just as likely that prices will go up as that they will go down, or as they will remain the same, because it is the oligopolistic market that will determine which way you'll go. Now, it is unfortunate, I think, that invariably it seems to me the matter is mentioned, it's mentioned in your

report, and then it's not persisted with. Nobody then says, "You can't have a public benefits test which merely looks at the interface between the rural producer and the first part of the chain with which he comes into contact, which is the processor." But even that's bad enough.

But then nobody goes on, except by assumption, to say something about what happens between the processor and the wholesaler or retailer, and then nobody says anything about what happens at the interface between the wholesaler, retailer and the final consumer. Now, as I understand it, the idea of a public benefits test is benefits to the public, defined as the final consumer. The benefits that run in the meantime from the rural producer to the processor and the wholesaler or retailer, they're merely redistributions of income. They are neither warranted by the legislation, nor are they warranted by any ethical standards that I know anything about. So that I think was an argument which I can make very strongly, because it's not made only by me, but it's been made by others, and certainly you've mentioned it, but you haven't taken the next step, which is what I'm trying to do now. So that's one point that I would like to hammer, that one has to look, by the legislation actually, you have to look at what happens to the final consumer, not what happens between the processor and the rural producer. You have to do the whole chain, and it's never done, or if it's done, it's done by assumption. Now, the second point that I want to make - and I'm trying to keep myself as short as possible - - -

PROF SLOAN: Does this mean, notwithstanding all that, that doesn't provide a strong case for particular arrangements of producers through SMA, the fact that there might be marketing to people through the chain, it's just a case of attacking those market imperfections elsewhere in the chain?

PROF KOLSEN: Certainly, but if you're not going to do that then - as I've said so clearly - you're otherwise indulging in a redistribution of income, which has nothing to do with efficiency.

PROF SLOAN: But that's not true, because I mean we'd still wear the production yards. It's not just the consumption gain. The economy is better off if we have more outputs, the fact that it's not - - -

PROF KOLSEN: But you won't have any more output, because you'll sell the same quantity. The output will be exactly the same, except the rural producer will get less, the processor and the wholesale will get more. So there's no increase anywhere.

PROF SLOAN: You'll be using fewer inputs to produce the same, so the economy is better off?

PROF KOLSEN: I doubt even that, because that has to be demonstrated. See, all you're doing is you're squeezing - - -

PROF SLOAN: That's right, we all hear that in dairy. We know there'll be fewer dairy farms to produce the same amount of milk. We know that. It's a production

gain. That's a tick.

PROF KOLSEN: Yes.

PROF SLOAN: You're telling me that there won't be necessarily a consumption gain because there are imperfections in the chain. But don't you therefore - I mean, we do have policies in place to attack those marketing sections elsewhere in the chain.

PROF KOLSEN: If you tell me what they were I'd be delighted to hear it.

PROF SLOAN: Trade Practices Act, we'd have to ask ourselves about it, discard the barriers to entry.

PROF KOLSEN: Yes, that's another joke that we'll have to deal with. I was just going to come to the application. You see, the assumption - - -

PROF SLOAN: But do you concede my point that if there's an economist speaking he will still give a tick to the production gains to be made because you're going to be using the same or less input. It's just that we're a bit unclear in what happens to the consumption.

PROF KOLSEN: No, I don't even concede that, because it's just the redistribution of income in some cases.

PROF SLOAN: No, I agree there's a distribution (indistinct) along the chain. But it's actually a real gain here too. This is a real allocation gain.

PROF KOLSEN: We could debate that as well, if you've got some alternative uses for those factors of production. But of course if you throw them out of work there isn't any gain at all. What I'm saying is that in many cases, and particularly in the industries I looked at was the chicken growers case, there is a redistribution of income. What you're doing is you're squeezing the incomes of some factors of production ie, in this particular case the growers, without any benefits for the final consumer. The only thing that happens is that the processors and wholesalers get more. The growers get less. The sum of the chickens produced and the factors that are used, generally speaking, are pretty much the same as they were before you started. No, they're pretty much the same as before you started. Now, the dairy industry, that's another thing.

PROF SLOAN: We know with the dairy industry in Victoria that they are producing, as common form, more milk with considerably less effort. So that is a tick.

PROF KOLSEN: Yes, definitely. I'm not arguing that. But the dairy industry brings to mind something that we've discussed many times, and you'll find it in our Part X report. That is, you keep on arguing, in my opinion, on a one shoe fits all

approach. What we are saying is horses for courses. What happens with the dairy

industry doesn't happen with the chicken industry, doesn't happen with the vegetable industry and so forth and so on. One of the things I think that particularly you as an economist want to get rid of, is the idea that you can run the same rule over all the industries, no matter where they are or what they are, is something that has to be severely resisted. You've actually enabled me to make that point by bringing in the dairy industry when in fact we were talking about say chickens or onions or whatever the case may be. That's the problem I think that I see.

PROF SLOAN: There is one set of rules in the sense that there is one set of principles.

PROF KOLSEN: One set of very vague principles. I'll come to that as well. For example, one of the vague principles is that more competition is better than less, without anybody, including you gentlemen, and lady sorry - actually as an economist I shall address you as professor. Nobody has defined competition, not in your report - and I'm happy to give you a piece of paper which shows that Hilmer defined it as you would find it in a dictionary, and not as you would find it in a textbook. Now, that leads to an odd, shall I say juxtaposition, because on the one hand we're arguing as if we're talking about competition as you would find it in the economics texts. On the other hand we're arguing as if we're talking about competition as we find it in Hilmer, and undefined, as we find it in the Productivity Commission.

Now, I believe that is a serious flaw all the way through, but I can't really recommend any way of doing this, because if you start talking about perfect competition you're just talking about something that doesn't exist anyway, and that might give you even greater trouble. But I do think somewhere along the line somebody should attempt to define what is meant by competition, so when you say to the rural bodies, "Look, you mustn't join together as a selling cartel, or a buying cartel, as the case may be, because that is anti-competitive," somebody then should say why (a) that is anti-competitive in the sense in which an economist would mean that, and (b) why this necessarily affects the level at which efficient - the efficient level at which factors of production will be used. I think that would be very helpful.

PROF SLOAN: - - - trying to say (indistinct) you can have two claims, like we have Coles Myer Woolworths, and they can be extremely competitive.

PROF KOLSEN: If you believe that then I don't think I can help you very much.

PROF SLOAN: You don't believe that they can (indistinct)

PROF KOLSEN: The way in which duopolists compete.

PROF SLOAN: I know they're a duopolist. Why then would they give these guys a hard time if they were a duopolist?

PROF KOLSEN: I don't quite see what the connection is between the hard time that they give suppliers and that they are duopolistic. Duopolist competition means

simply that they take good care not to offend each other too much in the way in which they price their products. It also means - - -

PROF SLOAN: Yes, but your point as to (indistinct) that you could have an industry with a lot of players which may not be actually that competition, you also could have an industry with two players - - -

PROF KOLSEN: Yes, but as I say, if you really do believe that Woolworths and Coles are highly competitive then I'd like to see your evidence. The next point that I want to make is along the same lines. It is always assumed - and I must say that I'm pleased to say that this draft report goes much further in putting out all the pros and cons than every other report that I've seen, and I'm very happy about that, because it seems to me that it's the pros and cons that have been buried under this ideology of saying one size fits all. But the last point that I want to make is that the assumption is that when public benefit tests are done they're automatically done well. The rubbish that I've seen as a result of public benefit tests suggests that it's gone the way of cost benefit analysis, which once upon a time was done very well by the small number of people who understood it, and is now done by anybody who can push the right buttons on a computer and get any result that happens to suit a particular circumstance. Now, the public benefits tests, in other words, if they are going to be done properly, must be available for public scrutiny. They must be subjected to criticism, and they must be seen by the rural community to be doing the right thing. I'm afraid the ones that I've seen haven't done that.

MR COSGROVE: When would you say there's been bad examples?

PROF KOLSEN: I can only think of the chicken growers in Queensland where the assumption was made that if we're all perfectly competitive obviously prices would be less, since say half of those reductions would stick by the processor or the wholesaler we'd expect to get a reduction of one and a half cents per kilo as a public benefit; an absurdity, by and large, when you think of the smallness of the amount and the hugeness of the assumptions which were made to get to it. If you would have submitted that to the scrutiny of good economists, or if it had been known that it was going to be subjected to the good economists, I assure you the results would have been quite different. So my point is then that yes, if you did a perfect public benefits test and it showed that if you did certain things certain consequences, desirably consequences, would follow, I would go along with that.

But it is so rare to see a really good public benefits test, at least to the extent to which I have been told by various people who do them, that they're done by - well, again, by a series of assumptions yielding values which are put through a particular monolithic computer, on which my colleague on the right will have more to say, and the result is then presented to the rural community and said, "There you are, you'd better wear it because we're going to be 1.357 per cent better off," or some ridiculous thing, which cannot be substantiated by what was actually done in order to get to that particular number - I mean the number itself is silly. I was recently told that as a result of the GST every person in Queensland is going to be 1.8 per cent better off. I

think it's a wonderful thought.

I've not come to grips with that, and I don't know how anybody can make a calculation which can yield such a precise number as 1.8 per cent for everybody in Queensland. That's what's being done. So if I can just sort of come to an abrupt stop, have I done it already. The two things are that (a) that the whole chain should be looked at, which includes very non-competitive interests, if you like, oligopolistic and duopolistic segments in the chain, and second one is that if you're going to do a public benefits test, let it be done right, and let it be seen to have been done right. At the moment I don't think most of them are done right, and I'm quite sure that they're not seen to have been done right. Thank you.

MR COSGROVE: Any final questions, further questions?

MR BRAITHWAITE: I was very interested in your point, because some submissions from some departments obviously written by economists that particularly in the dairy industry the current former price to the producer has not carried itself through to the consumer, and the argument is that the restrictions they lived under for so many years means that it's only fair and reasonable that the processor and retailer get the benefit - recapture the benefit of those previous years. They then go on to say, "But further deregulation means that that price will be passed onto the consumer." Would that be your bet?

PROF KOLSEN: No, and it's interesting you should say that, because in the chicken case it was also argued that some of the benefits should be going to the processors and the wholesalers in the same way as you've just now said for milk. I made that point before when I said these are oligopolistic industries or duopolistic industries which will make their own decisions about what should be passed on and what's not, and that would depend on the conditions of the market which they face. If they think demand is sufficiently inelastic they'll increase the price, obviously, and if they don't, then they won't. Therefore it's got very little to do, they're two separate decisions. On the one hand I want to maximise my profit. To do that I have to squeeze the price at which I buy the thing as much as I possibly can, and having done that, sell it at the best price I can possibly get, or if that best price which I can possibly get, meaning maximising profit price, is higher than the price was before deregulation, then that's what it will be, no matter what happens further down the chain.

MR BRAITHWAITE: Do you reckon you don't have a mechanism via which you can pass through the benefits from the producer to the consumer?

PROF KOLSEN: Exactly, and that's why research would have to establish it on a case by case basis. Can you actually say so.

PROF SLOAN: But the chicken price of course won't be (indistinct). So is that really your point?

PROF KOLSEN: That's in South Australia.

PROF SLOAN: That as a case by case and - - -

PROF KOLSEN: Yes, that's only in South Australia.

PROF SLOAN: There are authorisation procedures that exactly provide for the particular circumstances of the industry.

PROF KOLSEN: I'm very glad you've opened up another question now, and if you want me to say a few words about authorisation I'd be glad to do so, although I'm not sure that it's directly relevant. But authorisation, the offer of authorisation proceedings, were the subject of some investigation of the Part X team that looked at authorisation as an alternative to Part X of the Trade Practices Act. Again, the study showed that no research was done by those who say, "Why don't you go to Part X, on whether Part X has in fact been adopted by industry as an alternative." We did that research, not very much, admittedly. We only had about six months to do the whole thing. The plain fact is that the authorisation process itself stops people from making use of it, because it is complex, it's legalistic, it's expensive. It's all the things, in fact, that you wouldn't expect a small body of rural producers to confront. What they did in South Australia, as I understand it - and I think you might know more about this than I do - is they got an interim authorisation. They didn't get an authorisation. In other words, the whole thing - - -

PROF SLOAN: You don't want Part X for every industry in Australia?

PROF KOLSEN: I beg your pardon?

PROF SLOAN: Surely you don't want Part X for every industry in Australia?

PROF KOLSEN: I think it's far better than what we've got at the moment.

PROF SLOAN: Yes.

MR BRAITHWAITE: I just want to comment on the (indistinct) spirit is clearly what you have made it out it should be. We've had quite a few complaints through submissions that this is one of the failings of the tests, that the industry has not had the resources by which they can mount a case. So understanding that, the public benefit test is going to be a more expensive procedure. Is that necessarily the case under your scenario?

PROF KOLSEN: I think yes. Actually I'm glad you made that point, because in the public sector the resources devoted to public benefits tests haven't been very much either, and I don't think it's an easy thing to do, a public benefits test, any more than I think it's an easy thing to do a benefit cost analysis. But it's being done by people - and I don't want to denigrate them because they're usually put in a position where it's said, "In three weeks' time you're going to have this on my desk or else," and they go away and do it as best they can. So neither the public sector nor the

private sector is

sufficiently resourced to do what I would regard as proper public benefits tests.

MR COSGROVE: It would pretty minor case though, cop that three weekly thing you just mentioned. Most of those which have been drawn to our attention in the course of this inquiry have gone on for months and months and months, six, nine months. It surely gives people enough time to acquire expertise and present the case which their clients are keen to have presented as well as possible?

PROF KOLSEN: Again, that's not been my experience. Could I just give you an analogy. We were told when we were doing our Part X inquiry that if you put something to the authorisation proceedings that you would be guaranteed a response in 31 days.

PROF SLOAN: But - - -

PROF KOLSEN: Wait a minute, hang on, you haven't heard me out. Hear me out. That's not what I was going to say at all. The 31 days, right, are the 31 days the commission devotes to working on that particular authorisation. That could take 18 months. It would still only be 31 days, and that's the answer to your question.

MR COSGROVE: I think we are talking about different cases.

PROF KOLSEN: No, I'm saying that they could devote 18 months to a public benefits test, of which there are 31 working days.

MR McGOVERN: Okay, Prof Rod Jensen, expert in commerce and economics at the University of Queensland, and also for the present purposes founder of the Regional Science Association in Australia and past world president of Regional Science, and Rod's particularly interested in the regions.

PROF JENSEN: Thank you very much, Mr Chairman. As Marcus said, my expertise is primarily in regional economics, regional economic theory, regional economic theory, regional economic policy and regional economic modelling, in particular. We've dealt with a variety of models, input output models, integrated econometric IO models and played around with some CGE models. So we're particularly interested in some of the modelling work that appears in the report. As you can imagine, that's an attractive opportunity for us to make some comment. Your report states on page 253 that, "This modelling work, based on the Monash model, Monash regional model, provides some very important insights into the thinking of the commission." Well, I'd like to know, I'd like to ask you genuinely what the insights in fact were because we need to come to grips with these insights and let me explain to you why I'm particularly interested in this. We have done a fair bit of work on the validity of economic models, that is their robustness and the extent to which they represent reality, the extent to which they can be expected to predict reality in general simulation areas.

In fact there is a fair bit of work done in an international context on the theory

of validity, of model validity. I didn't see any reference to this in any of the work that has been produced by the Monash group historically. I haven't seen any reference to this in any of the work that has been done for this report. But I think we need to identify this as a very, very central issue. In other words, how valid is the work that is being done using that model in terms of the insights that the commission might in fact take from it. Because the implication is there at least that that model gave some - well, to use the word again, insights or underwrote some of the conclusions that might have been reached or at least supported them in some way.

So I think it's very important that we go back, if you don't mind for a moment, and think about what an economic model is, think about what it is intended to do and to think about what the relevance is of drawing implications from this model. In other words, let's look at the question of validity. If we have on one hand reality, which we're all trying to come to grips with at some stage, and we have on the other hand an economic model and an economic model is intended to be - whether it is or not - it is intended to be some sort of representation or simulation of reality. It's intended in the model builder's mind to come as close as possible to the way in which the economy works under particular circumstances and that's the idea, as we all know, of economic models. The model that has been used here, if I remember correctly, is the Monash model and the last I heard it had 6 million equations in it.

MR COSGROVE: You may be right, I don't know.

PROF JENSEN: That was the last number. I don't know whether it's gone up or down since then. But there was one equation of every three people in Australia in that model. It's a pretty big model, probably the biggest in the world. Apart from the fact that I don't know anyone in the world whose mind I think is great enough to come to grips with 6 million equations, you might have met somebody perhaps that you respect that much, but I simply haven't at this stage, but that's by the by. I think that we have here with any economic model is something which is an unreal simulation of reality which must be deficient in some way. It has to be deficient in some way because we can never capture all of the intricacies of reality.

MR COSGROVE: You won't get any argument from us on that.

PROF JENSEN: Okay, we don't have to push that.

PROF SLOAN: I suppose it's true of your models too, Rod, as well as everyone else's.

PROF JENSEN: Absolutely.

PROF SLOAN: It's a distraction from reality.

PROF JENSEN: It has to be that. It can't be any other way. So what we've got in the model that has been used in this case is built on assumptions of perfect competition. That's the basis of it, that's the reality of any CGE model, it has to be

based on perfect competition and yet we all know, of course, that perfect competition doesn't exist.

PROF SLOAN: That's not entirely true now, there are some modifications. For example, it has a natural rate of unemployment in it. It has a kind of Phillips curve in it now so you don't actually assume the labour market clears.

PROF JENSEN: That's a major advance.

PROF SLOAN: Yes.

PROF JENSEN: If I might say so, one minor major advance.

PROF SLOAN: No, that's a major major advance.

PROF JENSEN: With all of the other limiting assumptions in it about capital clearing markets and so on and so forth, that's an indication of getting a little closer to reality. So what we're using here is a model based on a perfectly competitive model to explain a world which we know is not perfectly competitive, in fact is a long way from it and this has been referred to in your report when you talk, for example, about the dairy industry and you say, "There are countervailing forces," and so on which indicates that you don't expect the world to act in a perfectly competitive manner, as in fact nobody would.

So I guess what I'm saying is that also if you think of the perfectly competitive model and use it as a basis for economic modelling, then I guess all they have to do is look at the spatial dimension in economics to know how completely absurd it is to stick with a model which is based on a perfectly competitive model. The spatial dimension in economics has illustrated perhaps better than any other way how absurd that assumption is and I think it's a pity that we're taught that in first year economics because people actually believe it and they tend to think along those lines.

So the question is if we are going to use a model which we know to be deficient to describe reality and we are going to take insights from a model which we know to be deficient to give us insights into reality, that seems quite the opposite way around. We should actually be looking at reality to give us insights into the deficiencies of the model rather than vice versa.

MR COSGROVE: I think the model builders would claim that they had adopted just that approach. In other words, they have been putting this model together on the basis of their observations of how important national markets were. We agree with you, and I'm sure they would, that they don't capture that perfectly.

PROF JENSEN: I'm not convinced on that they've done that effectively. I'm not convinced of the direction of causation, that we take a model, particularly one which basically ignores the spatial dimension in any way as a top down model by simply taking a calculated national benefit and distributing this across the regions as if the

regions in themselves have some sort of homogeneity amongst them. There is no - - -

PROF SLOAN: That's not true actually.

PROF JENSEN: Well, I believe it to be true from what's in that document because they say they distribute the benefits according the industry mix in the region and so on.

PROF SLOAN: I mean, I'm surprised you have any problem with this. This is quite a simple exercise when you think about it and it's basically driven by input-output considerations. So it's trying to capture the regional aspects. It's outer envelope stuff so you make assumptions about what reforms are involved in the key parts of NCP and it is top down, I agree, and there is a debate about whether you're build a bottom up regional model but you have all that input-output data for those regions and therefore you're using your reforms and how those affect those various sectors within those regions and it runs through.

PROF JENSEN: As I understand it they don't have IO models at a regional level.

PROF SLOAN: Yes, they do. Well, of course the data is limited, we've only got employment data at regional level.

PROF JENSEN: As I understand it, it comes down from the national IO model and there's been (indistinct)

PROF SLOAN: No, that's not true.

PROF JENSEN: Even they do have the IO models we'd like to work out how they got them.

MR COSGROVE: Have you seen the supplement?

PROF JENSEN: No, I haven't seen that because - - -

MR COSGROVE: I think you should. We'll send you a copy.

PROF JENSEN: I suspect that they were calculated at the touch of a computer button.

PROF SLOAN: No.

MR COSGROVE: No.

PROF SLOAN: Part of the thing has been a big regional validation exercise. Your not imposing the IO structure of Australia on all the regions, absolutely not. In fact, what we were asking ourselves, we wanted to know the distribution of costs and

benefits between the regions. That was the purpose of the modelling and if you look at the modelling results I'm surprised - I mean, first of all, it gives you the very intuitive result that the capital cities do the best. No-one would be surprised about that.

PROF JENSEN: Is this one of the insights, is it?

PROF SLOAN: Yes.

PROF JENSEN: Actually we knew that before we started.

PROF SLOAN: Okay, but it's - - -

PROF JENSEN: I'd like to know what it cost us to come to that conclusion in the model.

PROF SLOAN: Okay. But what we didn't know so much were the distribution of the net benefits between the regions. We didn't know that.

PROF JENSEN: Then I question very much whether that model gives it to you, even using that particular principle.

PROF SLOAN: But let me ask you to go back a point. That is a question worth asking, is it not?

PROF JENSEN: It's a question worth asking but it deserves a better answer than the one you've got.

PROF SLOAN: Okay, that's a different issue. It was a question worth asking and you weren't going to ever be able to establish an answer by going and talking to people, were you?

PROF JENSEN: When you say regional totals you mean state totals.

PROF SLOAN: No.

MR COSGROVE: No.

PROF JENSEN: Or regional - - -

MR COSGROVE: We have 57 regions.

PROF JENSEN: 57 regions?

MR COSGROVE: I think it would be worth - - -

PROF JENSEN: Maybe I'll wait for Mark to come down, I've been told he's going to come down.

MR COSGROVE: I think it would be worthwhile, Rod, having a look at the supplement to the draft report on modelling if you've not already seen it.

PROF JENSEN: Okay.

MR COSGROVE: It does set out, naturally, in a lot more detail how this thing has been put together.

PROF JENSEN: I think that's probably important to do so but I suspect and my argument is still that we should have looked at reality first and then tested the insights against the model to see how well the model performed rather than the other way.

MR COSGROVE: We haven't relied on the modelling to draw our conclusions.

PROF JENSEN: There'd be a lot of people would be very relieved to hear that.

MR COSGROVE: I'm glad you think so.

PROF JENSEN: Just in coming to the end to use a quote from Klein. He said, "Models are to be used but not believed." I think that's entirely an appropriate observation and I've been modelling one way or another all my life in different sorts of models. The other thing I think that we've got with the modelling industry - and we do have a modelling industry in Australia.

PROF SLOAN: A small one, yes.

PROF JENSEN: Well, it's an industry and it's a completely unregulated industry which won't have to be addressed by national competition policy but the question is that it has no industry standards. Absolutely zero. If I go and buy a toaster at the local store I've got a guarantee that that toaster is going to work or I can take it back. If I can go and buy an economic model from somebody the only guarantee I've got is that somebody assures me that they think it's pretty good or plausible and that's about the limit of the faith that you can have in any economic model to a large extent.

MR COSGROVE: The same applies to government policy making.

PROF JENSEN: I wouldn't question that for a minute.

PROF SLOAN: It's become more competitive, the modelling game, though, isn't it? The barriers to entry aren't that great.

PROF JENSEN: There are barriers to entry but it behaves in total, if you actually get close to it and listen to the way they talk about each other and the way they

compete against each other, it's like a used car industry to a large extent. You get a promise of this and a promise of that and you have no way of checking up, except with a used car you do actually know whether it's going to work or not eventually but you don't have that with an economic model.

PROF SLOAN: I think that's not true. I mean, these people will rely on repeat business and if the model is completely discredited - - -

PROF JENSEN: But who is in a situation to say whether the outcome is good or not?

PROF SLOAN: I mean, we did try and - I suspect you were invited, Rod, you may have been busy on that day because - - -

PROF JENSEN: I could have been. I'm sorry, I was probably out of - - -

PROF SLOAN: You're a pretty busy boy. You see, we try and - I mean, some of the points you're indirectly making are valid but we are very keen to open the model to scrutiny and we held a workshop in Canberra which was extremely well attended, including by Queenslanders, including John Fallon's offsider, including regional modellers, John Madden came.

PROF JENSEN: Right.

PROF SLOAN: So we are trying to be open in that process.

PROF JENSEN: Yes, I'm not questioning - - -

PROF SLOAN: We put out this technical paper - - -

PROF JENSEN: I'm not questioning that. I guess what I'm saying is that if you use this model outcome or any model outcome as a substantial basis for policy making then that is questionable.

PROF SLOAN: I mean, I think it was really telling us that there are winners and losers. The biggest loser in our modelling exercise is the Latrobe Valley, which is exactly what you'd expect because they bore the brunt of massive nationalisation of the electricity industry. There are other regions that are beneficiaries and you can understand why because they've been big gainers in terms of particularly input costs.

PROF JENSEN: Wouldn't it be nice if we could put a standard error on some of these estimates, form a six million equation model. I wonder how big it would be.

PROF SLOAN: I just wonder what the alternative to this was. You have no figures at all and you just talk?

PROF JENSEN: That might be better.

PROF SLOAN: Okay.

PROF JENSEN: I'm not saying it is but it could well be better.

MR COSGROVE: I'd say, on the basis of our experience to date, I doubt it.

PROF JENSEN: Okay. I've not much else to say except that there is a concern of course that - economists operate in two ways, they operate as advocates and, remember the old days, perhaps you can't, when economists were objective beings. It's getting increasingly difficult to distinguish when people are acting as advocates or when they are acting as objective viewers of something. Whether we like it or not the productivity commission and the IAC and IC and the tariff board and so on were seen as advocates rather than objective observers, advocates of an ideology. Now, this report gives us a much more balanced view than any other report. I agree with what Ted said, it's absolutely refreshing to see it written in such a way.

MR COSGROVE: We have tried to be objective I can assure you.

PROF JENSEN: So you're not advocates in this case?

MR COSGROVE: We don't see ourselves as such. Our terms of reference don't require us to advocate national competition policy but they do ask us to assess its effects. That's what we're trying to do.

PROF JENSEN: Okay, I'll leave it there, thank you.

MR COSGROVE: With limited instruments of analysis I must say.

MR McGOVERN: Just before I hand over if I could just make two comments on this because I actually received the paper as well and the set mailed out to Rod didn't have that in there. This points out a problem which is I think fundamentally in the report. I didn't actually think you read this. Whoever wrote this I didn't think had read that.

MR COSGROVE: I read both of them.

MR McGOVERN: The information in here doesn't come through as strongly as I think it needs to to balance what the story is. I mean, section 10.3 has got to be - I found a number issues which here I think are unclear, such as when they talk about output are they talking about output or are they talking about regional product?

MR COSGROVE: It would be talking about regional gross product, yes.

MR McGOVERN: Well, they should be talking about regional gross product not

regional output which is what - - -

MR COSGROVE: They are talking about the regional gross product. We might have used the word output loosely in the main document but - - -

MR McGOVERN: That's a technical issue which should be corrected because it leads to a whole set of other assumptions. I mean, output is the total value of sales or whatever else, whereas regional product - and this goes back to one of Prof Sloan's comments earlier on - if I can just look at the comment I made at the time - about more product is better product, greater output - it's profitability or product. It's got nothing to do with output. It's the money retained by the regions that's crucial. You can turn your turnover up - I mean, if we want to sell more things we can just cut our prices. We can send ourselves broke turning over much more.

Now, this is a fundamental point which I think is completely missed, in the discussions of the commission and that is the effect on regional profitability of businesses and on the gross regional product - what remains for the factors of production in the regions when you start talking about things like output levels. So that confusion to me needs to be cleared up and if you're talking about output then that assertion that a greater level of outputs is worthwhile only holds up if you've got scarcity presumed. In the markets that agriculture deals with today you certainly haven't got that. You would have, on any measures, considerable oversupply in a lot of markets.

MR COSGROVE: Why does it depend on scarcity?

MR McGOVERN: Because if you increase the level of output and you've got a falling demand curve then your price is going to fall and your profitability will depend on where you are on the curve, elasticities and all of that sort of stuff. So it may well be that increasing output makes you worse off.

MR COSGROVE: You've lost me, I'm afraid.

PROF SLOAN: We must be richer. If we produce the same output with more input we must be richer, I mean, economics I.

PROF JENSEN: Not necessarily in terms of gross regional product.

PROF SLOAN: I mean, hence why you might do the modelling, to figure out what the regional implications are.

MR McGOVERN: But this is where the regional product doesn't seem to be figured out. I mean, if output is quoted as regional product then you've got a technical mistake which needs fixing. The findings of that needs to be much more incorporated into the text, I'd suggest, to bring out some of these differences because you've got some pretty big differences. I think one of the most telling empirical refutations of some of the modelling comes through if you look at the actual

performance of the economies as opposed to what the modelling expected. I mean, if you look at I think it's table 4.18 or something like that - it's quite towards the end - actually, I just had open one of John Fallon's comments and - once again I applaud the use of referees and all that sort of thing. I'm sorry I couldn't get there. I was invited but I couldn't get there. But the top down approach simply assumes that workers are geographically mobile. To the extent this is not so the benefits of NCP reform and the extent of employment dislocation would be significantly smaller than modelled here.

Now, geographically mobile between regions is a really big issue, especially where you've got a high level of home ownership. The quickest way to make ourselves conform to the neo-classical model is to get rid of home ownership because then you've got no constraints. But unfortunately for the modellers Australians tend to own their homes and farms. Now, this reality is not addressed anywhere as far as I can see, anywhere in either the discussions or the modelling. Is that a fair comment?

MR COSGROVE: I think it may be overdrawn. We know, from census data at least, that people often reside in a particular municipality or a rural locality and work in another. Now, I can't tell you now how common that is but people aren't stuck in a particular small area for economic activity. If you live in Sydney you're not going to be working in Mount Isa unless you're on a fly in, fly out sort of basis but on the other hand there may be many people who live somewhere - well, who live in Toowoomba and might work in Brisbane or vice versa.

MR McGOVERN: But if we're looking at the regions in Australia, the size of some of these regions - your assumption is a great one for small regions but unfortunately half your regions are quite big and they're not trafficable, so to speak.

MR COSGROVE: Yes.

MR McGOVERN: So you've got then a bias in the way the modelling has been carried through. If you say interregional travel can make the mobility question irrelevant that may be holding true for some small regions but it certainly won't be holding true for them all.

MR COSGROVE: Well, yes, I would say two things I think about that. The first is that the model does assume that in the long run, by which is meant, let's say, up to 10 years, the labour market distribution or distribution of labour will adjust to meet the new demands induced by the changes in relative prices as a result of these reforms. But what I would say is that as in all markets the longer you look out the more elastic is both the demand and supply. So while this year I'm going to be living in Canberra, in five or eight years time I might be living somewhere else or working somewhere else. I might be retired.

MR McGOVERN: When you put a bias like NCP across a region do you systemically disadvantage some groups?

PROF SLOAN: Of course the policy implication of what you're saying is that we

should give a form of relative assistance.

MR McGOVERN: That may be one of the - - -

PROF SLOAN: But if you look at the Reserve Bank work on this it shows you that firstly the Australian workers are relatively mobile by international standards and secondly that with the exception of my state and Tasmania these flows are equilibrating. So it looks as though that certainly the labour mobility outside - you see, Adelaide is such a beautiful place no-one wants to leave, even if you don't have a job - and Tasmania.

MR McGOVERN: But Tenterfield was the same when the meatworks closed. What the meatworks at Tenterfield closed there was very little mobility from there.

PROF SLOAN: Initially.

MR McGOVERN: Initially, but once again do you wait for the investments that people have made in homes and all the rest of it and in their shops and all of this sort of thing to run down sufficiently? Can they get out? I mean, will you wait for the market to pick up? It's a question of people's investments hold them there.

PROF SLOAN: Yes, of course.

MR McGOVERN: If people had no investments life would be a lot different and the influence of investments, as Keynes indicated, ties together the past and the future and one of the things that's ignored in the whole approach of the general equilibrium model is there's no question of investment returns, they're assumed away. So we've then got - - -

PROF SLOAN: I don't think that's right. In fact, these are very driven by rational investments decisions, that's why you'd move, that the returns of moving are better than the returns of staying.

MR McGOVERN: But how about the same costs associated with the existing position? Are they simply sunk, in other words you've got to bear them, or are they actual things? I mean, if you owe the bank money the accounting convention is it's sunk and it'll take care of itself.

PROF SLOAN: It seems to me that this isn't all that related to NCP, is it, anyway because after all - - -

MR McGOVERN: It is to the extent that - - -

PROF SLOAN: The closure of the meatworks at Tenterfield didn't have anything to do with NCP.

MR McGOVERN: No, but it is to the extent that NCP is part of a package of

influences. You've got not only what's the influence of the thing by itself but as part of a package and it effects expectations and it also has a marginal effect on some communities. The business that's sort of on the edge or the council that's on the edge, it's going okay at the moment but take away that marginal contribution from some - - -

PROF SLOAN: But this has always been. I mean, my grandparents had a farm with a town nearby which you won't even have heard of because it doesn't exist any more and it had 150 people. It does not exist any more. I mean, this the economic history of the country, isn't it?

MR McGOVERN: But was it the stated objective of national government?

PROF SLOAN: What, to keep Dilpurra in existence? I don't think so.

MR McGOVERN: No, but to implement a policy which is seen now to have these effects.

PROF SLOAN: It's seen to have good effects too.

MR McGOVERN: Okay.

PROF SLOAN: There a plenty of regions that are big net beneficiaries.

MR McGOVERN: And there are 24 or 5 or whatever it is which will take some years to catch up.

PROF SLOAN: Hence the chapters in the report about adjustment.

MR McGOVERN: But see, that sort of information doesn't come through. But let me just point to one on table 4.13. If we look at the actual growth in the New South Wales economy the model expected 2.5 but the actual was 2.4, in other words, the model overstates New South Wales. We come to Queensland, which grew very 2.6, the model understates it at 1.8, and there's an unexplained 2.7 difference. So you've got a model which in the case of Queensland and Western Australia strongly understates the economic growth, and it's a 50 per cent difference we're talking about here, and in the case of the states that we might call them the declining south to be really pejorative - - -

PROF SLOAN: Just hang on a minute. We've got our strength.

MR McGOVERN: The model comes close in those cases. So what I'm getting at here is is there something missing that explains the success of some of these other states? Anyway, do you want to carry on with that? I just raise those as things, and these are things I think need to be brought into the main report. Some sort of response to these would be great to see, and I think further discussion and whatever is the appropriate venue for this. Anyway, if there are no questions - - -

MR BRAITHWAITE: We need to keep an eye on the clock as well.

PROF SLOAN: (indistinct) as Queensland is you see because what that's saying is that those big forces of economic change account for only 50 per cent of the growth in Queensland and a whole lot of other good things which are not modelled, and I don't think that's a weakness of the model.

PROF KOLSEN: It's a discrepancy between or a difference between - - -

PROF SLOAN: You laugh, but I mean - - -

PROF KOLSEN: I laugh because it's - I mean, you say they're not modelled, but that's exactly his point.

PROF SLOAN: But the point is you can keep modelling and modelling, go get beyond bounds of rationality, those are the big points that were modelled.

PROF KOLSEN: But you've left out some of the regional success.

MR COSGROVE: We'll have another look at that aspect.

MR McGOVERN: If I could turn over to Ben Rees who is - - -

MR COSGROVE: Yes, I think we need to keep going.

MR REES: Just a little brief background, I live on a family farm in Western Downs. I've got three children who my wife and I have encouraged to seek education that will take them away from the rural areas because we think there's no future there for young people. This morning I took - before I came down, I rang the local Anglican priest, and I asked him if there were still food parcels being handed down to the residents of Miles, and he assured me that that was very much the case. St Vincent De Paul operates there. So that leads me into - - -

MR COSGROVE: They have big operations in the cities as well.

MR REES: That might be, but I'm concerned - - -

PROF SLOAN: They've got an absolutely huge one (indistinct) of Adelaide.

MR REES: That might be, but I'm concerned about rural and regional Australia and your competition policy, and I wonder just what you see the role of national competition policy actually doing because it seems to me that if you want to stabilise the rural community, there are some areas that need to be addressed, and the area of particular concern is the structural change and the impact. You people went to great lengths in here to explain that you weren't responsible for the structural change in

rural Australia, and there wouldn't be one member of the group here sitting with me today who would disagree with that. I mean, we were publishing papers in 94 on what was happening in rural Australia.

So I don't want to labour that, but you seem to have great difficulty in tying together what's actually happening out there, and I just wonder then how valid and accurate will be your understanding of what national competition policy will actually achieve in the rural region because it's pretty vital that that be understood. So I thought the best contribution I could make would be to tell you what's happening in rural Australia as I see it both as a farmer and family man and as an economist. So I brought along some graphs here which I'll just hand over to you before I start talking. They're straight out of ABARE. They're about farm output costs. I did make a note there. I actually ran some correlations on productions and costs and debt costs, and you'll see it mentioned there, and I left them behind, but I can assure you the lowest one was .95 and the highest one approached one.

MR BRAITHWAITE: Okay, you've got a mixture.

MR REES: You've got a mixture. I can help you with them afterwards. We'll just waste time if - and they're not important for what I'm going to say. You don't really have to follow the graphs. You seem to have great difficulty in coming to terms with what was driving change. I mean, you made sort of noises about as incomes rise, this generally happens. I can assure you it doesn't generally happen, it does happen, and there's a particular piece of economic law that drives it, if you understand it. It's called (indistinct) Law. If you understand that, you start to come to terms with what happens as economies mature.

So once you get into structural change, and the point that you missed was in fact a transfer in the rural production program, once you accept factor transfer - that is you're moving your factors out of one industry into another - you'll see some of those drafts, the rates have changed of wool, wheat, beef, so forth. It's not a costless exercise, and the work that we did, we came to the conclusion that it was this factor transfer that was forced upon industries by declining terms of trade that was actually driving the debt. So I got a little diagram that I use, and I argue that costs drive production, and production drives debt. They're all interlinked; one drives the other if you think about it.

When you fail to recognise the role that debt has played in the rural community, lots of other anomalies come in because you can't explain the role of rising suicides, you can't explain the unemployment, you can't explain the poverty - rising above the poverty that I was talking about this morning with the Anglican priest. So that's a pretty vital piece of information, and it's important because there are lots of reasons and explanations put forward as to the rise of the rural debt, and if you go back and read the BAE literature of the seventies, you'll see that it's no profound revelation on my part; it's documented there.

You seem to assume, as politicians do, that if productivity rises, then all will be

well. You lose people, but communities will - some of them will shrink, some of them will go. We knew about what was happening with the distribution of population in 94. We knew about the sponge city phenomena. We published on that. So that was all sort of interesting stuff for me to read, but there's a vital omission, and you just didn't seem to come to terms in that book with what you were looking at because you didn't tie it together. It was just a series of facts. The unemployment change - still with the productivity one, there I've marked the two bases on one graph but it's interesting that the productivity reference that you use used 77-78 as a base year.

If you go back to the BAE publications of the seventies, you'll find that 1977-78 was a drought year, and if you go and look at the yield ton per hectare of wheat, it was .9 or something, and one of the years that it uses as an end period has two. It was a year of heavy rainfall. There's a graph there on wheat production and the rates of change, and I've put over how do you calculate productivity with that kind of thing. Surely you can estimate a trend line, but credibility is what it's about. Within your impact, you're talking about changes in unemployment are assumed to be absorbed in other regions. I question that because you also make the point that there are low levels of education, and I don't think that's fully understood in the policy perspective of what it means for getting industries into rural and regional areas, because the education skills levels I think are pretty important to get industries out there if you haven't got those kind of skilled workforces.

The other sort of converse point is that these people are so poorly educated and equipped academically, where are they going to find employment when they move to the other regions, because they'll be on the labour markets which is pretty much over-supplied. So there's quite a few issues there, and I think that when you start to look at national competition policy and you ask yourself about those points, you start to wonder just what it does mean. I mean, it's easier to make the assumption of the models, but to say if you're missing this vital sort of scenario that's happening out there of rising debt and the funding of debt - now you can read the literature of the seventies again and it will tell you about that going on. I'm surprised that there wasn't some reference to that. If you didn't want to bother with that, you could have just made the references - referred to such-and-such literature. I've got it at home; it's there.

There's a calculation on the terms of trade, you're sort of saying, well, over 40 years it declines at a rate of 2 per cent. I did those calculations out of the ABARE latest publication or last year's publication as 2.3 for that period. .3 per cent compound over 40 years is a pretty severe effect to understate. So that's basically my contribution, if you want to ask me any questions.

MR COSGROVE: Thanks, Ben. I think all of you have made points that we need to take away and look at, particular remarks made about what might be some weaknesses in the modelling. I don't think any of us are at all unaware of the limitations involved in this sort of work, but as Judith said, what have you got without it, and sure you can go piecemeal analysis that might get you somewhere, but

we don't have as much time as might be needed for a really thorough analysis of all these

effects, after all national competition policy is a pretty complex agenda, and we've been asked to look at the effects across regional and rural Australia as a whole which rather constrains us in a way.

PROF KOLSEN: Can I just make some comments at this stage? First of all I'd like to once again thank you and applaud your efforts to date. What I suggest is that the report should have a fairly open finding; that on a first set of estimates, these are some of the effects. This is a terribly important area - importance for public policy, and what we need to do is to say we need to know more about some of the issues you identified, and you've got such a smorgasbord of things, but I think you can identify a number of these things which need systematic and careful research, industry being up to its - including industry knowing what it's talking about itself. I mean, I'll give you a really simple example. Everyone this morning was talking about Australia exports 80 per cent of its agricultural produce, and that's incorrect. It's 20 per cent.

MR COSGROVE: There is a definitional issue there that people argue about.

PROF KOLSEN: Yes, and this is something which needs to be properly discussed because if you can walk into an overseas market and you are talking about, "That's our market, 80 per cent of it," then it's a very different negotiating position if you think it's 20 per cent, and I'm happy to provide the background information. Yes, it has been provided to ABARE and lots of other people. To sum up with a quick comment, if you ring up the ABS input-output section, the reply to my papers has been, "It is a correct interpretation of our figures." So you've got that high level of bad understanding. It's not just misinformation now. It's become systemic bad understanding.

We've got similar problems with some of NCP which you alluded to, but there's also problems in understanding of the regions which I think you're in danger of walking away from, and what I'd suggest is that we need to say, "How can we get a good understanding of the impacts of all sorts of things, and how can we build impact understanding into our modelling. Of course if we go back to - if we were supposed to get 20 million-odd extra out of all these reforms, then you've got plenty of money to compensate the losers, and that brings up another questions. How are you going to do this, and that's something which doesn't seem to be brought forward, and the bit that worried me looking at your report and the sum-up comment was there's lots of good description, but the analysis is underdeveloped or the analytical thinking, and what I would like to suggest is we need more professional discussion and public policy discussion to build us up, and we would like to offer assistance further in the future or whatever we need.

MR COSGROVE: Our final report will be a publicly available document, and I hope we'll stimulate that kind of discussion.

PROF SLOAN: And, you see, we now believe in competition from others, you see. You should be interested in this, and with the gambling inquiry, they're using Chris Murphy to do the modelling, and basically all the modelling is up for tender.

MR McGOVERN: Is that another CG model?

PROF SLOAN: It's a semi-CG model.

MR McGOVERN: But, you see, it's all built upon a market clearing assumption - sorry, a market - - -

PROF SLOAN: No, not Chris Murphy's.

MR McGOVERN: It's a market model still, and what the - - -

PROF JENSEN: I'm not sure that it is, is it?

PROF SLOAN: Sorry?

PROF JENSEN: I'm not sure that it is a market model.

PROF SLOAN: No.

MR McGOVERN: My apologies to Chris.

PROF SLOAN: But I think that point, it doesn't really matter whether we expect 20 per cent or 80 per cent, we all have an interest in efficiency.

MR COSGROVE: Quite, and in market assets if it's only for 20 per cent.

MR McGOVERN: The policy implications are - - -

PROF SLOAN: I think - in fact economists know that there's absolutely no difference between those two things, and - - -

PROF JENSEN: Yes, but it depends whether you're chasing efficiency per se or whether your objective function is the welfare of the community to be achieved in the most efficient manner, and there's a vast world of difference between those two.

PROF SLOAN: But the implication of yours is that they cater to the Australian consumers because we only export such a tiny fraction of our food. That's absolutely incorrect.

MR McGOVERN: No, I'd suggest that's not my implication and I think - - -

PROF JENSEN: That's an implication you've drawn.

PROF SLOAN: It doesn't make any difference what percentage we export.

MR McGOVERN: I think there is a point here which - there are two issues we need to consider. One is - you've got to be quite clear - I'm not making an implication that you need to screw Australian consumers. My suggestion is simply look at the farm-gate returns and the retail concerns, and they show no linkage together which goes right back to Ted's point. You have intermediaries, market manipulation or something - we don't know what it is - and the Industry Commission is not doing anything about it. Maybe you should do this as part of your inquiry. This was presented in information last year when we had some of this information, and one of the Productivity Commission members was there and took it away with them - I don't know what's happened to it since.

PROF SLOAN: But then you'd expect Australian real grocery prices and, you know, purchasing power to be much higher in Australia than in other countries, and that is simply not so, and you all go overseas; you know that's not so.

PROF JENSEN: Can I ask you a final question. The Productivity Commission appears to be interested in efficiency in production and production of services. Let me suggest to you that that in itself is not what society is about. Society is about providing for standards of living, it's about providing for people's wishes. An economist's job it seems to me is to do that in the most efficient way, not to seek efficiency itself.

MR COSGROVE: Don't you think economic efficiency is linked to standards - - -

PROF JENSEN: No, it doesn't follow. That doesn't follow.

PROF KOLSEN: Can I say something to the commission. I'm surprised that you would say that an analysis would show that 20 per cent is exported and 80 per cent is domestically consumed which can come - and an ABARE estimate which says that 80 per cent is exported and 20 per cent is domestically consumed has no impact at all on the way which you view the validity of anything that these people do.

PROF SLOAN: I think part of the classification is classified processed food, that's all.

PROF KOLSEN: Whether it's 80:20 or 20:80 doesn't really make any difference. I find that extremely difficult particularly as a criticism of these bodies who present these particular statistics and then work their models on the basis of that. If they can be as different as 80:20 and 20:80, that's (indistinct) since I was a lad.

MR COSGROVE: On that comment, I think we will have to draw this discussion to a conclusion. We still have a number of participants, and I don't wish to detain them too late into the evening, but I'd like to thank you all for coming along and raising some interesting points for us to give further thought to.

MR COSGROVE: The next participant is the Toowoomba City Council. Would you please, for our recording of the transcript, identify yourselves and the capacities you're with us?

MR BOURKE: Mr Cosgrove, I'm Tony Bourke. I'm mayor of the City of Toowoomba. The man to my right is Peter Taylor, the acting CEO of the City of Toowoomba. The man next to the right is Mr Mike Stalley who is manager of our finance management department. First I'd like to tell you what Toowoomba basically is. We're the largest inland city in Australia, the largest regional centre in Australia apart from the city of Canberra. We're about a hundred miles from the seaboard which is fairly unusual. We're a city of 85,000 people in the city itself. We have another 20,000 in our dormitory suburbs surrounding it. We regard ourselves as a success story. We grow steadily about 1 per cent a year.

We don't have a lot of complaints. We get on well with all levels of government. You'd think we got the best of it, but we do have a number of inherent disadvantages. One of them is drinking water. Our water comes from the eastern seaboard. We have to pump it up about a thousand feet to get it here. It has to be expensive. When we treat our water, our sewage effluent was discharged into the western rivers. It goes into the Murray-Darling system, and that has historically imposed great responsibilities upon us. I'd like to say who I am. I'm mayor; I've been mayor for two and a half years. I've been on Toowoomba City Council for 14 and a half years. I've been a member of state parliament. I have a bachelor's degree from the University of Queensland majoring - it's a double major in government. Mr Taylor is a graduate of Duntroon, military academy. He's a graduate of Wellington Staff College in India, an honours graduate of University of Queensland. Mr Stalley is likewise qualified, and I'd just like to say without embarrassing them, both of them are state of the art public servants.

PROF SLOAN: That wouldn't embarrass them.

MR BOURKE: No. Well, it's the truth. We have put in a submission which you have before you.

MR COSGROVE: Yes, we've received that, thank you.

MR BOURKE: Where I'm coming from, I'm not here to argue economics with you or politics. I want to address it from the point of page 2 of our submission. It's not generally understood by politicians in the south that local government in Queensland controls water and sewerage as a matter of principle, matter of course. We have a very large water undertaking, we have a large sewerage treatment undertaking. What I want to address here today is the impact of national competition policy upon those two undertakings. In short, what this policy does to us from the point of view of business, what it costs us and what benefits it's supposed to bring us. It won't take me long to tell you what benefits it's supposed to bring us because frankly I don't know of any but still.

We won a very integrated water system. We had a public benefit assessment done, and when I say we had it done, we were obliged to have it done. It cost us a hundred thousand dollars. So that's one cost of national competition policy to us already. Other aspects of it have cost my city approximately \$50,000. What I'd like to do here, I'll address this policy how it affects our Mr Taylor and Mr Stalley can give you the scientific answers. We went through the process because rightly or wrongly we had to go through it. We couldn't see any benefits from it, and I'd like to raise the question, if I as an experienced local authority mayor, and my officers as experienced local authority officers cannot see any benefits of the process, then there is something wrong with the process. Either there are no benefits there, or it hasn't been explained to us.

They are obviously not simple to observe. I am mystified and baffled by the whole process. On page 1 of the executive summary, they listed three stages - full cost pricing, commercialisation and corporatisation. In the event they recommended commercialisation, going to corporatisation in the event that a tax system was right for them. Our return to that was to decide we didn't want to do it. There's got to be a reason why we just didn't want to do it. We went for full cost pricing, but there are a number of aspects of this draft executive summary that really intrigue me. There is a fourth option; keep doing what you're doing. What's wrong with what we're doing? No-one has been able to tell us what we're doing that is inefficient.

As a local government person, if after 130 years my council is doing water supply and sewerage treatment, perhaps the reason is that we're doing it better than anybody else can do it. If there was a dollar to be made in it and it was possible for someone else to do it, we wouldn't be doing it. Business doesn't stand back and let us have a go. The question has to be raised, why are we still in business. We're not using legal sanctions to stop people doing it, and part of the reason I suspect is because we're efficient at it, but another reason is of course the nature of the business is such it's not a normal business that's not subject to normal competitive processes, and that's the other aspect of it.

She mentions also - and when I say "she", the consultant was a woman, I'm sorry - down the bottom they refer to the sale of treated and untreated water to neighbouring shires including Crows Nest, Gatton and Jondaryan. Well, as early as this morning, we were negotiating with Jondaryan the contract to sell them water. What's not understood perhaps by people in business, when two neighbouring shires sit down to negotiate, we don't do it in a businesslike fashion. We have to reach an agreement. Crows Nest for instance owns the country where our dams are situated. Our three dams are all in Crows Nest shire. When you build a dam, you submerge land and you reduce its valuation to zero which has an impact on rateability, but they do not and never have charged the City of Toowoomba rates.

We have always supplied them with chlorinated drinking water. So for the consultant just to include that in as a business aspect is not address the full implications and the complications of the relationship. The relationship is a very close, warm relationship. We've been dealing with them for 25 years. We've never

had a dispute or argument. When we sit down and discuss selling water to the shires, I make it very plain that our first principle is we will not penalise consumers who are ratepayers just because they're not in our boundaries. If they're over the boundary, we'll treat them on the same principle. We won't subsidise them, but we won't penalise them.

The other aspect is when we sit down and negotiate with the neighbouring shires, we have to reach agreement. We don't have the option of saying, "Take it or leave it, that's the price." We reach an agreement, which is what we have done, historically and as late as today. I suspect whoever is examining this system doesn't really understand local government. Over on page 2, she refers to "the sale of water to consumers for whose properties the chlorinated raw water delivery remains from the storage pass". They're a very small part of the business. They're people who have our mains crossing their lands by easements and, as part of an historic process, we sell them water for domestic consumption and for stock consumption. It's a very small part of the overall business.

They then refer to the treatment of sewerage waste. If you can regard treatment of sewerage as a business, I am quite somewhat astounded because the fact of treating sewerage is at the end of the day, you have a vast volume which is a real embarrassment. It has to be disposed of in an environmental acceptable condition. No business in their right brain would take on a sewerage works. You can no longer even dump into the ocean. If you go down there, there's "council displays the characteristics of a natural monopoly". Well, we are a natural monopoly. The fact of the matter is, they're not making any more water. If someone wants to compete with Toowoomba City Council to supply drinking water, they can get outside and pray for rain because they're not making more of it.

It's not like you can go and build a dam anywhere. We don't know where we'd build our next dam. I suspect there is no accessible dam to the city of Toowoomba. We can put up the price. We can use pricing as a very efficient structure to control consumption but that's not supposed to be competitive. As I say, no-one else can go and build a dam out there. We can't even find a site, and the way that the environmental business is going, I doubt very much whether there'll be much in the way of new dams in this area anyway. They didn't refer to laying a reticulation distribution system. The main burden of the whole system is water storage, bulk storage and treatment. Reticulation is easy. Anyone can make a dollar reticulating and selling it, providing they're not paying the cost of it.

They refer to on page 5, this is full price accounting, "Offset the increase of water and waste water revenue with a decrease in general rates." That's exactly what we're doing. We have a natural cap on what we charge our ratepayers. The rate increase this year will be two per cent. We're elected every three years. There's a natural process of keeping control on rates. They throw you out after three years if you get reckless with their money and they're pretty sensitive about it. What's the point in us putting up our water and our sewerage rate in general terms - all right, it does bring elements of real cost into it for industrial and other users - and keeping the

money? We don't save money. We don't build up bank accounts. We pay it back. We reduce the general rate, and they're the people who own it, after all. The customers are the owners entirely. The thing about it is are we a business or are we a government? We're a government. We're accountable to the people that own it.

They refer on page 7, and why I'm bringing this up, this is the basis on which the whole process was examined. She says the costs of commercialisation are estimated to be in the order of 100 to 300 thousand dollars. We have already spent \$150,000 on this process. I don't believe that for a minute. As I understand commercialisation, we appoint a general manager, we move the whole structure from our current structure. Mr Stalley is our finance manager. We appoint a new manager. We get a new computer. We have engineers controlling it now, and they're not overpaid, so then we appoint a general manager for the water business and he just then removed from the control of council who are the people who own it. We represent the owners. Somehow that, according to this whole philosophy, is going to bring advantages, and I don't really see what they are.

What I would like to see is someone come in and look at our water and sewerage system and tell us where are the savings going to be. I just cannot see that they're there. We may be able to sack a few people, and frankly there's a human cost with that I want to address as we get to the end of it too. They say if we go to commercialisation we will have better access to funding. We don't have a problem with funding. We get approval from the state government to borrow money. We borrow funds through the Government Investment Corporation. I would suggest that they're quite competitive funding. It's not shareholdings or such but it's loaned funds. The basis of us using loan funding is that the assets built up for the future should be paid for by the future also, so loans offset some of the costs onto the future users of those assets.

The problem with water is you have to have spare capacity. You can't have digestant time methods with water. We're at the end of a dry period now, we're moving into a most period it would appear, but if we reach full capacity of those dams in a dry period it will make a difference of some 10 years as to when we're going to need another dam source if that source is available, and I very much doubt it. So water isn't a business thing where you say you can manufacture or burn coal and make electricity. The whole question about competition - as I said, if someone in Toowoomba doesn't want to buy it off Toowoomba City Council they can stand outside and pray for rain. Nobody else can deliver it to them except by a bucket at a time. They can't buy it from Redcliff Council. It's not like electricity where you can put it into a national grid.

Water is not transportable, but it seems to me what we're doing is addressing the whole thing from the point of view that this business is a business like everything else and subject to the same competitive stresses and strains, and I don't really believe it is. I don't believe the system of management by local politicians is the same, and I don't believe the commodity itself is the same. I just do not see how we can really put it into that territory. On page 8 it says, for example:

For example, the retail water business in the future may seek bulk water from alternate suppliers at a lower price. This can force deficiencies within the bulk water supplier.

Where are they going to get it from? We can't find the next source. I mean, you can see the environmental concerns of dams. They can go down to Wivenhoe maybe. We can go to Wivenhoe just as efficiently if we need it. They've got to build a bulk pipeline. They would have to put a couple of hundred million dollars in to build a pipeline. They get down to the benefits of corporatisation, "greater autonomy for managers within the framework". I mean, so what? They're not going to be answerable to the electors all of a sudden, the people that own it. "A distinct corporate identity", just what does that do for us? "Adoption of a commercial capital structure and access to different sources of finance", we're not short of finance. They say:

Corporatisation provides a stronger structural framework than commercialisation to pursue efficiency gains and thus provide a greater likelihood to such gains will be achieved.

I would like to see those gains identified and spelt out for us. If anybody can tell us what gains there are in there we'll look to do it, short of as it were, butchering our staff. What's going to happen with putting up the water and sewerage rates is that there is a minority of industry in Toowoomba that will be affected and there may be a reason why you would want them to have cheaper water, that's a separate argument. That isn't an argument we have examined:

Churches and schools who don't pay a general rate will be paying higher water rates.

They don't pay a general rate but they are also community bodies. I don't regard them as separate things as churches for instance are groups of citizens. I don't have any problem giving them that sort of inherent subsidy anyway. They get to the final conclusion, "Go for commercialisation." Well, the fact that we didn't go for commercialisation cost some hundreds of thousands of dollars into state government payout as it happens. It's not definite yet. If we finally go in the next four years we may get the money back, but what strikes me is, and inherently strange it is, that nobody can come into our office and tell us where the advantages will be. We're then told we have to spend up to \$150,000 on this process because we don't want to set up a separate office which we think will cost anything up over half a million dollars a year. We don't go into that. We're then denied a payout from the Commonwealth government.

It's inherently strange for the Commonwealth government to be paying out for state financial inducements for our level of government to do something when we just cannot see any financial advantage to our ratepayers in doing it. Thank you.

MR COSGROVE: Thank you.

PROF SLOAN: I'm surprised you're so strong - I mean, our family money is our family money, but I don't let my children go to the purse, you know? This is basically imposing some discipline.

MR BOURKE: No. See - - -

PROF SLOAN: Would you let your children just go and get money out of your wallet?

MR BOURKE: But I mean, you're looking at water.

PROF SLOAN: It probably makes no difference. I would probably give them what they take but I want a discipline in that process and it's exactly what this is.

MR BOURKE: Yes, but this is still discipline. You are responsible for them. There's an act of faith involved in the attitude you're coming at that water is precious so let's impose discipline.

PROF SLOAN: Well, it is that.

MR BOURKE: If I want to cut commodities - well, at the moment we're not short of water. We have got a dam full of it. We don't let the people use it, the stuff evaporates, but I mean, that's a separate question.

PROF SLOAN: There's no cost as such.

MR BOURKE: But there's a leap of faith in saying while it's there we have got to have it there.

MR TAYLOR: Maybe I could answer that question in a slightly different way. I take your point about - - -

PROF SLOAN: If you're saying it's all on the loop and I'm saying it's in the loop with my family - - -

MR TAYLOR: No, there is a different way of looking at it and we are doing that, and that's why having internal service level agreements to stop exactly that from happening because one of the big concerns, and this has got nothing to do with national competition policy, is that if the doer in the organisation has direct access to an account without any control, then exactly what you're saying can happen. But if you have some sort of arrangement internally which isn't mandated by any government that stops that from happening then you achieve the same outcome, or you achieve the outcome you're talking about. You don't need national competition policy to impose that.

MR COSGROVE: I mean, it may be that your city council has been a very well-run one for a long time but we have been told by other councils in rural areas that they have gained some benefits from, as Judith said, the disciplined look at their activities and processes of operation. It has helped them to understand better what the costs of various services that they provide are; they have developed better information systems. They're in a better place to manage their affairs. Now, I don't think anybody would claim that as a really large benefit of these reforms but nevertheless they see it as a plus.

Then the larger issue for a sizeable council such as yours does relate to this competitive neutrality principle, and there, I imagine for your water supply and sewerage operations, the idea is essentially that you don't have to obtain someone else to provide them for your ratepayers, you may be doing it quite well, but anybody who might be interested in providing that sort of service now knows, because of the process you have gone through in terms of determining what the full costs of supplying those services are, can put their hand up and say, "Look, I think we can do this less expensively than you can."

MR BOURKE: Could I ask you, who is going to supply the people at Toowoomba with drinking water?

MR COSGROVE: I don't think that's the question. The question is, who can supply that water service at the lowest cost to the ratepayers? It may well be the council but it may equally be somebody else.

MR BOURKE: But I mean, if somebody comes along and says, "Give me your dams, give me your water treatment plant, give me the reticulation and I'll knock a few bob off the price per thing," it's not really a logical statement. I mean, by the same token we have had consultants in looking at our system. We're not backward. We have had the odd private operator come along. Have a look at our system. I would dearly love as part of this competition policy, if you want to do a trial run, send someone along to look at our system and tell us what advantages, what spare capacity there is in there. We'll do it. We're not mugs. Pardon me, that's - - -

PROF SLOAN: But I mean, we have heard examples. When we were in Albury-Wodonga, Murray Irrigation, which is obviously pipe water irrigation, which is privatised, and they slashed a huge amount off their budget.

MR COSGROVE: Yes, millions.

MR BOURKE: Yes, but I mean, you have got a totally different system.

PROF SLOAN: Okay, but you can't - - -

MR COSGROVE: We can't generalise on the basis of individual cases.

MR BOURKE: No, they're on the Murray River for goodness sake. We're in a particularly dry part of the world where we have - it's a more expensive dam.

PROF SLOAN: But you're telling us that it's your best practice but I mean, it probably is worth testing that out.

MR BOURKE: I will have to say I'll stand corrected. We have got a totally integrated system here, it stands alone. There are no sort of other sites to build dams. We have built them up over the last 50 years. We have got three dams. We do some ground water. I mean, to say a competitor could supply - yes, well they can just put a hole in the ground and pump ground water. You don't get licences like that any more. It's very much diminished. Someone else puts down a pipe, they'll pipe our water out. It's not as if any competitor has any logical opportunity to supply drinking water to Toowoomba.

PROF SLOAN: No, this isn't about a competitor.

MR COSGROVE: No.

PROF SLOAN: This is about ensuring that the provision of the service is done at - - -

MR COSGROVE: No new water, not necessarily any new infrastructure, just perhaps a more efficient use of the existing - - -

MR BOURKE: If you can tell us how we can - we're very interested but I don't think this process is going to achieve that.

MR COSGROVE: Obviously we can't tell you the answer to that. You may well be very interested - - -

MR BOURKE: But I mean, what seems to me, there's a leap of faith. You say to me this system is like my old auntie giving me castor oil, "This is going to be good for you," but I'm looking at it and I'm not just saying, "I don't want to do it." What are we doing? We're looking at it from a professional point of view and saying, "We can't see where it's going to be good for us." I mean, there's something very wrong with the whole process. If we're the ones doing it under compulsion and we're telling you, we can't see how it's going to help us. We can see what it's going to cost us.

PROF SLOAN: There are plenty of other councils who see it differently. That's probably worth nothing, so it's probably worth networking with those other councils. And in a sense you're recognising the issue by moving to a system of internal service agreements otherwise you wouldn't even bother with that.

MR TAYLOR: Perhaps I'll cover some of that in the comments I will make.

MR COSGROVE: Yes, please go ahead.

MR TAYLOR: I guess we have covered the issue about trying to establish one policy for all when there are differences throughout the country. You always get good industries and bad industries and good performers and poor performers, and I have seen this particularly, I suppose, because I'm on a couple of national executives so I see the differences between states, and I mean, even in those sorts of organisations it's very difficult to get people to recognise that there are differences because what happens in Victoria must happen everywhere and so on so everybody is faced with that sort of problem.

I guess in some arguments a lot has been made out of what has happened in Victoria in recent times. I was down there for a conference in 1977 and somebody from the Office of Local Government in Victoria was coming along and talking about the impacts of compulsory competitive tendering and amalgamation in Victoria. One of the benchmarks that they use was a number of staff per thousand per head of population. Now, that's a pretty rough sort of thing but they were saying that, you know, there had been marked improvements in Victoria because now they were down to levels of somewhere between six and 14 staff per thousand head of population and that's without allowing for any provision for water and sewerage operations.

Now, traditionally with water and sewerage operations Toowoomba, and a lot of local governments in Queensland, have been around the six or seven mark even before we start, so we're starting from different ends of the spectrum, I suppose, and as I said that's one of the difficulties in having a "one solution fits all" when you come to this sort of thing. We have been benchmarking now for probably more than five years. On top of that in some areas, particularly in the engineering area, we have had an annual productivity target of 5 per cent which has been achieved as far as we can measure each year, so there have been those sorts of reforms.

In fact, in our industrial relations enterprise agreements wages for productivity is a fundamental basis now for all new workplace agreements or enterprise agreements. To measure how effective we have been benchmarking our results and our costs against the Water Service Association of Australia, and you would realise that most of the members of those are either corporatised or even privatised, our water and sewerage entities, I guess in many respects as far as this particular part of your inquiry is concerned, Toowoomba is not terribly rural. It's more like some of the capital cities, but as the mayor pointed out, we are quite different in some respects. Drought for instance has dramatic effects on us.

The fact that we have got to bring water up from below the eastern escarpment has enormous impact on us, and the fact that we are at the head waters of the Murray Darling imposed treatment costs which were far and beyond those which any seaboard council faced, and which their only environmental protection legislation is only now starting to get those people to comply with. But despite all that, our sewerage costs have compared pretty favourably with the national trends from that benchmarking exercise. Water is obviously more expensive because of the costs of pumping it 400 metres up the range before we even start to distribute it, but when you

take that

into account our comparison is pretty favourable.

If we were to corporatise or commercialise, the figures in there, I think, are a bit rubbery. The better estimates are probably of the order of an extra \$200,000 per annum plus about \$500,000 start-up costs just to do it because we have a thoroughly integrated system which gives us all sorts of benefits in the retailer knowing what the bulk supplier is doing and what the demands are, and that does flow through. Now, as soon as you split that in some way, whether you split it in terms of sewerage and water, or you split it between bulk and reticulation, then there's some element of confidentiality or commercial operation that starts to happen between those entities, and the flow of information doesn't occur. They have to set up parallel systems.

There is a limited amount of information that they will exchange. So those costs come up, and the end result is that we're probably looking at more than \$500,000 per annum to recover from those new entities before they start to show any gains over what was there before, and that's a pretty big ask. We have had from time to time private enterprise look at our operations to see whether there was any benefit to them in coming here. Leonaise Dazo, I think it was, first came here in about 1987 or 88 and went away. Australian Water Services were here as recently as a month or two ago having a look at our waste water operations to see if there are any openings for them. Again, they have advised us they don't wish to make any submissions because they have found that there's not much point.

I guess from our own internal point of view the benefits which come from the whole national competition policy debate have been in terms of getting people to think outside their normal paradigms. Now, you could argue, I suppose, you don't need the threat of national competition policy or CCT or CTC or whatever, and I don't have any argument with CTC as you describe it in your report because we have been doing that for years. In fact, the bulk of our major work is done by contractors. It's the routine stuff which is handled in-house and we stand up to competition there without too much problem, but I guess it's that question of continuous improvement, how do you get your staff to continuously look at that. I would have to be fair in saying that there have been some benefits to us because, and this happened before the mandatory requirements of NCP came to us, that we got people starting to think outside their normal squares and boxes and of course then we did realise some change, and internal service legal agreements as you mentioned are just one of those things.

As the mayor mentioned we have opted for full cost pricing and we started that well before the mandatory requirements of NCP came in. We started an ABC exercise back in 1995, I think it was - 96. The mayor mentioned the impacts on some of the sectors of our community, the religious organisations, the welfare organisations, the educational organisations, and they're the immediate effects simply of having to realise that return on our infrastructure. I guess the biggest threat comes, if it's a threat that comes, is if an additional player came in from somewhere, and as Tony said it's pretty hard to imagine where they're going to get extra water from, they

might be able to take over our business, but if they take over our business and buy the

business out they're certainly not going to put the returns back in to subsidise or to help keep the general rate at a low level, so as soon as that happened the general rate would then have to go up again to meet the full cost of providing the services currently provided for in the general rate, so it's pretty hard to see where there would be any benefits there.

In fact, our costs in water and waste water are going up by more than 50 per cent over the next five years just to ensure that we do provide that return on investment, and those funds are used to make sure the overall cost to our ratepayers only increase marginally from year to year. I guess I will leave it at that at this stage.

PROF SLOAN: Why is that therefore a problem? I mean, that just sounds like me imposing some discipline on my children.

MR TAYLOR: Which part do you see as the problem?

PROF SLOAN: I mean, being in the loop you have got the discipline of - - -

MR TAYLOR: The problem arises if either the water and waste water operations are privatised or we lose the benefit that we now have to be able to pump that money back in to provide those other services. If a private operator came in and bought - say the water and waste water operations were privatised, totally privatised, then we wouldn't be receiving that return on the investment. That would go to the corporation or the business that was running it.

PROF SLOAN: It could receive the sale of the business and then the DCF would be the same.

MR TAYLOR: But the general rate would not get the benefit of that money that's coming into the council.

MR BOURKE: Nor would it incur the costs of running the services.

MR COSGROVE: No, we're talking about two different things.

MR BOURKE: I don't think it's a problem, or my attitude is I don't see it's any benefit either. It is a problem to the churches and the schools that they will be paying higher for their water, and perhaps, all right, there's an argument for that, but to the average ratepayer, his water rate goes up, his general rate goes down. There's no big problem with that but our attitude is if you want us to do it, we'll do it. We don't see any problem with it but it's when you go to commercialisation and corporatisation that's a different story told.

MR TAYLOR: We have already had a little bit of experience just recently, our corporatising our theatre services. The first thing in the new entity asked for was an increase of the CSO of about 30 per cent, and that's partially because they wanted to do something which currently isn't done, but it was also partially to cover their

additional costs of having to exist by themselves, to have to put into place their own systems which they are currently getting from the council.

MR BOURKE: I think the problem we have getting over, particularly in a federal sense, here in Toowoomba we have got a thing that's totally different to Albury-Wodonga. We have a fully integrated system where we trap the water, we pipe it up, we treat it, we sell it, then we take it back and we treat it and discard it, all done within the same organisation. For me to tinker it up and to break it up or to talk about setting it up into a different structure doesn't hold any definite advantages to the people who own it - the beneficiaries, the ratepayers who have paid for it and who own it. They have in effect a board now of nine of us who every three years have to stand for election. We're politicians, we're sensitive. I mean, that's the best and most effective way of responding. You get it into a company and you've got minority shareholders - the encaptured minority shareholder. Who gives a damn for the minority shareholder. I could own 100,000 shares in BHP and turn up to their annual general meeting and they'll throw me out. Who cares about me? But at least in a situation like this every ratepayer is someone whose opinion I have to be aware of. It's like that when you're in politics, and it's not a matter of being frightened of losing your votes, it's a matter of trust and responsibility. I represent them, and so do the other eight councillors. We have a system that works.

MR BRAITHWAITE: Can I ask a few questions on your present accounting principles. Do you charge your water out on the basis of your interest and redemption payments on your loans? Are they costed in as an expenditure in that year?

MR STALLEY: They're not costed - the new bulk water agreement which is a return on assets. The Toowoomba City Council consumption of its own water, so to speak, the retail side of it, raises its rates based on operation of outflows plus capital in the conventional sense. A redemption portion of a loan is capital and interest is an operating cost. The loan terms are suited to council's overall 10-year plan in that their cash flows are part of any other cash flow for long-term planning, so the term of the loan, the timing of loans, is one input of many into that. So the short answer is, yes, it is costed but not just because we can afford it.

MR BRAITHWAITE: Have you found a decreasing amount being given to the council by way of subsidy for water and sewerage programs?

MR STALLEY: No, in fact it's the opposite because the government before last in Queensland increased our subsidy, doubled them, from 20 to 40 per cent.

MR BRAITHWAITE: That was in water and sewerage?

MR STALLEY: Yes, water and sewerage. We had in just recent years undertaken quite considerable capital works; especially there was a \$20 million plus new sewerage works, as the acting CEO alluded to, because we're the head waters of the Murray-Darling, we've got to get environmental standards up. So I suppose it's a

pleasing coincidence that we happened to be on the job with big works when we got an increase in subsidy.

MR TAYLOR: I guess the other thing that's happened there to which will have an impact is that for some years now, local governments in Queensland have been required to do TMPs, total management plans, for water and waste water. Again the requirements there have been strengthened to the extent that if council doesn't have an approved total management plan now then its eligibility for subsidy is likely to disappear. So that's another incentive that's coming from the state government to make sure that those people who are paying lip service, I guess, to forward planning and properly managing your assets to bring them into line.

MR BRAITHWAITE: Accrual accounting is something separate but introduced quite a few years ago. Did you find that adopting accrual accounting helped in measuring your costs and benefits and making it more commercially real?

MR STALLEY: It was a peripheral issue. It may be an incremental benefit but certainly it is absolutely no substitute for other management. For example, the total management plan, council does a 10-year capital works plan every year, updates it. About the only thing the accounting did was find book depreciation rates. However, for example, in the bulk order agreement we don't use depreciation, we use the renewals annuities - because we believe the cash flow is in those and essentially it's cash that will pay for these things, not accrual accounting - are a more realistic measure of the asset replacement regime that we need. It was an incremental benefit but it depends what base you're coming off.

If we're using just old cash accounting and nothing else, yes, it would have forced you to do a lot. However, if you had a lot of other management tools at your disposal that you were using, obviously some substituted for the introduction of accrual accounting. On the whole I don't see it had a major difference.

MR BRAITHWAITE: But you'd really only achieve a good management tool by having accrual accounting, couldn't you - one is not separated from the other.

MR STALLEY: No, one is not but probably the point I'm making is, the introduction of it just formalised what we were doing anyway. That's why I say it's incremental.

MR BRAITHWAITE: So you adopt an attitude of, the assets that there at the moment they're sunken and you retrieve your rate on the basis of an actual annuity each year for replacement? Depreciation does not figure in your costs?

MR STALLEY: No, the annuity is for the bulk water agreement to sell a portion of the bulk water to surrounding shires. There is a de facto type annuity in council's internal planning in that the cash flows are planned for 10 years and are updated each year and if they're substantial obviously we'll know about them greater than 10 years. We make sure future budgets can accommodate those cash flows. We then adjust

any

accrual depreciation figures because we have the opportunity under our legislation to unfund depreciation as long as we say why and what for. If we've done a huge, great 10-year plan and we know what our cash flows are, it would then seem logical to stick to that rather than let some slightly imperfect straight line accounting methodology overlay what your long term plans are, because essentially the difference would be a timing difference as to when you wanted that cash.

MR BRAITHWAITE: Is your contribution each year from the government, a dividend payment, a special national competition payment?

MR STALLEY: Yes.

MR BRAITHWAITE: Your proportion of that, how much is that?

MR STALLEY: There's no fixed portion. We got about 12 per cent, I think, the first year of implementation just finished. It is very much a carrot and stick thing. We are measured each year to see how much we are conforming to all the requirements of national competition policy and as a result of our compliance, a certain amount of money - a portion unknown in advance - will be awarded to us. We know what the total pool is.

MR COSGROVE: That's the \$1.6 million for you, is it?

MR STALLEY: Yes. Just to put that \$1.6 million into perspective, that's payable over five years if we do certain things. In that five years, council will turn over 500 million. It is not the pot of gold that it might be.

PROF SLOAN: Although, according to your submission it's very substantial compared with the cost. I mean you've got \$151,000 and if you comply you get \$1.6 million. That looks like a bargain of the century.

MR STALLEY: At the moment, without going back, we'd be roughly splitting even on direct costs. That 1.6 at the moment, we won't get 350 of it unless we go fully commercialised with water and waste water. There are continuing costs in the future. Yes, the cash flows may be greater than the outflows, however, where did the cash come from? It came from some poor mug ratepayer in the beginning. Are we dealing all this around in a circle? For what benefit?

MR COSGROVE: As we were saying earlier in the day, the belief of the governments which put this package together was that the benefits, the general economic benefits of the reforms, would show up in additional taxation revenue to the Commonwealth mainly. So it's that extra pool of money which is being reallocated subject to performance against the NCP requirements to states - and certainly in your case slug them.

MR BOURKE: Our belief is there's something wrong in a system that says "We'll give you 400,000 bucks provided you'll throw 300,000 away," and we think it may

well be a case of throwing it away. We didn't get the full payout because we didn't go to commercialisation (indistinct) full price cost and deliberately knowing we'd be penalised in effect. But we still had the option of doing it and reaping the money back. I mean, is it moral or right to say, "We'll go to commercialisation because that way we'll get a payout from the state government from the Commonwealth without knowing that in advance it will do any good." In fact our feeling is that it would just be a waste of money.

PROF SLOAN: Again, I mean, the same point that this policy doesn't undermine the sovereignty of state governments, it doesn't undermine the sovereignty of local government either.

MR COSGROVE: You can do what you wish.

MR BOURKE: We're being penalised for not doing what we regard as a thankless exercise.

PROF SLOAN: No, you're not being penalised at all.

MR BRAITHWAITE: We're not getting the money.

MR COSGROVE: You're forgoing - - -

PROF SLOAN: You can't have it both ways.

MR BRAITHWAITE: How would you describe your present state of compliance with NCP as far as the state government is concerned?

MR STALLEY: At the moment our compliance is 100 per cent of our requirement at this point and it will be nothing ever, apart from the decision up to the type 2s, the water and waste water. Apart from that everything else is complied with as required.

MR TAYLOR: It's still complied with in that the council could legitimately make that decision to go to full cost pricing rather than commercialisation.

MR STALLEY: For example, a two part water tariff was introduced in 93 long before this required it, because we put back future supplies of water by introducing two part tariffs. That was regarded as a management tool and nothing to do with NCP.

MR COSGROVE: But it will still give you some credit under NCP, I would imagine.

MR STALLEY: It made it easier to comply with the requirement.

MR TAYLOR: Yes, we didn't have to go through a lot of the exercise.

MR STALLEY: The other point probably to make to just on getting the income in from these quasi businesses now, we use - like most other people - the weighted average cost of capital as a return which is an economic-type model, well used many times. However, the assets that we are measuring could never be regarded as economic assets. Who would build a dam - like, we're in business, we're going to build a dam. 15 years after we've built in we're still trying to get up to 50 per cent yield. We'd build a series of - - -

MR COSGROVE: We heard earlier from Queensland Farmers Federation or the state opposition representatives that there is such a case in the St George's area where I gather a private company is - - -

MR STALLEY: Yes, but we don't want to make profits, we've got a closed loop. We own it and we are the customers. So if you take the profit element away we've still got the efficient use of it.

PROF SLOAN: But it does have to be regarded, I mean, that's what you're telling us, it's a zero some gain, so you either recoup it one way or the other. I mean, how you handle the non-government properties - of course many, including my Adelaide City Council, they don't exempt those kinds of things any more at all. Our private school pays rates along with everyone else and up to a point you can see their point, can't you? But if you're worried about them then the ratepayers should provide some CSO and not force the full cost pricing policy onto them.

MR STALLEY: Why should you subsidise when - up until we've got to get this increased return everybody is paying the same. We're now asking some to subsidise others.

PROF SLOAN: But you're telling me that there are all these properties that you don't rate.

MR STALLEY: Correct. But within the water business - - -

MR BOURKE: The churches, you mean - who don't we rate?

PROF SLOAN: There's schools, charitable - - -

MR BOURKE: That's a fact in Queensland, charities do not pay general rates.

PROF SLOAN: Well, I'm telling you, in South Australia they don't.

MR BOURKE: They don't in Queensland. This is the problem with local government differing from state to state. They don't pay general rates anywhere in Queensland. Charities don't pay rates, but there's an argument that they are commercial residential groups. You charge them twice. The people that go to church live in houses and pay rates. Schools are a worthwhile cause. There's one

point I'd

like to make, and I think it's worthwhile making. We've just signed an option agreement with a coal company to sell a thousand megalitres of sewerage effluent for \$350,000 a year. I don't believe there's anywhere in Australia that gets that return on a thousand megalitres of sewerage effluent.

MR COSGROVE: Well, I don't know, but there is an increasing market in sewerage effluent.

MR BOURKE: I think you'll find that that's probably about 20 times higher than the other price. It was because of the shortage of the source, and the coal company had no other option but they came to use and they were quite - - -

PROF SLOAN: More than full cost recovery.

MR BOURKE: That's full cost recovery. We're doing all right.

MR BRAITHWAITE: If I wanted access to that waste water and if the access were due, what would you charge me access to that?

MR BOURKE: You want access to buy it or to sell it.

MR BRAITHWAITE: Access to do the distribution to buy it from you?

MR BOURKE: You were prepared to guarantee the environmental consequences, and it's the environmental consequences that most concern us. We'd be quite happy to talk somewhere around 25 bucks a megalitre for the want of it, provided you take all of it. There are problems with us - we want to have some control over the total volume because to take a little bit and leave us with the rest still leaves us with the environmental consequences, but if you were to come and talk to us about taking all our sewerage effluent, it would probably be around 25 bucks a megalitre, 20-year agreement, sign here and now.

PROF SLOAN: Big deposit?

MR BOURKE: No, he's an honest-looking man; he's got a good name.

MR COSGROVE: Tony, at this stage of the day I think I'll need to call our discussion to a close. We still have several other participants whose patience I'm very grateful for. It has been a very busy day of hearings here in Toowoomba.

MR BOURKE: I'm sorry I've kept them up.

MR COSGROVE: No, you're quite entitled to make your submission to us. We're very grateful to you for coming along and providing us with these written documents.

MR BOURKE: I'm very grateful to you for coming to Toowoomba.

MR COSGROVE: Due to getting people home as soon as we can, I'd like to call I think Business Success Group. Would you kindly identify yourself and your organisation for us, please?

MS DEWSBERRY: My name is Irene Dewsberry. I'm the director of two companies locally; a training company and an employment company. I'm also - - -

MR COSGROVE: Sorry, what was the second one?

MS DEWSBERRY: Employment placing company. I'm also on the national executive of an organisation called the National NEIS Association which advised the federal government on self-employment programs, and I'm also on a couple of state government training advisory groups. I'm not an economist though; I'm an accountant. So we might differ a little bit on our definitions.

PROF SLOAN: Well, there's the saying about an economist is a person who doesn't have enough personality to be an auditor.

MS DEWSBERRY: Well, I won't get into accounting jokes; I get them all the time. The reason I've come along today is simply to raise a few points in relation to how competition policy has impacted just locally here with the introduction of the job network last year. Previously Toowoomba had something like eight to 12 small employment agencies, mainly all locally owned and operated. With the impact of the job network, we now have over 30 employment agencies. A number of these large church organisations based in other states, the impact on local business of that is that first of all a number of them have actually closed, and a number are certainly struggling under the - as a result of the competition from the job network.

My problem is with the way bureaucrats in Canberra actually implement competition policy. I don't actually have a problem with competition myself, being in private enterprise, but if I talk about the new enterprise incentive scheme which is probably the most relevant which is the one that I'm actually contracted to do, 85 per cent of the providers in that program were dispensed with. A number of those providers had been in the program and indeed had designed it, developed the guidelines, the policy and conducted the research that had resulted in the national success of that program. A lot of those people had been in the program for 14-odd years. Over that time you build up a huge amount of skill and resources which are really all paid for by the taxpayer because those resources and skills are only built on as your program develops.

What we found with the NEIS program and with indeed job network, those parts that were actually open to competitive price, although the tender process stated selection criteria that included you must have a local office and you must have connections with the local business community and be able to demonstrate indeed that you have connections with the local business community, 25 per cent of the NEIS program was actually awarded to a Sydney-based church organisation that in fact had no offices even in the state.

PROF SLOAN: This is in Toowoomba.

MS DEWSBERRY: Yes.

PROF SLOAN: Not Sydney.

MS DEWSBERRY: Well, they're based in Sydney, but won 25 per cent of NEIS places across Australia, and indeed had no offices even in some states - had no office in Queensland for example, and none in Victoria that I'm aware of.

PROF SLOAN: So this is like the Smith Family or the Salvation Army?

MS DEWSBERRY: Yes.

PROF SLOAN: It's hard to criticise those groups.

MS DEWSBERRY: It is, and that is the problem that you - when tenders like this are managed just solely from a bureaucratic policy issue. They don't look at the impact on local business. I mean, I didn't actually put in for a lot of that work. In fact I only put in for one thing which I fortunately won, but a lot of other businesses I know did put in for these tenders, but of course you can't compete when you're only putting in for a small region like Toowoomba or part of a small region when clearly the bureaucrats were looking for a national provider. In all the pre-statements and information sessions, at no time did they indicate that national providers is really what they were looking for. The result is now that a lot of the so-called profits from these enterprises locally go out of our region, whereas previously they sustained a number of reasonably large businesses. I feel that that's one problem that the bureaucrats don't always understand in Canberra.

PROF SLOAN: Have they subsequently set up an office here though? Presumably they have.

MS DEWSBERRY: Yes, a number of them have.

MR COSGROVE: Do you have any way of telling us how people view the quality of service provided by these national providers as distinct from the local people?

MS DEWSBERRY: No, I can't really say except that I can tell you, if you look at the CCI research of business people who use the services and the unemployed, the results haven't been very positive. A lot of business people no longer use the job network as a source of employment or as a source of employees. One of the problems I feel with the process has been that because a church group - in the tender process for example, there's no allowance for the fact that private enterprise is competing against non-profit organisations. The non-profit - and I don't want to hit the churches too hard, but the non-profit organisations set up a corporation or a company, and then they have their non-profit entity, and what they actually do is

contract the staff - they employ the staff in a non-profit entity of course as we all know, and then contract them over here to the company. So they have - - -

PROF SLOAN: And they don't pay fringe benefits tax.

MS DEWSBERRY: They don't, and so private enterprise - no allowance is made for the impact, and some of them are earning up to 30 per cent of their salaries as fringe benefits.

PROF SLOAN: And that's not taken into account?

MS DEWSBERRY: Sorry?

PROF SLOAN: That's not taken into account?

MS DEWSBERRY: No, not taken into account at all.

MR BRAITHWAITE: So there's no effective competitive neutrality there.

MS DEWSBERRY: No.

MR BRAITHWAITE: They actually transfer that from their head office person to a business enterprise. That's reasonably hard to work.

PROF SLOAN: The churches don't pay FBT.

MR COSGROVE: Well, they're exempt from competitive neutrality I think as well.

PROF SLOAN: Are they? I mean, this issue has been raised elsewhere. When we went to Derby, Western Australia, Anglicare Perth had won all the contracts all down the south-west corner, and in fact it at least sounds as though they've set up an office here. They're actually trying to run the service out of Perth as far as I could see, and then in Victoria I think the Salvation Army had won most of the work in Gippsland, and they actually provided terrible service, but you try complaining about the Salvation Army.

MS DEWSBERRY: Well, the problem we have now as you can imagine - the Wesley Mission in Sydney, I think their tender was worth about a hundred million dollars. The Anglicare consortium which was made up of several different organisations was \$200 million. You can see the headlines in five years' time if there's a change in policy - you know, government takes \$500 million off the Catholic Church. The other problem is that the advisory organisation that consults with government and the bureaucrats is actually made up - the whole board is just about almost entirely made up of church organisations. So the advice they're getting is from the very big care providers.

The little providers - in Central Queensland, I actually won a contract in central

Queensland, I think by accident more than anything else because I was setting up an office in Rockhampton at the time because that's where I come from. They found that when they had actually let the contracts that they hadn't allowed a provider in Mackay and they didn't realise how far Rockhampton was from Mackay and they thought everybody could just drive to Rockhampton. So I was awarded these 20 places to try and deliver. I mean, you can't set up an office in a town with 20 places.

I think that will probably be addressed in this next round but they don't understand the distance issues. They have policies like we will have at least two providers in every region. The region I cover is bigger than the state of Victoria. At the same time the population wouldn't sustain a lot of providers, it's just not big enough. So the other issue I wanted to raise was that essentially, although they claim to have a statistical analysis which allowed for all these different selection criteria, at the end of the day really it was all based on price. In the NEIS program, which I know the most about, the price ranges from \$900 a place to around about 4000, could even be a bit higher.

If the objective of the government was to get value for money and to provide a minimum standard of service so that any job-seeker could go anywhere in Australia to a provider and get a similar standard, like the McDonalds-type attitude to receiving service. You can't possibly deliver the same service for 900 where someone else has priced it at four. Our association have done a lot of research and have shown the government year after year that the average price was around about \$3000 per place but there was no allowance made for the fact that people who are pricing at \$900 and were all new players in the market clearly had no understanding of the work involved. Indeed, I went to a lot of sessions in Brisbane after that and found that very many of the regional providers had not allowed for accommodation, travel, all these costs which are supposed to be included in the price. That's why so many providers lost their tenders, because they had priced the service on the basis of years and years of experience and had priced against people who had no knowledge of the market.

The biggest range in prices seems to have been here in Queensland. Some providers have really not delivered at all because they just can't deliver at the prices they put in for. If you look at flexi 1, which is the first level, the job-seeker job-matching type of process, so many of those providers just couldn't deliver and indeed went broke as a result. In this next round of tenders the flexi 3, which is the long-term unemployment, which is the most expensive area, they've put in a minimum price on the basis I think really because they've learnt the lesson from the last round.

But they won't put in a minimum price or a price range - I mean, it will vary. To deliver in very remote areas is obviously going to cost more than if you're in the CBD but there's no variation, like minimum and a maximum, that they will work within to ensure that they get a better spread. So once again in this next round of tenders I believe that private enterprise, purely as a result of a lack of understanding by the tender committees - and the tender committees are all bureaucrats. We fought

very hard to get outside expertise particularly on the NEIS program because it is a business analysis program and they just won't even consider it.

PROF SLOAN: There are some ways around it. I mean, we heard, for example, you can have a sort of two-envelope system where unless the submission meets the quality standards they don't even look at the price because if you're looking at those two things together you'll be very attracted to the low price.

MS DEWSBURY: They claim that it is that system, that first of all they look at the three selection criteria. But if you look at the results where the selection criteria said you needed to have an office, you need to have local input, local knowledge. I mean, I had no office in central Queensland and yet I still got places there. There are cases where people had \$1 million tender, one I can think of, who didn't have a business or an office and had indeed never been in business. So you have to ask about the system. How do they get past the first envelope or the selection criteria.

MR BRAITHWAITE: You would expect in the next round that there be a fair amount of monitoring done on those current contracts.

MS DEWSBURY: The fact is that the results are not going to be available until after the tenders will be awarded. While there'll be some analysis available, particularly the program I've been most involved with, you can't really measure anything until after 12 months. The tender closes at the end of the month. It'll be awarded by November and most people would have only been placing their first places in September last year and it was only people like me, who have been in it for years, who were able to get places in the first few months. So there's no way to actually measure them. It's different with flex, with that particular program.

PROF SLOAN: Wasn't the government going to do something about that FBT issue with part of the tax package?

MS DEWSBURY: No, I've looked at that.

PROF SLOAN: It was part of the original tax package.

MS DEWSBURY: I can't see anything and indeed there's even a big issue at the moment on GST. All these providers are being asked to take into account the costs of GST into their tender or into their contract price. But at this stage nobody can give you any exact answer on whether the training part, because for the NEIS program the biggest cost is the training. Now, for non-profit organisations it will be GST exempt, the price to the government will be GST exempt but is it going to be for private enterprise? Nobody can tell you.

MR BRAITHWAITE: Certainly, outside of the tax reform package there was a reduction in the amount, I think it was from 30 per cent to about 20 or something like that, and a different method adopted, but it is still an anomaly.

MS DEWSBURY: It's really the anomalies and the way that bureaucrats view this tendering and this competition. For example, the head bureaucrat in Canberra on the

job network said to me at a meeting in Sydney in January that if an enterprise wanted to put in a price and it was a ridiculous price that's their problem. He said they may want to use it as a loss-leader strategy. Now, in my view, if you're analysing a tender and someone puts in a price that is clearly outside the norm you would want to have a look at how they're going to manage that because after all we're looking after government funding. If they put in the argument that they're going to use it as a loss-leader strategy then in a loss-leader strategy they must have an alternative coming in at another stage.

PROF SLOAN: They must have a strong balance sheet.

MS DEWSBURY: You can't just buy another service after the tenders have closed so they had have to some private enterprise. I mean, they don't understand.

PROF SLOAN: Hopefully it's a learning curve. But I sit on the boards of companies and we award major things and if we got a really lowball bid for the contract we would say this person doesn't understand. We actually expect an incredible bunching of the prices because they're all tendering for exactly the same thing. So if you get something that's 50 per cent below they're immediately out because they obviously haven't understood the specification of the contract.

MS DEWSBURY: This clearly happened in the last round. But my concern is now that we're locked into this. In this next round you will find that there will be very few changes. They can't afford to have a lot of changes but already employers are confused, they've said that and research shows it, and the unemployed are confused. So if they keep changing providers - we're really stuck with it now, we're stuck with the churches running our job placement programs.

MR COSGROVE: Quite an interesting story. Well, Irene, can we leave it at that?

MS DEWSBURY: Yes.

MR COSGROVE: Thank you very much for drawing all that to our attention.

MS DEWSBURY: I don't know if you can do anything but thanks.

MR COSGROVE: Thanks.

MR COSGROVE: Now, our next participant I believe is Mr Mike Horan. I realise you have been with us I think for all the day. We're very grateful to you for showing such patience.

MR HORAN: Thanks, chairman and commissioners, I have been patient but I think you're giving everybody time, which has been important. I put in a submission in October last year when you came to Toowoomba. I couldn't speak to that submission at the time because we had parliament sitting and I really wanted to speak to it a little bit today and then look - - -

MR COSGROVE: Just for our record, incidentally, you're the member for Toowoomba South?

MR HORAN: I'm the member for Toowoomba South. When I put that submission in last year I was the shadow minister for rural communities. I'm now the shadow minister for police and corrective services. So it was on that basis of being shadow minister for rural communities that I put that submission in.

MR COSGROVE: Right.

MR HORAN: Some of what I've got to say you've heard earlier today too, I think, so I'll try and be as brief as I can. I felt that national competition policy is causing some serious problems in rural Queensland. I've seen a benefit here in the town, limited benefit, from the electrical reforms, in one of the very high users, a big industry in the town that saved a substantial amount because it was lucky enough to be in that first 40 or 300 that were in the contestable area. I don't think it has gone much below that yet at this stage.

MR COSGROVE: It is intended to spread. In fact, I think as from this month there was a lowering of that contestable threshold.

MR HORAN: I think that well and good looking at areas like the power. When this NCP was brought in it was to look at some of those government owned monopolies where there could have been some real benefits. But as NCP has flowed down to each and every other profession or small business entity or various farming groups it has really had some very serious effects. If I could summarise it through what I see is going to happen or is happening in the dairy industry, we're really seeing a transfer of cash from country towns to centres of population. I'd describe that in the dairy industry by if you look at the number of dairy towns on the Darling Downs or the South Burnett or North Burnett or Gympie or other parts of the state, each of those dairy farms are going to have a lesser income as a result of national competition policy unless they try and milk another 50, 80, 100 cows. Now, that may not be feasible to some family, they might be milking virtually at their physical limit now and be very efficient at it.

PROF SLOAN: Although they're very small herds.

MR HORAN: Look, you could say they're small herds. Generally speaking, in Queensland the herds have built up substantially over a period of time. All of the farms would be working on a herringbone basis and the days of small herds here in the Downs have gone, there are very few of them. Any of them that are small in size are extremely high in production. But if the farms are - I'll just take a figure. Say they lose somewhere between 20 and 60 thousand dollars per year. You multiply that by the number of farmers in that particular town. That amount of cash has gone out of that town, if it's not going in there in their monthly milk cheque. It's gone somewhere and it's really gone mostly to the centres of population where people hold shares in the major supermarkets or it's gone into the supermarket profits. We're already seeing the signs that there's not going to be any reduction in the milk price. In fact it's going to go up but the farmers themselves will be getting less. I think it's a classic example of an industry that was a great industry.

I was involved in it as a dairy farmer some time back, in the 70s, and I was involved in the actual process where the industry went from a poverty-stricken type industry based on some farmers having quotas and some not to an industry where people had access to market milk as well as manufacturing milk. It built into a very sound industry, to the extent where in the last 10 years or so in Queensland it has been a sound industry, nothing flash but it has been sound. As a result the towns where dairying is based they're solid. The boilermakers or the local welding works have got an amount of work and the tractor repair and dealerships and so forth - it's just put that solid platform into the district. I think it's a good example of one section of national competition policy where we had an industry that was successful, sound and solid and a number of people are going to move out of it and there'll be less people actually involved in the industry and cash transferred from towns to the areas of population.

There was another example I gave in my submission about a town in western Queensland, or a shire, that had to let a contract to a capital city or near capital city firm. Now, I understand that sort of thing now has been fixed and adjusted and the government has changed the way in which councils of a certain size have to tender and so forth, but I saw this particular case of some major road works had gone to a coastal company, the shire which desperately needed the work and desperately needed to be able to maintain its work force hadn't been able to do that and only had a very small component in this particular project. But then at the end of the day they had to pick up the tab for the poor quality of this work. Every time something is lost to a country town. A country town has a very fragile economy and you've only got to lose a few people, five families, say, move away, then you can lose a teacher. The next thing you haven't got 13 guys to make up the local football side and that collapses.

PROF SLOAN: 18, you mean.

MR HORAN: These things happen. It's worse down south because you've got to get more fellas to fill the side. This is actually what happens and then the whole morale of the town declines and it becomes a less attractive place for people to go

and so forth. They are two of the things I've spoken about in my submission but also
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mentioned about small businesses. The degree of uncertainty that hangs over so many small businesses is amazing, whether it's pharmacies, newsagents or liquor stores or the like that are being subject to this. The value that they had in their business is suddenly uncertain because people looking to buy a business at the moment would think, "I won't touch a newsagent because what's going to happen there? I won't touch a pharmacy because what's going to happen there? I won't touch a liquor outlet because they're likely to be swallowed up by the big supermarkets if this latest proposals go through," and so on.

There were many of these things in our society that people could aspire to. You could play football til you're 30 and think that you might buy a dairy farm or a newsagency or a milk run, all these sorts of things that made our community, or people who have worked hard, overtime, and they aspire to buying a business, a small newsagency and perhaps building it up to a larger one. All of that potential and certainty is sort of gone because people are fearful now. What I think is happening in our society, and NCP is partly responsible for this, is that we're moving away from the strength of all these small businesses that used to sponsor the local show and sponsor things in the town, all these small businesses that employed two or three people. If you put them all together into a big supermarket - I'll use the example of liquor.

If you've got a little liquor bottle shop in a strip shopping centre they might throughout the week employ something like five people, a couple permanent and two or three part-time. In that same shopping complex if there's one of the larger companies, the Woolworths, Franklins or Coles, and if they put a liquor store in they basically use the same night fill staff to fill those shelves. They don't put extra staff on. They can basically use the same checkout staff to process those goods going through. So the little liquor outlet of five people or so it might be reduced back to two to try to hang on or it might close and you probably might get one or two extra people employed. But meanwhile you've broken the fragment or the structure of our suburbs and our country towns in our society where we have these families who have these businesses.

PROF SLOAN: It might be a whole lot cheaper, I might add.

MR COSGROVE: Yes, I was going to say I can see the point you're making, Mike, but what that process you're describing suggests is that when people are given greater freedom of choice they don't really want to support the local liquor store or the local newsagent. Isn't that - - -

MR HORAN: See, at the moment there's something like 800 outlets in my own town here in Toowoomba. There's a liquor outlet in almost every little strip shopping centre, so the competition is very, very strong. You've only got to drive another couple of K's if you can't get a bottle of Bundaberg rum at one place for a certain price you go somewhere else. The competition is very, very strong. But those places, they won't all survive if it goes to the bigger supermarkets.

MR COSGROVE: But why won't they survive?

MR HORAN: There's so much - - -

MR COSGROVE: If they're efficient and competitive suppliers giving their customers good quality service, won't they survive?

MR HORAN: The reality of life is there's only so much pie to be sliced up in that particular market share. The other larger companies are in a position where they can get their price to a certain extent to knock the others out of the ring and then away they go.

MR COSGROVE: You mean predatory pricing?

MR HORAN: Of course they can, yes.

MR COSGROVE: There are rules against that.

PROF SLOAN: But we have the supermarkets selling alcohol in our state and it's as cheap there as it is elsewhere and I'm not sure if Victoria (indistinct) community.

MR HORAN: I mean, the realities of life are that they'll do special arrangements to knock them out of the ring and then you're back to the situation where you've really got relatively limited competition. If I could just keep going, I feel particularly strong about the issue of families and small businesses and I didn't fully understand everything he was saying but there was a professor here two or three before me who was talking about - he used the term second best and didn't like the term but I think what he meant was, what is actually better for society. It sort of comes back to the public benefit test and all of these processes you have to go through.

When you look at country towns, country towns make their judgments on their local council and if they're satisfied that by paying a particular level of rate you're also getting a particular amenity in the town and an adequate number of people in the town to make the town livable, that is as important as maybe paying a lesser rate and someone comes up from Brisbane and does the road works and so forth, but you live in a town that has very meagre numbers of people or amenities. I think the strength of Australian society has been small business. I think we've got to be extremely careful that we don't go totally overboard to the god of competition and end up then with a sterile type of community whereby everything is almost a black and white brand in the name of competition.

As a member of parliament I see lonely people and they're lonely because where they used to go to a small business and talk to someone over the counter and so on they're going to one of these whopping big operations with 20 checkouts that you go through and you get the McDonalds-type "have a nice day" as you go through. These people are feeling quite disconnected.

PROF SLOAN: But, John's point, if they place high enough valuation on these

things then there's nothing to worry about. They're actually exhibiting their preferences. It's not really for you or me or anyone else to decide for them, is it?

MR HORAN: See, the reality of life is that it doesn't really sort of work that way and that's why I had hoped that you would sort of - I don't think it's a matter of arguing with us but listening to the point that we're putting forward.

PROF SLOAN: But my point is that they don't need protection because people will value that. I mean, I shop in a strip shopping centre because I value, I pay more, but I value knowing the shopkeepers and the shopkeepers knowing my children. But a lot of people don't take my attitude. In fact, most people I know don't take my attitude but it's a free world.

MR HORAN: You talk about it being a free world but the reality of what will actually happen will be a lot different. We talk about all the protective measures of you can't have predatory pricing and so forth but there's all the other little inducements that happen. They get brought in for something else whilst they're in there for that, there's the liquor, so one time out of three they might buy the liquor there instead of somewhere else and meanwhile the other place's takings have gone down. The one thing that'll be certain about, and I use the liquor example again, the take of the small little bottle shops in all the strip shopping centres and other shopping centres in Toowoomba will dramatically decrease dramatically. They'll have to either close up or survive some other way.

I looked at the key messages that you had in the draft report that you did and there's a theme that's running through there. Whilst it's a little bit - and I'll use the term defensive - you do recognise in the first dot point that national competition policy is one of the influences on rural regional Australia. Further down, at about the fourth dot point, you say national competition could become a scapegoat for some of these broader influences. I think what I would say is that where there's smoke there's fire. The average person has got enough nous to be able to see and touch some of these effects that they know are going to effect them. I think they're not silly, they know what's happening.

I mean, there might be some people looking at NCP as a scapegoat but it's put a real fear into the community and an uncertainty into the community that is very destabilising. On the third-last dot point you say that the early effects have favoured metropolitan areas more than rural and regional and I think there is this feeling that there's probably benefits for major centres of population but it's certainly not happening. There's no perceived boost or there's no perceived improvement. I mean, people would be going around, if NCP was delivering some real benefits in country towns, I can guarantee they would be saying, "This is fantastic. We like it. We want it. If there's any way we can have more of it," but they're not because they don't see a single thing for it, and I think the second-last dot point you make again is that there's more variation in the incidents of benefits and costs of NCP among country regions than in metropolitan areas.

Earlier today there was talk about water, and I don't want to get too much into that because it's no longer a portfolio I have anything to do with, but I have been an irrigation farmer in the past and I often see the benefits of a dam to a rural area, a bit like the benefits of a museum or an art gallery to the city where people don't pay to go into the museum or the art gallery or rarely do, and earlier today one of you mentioned something about a sports stadium. Well, you know, if you get a super stadium in the city, you don't pay \$100 on top of your price to go to the football just to cover the capital cost. It's been the capital cost that governments have put into some of these dams that have absolutely made these communities like St George and Goondiwindi and Gympie and Emerald and the Atherton Tableland, but the benefits just flowed on and it's given them certainty, that they can move into contracts with certainty; it's given them flexibility. They don't just have to grow lucerne but they can also move into horticultural products or grapes or a whole lot of other things. If you drive into those towns you see earthmoving firms, you see laser levellers, you see shops opening up that are - you know, they're doing well, and painting shops and they're doing well - - -

MR COSGROVE: This is during the construction phase?

MR HORAN: No, the follow-on, because of what it brings to those areas and then it has got the benefit of, you know, the recreation benefit; I mean, people go waterskiing and picnicking and all that. The dam that I used to get my water from for my dairy farm is a huge boost to all the people who go to the Sunshine Coast, that want to go up into the hinterland behind Gympie to picnic and waterski and do all these things on this particular dam.

MR COSGROVE: I think those sorts of public benefits should not be paid for by irrigators entirely. It would be quite reasonable, I think, for a government to contribute part of the funding to meet the cost of those benefits.

MR HORAN: But I mean there's the on-flow. You know, you've got a dairy farm with irrigation water that you're paying for on an amount that you're using on the farm and that's reasonable, but the benefits are you are then viable, you are able to pay to have your machinery repaired, you're able to buy new equipment, you're able to do all these things that flow onto the town and it really is a great benefit in the way, I think, all of us believe in a museum or a stadium. We believe in all those things because it's a community benefit and a dam does that. Water does that.

It concerns me that the opportunities for young farmers to get started today are getting harder and harder. If you had to buy into a dairy farm now, for a young person it's going to be so hard because it's going to be the big players who get contracts with the processors, whereas so many people got a start through buying a dairy farm in years gone by. A young farmer wouldn't be in a position to be able to contribute to the capital cost of some major water storage upstream. I think if you get the gist of what I'm about, I'm talking about the social or the humanitarian aspect of our towns and suburbs and the way it was decentralisation that made Queensland. It's been having these viable townships that's made our state, and a part of that has

been that the government had to build bridges across rivers, it had to run the railway lines out, it had to put the water storages in and the people couldn't have done that themselves, and there's still a younger generation coming through that need to have a start.

I think in national competition policy so much of it has introduced this almost circular system of, you know, this industry is going to be examined, so you go through all the process and public benefit and spend millions of dollars and everyone gets worried and people's businesses devalue in the midst of the concern, go through all this academic process to look at something that's probably going extremely well anyway.

MR COSGROVE: Well, you focused mainly, I guess, on two aspects of national competition policy. One is the statutory marketing authority legislation, subject to reviews; and, I guess at least in your written submission to us, the impacts of certain parts of it on local government. Of course it's much broader than that. I think you mentioned, Mike, that at least one large power user in Toowoomba had gained significantly from the electricity reforms, but there are other infrastructure areas like rail, telecommunications, gas deregulation. Have you perceived any benefits coming from those areas - - -

MR HORAN: I've looked at your notes in that report. Much of what you're referring to is in Western Australia, you know, the gas and rail and so on.

PROF SLOAN: There is gas here.

MR HORAN: I mean, as a local member you don't hear anyone saying, other than the example I've got in this town of a major industrial user of electricity, you don't hear of people saying, "We're better off because of national competition policy," but our near neighbours who are the lifeblood of our town, the little towns where the dairy farms are and so forth, they're worried as hell. I mean, I personally wonder whether NCP went too far. I think most people could see how the big government-owned electricity conglomerates, those types of industries, you know, they had room for restructure so that they could provide some competition because they weren't competitive at all, but in many other areas, if you're looking at industries, within that industry there's an enormous amount of competition amongst themselves to attract the customer otherwise the customer will go elsewhere.

MR COSGROVE: A lot of assistance as well. As we said earlier in the day, the dairy industry is the most heavily assisted agricultural industry operating in Australia at present.

MR HORAN: You know, I don't know that that's - - -

MR COSGROVE: I mean, other industries would love to have that degree of assistance also, no doubt.

PROF SLOAN: A bit hard to see that as a solid - - -

MR HORAN: I don't know that's particularly true but, you know, you're looking at it as an industry. Well, no, look, the amount of assistance the dairy industry is getting is very limited. But I mean in terms of continuity of supply of that product through the difficult months of the year and through floods and droughts and so on has been guaranteed to people, that's important because there could otherwise be large fluctuations.

MR COSGROVE: Yes, although technological change has had quite an impact in dealing with that problem, yes - - -

MR HORAN: Refrigeration has helped somewhat there but it's still limited. I mean, at the end of the day at the dairy industry you're going to go through all this pain and whatnot. We have seen, you know, the price hasn't come down, in fact it's going to go up and the people who will be better off will be the people that are pocketing the amount that has been deducted from the income that the dairymen have.

PROF SLOAN: Or the Victorian dairy farmers will be better off because they're the most - - -

MR HORAN: I doubt they will be because the price will come down up here - - -

PROF SLOAN: Yes, but they're exporters - - -

MR HORAN: - - - to a level that's equal to the cost of the cartage on top of what the Victorian people get - - -

PROF SLOAN: No, but they're exporters, they don't regard Queensland - - -

MR HORAN: So that, you know, they won't get any more for their milk - - -

PROF SLOAN: No, but they don't regard - - -

MR HORAN: It's just that that difference of price is going to get hived off somewhere to the retail end where the profits will be made.

PROF SLOAN: But, I mean, to say this is a solid industry strikes me as being a misrepresentation. This is an industry which has been in rationalisation mode for a very long time.

MR HORAN: No, I think you're totally wrong.

PROF SLOAN: And being reviewed well before NCP came about. I mean, you think of my state, this has been reviewed more or less continuously - - -

MR HORAN: Well, it's developed into a very solid industry here and I'd have hesitation whatsoever in saying that.

PROF SLOAN: Well, that will be good because - - -

MR HORAN: I suppose the best example of it was that people wanted to get into dairying in Queensland, which was the opposite of a trend that had happened for many, many years and people saw it - despite its hardships and its difficulties - as a solid industry with modest returns and that made the - - -

PROF SLOAN: Well, that's a good outcome, because with deregulation it will remain a solid industry.

MR HORAN: Well, I disagree with you regarding that because there will be fewer dairy farmers. I get back to what I've been saying about - what happens to family units any more? Are all the businesses that we run in this state or nation going to be these whopping big corporations or great big organisations where people work - - -

MR COSGROVE: I thought Queensland was noted for the predominance of small business as compared with other states.

MR HORAN: Well, that's what I'm actually fighting for and arguing for here. Small businesses are the strength of the state, and some of the processes that you are looking at are going to make that less and less so.

PROF SLOAN: But there might advantages in different models of course. In Victoria some of the companies are beginning to buy out the dairy land and they had your reaction of the family farm and the like, but if you actually asked farmers they'll often say, "We like to do the farming work." They don't really want to be involved in financing and marketing and debt renegotiation and the like, and if they're employed by companies they get paid holidays and superannuation and long service leave and they've been pretty attracted to this idea and that is more - - -

MR HORAN: I think you would find that's limited up here. I mean, the people here, you know, the farming families here have a strong desire to own their farm and to take on those problems of workers compensation and the financing and so forth. I mean, that's the way they like to farm. If they wanted to be an employee, they would have been an employee. I think that up here there is a very, very strong desire and will for people to own their own place and it's part of the strength of the district if people can own the place.

PROF SLOAN: I think that's a very strong statement. I think these districts can be very strong with different models too.

MR HORAN: Well, I disagree with you, but, I mean, I wanted to put my particular point - - -

PROF SLOAN: Anyway the strength of that will make the model endure therefore.

MR BRAITHWAITE: The difficulty I have in trying to come to grips with the concept of NCP and the review of the legislation - and that's all it is, it is a review of legislation - I have no problem with review of legislation but you can go back to the time that you were on a farm and the rationalisation that I see from the last 20 or 30 years without the effect of NCP, I think at the end of the day what people are saying, you know, "We've come down this road that far. NCP is at the end. It's almost like the straw that broke the camel's back." But in the case of the dairying, I think it's the Victorians that are going to break the camel's back, not NCP. My assumption is this. The Victorians are looking at being able to put milk into New South Wales and Queensland, not at the 50 cents or whatever they're getting at the moment, but the price of manufacturing milk, which they're getting 16 cents or something like that. Now, any figure above 16 cents - and that's where the real competition is, and I don't believe that any decision that the Queenslanders might make in connection with an NCP decision, or an SMA, is going to affect whatsoever the - - -

MR HORAN: Well, it has been driven to that by NCP. I mean, you are right. From about the 1980s on, dairying was a - I use the word "sound" - a sound industry in Queensland and that's what we would like to see in all industry, sound with modest income but a reasonable return for what was being put into it. But had it got to that stage and settled down, you know, after going through all the period of time when bulk vats were coming in and there was major changes in the industry. It got to a very sound, sensible, good industry and it's now going to, if you like, be turned upside down again and I think it's a shame.

MR BRAITHWAITE: At the end of the day it'd be another reason for you not to like Victorians, I think, more than NCP.

PROF SLOAN: They're no good at rugby though.

MR COSGROVE: Think of all the tourism dollars they put into your state though.

MR BRAITHWAITE: They don't play rugby either.

PROF SLOAN: No, exactly.

MR BRAITHWAITE: Okay, Mike, thank you very much.

MR COSGROVE: Thanks very much for your time. We do appreciate your patience and that of other people who are still with us.

MR COSGROVE: I think we have two further participants, the first of which is Canegrowers. Hello, please introduce yourself and - - -

MR MILFORD: Thank you very much, shall do. Bernard Milford from Canegrowers. I want to apologise for Harry Bonanno, our chairman, and Ian Valentine, our general manager; both of them were not able to come. I'm the manager for economic and technical systems at Canegrowers in Brisbane. Canegrowers put in a submission to the inquiry. Just to sort of give you the two second recap, although at least one of you doesn't need to know how important the sugar industry is - - -

MR COSGROVE: That's me.

MR MILFORD: It's the second most valuable crop commodity in Australia after wheat. We earn 2 billion a year in a good year. 1999 will not be a good year but that's part of the swings and roundabouts. The sugar industry, I think, provides the social underpinning for a number of townships up and down the coast, towns like Mossman, Innisfail, Ayr, Home Hill, Proserpine and larger provincial towns like Cairns, Townsville, Mackay, Bundaberg. Even though they are more diversified in their wealth, they still rely very heavily on the sugar industry for their economic support. We estimate at Canegrowers there are about 20,000 households that draw their income directly from the sugar industry. Most of our product is exported. About 85 to 90 per cent of our product goes onto the world market and the Australian market is at world market price, so you could say that 100 per cent of our product goes onto the world market. Australia is one of the big three exporters. Brazil, Australia and Thailand between them export about 70 per cent of the world's raw sugar. So we are about second in that group.

We put in a submission that covered sort of comprehensively those issues that we wanted to cover. I would comment that our submission related to cane businesses, cane farm businesses. We didn't try to evaluate the effect of NCP on, if you like, the community life or the personal life of people in cane communities. We stuck to the business side. We believe that other groups are probably better qualified to make those other comments. I won't repeat what's in our submission, nor will I deal with all of the areas. I just want to touch on chapter 7, which was Marketing Rural Products; Water, part of chapter 5, and Assistance. We will be presenting a written report later on. I'll follow the sequence of the draft report, and having said that I'd cover those three I'll quickly touch on a point out of chapter 4 before I do, if you don't mind.

Canegrowers agrees that there is a certain level of confusion about the public benefit test, the extent of the public benefit test and in particular, if you like, the consumer preference that seems to be implied in some applications of the public benefit test. It would appear that there is an assumption that the consumer must never be made worse off, even if there is a net public benefit by making the consumer worse off.

MR COSGROVE: No, I don't think that's the case. There is a presumption to that

effect but - - -

MR MILFORD: Yes, what I guess I'm pointing out is that there is a level of misunderstanding of what the public benefit test means and certainly that interpretation was one that was raised during a sugar industry review working party, which reviewed the sugar industry and that was part of the determinant for at least one of the decisions of that. So I believe that there is a need for the public benefit test to be comprehensive and we certainly agree with the recommendation 4.2 - I'm using those chapter numbers rather than the up-front numbers. If we're going to comply with the rules we really need to know in advance what they are and to a certain extent that has been - in the process of the sugar industry review, that was a process of discernment. What does public benefit really mean?

PROF SLOAN: I mean, on the face, it seems unlikely that a handful of producers would ever - - -

MR MILFORD: Do better - - -

PROF SLOAN: - - - weigh more heavily than 8 million consumers.

MR MILFORD: Yes, that's a pretty fair comment and in that sense, you know, probably we wouldn't have passed but certainly the point was made if the consumer is shown to be worse off in any respect, forget it. I guess I'm saying is - there is that possibility and that, to me, is not necessarily part of a public benefit test. Public benefit - it should be net public benefit rather than nobody is worse off.

PROF SLOAN: Well, it is net but you could have people worse off in that but - - -

MR MILFORD: Yes, precisely.

PROF SLOAN: I still come back to my point. On the face of it it's going to be hard to argue something for a small number of producers.

MR MILFORD: In many respects it would be the producers who would bear the brunt of that if there is a system that requires a change to produce a net public benefit, because presumably there has been some level of protection there. But I guess I'm wanting to leave open that possibility, that's all, as a theoretical construct if you like.

PROF SLOAN: No, I think you could. You could have all the consumers worse off and place a very high valuation on the producers being better off - - -

MR MILFORD: Or some other measure, environmental benefit, social benefit, what have you, you know. That's the point. I'll come back later on to the actual effect on consumers. If I can just deal with water. The sugar industry is the largest irrigator in Queensland. We use approximately 40 per cent of the irrigation water that's supplied and over 50 per cent of our crop by tonnage is irrigated. Table 5.3, which looked at the levels of compliance in each state to the water reform agenda, I

guess illustrates the difficulties that Queensland has been having. We certainly started our water agenda work later than other states. I believe that progress is being made in reforming the water systems in Queensland but we do have some major concerns with a lot of the proposals. For instance recommendation 5.1, the need for public availability and clear and transparent, I guess once again we're saying yes, this has to be clear, transparent and agreed between transponders that this is a valid way of measuring costs and benefits. Because to take an example, you have a query on page 133: you further comment on whether the imposition of both an allowance for depreciation or the payment of annuity is an appropriate way of funding infrastructure refurbishment.

I guess I'm not here to answer that and I don't feel qualified to answer it, nor does Canegrowers have policy on this at this point. It is something we will develop policy on. But it does, I think, show - it's an illustration that there are a number of interpretations of the costs of a water scheme. In the first place, many of these schemes were not designed to be efficient, were not designed as, you know, looking at the actual costs. Dare I say it sotto voce, some of them are actually built to win elections. So, you know, what I guess I'm saying is that in many cases the fundamental design of the water storage is not necessarily one that leads to overall efficiency within that system.

PROF SLOAN: The point about that though which we've found - not on many occasions, I might add, but that realistically some of these storage facilities cannot recover costs. They weren't put there for economic reason in the first place and then for them to evolve to recover costs there is - you know, given the land, the climate and everything, it's just not possible. I mean, presumably you just then write it off and milk it for some period of time. Is that what you do?

MR MILFORD: I guess my response to that is that I can't answer that. We are saying that there is a need for a full review and that costs like that, that are hidden: the whole of systems analysis into the design of the channelling, the methods of reticulation, the actual siting of the dam. You know, the whole of systems approach should be used to look at what are all of the costs and what is the best way to deal with this particular system from here on, and I think that is going to take quite a long time and that needs to be the sort of system which is clear, transparent and agreed.

PROF SLOAN: Presumably you are therefore keen though that they press on with establishing clear property rights. That would be an advantage to canegrowers.

MR MILFORD: We support the ultimate development of that. But I think the point that's made in the QFF - sorry, recommendation 5.2, "We need more time," and QFF picked that up and said, "Five years." We'd certainly support that approach, that five-year approach.

PROF SLOAN: I mean, it seems to me that by prolonging it in New South Wales is making it worse.

MR MILFORD: Sorry?

PROF SLOAN: The delay sounds good but the delay is also bad.

MR COSGROVE: A greater period of uncertainty before these various water rights are clarified.

PROF SLOAN: Because they're not going to be able to establish water rights until quite a lot of this work is done, so if you give five years - and in New South Wales it's giving a lot of time for the environmentalists to basically up the ante all the time. So over a five-year period that's a very long time for them to say, "Well, we need greater environmental flows and - - -"

MR MILFORD: I guess what our response would be - and I think, you know, you've made a valid point. But our response would be that it's better to get it right than to do it in a hurry and regret it later on. There certainly are examples of privatisations that were privatised in haste and repented at leisure. The Economist in the last edition carries some tales of woe of - what do they call it, Railtrack, the British railway privatisation which, you know, has not been a happy scene. Now, in anything like that there are risks and I guess you're articulating one of them. But certainly we believe that there's a need to do this on a basis that is going to give (a) reasonable certainty of supply within an allocation, and (b) reasonable costs in maintaining that supply, not costs that are inflated by either the systemic problems in the dam system or costs that have been built in over time by government departments.

MR BRAITHWAITE: In connection with water I think the property rights is something that would remove the uncertainty - and you're talking about certainty. But it appears to me that the sugar industry is probably the biggest user of bulk irrigation in Queensland and it operates out of about five or six different systems, as I know. Which of those schemes are the least behind in reforms as far as pricing is concerned?

MR MILFORD: I'm afraid I can only estimate that, but certainly we'll address that in our written report.

MR BRAITHWAITE: Yes, would you address - - -

MR MILFORD: But certainly my understanding is that the land-water management plan process has been gone through most comprehensively in the Tinaroo area out in the tableland.

MR BRAITHWAITE: That's an old system.

MR MILFORD: That's an old system but with new allocations that have been basically brought on by the change in use from largely tobacco and to now very large quantities of sugarcane. The Burnett would be the next one.

MR BRAITHWAITE: The Burnett? That's where you'd have the most trouble,

wouldn't you?

MR MILFORD: Certainly the area of the most uncertain supply and least reliable supply.

MR BRAITHWAITE: What I might ask you to do is in your submission, if you could give a rundown of the whole lot and at this stage what the price of water on each of the systems is and what it might be contemplated to be.

MR MILFORD: I'd be delighted. Moving on to chapter 7, Marketing the Rural Products - the sugar industry, as you're aware, was reviewed by the sugar industry review working party and I guess we've been through our pain, if you like. As a result of that, there was the loss of the tariff and the loss of a pool price differential which was, if you like, an internal industry mechanism for allocating the value of industry infrastructure, which was shown basically to have pretty much allocated the value of the infrastructure one or two times. It wasn't more than once but it was pretty comprehensive, the way in which it was allocated. As an industry the removal of the pool differential was something that was not a pleasant thing but it was recognised as being a valid outcome.

But the effect of this - and I want to talk specifically about far north Queensland and the wet tropics. There's an area there which has low sugar content, has had two or three very wet crushing seasons, quite severe insect depredation, unusual insect depredation. You have small farms so you have both, if you like, inherent weather problems and the changes that have come through have come in right on top of all those problems. Far north Queensland was an area that was (a) mostly number 1 pool and therefore felt the difference in price, and (b) in a lot of cases a lot of farmers there are having difficulty, considerable difficulty surviving. So a small loss, as in the loss of the tariff, had an effect on those farmers; it was having a direct effect.

The phrase the straw on the camel's back has been mentioned and it's a bit hard to identify the straw - and it's a bit harder in fact to identify camels too when people aren't in fact going out of business. But certainly we're well aware that many of those businesses are struggling. The industry, because of the low price that we're going through at the moment - well, we are going into at the moment, I should say - and those other factors - we're going through a period that's very similar to the mid-80s when the world price crashed to about 3 US cents a pound. What we saw at that time was most farm businesses actually struggled through. There was relatively small turnover in the sort of 85-86 period when the prices were really low. When they started to recover was when people moved out and I think we are quite likely to see a similar pattern occurring in the far north because of that.

MR BRAITHWAITE: Would you call a price differential really an NC - I know it was part of the working agreement, but that was going to come about in any case, wasn't it?

MR MILFORD: I guess that's a fair point, Mr Braithwaite. Any review was

probably going to be a bit dodgy, yes. The fact that the NCP rules prevailed in this review, if it had have - yes, it's probably fair to say that it wasn't directly related to national competition policy. But having said that, I mean, it would never get through under national competition policy. It wouldn't - you know, it certainly breaks those rules anyway.

PROF SLOAN: But I'm not sure what your point is. I mean, in any industry there are marginal players.

MR MILFORD: Yes.

PROF SLOAN: Having adverse weather conditions is never good for any group of farmers. I mean, I don't see that that raises policy implication.

MR MILFORD: Perhaps could we defer that question until we get to chapter 14, because, yes, the point I think is not - - -

PROF SLOAN: The poor taxpayers, you know, really can't be held responsible for the weather, can they?

MR MILFORD: No, I appreciate that. But the point I guess I'm making is that this has been part of the pain of our process. Yes, we now have a tick, if you like, and I'll perhaps get back to that in a minute. But I think we do - you asked about the impact of NCP and this is certainly one of the impacts. That's, I guess, what I'm saying. Whether the community is better off, whether these people go to the wall anyway, is not really the question.

PROF SLOAN: But it sounds as though those things weren't good anyway.

MR MILFORD: No.

PROF SLOAN: They're marginal operators, the weather was bad, they have no yields.

MR BRAITHWAITE: Prices are lousy.

PROF SLOAN: Prices are lousy.

MR MILFORD: Prices are horrible, yes, and that's - - -

PROF SLOAN: They sound like the big picture issues.

MR MILFORD: That's certainly right. But this is part of that picture and it's not a little picture, detail in that picture, I would say. If I could continue that point: if only because it's the one - you know, out of that bad weather, the low world price, the fact that the farm I inherited is perhaps too small, but the one thing somebody has really

done to me, the one thing I can really point a finger at and blame, is the loss of that pool price differential because I can identify when that happened.

PROF SLOAN: I suppose the point I'm making is that, I mean, here we've heard from the training industry and a whole lot of businesses have gone out of, you know, the new market arrangement and governments go, "Oh, well." But here's a group of farmers - you know, the farmers are different from other businesses. I mean, I saw some figures here that agriculture is 3 per cent of the state's GSP and 17 per cent of the outlays of the state government, which is amazing - you know, 17 per cent.

MR MILFORD: I'd be interested to know where that goes.

PROF SLOAN: The training industry I think could stand on some of that, I would imagine.

MR MILFORD: Ms Sloan, could I respond that I'm not at this point making a case that the government should help these people or, you know, that the taxpayer should prevent a business that is going to go broke going broke. I'm not making that point. I'm simply saying you asked us about the effect of NCP.

PROF SLOAN: Yes, sure.

MR MILFORD: And this is indubitably an effect of NCP.

PROF SLOAN: One of the effects.

MR MILFORD: Which is not seen as part of the small picture. It's seen as part of the big picture. I guess one benefit of the process of the review is that state government has made the comment that we should not be reviewed for another 10 years and I've been working for Canegrowers for approximately 10 years now and I think I'm up to about my 10th or 11th review - and goodness me, since 1996 or whenever it was when the sugar industry review working party ceased we've had a couple of senate inquiries and the odd going over by the NCC. But really it's quite pleasant to not be reviewed.

PROF SLOAN: I wouldn't bet your house on that one.

MR MILFORD: Yes, thank you. Well, that's my next point. We do have a feeling, and particularly looking at the NCC report that came out in - what as it, 98 or so, where the National Competition Council said, putting words in their mouth, "We think some of the findings were perhaps questionable but it was done on an above-board basis and we're not really going to get too excited." I guess the subtext we read into that was, "Look, you recommended single-desk selling. You got it wrong and maybe you'll have to do it again until you get it right." We believe that the process was open, that it did demonstrate that there are benefits in infrastructure that we came up with. There are net public benefits in that and we see absolutely no reason why this sort of continuous water dripping on stone effect is there with people

saying, "You didn't get it quite right that time. You're maybe going to have to go and do your homework again."

There was certainly industry involvement and I guess the Hawker recommendations - if I was approached by another industry and said, "How should we run our review? Should we abide by the Hawker recommendations or should we look at your process?" given that it was a similar industry I'd say, "Goodness me, let's have industry involvement." We had a very comprehensive and I believe impartial consultancy back-up and I believe that was a good process which both industry and government were comfortable with.

I must say - and this is not, I guess, part of NCP but it would be something that I think should perhaps be considered when setting up further reviews of other industries. There was some confusion as to what the actual recommendations, what the status of the recommendations if the review working party were. Were they sort of the first draft of legislation? Were they principles that we agree with or were they just simply a negotiating point that has been reached and we can negotiate further with in the industry from here on? I think those three points of view, which in our submission I think we said were probably held by two sides of the industry simultaneously, did create problems and difficulties in turning the review recommendations into legislation. We haven't got legislation yet. Within days it should be tabled. I think we're getting awfully close to it and I think we've got through that but we had difficulties because of that.

MR BRAITHWAITE: If you thought you had trouble, think of what Fred Hilmer thinks. Interpreting the legislation that interprets his report, as I understand it, is far different from the original.

MR MILFORD: Yes, I think that illustrates part of the problem.

PROF SLOAN: I think that now he has become a private sector person he doesn't like competition so much.

MR BRAITHWAITE: Could I just, on the SMAs, if you're still on it - - -

MR MILFORD: Yes.

MR BRAITHWAITE: Yours has been regarded as one of the successful reviews: full participation and - could I just ask you, were you here for Prof Kolsen's comment this afternoon?

MR MILFORD: No, unfortunately. I always value Prof Kolsen's thoughts but - - -

MR BRAITHWAITE: I've got the liberty of interpreting what he said. He said that the public interest test ought to be more specific. At the moment everybody looks at the producer and then skips the process of the retailer and looks at the consumer, and saying that the benefit passes from the producer to the consumer. But

in between the public interest test does not look at the in-between movements. Now, in the sugar industry review, as I understand, there is supposed to be a \$26 million transfer from the producer for the benefit of the consumer, something in those terms. But his comment was that, particularly with dairying it didn't get through, the chicken meat, it didn't get through, it was caught up in between. Has the canegrowers done any assessment as to where that \$26 million might have ended up?

MR MILFORD: Yes. I should have brought an overhead projector up. But I actually do have a graph on that. Would you like the slide?

PROF SLOAN: All right.

MR MILFORD: I'm sorry, Mr Braithwaite, I've only got a black and white.

MR BRAITHWAITE: Well, that's the way I see it.

MR MILFORD: What we've done here is we've got a graph of the sugar prices versus retail price and you will see that the domestic price and the world sugar price differed in 96 through to 97 and the difference there is the tariff. When the tariff was removed those two prices came into alignment. The world price peaked in December 97 and has been slipping away ever since, and I think it might have gone down even further in the bottom right-hand corner of that graph. As you can see, the retail price from March through to September 97 tracked reasonably well the domestic price. In fact if you take that back earlier to the removal of the embargo you'll find that there was a reasonably good tracking of the retail price to the world price or the domestic price lagged by about six months, it seemed to be.

The removal of the tariff more or less coincided with peace breaking out in a price war that was very much in place in the refining sector in Australia, an agreement that was approved by the ACCC for the refining venture of Mackay Sugar and CSR Refineries to come together, and since then, as you can see, there is I believe a disconnect between the world price and the retail price.

PROF SLOAN: Where do you source that data from though?

MR MILFORD: The data is from the - retail price is ABS. That's the two-kilogram price of sugar; it's an ABS series. The world price is resourced from Queensland Sugar Corporation.

PROF SLOAN: But the key price is not the retail price, is it?

MR MILFORD: Sorry?

PROF SLOAN: In sugar it's not me going and buying two kilograms of sugar from the supermarket. It's as an input into - - -

MR MILFORD: As an input into domestic, yes.

PROF SLOAN: So the price of that has gone up?

MR MILFORD: The price of - I have some other price series on biscuits and confectionery which we'll be putting into our submission.

PROF SLOAN: That has all gone down, hasn't it?

MR MILFORD: Sorry?

PROF SLOAN: The price of soft drinks has probably gone down.

MR MILFORD: Yes. The point is that the sugar in a can of Coke is worth less than a cent and so if the price of that sugar halves it's pretty hard for - - -

PROF SLOAN: I thought it was all sugar.

MR MILFORD: - - - Mr Coca-Cola to pass that on.

MR MILFORD: No, it's all good for you really. It has got a very low caloric index and it's very good for you really.

PROF SLOAN: You see, you made a particular point - being a very saddened investor in CSR. I mean, there the processors were losing money on processing sugar. I mean, we're talking inadequate returns and so a whole lot of things go on at the same time.

MR MILFORD: Yes. Look, I agree that this is a - we're looking right at the end of a chain and so you have got the refiner, the wholesaler and the retailer, and probably some transport costs in the middle of that for that difference to be captured, and certainly as you said there might well have been a period of uneconomic profits or negative rents or something like that, but having said that, we do find it difficult to see how the consumer has benefited in that process. Can I make a comment about the sugar industry review which wasn't covered in our original report. That is the issue of transaction costs. That hasn't been covered in your draft report here either but I think it is a point that is worth making. Certainly we are, as I said, a 2 billion a year industry, but the cost of the review in terms of consultants' fees and direct cash, write out a cheque cost, was approximately \$2 million.

On top of that we, back at the envelope estimates, say that there was probably another \$2 million in industry costs in terms of transport meeting fees, if you like, for the review, participants, industry information meetings and so on.

PROF SLOAN: But the resource allocation costs are huge compared to those. It just makes them look trivial.

MR MILFORD: Mr Braithwaite mentioned - - -

PROF SLOAN: Given that you're not going to have a review for another 10 years - - -

MR MILFORD: Yes, that's cheap, isn't it?

PROF SLOAN: Yes.

MR MILFORD: No, but I do want to make once again - - -

PROF SLOAN: They're trivial.

MR MILFORD: Mr Braithwaite mentioned that there was something like a \$20 million transfer between - you know, with the loss of the tariff. True, but the modelling exercise showed that the net benefit of that, you know, and we use the Monash medical, the net benefit of that was in the order of tens of thousands of dollars. We weren't even in the millions of dollars. So if you're looking at a net public benefit it was in the order of tens of thousands of dollars, and it would be a few years before those benefits start to be realised, whatever the reason for that discrepancy, by the time we have amortised the \$4 million cost that we had for getting those benefits through.

PROF SLOAN: But that's not the relevant figure. I mean, you have had all these marginal growers as you admit who have been enticed into this industry because of the regulatory arrangements. Now, the resource allocation costs for that are huge, so I mean, you have got the benefit of not being reviewed again for another 10 years, but I think, you know, to try and stymie a review on the basis of the cash costs is probably unlikely to win too many arguments.

MR MILFORD: If I was to argue that the actual value of, say, the tariff is - say it's about 3 or 4 thousand dollars per farm, if you're saying to me that people are induced to go into cane farming because of that 3 or 4 thousand dollars per farm and the costs of that are large - - -

PROF SLOAN: There were other bits of the regulation so - - -

MR MILFORD: That's really the main financial differential that most farmers would have - - -

PROF SLOAN: But just think of it from the point of view of the consultancy industry, they have done really well. If they were here now they would be saying - think of the industry development associated with all that money spent.

MR COSGROVE: If the effects of the regulations were as small as that why would everybody in the industry be so excited about it all? It must be bigger than that.

MR MILFORD: No, that was the value of the tariff. I guess what I'm saying is that

if your farm income for this year is \$60,000 and your costs are \$53,000, and you can identify somebody who costs you \$3000, you're going to be pretty cross at that somebody, and that's the point. There is a comment on page 119:

Effective marketing, distribution and quality controls do not require or do not generally require statutory backing.

I should quote you accurately:

Do not require statutory backing.

I guess our review demonstrated that there are benefits to statutory backing. In our case the main benefit was the ability to capture a premium which exists in the far-east sugar market and I believe we have demonstrated that in our industry a statutory marketing authority is a valid and profitable way of organising marketing within an industry.

PROF SLOAN: I find that very hard to understand because of that's so why would you need statutory backing, because everyone would be signing up. If you're generating a premium to the growers, "Come on down".

MR MILFORD: Yes, but I guess the problem - would you like me to discuss it or - - -

PROF SLOAN: What's the answer?

MR MILFORD: Have a look at the sugar industry working party report.

PROF SLOAN: But I just don't understand this point. If it's beneficial why would you want the citizens of this country to put their legislative imprimatur on something that's to your benefit anyhow?

MR MILFORD: Well, why would they not when there is no disbenefit to the consumers because we price at export parity.

PROF SLOAN: But why would they?

MR MILFORD: If it brings more benefit to Australia why would they not?

PROF SLOAN: But if it's to benefit the growers, I mean, everyone would sign up anyway.

MR MILFORD: But the problem is, it's a problem of the commons. There is a premium for sugar in the far east. There is not a deficit of sugar in general in the far east. The reason that there is a premium is because Australia as an exporter can differentiate the markets and can balance the markets in the far east so that that premium is retained. If it was a question of individual companies selling sugar to

everyone it would be to their benefit to get as much of that premium as they could by selling as much into that market as they could and in that way the premium would disappear.

PROF SLOAN: You don't have a quota system, do you?

MR MILFORD: No, but the point of your comment is that this past review said that was worthwhile public benefit.

MR COSGROVE: That's right. So who are we to question the reviews?

MR MILFORD: I'm more than happy to defend the review. I guess part of what I'm saying is that in some circles, and this seems to be the NCC's response, in some circles the fact that we had an open review, we had a comprehensive review, we came up and said there is net benefit in retaining a single desk, people are saying, as you are - you know, I accept the question, it's a fair question, "You've got it wrong. How can you justify this?" The answer is I can stand here and justify it by the arguments that are there in the review.

PROF SLOAN: I understand the argument but I just don't understand this in general that there's benefit to the growers, then you don't need legislation to back it up. These arrangements by and large grew out of cooperative arrangements between the growers.

MR MILFORD: Yes, in general that might be the case. In the sugar industry we also have the issue of - - -

PROF SLOAN: I don't like farmers in Western Australia being put in gaol because they're trying to grow potatoes outside the potato - I actually think that's a serious infringement of his civil liberty.

MR MILFORD: Yes. In the sugar industry there is also the issue which is recognised in the review of the imbalance of economic power between the mill and the grower. I guess there is analogies in the milk industry but certainly a grower, usually an individual, facing a monopsonistic mill, it is uneconomical to transport cane for more than about - well, the furthest distance cane is transported in the industry is about 100 kilometres. For most growers that means that they only have one mill owner that they can supply cane to. There might be more than one mill within 100 kilometres of their farm but in general there's common ownership between those mills. That issue is also part of the rationale behind the retention of the single desk seller on the domestic as well as the international market.

PROF SLOAN: That just means that the growers should band together and form their own cooperative mill if you're worried about that.

MR MILFORD: By no means, but 30 to 40 per cent of the growers do supply cane to cooperative mills or grower-owned mills.

PROF SLOAN: Do they get significantly better terms than they do with the commercially-owned mills?

MR MILFORD: Yes, the mills pay bonuses in general. I might also add, "the growers should band together," part of that story is our organisation, Canegrowers, it's a statutory organisation but it is a way of creating if you like a bilateral monopoly, a single seller, to face a single buyer.

PROF SLOAN: A very second best.

MR MILFORD: On the overall effect I guess from our industry's point of view we believe that we have done the yard yards. We have taken the pain. It causes us considerable distress to see other industries, and I would mention textile, clothing and footwear, and the car industry that have not been subjected to the same blowtorch. Their assistance, phase-outs, if that's really what's going to happen, are much longer than ours and obviously those costs form inputs. The motor vehicle industry from the farm input point of view, TCF probably more - the personal point of view rather than the farm business.

PROF SLOAN: What about the newsagents and the pharmacists and the liquor stores and the like? They're annoyed that they're not having their assistance phased out.

MR MILFORD: Ms Sloan, I didn't raise them, because they're not issues that come up from our farmers. You know, obviously there are significant areas of cost that might be involved there but I don't really think people see the price of newspaper being a few cents too high as being significant or their volume as being too high, but cars are something that do hit consciousness. If I can move on - and I am conscious that I've talked - - -

MR COSGROVE: Yes, we need to probably try to keep an eye on it.

MR MILFORD: Yes - just quickly touch on assistance. Really I think I would refer to the QFF submission. We believe that the comments that they have made, particularly about the adequacy of current initiatives, are quite valid. If I could mention just briefly the exceptional circumstances criteria, there's hoops there which it is, I believe, practically impossible for any industry to leap through. You've got to be viable, you've got to be broke, you've got to have a short-term problem with a long-term effect. It mustn't be part of a trend. You mustn't be too high in debt, "But if you haven't got any debt, sorry, we can't help you." It really is a very difficult set of circumstances to meet.

The farm family restart plan is one that we found very little uptake of. I don't really know why. I guess that the people feel that there's a stigma, that to accept welfare if you like is not in their personal beliefs. But I certainly believe that there is a need for that sort of assistance, the farm family restart, that has to be in a flexible

restructure and assistance program. I'm not saying that the taxpayer should keep every farmer on the farm - by no means. But the sort of assistance that is envisaged done to the farm family restart is the process of injection of cash at a particular time and the ability to keep going and to make rational decisions, if you like, based on professional advice.

I think that's very useful but I believe that there's a need to explore other mechanisms of delivering that perhaps more on a group basis, perhaps through workshops like future profit - do you know what I mean by future profit?

PROF SLOAN: It's probably better to hang out and let the neighbour buy you out than to go into these things.

MR MILFORD: Provided that the neighbour is not then putting themselves in a situation where they're going to be the next one that requires help because of the cash that they have just had to put up. I mean, certainly from an industry point of view for a farmer to leave and that land to be bought and retained in cane growing from an industry point of view is no problem. In fact it's a benefit because that farm is probably, at least in theory, stronger. But if doing that the level of debt in the combined farm is too high, then you have a problem. I said I would restrict myself to the business aspects but I think in those sort of situations you can't ignore the personal aspect of the farmer leaving, that that has to be a process that is not demeaning, that doesn't mean that that farmer goes out with a stigma of having failed.

PROF SLOAN: As opposed to the businesses that fail.

MR MILFORD: Well, you know, perhaps the business - - -

PROF SLOAN: I'm just teasing you. You know, farmers seem to be seen as a very special breed of individual around this place.

MR MILFORD: Ms Sloan, I couldn't agree more.

PROF SLOAN: As opposed to battling business people - don't care about them.

MR MILFORD: As I said, to close I would like to endorse the QFF comment of a need for new initiatives to deliver additional assistance that's tailored to meet the needs of the communities affected. I use the word "communities" there rather than "businesses" because I think that's the sort of focus that we would probably like to look at. Thank you.

MR BRAITHWAITE: Could I just ask you to apply yourself to one of the requests for information we had, and it should apply to the sugar industry:

The availability of motor spirit after deregulation of the wholesale price was intended to allow greater access to terminals on a commercial basis.

Could you have a look at that and give us some comments as to whether that has been available to the industry in Queensland in one form or another?

MR MILFORD: I don't have any - certainly there has been no comment come through on that, Mr Braithwaite, but I would be more than happy to respond to it. Can you refer me to the page?

MR BRAITHWAITE: XL1.

MR COSGROVE: It's at the end of the overview section of the draft report.

MR BRAITHWAITE: Which - I'll stand correction here - I think that's 41.

MR MILFORD: Very good - pretty close.

MR BRAITHWAITE: I understand that in Victoria farming groups have been able to access that on a cooperative basis.

MR MILFORD: Certainly we have a buying group, Canecard, and we haven't gone into it but whether that's through an imperfect market because of lack of perfect knowledge or because of lack of access I really couldn't answer.

MR COSGROVE: Thanks very much, Bernie. We look forward to your further submission.

MR MILFORD: Thank you.

MR COSGROVE: Now we have the Toowoomba Golden West Regional Tourist Authority.

MS RALSTON: Good afternoon. I'm sorry that we are presenting you with this submission without you seeing it first but we will be very brief and to the point.

MR COSGROVE: That's okay. If you wouldn't mind each identifying yourself for the purpose of our tape-recording please, and who you're representing.

MS RALSTON: Sure. I'm Deborah Ralston. I'm the director of the Centre for Australian Financial Institutions and I'm here today representing the Toowoomba and Golden West Tourist Association.

MR RICE: Good afternoon. I'm Peter Rice. I'm the manager of the Toowoomba and Golden West Regional Tourist Association.

MS ANDERSON: Hi. Maryanne Anderson. I'm a board member of the Regional Tourist Association and an operator of commercial accommodation in town.

MR COSGROVE: Thank you.

MS RALSTON: As I mentioned to you, members of the inquiry, I must apologise that we didn't get a chance to get to you this documentation before the inquiry, but what we want to talk about today is not an issue that's central to NCP but rather it's an issue of government policy which we believe impacts adversely on regional businesses and regional development. Given the tenor of your draft report, we believe this relates to chapter 14. We believe this might be one of the impediments to the accommodation industry in particular in regional areas.

PROF SLOAN: I might start by saying I think we totally agree with this submission.

MS RALSTON: Well, we'll go now.

PROF SLOAN: Being the victims of this policy. Having been to just about every regional place in Australia, we absolutely agree with you.

MS RALSTON: Right. It's good to have some first-hand experience. What we want to talk about are the accommodation allowances that are set by the Australian Public Service Board and then they're adopted by the Australian Tax Office. In doing this, we believe it's a kind of indirect price setting for business travellers. The business traveller or the business sector of the market is a very important one for regional tourist or accommodation operators, because they represent around about 44 per cent from a recent survey done here in Toowoomba. So if that sector of the market is mispriced, that has a very adverse effect on overall profitability for this market.

I'm going to just briefly step you through this report. It's not very lengthy. We have outlined or included a copy of the reasonable allowances as determined by the Tax Office in appendix 1. To give you a direct example of what we're talking about, you might just refer to appendix 1 and note that for people with an income of less than around 68,000 the allowance accorded for accommodation in Toowoomba is \$54, which is about 42 per cent less than what you get if you stayed in Brisbane, which means that price goes down very considerably with height above sea level.

If you are above that income level, you will probably be allowed \$65 a night which is around a 49 per cent discount on what you'd be allowed in Brisbane which is \$127. Now, that seems to us a very large discount from Brisbane prices, and secondly it also is considerably under the average market rate of a room in Toowoomba as estimated by Howards or as surveyed by Howards, and that's in appendix 2. The copy of the survey I've got in there actually shows an even higher level than what I've written in here, but the average room rate in Toowoomba is about \$81 or nearly \$82. So what that's saying is that the government allowance is almost 30 per cent under the market rate. Now, certainly you would expect the government rate to be a little lower because there's obviously a repeat business there and so forth, but 30 per cent seems a lot.

PROF SLOAN: You're not telling us anything new about that. We've stayed in every fleapit in the country. I'm sure you want to exclude the present company here.

MS RALSTON: We're not staying here.

PROF SLOAN: Aren't you?

MS RALSTON: No.

PROF SLOAN: You couldn't afford this.

MS RALSTON: Going back to Brisbane of course.

PROF SLOAN: It is absolutely anomalous. I mean, technically speaking you can claim the difference, but it takes you about 50 forms and seven months to get the money back, so you never do.

MS RALSTON: Well, one of the things that we think is a big problem is that cities are categorised or towns or places are categorised. You've got capital cities where the allowance is quite a bit higher, if you're looking at it in appendix 1, but then when it comes to country areas, they're divided three ways. You've got high cost country centres. You've got tier two country centres, and then you've just got other country centres. Now, the process it seems to me is not really very transparent because I haven't been able to get a definition of what tier 2 means. I mean, high cost is pretty evident. They tend to be places that are either remote and have higher costs of operation.

MR COSGROVE: I think tier 2 are also regarded as slightly more expensive than other country centres, but not as expensive as the high-cost group.

MS RALSTON: Yes. That's evident from how it's laid out, but I can't find an exact definition of how they decide on who's tier 2 and who's not.

PROF SLOAN: They're all absolutely unrealistic, having been to some of these places - high costs. I mean, we can't get a room in Port Hedland for \$93 at all.

MS RALSTON: It's much higher again.

PROF SLOAN: Yes, and that's at the worst place in town.

MS RALSTON: Other country centres - everything is lumped together, and that in turn presents quite a problem in itself. On page 5 I've noted a couple of the problems here. We're a little puzzled or the local tourist operators have been very puzzled as to how Toowoomba was found to be given allowance of \$54, and we concluded that this must be because when the survey is undertaken - and quite an extensive survey is undertaken by the Department of Employment, Work Relations and Small Business. They say they have looked at 750 establishments across Australia to decide on these rates. We assume though that they can't be segmenting by quality.

PROF SLOAN: No - well, they are. The worst place in town is good enough.

MS RALSTON: Yes. Well, we wonder whether in fact that in Toowoomba because there are so many - how do I put it - less than three-star accommodation facilities, that in fact excused the price across the whole area, but the other thing that's unfortunate about other country centres is that everybody is thrown in together. So if you have a small town like Cecil Plains, it might have one hotel with accommodation on site, that's averaged with Toowoomba centres as well, and in the end you get just an overall flat market rate. Even the department itself admits that that is probably not a market rate. It says here:

It is possible that accommodation may not always be available within the set rate, and that more must be allowed on a travelling allowance.

So in other words, they have set \$54 right across the board, but they're saying, well, look, it's possibly no market rate. The trouble with that is that every time a business traveller comes to town who knows that they can only be allowed \$54, that's the price they're demanding of their accommodation provider. So we get the situation where a less than market rate is being imposed indirectly right across the market. Now, 44 per cent of travellers are business travellers who tend to adhere to this kind of rate. In some establishments the percentage of business travellers is actually much higher than 44 per cent, and this is probably a good case in point where we are today. So if you add up the total effect of that, you've got quite a compounding problem and a problem for operators in trying to not only recover their operating costs, but of course provide a reasonable return on investment to encourage

further development

and in fact other people to come into the area.

PROF SLOAN: Does this flow do you think into sort of the private sector travelling market, these rates?

MS ANDERSON: Absolutely, and a lot of people in - corporate travellers will - their company will set the rate according to what they hear from the Australian Taxation Office. BHP will set it or even mid-size companies will set a rate, and it will be locked in to what the government is paying.

MS RALSTON: So obviously these rates are determined by an extensive survey, and obviously supply and demand comes into it, but we feel that perhaps this whole process is not sufficiently transparent and that it quite possibly doesn't give due recognition to quality in a town like this, but without more detail on how this survey is done, we really can't be too definitive about that.

PROF SLOAN: It's quite an issue, too. Speaking personally I actually want to stay in the best place that we found, but when they only give you - whatever it is - \$65 - - -

MR COSGROVE: Can I just clarify my understanding of exactly what the process is here. For people like us on the government payroll, we have these costs which look like what you have in appendix 1, determined for us by the public service. You've described this as an abstract from tax ruling. Does that mean that this tax ruling applies only to the government agencies or it applies to any employer?

MS RALSTON: As I understand it, the Australian Public Service Board approves these rates which are used in the public service. They then become the reasonable claimable domestic allowances - - -

MR COSGROVE: So far as the Tax Office is concerned.

MS RALSTON: - - - as far as the Tax Office is concerned.

MR COSGROVE: What happens if a private company says, "I believe I've got a reasonable case to pay my staff more than this," will the Tax Office rule that out of court immediately or will it consider arguments that higher cost accommodation was required for a particular line of business? It may be a question we should send to the ATO I suppose.

MS RALSTON: I can't answer that.

MS ANDERSON: It also encourages an attitude amongst people who come looking for accommodation that they should massage the properties in town into giving them a deal. This is the marketplace; not every price is fixed. So they'll try their best to push that price around.

PROF SLOAN: It may be you have to fill in the special form to get the higher rates.

MR COSGROVE: Very likely.

PROF SLOAN: And of course maybe a lot of companies use this as a leverage; "Look, we'd like you to stay in better accommodation, but sorry, these are the Tax Office rates. So that's all you're getting."

MR COSGROVE: It's a question of degree, I guess, isn't it. I mean, you wouldn't want to have a complete laissez-faire arrangement whereby the company could claim 300 bucks a night.

MR RICE: This is also the wording in the Taxation Office's mind, and most things that the Taxation Office works out as a reasonably expected level of spending and then that line that says, "Above this, additional paperwork; above this, additional accounting requirements will be required." Whether or not businesses keep that anyway, there's still a matter of question there.

MR COSGROVE: Transactions cost me - exceed the value of the tax deduction.

PROF SLOAN: The other irony of course is that - I mean, we're staying in a fleapit in Brisbane, but because it's got so competitive in Brisbane, the price has actually gone down in Brisbane whereas there's not that much competition. I mean, maybe in Toowoomba there is, whereas many of these places I've been to, there's not a lot of competition. There's generally one good place and one fleapit.

MS RALSTON: The interesting thing is although one would expect just anecdotally that there is greater competition in Brisbane now; you do seem to be able to get a better deal, in the latest survey that has come out, there's a greater discrepancy - Brisbane is much higher than it used to be. There's a greater discrepancy between Toowoomba and Brisbane. So whether some people are smart enough to work to the program on it, I don't know. We've also looked very briefly at input prices to try and establish whether there's a significant difference in the cost to providing this kind of accommodation, and on page 6 we talk about that briefly.

Obviously capital costs will be a little bit different because of the difference in land prices. Construction costs are no different, and in fact construction costs in regional areas are higher in most cases. In terms of operating costs, we've looked to an ABS report on hospitality industry there. It indicates that operating costs are about 87 per cent of total expenses, and we really - there are no areas there where they should be lower in a regional area. I know prices aren't set or allowances aren't set on the cost of providing accommodation, but at the same time it would seem that there is no argument for costs being - accommodation being cheaper to provide.

PROF SLOAN: Well, you may get slightly cheaper workers and you probably get lower turnover, but other things would be more expensive.

MS RALSTON: Wage rates are pretty much the same, and if you look at things like

electricity, telephone, printing costs, office supplies, repairs and maintenance, there's really not a lot of room for any disparity there, but I guess the real issue is that if you take a broader look at accommodation, its impact on the regional economy, you can really see the impact of that over time, and my colleagues here have been involved with tourism in the regional area much longer than I've known anything about it, but you see a lot of quite depressed properties, and a lack of incentive for people to invest because the return on investment is just not good enough, and of course this doesn't all lie as a result of government policy by any means at all, but that price setting which affects such a large part of the market certainly does play a role in it.

So I guess there are many outcomes of that that impact adversely on regional development, but I guess what we'd like to recommend in relation to this whole issue are the points that we've listed there on page 3, and that is that the process of setting accommodation in country areas should be made more transparent; that the survey process in country areas should give due recognition to the quality of accommodation provided, particularly in a regional centre like Toowoomba where there are different grades in quality of accommodation. That may not be true in Cecil Plains. You may not have a choice, but here we think - - -

PROF SLOAN: Although there's sort of a standard, isn't there, with the stars and stuff?

MS RALSTON: You'd think the three star would be a standard, yes, and thirdly we'd like to recommend that when government sets accommodation rates, that they should recognise the need to ensure that providers are getting a market return because there's a very important connection between market return on this kind of investment, and regional economic development.

MR COSGROVE: Would you say there's excess capacity in the industry at present or not?

MS RALSTON: Of course you can only tell that by occupancy rates, and the average occupancy rate in appendix 2 for the whole state is about 65 per cent. In Toowoomba we're about spot on the average. So I guess an occupancy rate like that does suggest that there is excess capacity, doesn't it?

PROF SLOAN: Yes, although you don't expect - you know, it's a problem - - -

MS ANDERSON: Yes, and in fact mostly with overnight accommodation, and you wouldn't expect to run at 80 or 90 per cent.

PROF SLOAN: No, you can't really.

MS ANDERSON: Unless you were in Cairns - that's pretty average.

MR RICE: And there are centres within the region where occupancy rates are far higher than that. Goondiwindi for example has far higher occupancies. St George at

the moment is undergoing a reasonable expansion in terms of rooms, though a lot of that spins however from the recent developments in the cotton industry. That has seen some investment there in that area. Dolby has gone through a slight expansion, but not great. The rest of the region however is languishing. What we're finding with the overall pressure downwards on the yield in terms of a motel in the area, we're not getting out of that cycle that is the mum and dad operation where they're having to work 18 hours a day.

So the industry itself and the total room stock in the region isn't improving. The industry isn't expanding as it might, and the people that are in the industry that have the capacity to make that happen are being left at a level that employment isn't rising, they're not employing the people that free them up to move the investment to make it happen. So we get another side of the issue as well. If we don't have the new motel stock coming on, the new hotel stock coming on, then even that stock that we have that is currently maybe a little tired is not being utilised to open up new markets and tourism. Hence the region does not have a backpacker industry. It gets very, very few backpackers. Hence we're not encouraging fly-drive packages in a way that possibly could suit the refurbishment of those older properties, and the marketing to a different market. That's what I'm trying to say.

MR COSGROVE: Peter, I'm afraid that we need to vacate this room in about 15 minutes and we do have one other participant, but if there are any other points - we will of course read the submission you have given to us. Is there anything else you wanted to draw particularly to our attention?

PROF SLOAN: No? The operator, the tourist and the academic are all happy, thank you very much. Thank you for your time.

MR COSGROVE: Thank you. I think what will definitely be our final participant or the day is the Boonah Shire Council. Could you introduce yourself please, and the organisation you represent.

MR BRENT: Yes, thank you very much for the opportunity to appear before you today. My name is John Brent. I'm the mayor of Boonah Shire. I have been in local government for some 24 years now, and also in private life deal with the major chain supermarkets where we have an odd mention in this report from time to time about their involvement and activity. I'm also involved in the motor industry as well, but I make the comments today in relation to something that's come before council just in the last couple of weeks, and it involves the water supply to our township. The water reform area, the COAG reform certainly has and will have an impact upon the consumers of water in our area.

We are supplied, or our urban users are supplied, by water from a dam known as Moogerah Dam that was built and opened in the late 50s. It's now some 40 years old and Boonah Shire has accessed its urban water supply from that source for some time. It was built in the era of "Let's do something to develop our economy" and a great principle, and our area has benefited significantly as a result of the building of that dam. Also water is used from that storage to power Swan Bank Power Station which is some approximately 30 miles downstream of the dam.

As you'd recognise under NCP principles it was necessary, given the signing off of the water reform at COAG some five years ago, to look at some full-cost recovery principles. We've been having ongoing discussions with the state water projects division of the Department of Natural Resources, with regard to just how it will affect us. After having discussions for some six months or more, in the last two weeks we have now been able to gather some information from the department which would indicate that the raw cost of water from that dam to our shire will increase tenfold. Rather than pay the department something approximately equating to \$8300 we'll be looking at something like \$83,000.

Now, the final impact of course is that on our users of that supply and equating that directly to our urban population at an increase of \$44 per ratepayer, which will increase their rates, depending on all sorts of criteria, by about 20 per cent. There's a great deal of odium attached to this sort of increase as you go to prepare a budget and unfortunately I don't think there's anyone in any community who could appreciate that another level of government would impose a 1000 per cent hike in a commodity or a service to a community. I made the comment in the last few weeks that indeed this is just government gone mad, where indeed we need to, as a result of the full-cost recovery principles - need to impose that sort of additional tax, and it can be described as none other than an additional tax on our ratepayers. For this reason, rather hastily, I decided it's necessary - and our council did - that we bring this particular information to the Productivity Commission, because I think it's necessary to perhaps talk about the practical implications of legislation which flows down the line.

Unfortunately a couple of officers who had hoped to be with me today, they're

bogged down in more nonsense with regard to perhaps public interest tests on local laws and all this sort of thing, which has a tremendous impact on a small local government area. We're an hour out of Brisbane. We're about an hour and a half from here and the issues that we are now facing as a direct result of NCP quite honestly are unexplainable to any community, to recognise how a piece of infrastructure built 40 years ago and our community has been utilising water from that structure for that period of time, are now being told, "Well, it's now time for a 1000 per cent hike in the cost of that raw water."

MR BRAITHWAITE: Yes. Does the dam need major refurbishment?

MR BRENT: No refurbishment at all.

MR BRAITHWAITE: None at all?

MR BRENT: And it's also used as a rural water storage for our users downstream. The cost of the original structure was slightly in excess of 1 million pounds and I would have believed that my grandfather probably contributed to that through his taxes and whatever. I find it very difficult to think that his great grandchild should now be somehow or other asked to contribute a sum of money towards the full-cost recovery principles that are now being bestowed as something that's necessary for communities to wear.

Could I just go on to say that we intend - and I'm not at all imposing - we've certainly raised the issue with our state department. I was on radio the other afternoon with the minister for natural resources, who fully comprehended our position and has given us some dispensation inasmuch as they will now phase in these increases over five years. But I can assure you it will not meet with any sort of response other than one of abhorrence at the thought that we are going to start talking about recovering money for a structure built at that period of time. I don't know where we go from here as a council, but I can assure you we will refuse to pay the bill. We have determined that as a council and if it requires the necessary publicity we are prepared to give it and we're prepared to show just how foolish such a policy is and the interpretation of such a policy, that it can have this direct impact upon a rural and regional community.

We hear so many words of wisdom being spoken by politicians - unless they're empty words, I'm not sure - in more recent times about the impact of reform agendas on rural and regional communities.

MR BRAITHWAITE: Who are the main ratepayers in your shire, John, largely town people or - - -

MR BRENT: We have approximately 1600 users of urban water. We have additionally another 2000 rural ratepayers. So this particular issue comes at a cost to our community in some way. Perhaps if we take the opportunity to look at some of our facilities which we provide in a small rural town, a swimming pool. I wish

someone would come and offer - we'll give them a swimming pool gratefully. They can apply whichever principles they like towards extracting some admission costs from the individual. We lose \$44,000 a year on the operation of that pool. But I haven't at this time heard anyone talking about full-cost recovery principles in relation to that pool because the admission of every person through the door would equate to a fair sum of money.

Yet with water - one of the things that are graspable, manageable, shakeable, tangible in some way - we are being asked to contribute towards - how do you explain this to the populace of your area, that some foreign body indeed, and it seems a way-off foreign body, requires you to let in an additional \$44 per user charge on a facility that was built to hold water some 40 plus years ago. Surely, as I said in my opening remarks, this is government gone mad and if someone could please come and explain to our community the result - - -

PROF SLOAN: \$44 doesn't sound very much though.

MR BRENT: It depends I suppose whether you have an income strand that indeed relates to that. Our community is a very ageing community. We have a high percentage of people in their retirement years within our community, recognising it's an hour out of Brisbane. It's a recreation area for South-East Queensland at the weekend and \$44, I dare say if I would offer anyone in local government or state government to offer the opportunity to their constituency to raise a charge of an additional 20 per cent at any time and see what their electoral chances are like, I think they'd be rather suspect, particularly when there is no benefit. I'm trying to, in some way, demonstrate to people or looking for an opportunity to demonstrate there is some benefit. There is no benefit to anyone.

PROF SLOAN: We've heard in Toowoomba that basically, you know, they've increased water prices but they've lowered the rates, so there is no change.

MR BRENT: Well, could you suggest to me - and I'm anxious to have suggested to me - how it's possible to incur an additional \$44 for a commodity that is the same at 30 June as it is on 1 July. Nothing has changed in any way, shape or form other than a principle emanating from another level of government which says, "Under full-cost recovery principles it is necessary for us to recoup these number of dollars from" - this is nothing to do with maintenance and operation of the dam. This is simply a cost which we're told must be paid by our people as a result of a principle signed off in Canberra in 1994. It comes as a complete loss and I'd like some - perhaps Mr Braithwaite has had a previous life and I look forward to his expertise in perhaps assisting me in selling the message to our people on such a crazy, crazy policy.

MR BRAITHWAITE: The advice may not be worth much. But what I'd be interested in is how transparent has the government authority been in giving you that charge as how it's spread - you know, where it emanates from, was it appreciation, who else shares the cost, who else are the users? Have they done that?

MR BRENT: We get to see the transparency of the application. But let me go a little further probably by saying that if it were that we needed to construct a new facility within our shire to hold water, we'd be subject to a 40 per cent subsidy which Queensland local governments receive when they do capital works of this nature within their community.

PROF SLOAN: That's pretty generous.

MR BRENT: It is generous and I think we acknowledge that Queensland is a state - - -

PROF SLOAN: But the money comes from somewhere.

MR BRENT: It is a state acknowledged to, that local government - - -

PROF SLOAN: So the poor people in Brisbane pay?

MR BRENT: I'll come to the poor people in Brisbane in a moment, because I'm very anxious to and I'm pleased you've raised the issue.

PROF SLOAN: Where does the money come from?

MR BRENT: The 40 per cent, the subsidy, is applicable to Brisbane City as well, to the whole of local government in Queensland. We're very fortunate to have the system of local government in Queensland we do and I think there's clear recognition in Queensland that local government provides a very important part of the community infrastructure.

PROF SLOAN: So you raise taxes and spend it on yourself. That seems a silly thing to do. You raise taxes to spend it on yourself.

MR BRENT: Well, there's a couple of levels of government in Australia. We have three levels of government.

PROF SLOAN: So you're getting us bunnies from down south to chip in for this.

MR BRENT: And I think you'd be fully aware that not very often do we see a lot of transfer of dollars from the south to Queensland. But one of the issues for ourselves is certainly we're talking about a community service obligation. We see in Brisbane a public transport system where it's subsidised to the extent of 600 million or thereabouts annually. We have no public transport system in our area but somehow or other it's okay for levels of government to in some way assist public transport. But when you come one hour south of Brisbane it seems there's a great deal of difficulty coming up with a difference of approximately 75,000 towards assisting our ratepayers in a water situation.

There are a number of inequities within the system and I'm anxious to have

explained to me in a positive manner how it is - and I appreciate Mr Braithwaite's question because we've sought legal advice on the matter as well as working with the Queensland Local Government Association to indeed assist us in this effort, because we are basically one of the first cabs off the rank in Queensland with regard to an increase in costs in relation to full-cost recovery principles. Not all local governments will be involved in this matter but certainly ours is one.

MR COSGROVE: If Ray Braithwaite wasn't such a police man he'd be suggesting to you this was a bit of a state government rip-off. Do you see it in those terms?

MR BRENT: We're looking closely at the principles and seeing whether indeed there is an opportunity, that indeed the dividends flowing - the alleged perceived in parenthesis "dividends" flowing to the state via competition policy will assist us in that regard and whether it's compulsory or necessary for them to abide strictly by the full-cost recovery principle.

MR BRAITHWAITE: John, could I just put a scenario to you. If in the transparency of this arrangement the government had said, "Yes, the dam's going to last for another 20 years and then we have to replace it," would you be adverse to an annuity based on the life of the dam in providing something for the future?

MR BRENT: It depends. Look, that's a fair question.

PROF SLOAN: About \$44 a year?

MR BRAITHWAITE: No, I put that to you because - - -

MR BRENT: Sure. I appreciate what you're saying, but I think we need to be fair whether it's water, is it public transport, is it additional payments for libraries? What are the issues? Why have we been selective about the particular matters that we've pursued to this particular point in time? There is a community service obligation and no more important in the city than it is in the country, more important in the country probably. But there are other services that need to be looked at closely and I think in rural and regional Australia we're rather concerned I think. I think it might have been Mike Horan made the point about art galleries or museums or whatever it is.

In Brisbane they've provided free of cost by the state government. When you come to a shire council there's only the shire council's input and hopefully you look to some form of subsidisation. Brisbane City receives it at no cost. A convention centre, they receive it at no cost. They receive Southbank at no cost. But when small local governments intend to - - -

PROF SLOAN: Nothing's at no cost.

MR BRENT: Well, at no cost to their ratepayers of Brisbane.

PROF SLOAN: No. See, most of the taxpayers are in Brisbane so - - -

MR BRENT: No, with respect that's not true and I think the issue - - -

PROF SLOAN: You told me the people in your area are poor so they won't be paying taxes.

MR BRENT: That's another issue that we could take on board if we had more time. But the issue very much is that the people of Brisbane in the local government area of Brisbane have no need to provide those particular facilities. They're provided by another level of government at no cost. But in our community - so I think we need to have a full review. If there's to be a review we need to review all the issues, not just selectively look at water or power or rail freight or public transport, you know. We need to expand it, to be fair. I mean, it's fair enough to be selective and look at the issues which impact on an area, but we need to - - -

PROF SLOAN: It is a big agenda, so you can give it a tick for that. But there's nothing that is undertaken at no cost.

MR BRENT: No, I shouldn't have - well, at no cost - and I've corrected myself: at no cost to the ratepayer of Brisbane.

PROF SLOAN: With that person as a ratepayer. But that's simply not true, what you're saying.

MR BRENT: I beg to differ and I think there's an issue that has not been taken on - and might I with the greatest respect say that's a common point that was put by urban people when indeed they perhaps haven't acquainted themselves with - and I'm talking about Queensland and having a good look at Queensland, that I think there are issues that we need to take on board and if we selectively take particular issues which impact on communities maybe they impact more heavily on an urban community than a rural community and the reverse is true on other issues. So on the water issue it's one that I think everyone must pay their fair share wherever it might be. There's no suggestion that the water users of Brisbane should also be paying their fair share.

We have another issue of water in our area which it's too late in the day to go into. But the urban users of Brisbane have just decided, or the South-East Queensland Water Board, that they'll place a urban storage in our shire, no consultation with ourselves, and obviously they will pay for that facility and the impact of having that facility within our shire is going to create economic issues for ourselves, that given that it's going to take quite an area of land and it's going to prevent certain industries building upstream of that dam. So we have a number of issues that we need to take on board. I had wanted to it past you but I - - -

MR COSGROVE: If you wanted to draw any of those to us by way of a written submission, John, feel free.

MR BRENT: Sure.

MR COSGROVE: But I think I will have to end now on pain of us facing a 100 per cent increase in our rental for these premises. So thank you very much for coming along and working with us as late in the day as this.

MR BRENT: Thank you.

MR BRAITHWAITE: Could I suggest a further submission also?

MR BRENT: We will.

MR BRAITHWAITE: And in that transparency try to find out what Brisbane's paying for their water and on what basis.

MR BRENT: Certainly, will do.

MR COSGROVE: Okay. That ends our hearing here in Toowoomba. We will resume in Townsville on Wednesday, 14 July.

MR BRENT: Can I also just say by the way, we normally have plans with the Transport Development and whatever. The Queensland government announced a \$13 million footbridge across the Brisbane River with grass that side.

AT 7.03 PM THE INQUIRY WAS ADJOURNED UNTIL
WEDNESDAY, 14 JULY 1999

INDEX

	<u>Page</u>
QUEENSLAND FARMERS FEDERATION: RICHARD ARMSTRONG	586-602
QUEENSLAND OPPOSITION: LAWRENCE SPRINGBORG RUSSELL COOPER	603-626
SOUTH-WEST REGIONAL COUNCIL OF THE QUEENSLAND CHAMBER OF COMMERCE AND INDUSTRY: RICHARD WOOD	627-637
CIVIL CONTRACTORS FEDERATION (QUEENSLAND BRANCH): GRAHAM DODD	638-646
RURAL POLICY INSTITUTE: MARK McGOVERN BEN REES TED KOLSEN ROD JENSEN	647-672
TOOWOOMBA CITY COUNCIL: TONY BOURKE PETER TAYLOR MIKE STALLEY	673-689
BUSINESS SUCCESS GROUP: IRENE DEWSBERRY	690-695
SHADOW MINISTER FOR POLICE AND CORRECTIVE SERVICES: MIKE HORAN	696-705
CANEGROWERS: BERNARD MILFORD	706-721
TOOWOOMBA AND GOLDEN WEST REGIONAL TOURIST AUTHORITY: DEBORAH RALSTON PETER RICE MARYANNE ANDERSON	722-728

