



INDUSTRY COMMISSION

ANNUAL REPORT

1991-92

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INDUSTRY COMMISSION

7 August 1992

The Honourable John S Dawkins, MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

In accordance with section 45 of the *Industry Commission Act 1989*, and as required under subsections 25(6) and 25 (7) of the *Public Service Act 1922*, we submit to you the Commission's Annual Report for 1991-92.

Yours sincerely

W I Scales
Chairperson

R G Mauldon
Commissioner

M L Parker
Commissioner

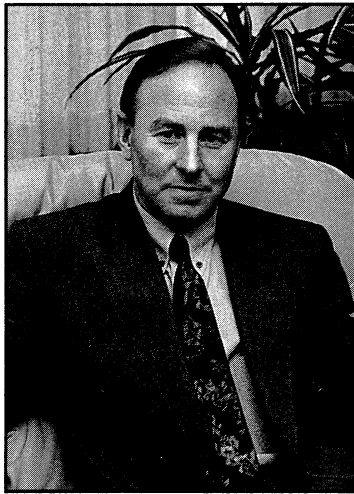
K J Horton-Stephens
Commissioner

T J Hundloe
Commissioner

G R Banks
Commissioner



Benjamin Offices, Chan Street,
Belconnen ACT 2616
PO Box 80, Belconnen ACT 2616
Telephone: 06 264 1144



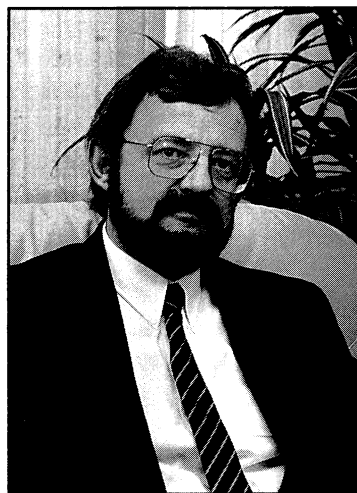
Bill Scales



Roger Mauldon



Max Parker



Gary Banks



Keith Horton-Stephens



Tor Hundloe

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1 THE NEED TO PRESS ON WITH REFORM

Australia's most pressing economic and social problem is unemployment. The recent economic downturn and the slow and unsteady recovery have pushed the unemployment rate to over 11 per cent. In response to the increase in unemployment, there have been widespread calls to slow the reform process — to put structural reform on hold. Some States have deferred particular reforms and called on the Commonwealth to defer further reductions in tariffs. But easing the pace of reform now will not save jobs overall. To pause now will undermine the process of change that is required to tackle underlying and persistent unemployment in Australia.

Over a million Australians are unemployed or too discouraged to look for work. The economic and social cost is enormous. Unemployment and its associated hardship must be tackled as a priority, but not in ways which will jeopardise future living standards. Building on previous structural or microeconomic reforms to deliver economic growth, jobs and higher standards of living is urgently required.

High rates of unemployment have persisted for more than a decade, pointing to an underlying structural problem that recovery alone will not solve. There have been claims that microeconomic reform

is largely to blame for present high levels of unemployment. This is not so. The bulk of the recent increase in unemployment was caused by the recession, with structural reform playing a relatively minor role (Box 1.1).

It is true that some workers have lost their jobs because of structural change — the ongoing process of adaptation of the economy to changing economic circumstances (Appendix A). But structural change has also created jobs — for example, there are now more people in Australia producing goods and services for overseas markets than there were ten years ago (Appendix B).

Box 1.1: How much has structural reform added to recent increases in unemployment?

Structural (or microeconomic) reform involves dismantling barriers to achieving greater efficiency. Examples include minimising restrictions on competition (eg tariffs and anti-competitive regulation), 'commercialising' government business enterprises and removing the burden of unnecessary regulation and taxation.

While it is difficult to attribute unemployment to particular causes, several features of recent increases in unemployment support the conclusion that structural reform has played a relatively minor role in adding to unemployment (Appendix D).

First, the recent decline in manufacturing employment follows the pattern established in previous downturns. Since manufacturing is the prime beneficiary of tariff protection, the impact of structural reform on employment could be expected to be most evident in that sector. But any new pattern that might be attributable to structural reform does not stand out. In fact, manufacturing employment was hit harder in the 1982–83 downturn than it has been recently. Yet tariff reform gathered pace only in the late 1980s.

Second, employment in other sectors which have been less affected by structural reform — such as in Construction and Wholesale and retail trade — has contracted sharply (in this and the last recession). The losses in these sectors have been especially evident in Victoria, a State hard hit by recession. Indeed, in Victoria more people have lost their jobs in each of the Construction, Wholesale and retail trade and Finance, property and business services sectors than in Manufacturing.

To the extent that quantification has been attempted, between a tenth and a fifth of employment losses have been attributed to structural reform — see studies by the Economic Planning Advisory Council, the National Institute of Labour Studies, the Reserve Bank and analysis by the Department of Industry, Technology and Commerce of factors affecting the textile, clothing and footwear industries.

These studies do not attempt to measure the employment opportunities that structural reform has created in other areas of the economy. They therefore overlook the net beneficial effect of structural reform on employment, especially in the longer term.

Unemployment and the pace of reform

Employment opportunities for those who lose their jobs for any reason are very limited in the current economic climate. It has been argued that slowing the pace of reform would allow at least some to keep their jobs — rather than further swelling the ranks of the unemployed. But would putting reform on hold actually save jobs, and if so, is it the best response to the problem?

The Commonwealth Government has maintained its tariff-reduction program in the face of calls for deferral or even abandonment of current and planned cuts. It has recognised that a tariff pause would do little (if anything) to save jobs. A pause now may maintain some jobs in some industries in the very short term. But it will neither create (nor save) jobs overall, for the following reasons:

- Easing the pace of tariff cuts will not lessen the competitive pressures on Australian industry being generated by overseas producers. Firms everywhere are striving to achieve a competitive edge — whether by cutting costs, improving quality or by paying greater attention to customers' needs. Production facilities continue to be moved from countries like

Japan and Korea to places such as Indonesia where labour is cheaper. Protecting Australian firms from the need to adapt and respond to these challenges by taxing imports is a self-defeating strategy.

- A tariff pause would create uncertainty about the direction of government policy. Business has stressed that policy continuity is fundamental to creating a favourable investment climate.
- A tariff pause would also reduce growth prospects in those industries waiting to take advantage of cheaper inputs as tariffs are cut. For example, removal of the current sugar tariffs would significantly increase the competitiveness of food processors.
- Many firms have already factored the tariff-reduction program into their investment and longer-term employment plans. Because tariff reductions are being phased gradually, a pause of say 12 months would only make a 2 or 3 percentage point difference in protection rates. A tariff pause may therefore save relatively few jobs — even in tariff-protected industries.

Equally, slowing the pace of reform in areas such as railways and electricity supply may shore up some jobs temporarily; but only at the expense of additional jobs in other Australian industries — where better rail services or cheaper power would stimulate growth. Deferring reform of regulations will also cost jobs. In Queensland — where 95 per cent of the nation's sugar is produced

— State Government regulations are denying the Queensland and Australian economies production and exports amounting to hundreds of millions of dollars each year.

Deferring reform would mean having a less flexible economy as Australia comes out of the recession. That would mean fewer and less secure jobs in the future.

Box 1.2: Should foreign governments set Australia's reform agenda?

There have also been calls to slow reform because the rest of the world is not competing fairly. Proponents of this view point to the incentives that foreign governments provide their industries and argue that, until these are removed, Australia should not reduce industry assistance. However, slowing the pace of tariff reform, for example, would be at the continuing expense of efficient Australian exporters, import-competing activities and the economy overall.

There is no sense in Australian governments raising costs for consumers and efficient industries just because foreign governments choose to lower the living standards of their citizens. It would make no more sense than to ask Australian manufacturers, say, to continue carrying the burden of inefficiency on the waterfront or railways, for example, just because some foreign competitors are burdened with similar inefficiencies.

There will always be some corruption of world markets. Nevertheless, the Commission has found that export enhancement measures, for example, are a small and declining feature of world trade. While protection is still high for agriculture, global markets for manufacturing are relatively open — with notable exceptions such as garments and footwear (IC 1992d).

Australia will be best served by pressing on with reform of the domestic economy and acting aggressively against foreign impediments to trade in international forums.

While some are calling for a pause, their real agenda may well be to derail reforms. The proponents are likely to want more than a pause of 2 or 3 percentage points of tariff protection.

To give in to calls for a delay would send the wrong signals to industry. It would show that lobbying for government assistance can be more profitable in the short term than finding ways to improve long-term competitiveness. With that attitude, self-serving reasons for not resuming microeconomic reforms would multiply — the time would never be right.

In short, a pause in the reform process would not be effective in saving jobs overall, even in the short term. A pause now runs the risk that the reform process will lose momentum altogether. Deferring reforms which have the potential to confer wide-ranging benefits would be at the expense of taxpayers and consumers generally. The cost to the nation in terms of building opportunities for growth and sustainable jobs would be substantial.

The costs that widespread unemployment impose have to be acknowledged and addressed (Box 1.3). But the focus also has to be on new (and better) jobs for the future. Rather than resisting

change, the challenge is to encourage people to move with least disruption into new jobs.

Structural reform is much more a part of the solution than it is a part of the problem.

Unemployment — the long-term view

Recent attention on the economic downturn has obscured the fact that high unemployment has persisted for a long time. While the 1980s were notable for impressive job growth, this was also a period of strong growth in the number of job seekers (Figure 1.1). As a consequence, unemployment has remained high. Even before the onset of the recent recession, there were nearly 600 000 Australians out of work.

Since a significant part of the recent increase in unemployment is due to a cyclical downturn in the economy, appropriate macroeconomic management and improvements in the global economy and Australia's terms of trade will be the main factors contributing to growth in job opportunities generally in the immediate future.

Box 1.3: Easing the pain of adjustment

The merits of special adjustment assistance in the case of government-induced structural reform should be assessed on a case-by-case basis. Providing special assistance to some industries may create an expectation that other areas targetted for reform will be similarly assisted. This can have the perverse effect of delaying desirable adjustment. Too ready a recourse to special measures could undermine rather than speed up reform generally.

There are sound reasons for relying on generally available measures (eg unemployment benefits) or measures directed at particular adjustment problems (eg regional unemployment) — rather than measures available only to those displaced from particular industries. It is difficult to distinguish labour shedding due to government-initiated structural reform from that due to ongoing adaptation in response to other changes — such as evolving patterns of consumer demand or the effects of technological change, or from firms losing competitiveness as a result of their own inaction.

Governments already have a wide range of adjustment measures in place. Each scheme needs to be regularly scrutinised to ensure it is usefully targetted at identified current problems, operated in a cost-effective manner and facilitates rather than impedes structural adjustment. Preference should be given to schemes which help people find alternative employment — rather than encouraging them to stay in declining industries.

But reducing the underlying high unemployment requires more than successful counter-cyclical macroeconomic management. Just putting the economy back on its long-term growth path will not be sufficient. Even stronger growth would be needed to ensure that employment opportunities expand at a rate sufficient to absorb those currently unemployed, as well as new

entrants to the workforce. During the high-growth period of the 1980s, employment growth exceeded labour force growth by a margin that is high by postwar standards. However, even if that performance were now repeated, there would still be around 750 000 (or over 7 per cent of the workforce) unemployed at the turn of the century (Appendix D).

Without major changes in the way the economy operates, the economic and social waste of unemployment will persist.

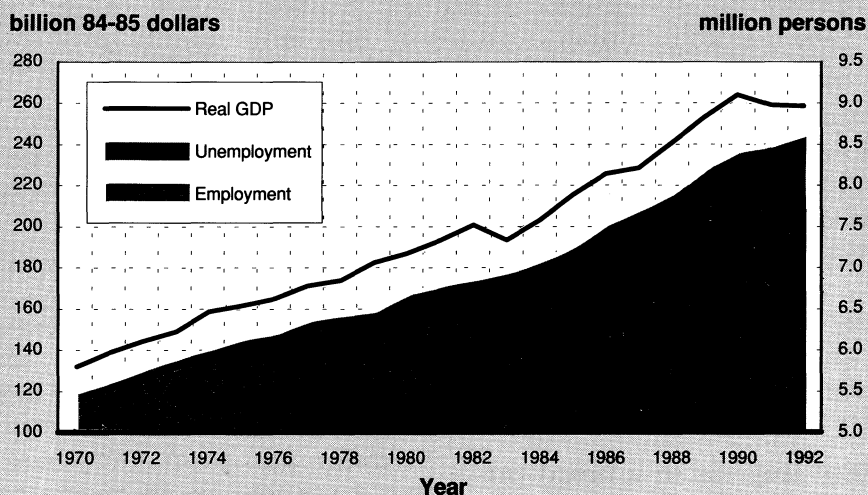
Underlying persistent high unemployment is evidence of structural problems. The economy is not as flexible and responsive to change as it could be. Labour markets are not functioning as well as they could — in terms of encouraging people to move to expanding areas of the economy and equipping them with necessary skills to undertake the tasks involved. As a result, opportunities to promote more growth and create addi-

tional jobs are being lost.

Reform of labour markets can raise productivity to support high and rising standards of living and create employment directly. Reform directed to improving the flexibility of wages between industries and occupations, and of work practices, will create jobs in the medium term. It will allow better signals to be sent about where particular skills are in greatest demand, encourage workers to move to available jobs and to acquire skills that meet the emerging needs of industry. Opportunities to develop new markets will be taken up more

Figure 1.1: GDP and the labour force, 1970-92

(\$ billion in constant 1984-85 dollars and million persons)



Note: The labour force is the sum of employment and unemployment.

Source: PC Ausstats 1992

Box 1.4: How will structural reform help create jobs?

The objective of structural reform is to remove impediments to firms and industries using labour and management talent, capital, and materials more productively. It also means that resources will be drawn to industries and activities in which they can be most productive.

Greater productivity means that firms will be able to improve competitiveness, and that means lower prices and/or a higher quality product.

While higher productivity means that firms are able to produce the same amount with fewer people, the gains in competitiveness mean greater levels of production and that means more jobs.

The process of raising employment occurs in three ways:

- Lower prices (or better quality products) allow firms to expand production to meet the resultant higher demand. In some cases, greater productivity allows firms to meet the rising competitiveness of foreigners, so avoiding future job losses.
- Lower prices mean that consumers have more to spend on other goods and services, so creating jobs in other industries.
- In the longer term, greater productivity means that investment in new capacity is more attractive, and that also creates new opportunities for employment.

Microeconomic reform is not the complete answer to boosting output and creating employment. But, if underlying structural unemployment (persistent high rates and duration of unemployment) is to be tackled, it is an essential ingredient.

readily and existing markets will be able to be expanded — together, this will contribute to higher levels of employment.

Further progress in a broad program of microeconomic reform aimed at tackling underlying structural problems would

improve Australia's international competitiveness, so that the economy would grow faster (and in a sustainable way). Greater flexibility and productivity mean that more jobs could be created without exacerbating inflation or running up against balance of payments constraints. Job

creation would be sustainable (Box 1.4).

Keeping pace with the best

Australia has already taken some important steps to improve productivity growth through various structural reforms. They are starting to deliver benefits.

However, it is not simply a matter of raising standards compared with the past. If Australia does not at least match the productivity performance of other nations, competitiveness and relative living standards will decline — even though performance may represent an improvement on past efforts (Appendix C).

In that light, available indicators of Australia's international standing — limited and imperfect

though they may be — are cause for concern. For example, Australia has progressively slipped down the ranking of OECD countries in terms of *per capita* incomes. And other countries in the Asia-Pacific region are catching up with us.

Putting the brakes on reform while other countries press ahead would condemn Australians to relatively lower standards of living. The future of Australian industry can only be secured by accepting the challenges set by others, not by hiding behind tariff walls or appealing to governments for other kinds of assistance. The pace of improvements in productivity and competitiveness in other countries reinforces the need to press ahead quickly with reform in Australia.

2 LIFTING AUSTRALIA'S PERFORMANCE

Australia can raise its standard of living if people are given the opportunity to be more productive and rewarded for their productivity. The imperative is to act quickly and to tackle reform on a broad front. Previous reform efforts are beginning to pay dividends. However, in the light of what governments must do to lift Australia's economic performance, reform initiatives have been lacking in number and scope.

The reform dividend

Community support for broad-based reform that will boost Australia's productivity is strengthened when people see the benefits. Two years ago the Commission estimated that reforms in transport, communications, electricity supply, the provision of water services, contracting out part of public sector activity and reductions in manufacturing and agricultural assistance would increase gross domestic product in the longer run by 6.5 per cent (or \$22 billion a year in 1988–89 dollars). Much more is to be gained from extending reform beyond these areas to all parts of the economy — particularly removing impediments to the efficient operation of labour markets.

Despite the effects of the recession, reform efforts of earlier years are producing positive results in many areas of economic activity (Box 2.1). They have reduced costs for many industries and consumers, and increased choice and quality. The burden on taxpayers from public sector inefficiency has also been lessened.

The dividend from other reforms has not been so apparent. While some benefits — such as price reductions to consumers as a result of tariff cuts — can flow rapidly, the full benefits of other reforms take time to materialise and can accrue more widely through the community than just to users. For example, given the long life of water assets such as dams and pipelines, the dividend

Box 2.1: Examples of the reform dividend

- Domestic air fares on major routes fell on average by 23 per cent from the beginning of deregulation to the end of March 1992, and passenger traffic increased 30 per cent in the year to April 1992.
- Restructuring by the Civil Aviation Authority means that it will cut its charges to industry in real terms by \$96 million in 1992–93.
- Turnaround time for grain ships at Australian ports dropped from an average of 4.5 days to 2.4 days by November 1991. The annual cost saving to farmers was estimated by the Australian Wheat Board to be at least \$10 million.
- According to the Reserve Bank the difference between the average interest rate paid and received by banks fell from 5 percentage points in the early 1980s before financial deregulation to 4 percentage points or less in 1991.
- In gearing up to meet competition from the second carrier, the Australian and Overseas Telecommunications Corporation (AOTC) has reduced many charges for long-distance daytime calls — a call from Melbourne to Sydney is now 13 per cent below the rate a year earlier.
- Import tariffs were halved over the decade to July 1992. This meant, for example, a duty saving to industry of some \$2 100 per unit on the import price of a \$14 000 fork lift truck. For a household buying a family-sized fridge, there has been an average duty saving of \$60. The abolition of quotas on imported passenger motor vehicles has led to increased choice for consumers (as importers have brought in full model ranges, rather than just 'top of the range' models), reduced prices and better quality, and increased competition from imports has pressured local producers to lift their game.
- In the electricity supply industry, labour productivity rose by more than 46 per cent and real electricity prices fell on average by around 12 per cent between 1987 and 1991.
- Irrigators have gained from the limited moves to tradeable rights in water. The Department of Water Resources in New South Wales estimated that since their introduction in 1983 tradeable water entitlements have increased the value of irrigation output in that State by \$42.5 million.
- Ongoing commercialisation and pricing reform of the South Australian Department of Marine and Harbours has seen throughput per employee increase by 37 per cent and real decreases in charges of 3.2 per cent since February 1990.
- The NSW Department of Public Works has contracted out and rationalised services, reducing operating costs by \$85 million annually.

from commercially oriented investments in water infrastructure will take a considerable time to accrue.

Reforms are also producing environmental dividends which are not always apparent. For example, user-pays pricing for water provides incentives to conserve water and lessen the adverse environmental impacts associated with overuse. Moreover, some of the productivity gains achieved in the water sector have been taken in the form of improved water quality and a healthier environment. While this means there is less to pass on in the form of lower prices, these improvements would have required higher charges and taxes in the absence of reform.

Part of the reform dividend can be seen in the changing pattern of Australian trade. The trade orientation of Australian manufacturing, for example, has increased since the early 1980s. Manufacturing has become more specialised. Growth in manufacturing exports has been strongest in resource-related industries and imports have grown in areas such as electronic equipment, motor vehicles, and industrial machinery and equipment (Appendix B).

Securing the dividend

In many cases competition will ensure that the gains from microeconomic reform are realised and passed on to users. However, in others, securing the gains requires hard work and negotiation by workers, managers and users. The benefits to wheatgrowers from a halving of turnaround times for grain ships was in no small way attributable to the efforts of the grains industry in forcing the issue. Moves towards enterprise bargaining open up the possibility for improved work practices, but the onus rests with workers and managers in individual firms.

There is also more for government to do to ensure the community benefits from reform efforts. In some areas, reform has produced worthwhile productivity gains, but the gains do not seem to have been passed on to users. Shipping is a frequently cited example (Appendix H). Governments need to revisit such areas to determine whether there are remaining impediments which need to be removed to realise all potential gains. In shipping, the retention of *cabotage* is a restriction on further competition that should be addressed, and there are other impediments which result from the operation of shipping conferences.

Box 2.2: Consolidating reform and new initiatives: some examples

- The Commonwealth, States and Territories have confirmed that mutual recognition of each other's regulations for goods and occupations will apply from March 1993. The removal of regulatory impediments to the creation of a national market will provide substantial benefits to industry and consumers.
- Agreement was reached in May 1992 to develop an interstate electricity transmission network across the eastern States and to the principle of separating generation and transmission functions. Endorsement is still required of the Commonwealth's proposal to form a separate national grid corporation. This will promote competition in generation and distribution, and help to ensure efficient energy supplies for Australian businesses and consumers.
- Commonwealth funding of \$454 million for rail infrastructure should see greater efficiencies in Australia's rail systems in that it is conditional upon new labour arrangements and commitments from the States to accelerate reform of their rail systems. In Queensland, the royalty element from coal rail freight charges (for new mines and expanded output from existing mines) has been replaced by a more transparent royalty system.
- The Commonwealth adhered to its tariff reduction program, maintaining pressure on industry to be more efficient and internationally competitive.
- Qantas and Australian Airlines are to be privatised, Qantas and New Zealand carriers allowed to fly domestically and additional Australian carriers allowed on international routes by 1993. This should lead to lower fares and better services.
- A second telecommunications carrier (Optus) has commenced operations in cellular mobile communications providing competition for AOTC.

The wider the coverage of reform programs and the greater the involvement of all tiers of government, the greater is the likely reward. The past year has seen a

consolidation of reforms announced in earlier years and some new initiatives (Box 2.2). Appendix F, which was compiled with the help of the States and Territories, lists

their reform initiatives in the past year.

But there has also been some slippage in the reform effort (Box 2.3). Clearly, much more

remains to be done.

The gains from reform in one area can help to alleviate adjustment costs elsewhere. But to make one element of reform, say tariff

Box 2.3: Slippage in the reform effort: some examples

The past year saw some reforms deferred or forgone and decisions taken to selectively increase industry assistance. At the Commonwealth level for example:

- the National Road Transport Commission has backtracked somewhat from the better road charging policies first envisaged;
- inspection of imported foods has been increased — costs will be raised without demonstrable offsetting benefits;
- by granting access to anti-dumping measures in a wider range of circumstances, the Government has created more scope to invoke the system as a form of industry assistance;
- the Government deferred further phasing down in export subsidies to the dairy industry until 1993–94 which means continuing higher prices for Australian consumers. The industry will retain a higher level of support than industry generally at the end of its phasing arrangements;
- reform of regulatory and marketing arrangements for the Australian sugar industry has been delayed pending yet another consideration of options by a task force which relies largely upon representatives of Australia's sugar industry;
- without prior public review the Government imposed a \$12 000 per unit duty on volume imports of second-hand vehicles (essentially from Japan) to protect already highly assisted Australian vehicle producers; and
- as part of a package of additional adjustment measures for the textile, clothing and footwear industry, assistance will increase for footwear production through the reduction of duties on footwear parts and to textiles through the introduction of overseas assembly provisions for selected clothing companies.

reductions, conditional on other reforms in the economy would delay reform. At worst it could cause the reform process to be paralysed. Exposing formerly protected areas of the economy to international competition is generating pressures for improved performance in other areas. Tariff reductions have a strategic role in forcing the pace of microeconomic reform generally. Rather than slowing the pace of reform where adjustment pressures are being felt, governments need to directly tackle impediments which stop desirable adjustments from taking place.

The reform agenda

If Australia is to continue as a nation capable of sustaining high levels of real wages it must continually strive to improve all facets of the economy. The process of economic and structural reform is ongoing. One of the biggest immediate challenges facing Australia is to improve workplace productivity, the flexibility of the labour market and Australia's education and training systems.

Economic infrastructure has already received considerable attention, but there is more to be achieved. Some indication of that agenda is given by the Commission's recently completed inquiries

— water resources and waste water disposal and intrastate aviation regulation and aviation infrastructure — as well as its continuing inquiries into mail, courier and parcel services, and port authority services and activities.

Governments need to extend their reform agendas to encompass areas of social infrastructure and to build on earlier reforms of industry assistance and regulatory policies.

Education, training and the workforce

Firms need highly skilled, well-trained and adaptable people if they are to compete internationally and create sustainable jobs in the long term. Any impediment to the development of skills, or the application of those skills within firms, must be removed.

There is a spectrum of labour market arrangements in Australia. One end operates under strict paid-rates industrial awards. This market is the least flexible. Often, establishments operating under these arrangements are large. They operate mainly, but not exclusively, in the public sector. At the other end, firms operate under minimum-rates awards and generally have very flexible in-house work arrangements which are very responsive to changing market

circumstances. Here, firms tend to be smaller and are less likely to be market leaders. The organisation of labour varies markedly over this structure, ranging from areas that are heavily unionised (sometimes with a multiplicity of unions) to areas where union membership is negligible. A further complication is that many professions (for example, lawyers), while not unionised in the traditional sense, are regulated with substantial barriers to entry.

Firms operating in the most regulated part of the labour market would gain most from enterprise bargaining which reflects the needs of employers and the aspirations of employees. This would build on the restructuring of industrial awards which has already begun. Strengthening the link between the profitability of the firm and the welfare of its employees can create a climate where ongoing productivity improvements become the objective of both management and staff. Establishments in the public sector which have not yet felt competitive pressures need considerable reform. Workplace reform in the health and railway industries, for example, has lagged.

While firms in the more deregulated environment of the minimum-rates awards may have less to gain, significant gains are still possible. This is recognised

to the extent that recent amendments to the Commonwealth Industrial Relations Act have made certified agreements easier to obtain. Yet, the current award arrangements preclude significant determinants of competitiveness — such as hours of work or shift arrangements — being varied, without recourse to the Industrial Relations Commission or State Industrial tribunals. This requirement can be time consuming, costly and very confusing for small- to medium-sized firms.

A start in removing rigidities has been made in areas such as training, enterprise bargaining and the portability of superannuation. But a lot more needs to be done if inroads are to be made into high unemployment, and if high living standards are to be regained and shared through sustainably high wages and salaries.

Education is the foundation for the development of general skills and flexibility. The pay-off is long term. Nevertheless international comparisons indicate a strong link between education and productivity. But perennial questions about what kind of education is being delivered and how well it is being delivered are coming into sharper focus in the debate about how education can lift productivity.

Training is an important element in raising specific skills in the workplace, and improving flexibility by easing the transition between jobs and facilitating the introduction of new technologies. Typically, training can increase productivity more quickly than formal education. And training can help managers to develop the skills they need to use the skills of the workforce.

In some industries the amount of training provided by Australian companies to workers is much less than in other countries (Box 2.4). But explaining Australia's training performance requires careful analysis, including an-

alysis of wider labour-market issues.

The incentives for firms to provide training are likely to be weak wherever they cannot get a sufficient return from their efforts. Workers' attachment to firms is generally low in Australia by international standards, giving firms less opportunity to recoup the costs of training. The incentives for firms to provide training would be increased if they had the flexibility to immediately use enhanced skills to raise productivity. While the emphasis on training through the Technical and Further Education (TAFE) system is laudable, unnecessary

Box 2.4 Training in the automotive industry

Australian companies invest much less than some other countries in training new production workers, at least in the automotive industry. While the Australian industry may compare with its American counterpart, it falls well short of European and Japanese standards.

Hours of training of new production workers in 1989

Japanese	
- in Japan	380
- in North America	370
European	173
American firms in North America	46
.....	
Australian	
- 1988	49
- 1991	96

Sources: Womack, Jones and Roos (1990); AIA (1992)

or cumbersome accreditation procedures which hamper firms making use of acquired skills should be removed. Similarly, demarcation lines between unions and outmoded job descriptions should not be allowed to impede initiatives by firms to achieve cross-skilling and other workplace efficiencies.

The incentives for people to undertake training would be improved if they could be rewarded for using acquired skills. Increased flexibility in wages and conditions would allow current and prospective employees to judge where skill shortages are greatest and where there would be pay-offs to additional training. More closely aligning remuneration to skill levels would see some unwinding of currently compressed wage relativities.

The task of upgrading skills and increasing flexibility through training requires broad, comprehensive and far-reaching reform. Governments have made a number of changes to formal education and training arrangements, and further measures are on the agenda for consideration. Reforms need to lead to an education, training and retraining system sensitive to emerging opportunities for skilled employment.

Economic infrastructure

Australian industries cannot be internationally competitive without world-class ports, railways, roads, power and communication systems. Our geographical isolation and size heighten the need for cost-effective and reliable infrastructure services.

The Commission's inquiry work has established the importance of making better use of existing infrastructure and improving the way further investments in this area are evaluated. To achieve this, the incentive structures for service providers and users have to be put right. Greater competition in the provision of services, processes which promote cost minimisation and efficient pricing of services, corporatisation and privatisation are examples of policies which can be applied in the case of government business enterprises (Appendix E). However, case-by-case assessment is needed.

In the water sector, for example, the scope to introduce competition is limited. Most of the potential efficiency gains stem from pricing reform, transferable water rights to get water to its most economic use, and increased commercial disciplines within government-owned water authorities.

The gains from pricing reform are much larger than is commonly

supposed. Some water users are currently supplied at prices well below cost, and urban users are often not charged according to use because water rates are based on property values. A major part of pricing reform is to ensure that users pay directly for each litre of water consumed. Where pay-for-use pricing operates, water consumption and the costs of treating waste water have been reduced, and savings made through deferring investment. User-pays pricing affects current usage and can guide future investment. While price increases can disadvantage user industries, keeping prices artificially low would discourage conservation and mean continuing low returns on public investments, higher taxes, more debt or reduced spending elsewhere.

The Commission's inquiry program has brought home yet again the need for careful appraisal of infrastructure investments. The lack of proper investment appraisal has led to 'gold-plating' of facilities and significant over-investment across a range of infrastructure, at great cost to the community. Before they are approved, new investments should have realistic prospects of supporting prices sufficient to fully recover costs, including a return on capital. Greater public disclosure of investment plans and project analysis would disci-

pline investment policies of governments and authorities.

There is also some potential, however, for rate-of-return targets and dividend policies to become taxation by stealth, particularly when governments are under severe financial constraints. Many government business enterprises are sole suppliers and thus have considerable scope to adopt cost-plus pricing strategies to meet rate-of-return targets. This underlines the importance of introducing, where practicable, competitive disciplines in the provision of infrastructure services. In cases where this is not practicable, some form of public monitoring of performance is required.

Social infrastructure

Efficiency is no less important for social infrastructure — such as the provision of public housing, urban facilities, health care, education, training, community services, and in other areas of government responsibility such as defence and public administration generally.

Given the large costs of social infrastructure and the need to allocate resources between competing priorities, investment processes must be responsive to changing demand. Yet the Commission found in its inquiry into exports of education services that

current arrangements for funding higher education for domestic students are flawed. Without a mechanism which takes better account of the costs and value to society (and to students) of the education services provided, decisions by government and institutions as to how many places there are and how they are allocated will very likely be defective.

Inefficient public services detract from society's ability to assist the disadvantaged. The Commission's recent inquiry into the export of health services noted a number of factors impeding the efficient delivery of health services to both domestic and foreign patients. These include policies which encourage over-use of hospital services (and thus increase waiting lists), and funding arrangements for public hospitals which provide strong incentives for cost containment, but only weak incentives for improved efficiency and productivity.

Regulation and assistance policies

Pruning back unnecessary social and economic regulation, minimising the burden of taxation and continuing reform of industry assistance policies will lift Australia's economic performance.

It is also important that environmental regulation be efficient. Ensuring the better use of natural resources and generally improving environmental outcomes are necessary conditions for improving the well-being of Australians. Getting prices right for natural resources — such as water — provides incentives to conserve them and lessens adverse impacts. Improving institutional arrangements which allow for the use of market-based mechanisms — such as transferable catch quotas for fish and transferable water rights — can provide a cost-effective means of addressing certain types of environmental issues. Nevertheless, not all environmental problems are able to be addressed in this manner. Some aspects presently cannot be measured; others require ethical decisions via the political process. Closer integration of economic and environmental considerations in decision making can help to ensure that environmental goals are achieved without unduly impeding industry development and job creation.

In other areas, there is scope for regulation to produce better economic outcomes. For example, there would be benefits from extending the reach of pro-competitive regulation to include state government business

enterprises and the professions
(Appendix G).

3 THE COMMISSION'S ROLE IN THE REFORM PROCESS — NEW DIRECTIONS

The Commission has been given a challenging role in extending the scope of the reforms that governments must undertake to lift Australia's economic performance. It has been asked to contribute to improved efficiency in the Australian economy on a broad front.

On 13 May 1992, the Treasurer announced an expanded role for the Commission (Appendix O). While its major focus is to remain on broad-ranging inquiries similar to those undertaken for some years now, the Treasurer announced that the Commission would receive a new class of reference, termed industry development references. The Government is also seeking greater involvement from the States and Territories.

Broad-based references

At the centre of the Commission's work of recent years have been key areas of microeconomic reform which impact on a wide cross-section of the Australian economy. Such inquiries have included energy generation and distribution, railways, water, postal services and ports. It is

now some years since the Commission's work focussed on tariff assistance. Indeed, of the 13 reports submitted in 1991-92, only two were concerned with questions of protection from import competition. Even in these cases the Commission's proposals did not centre on tariff issues.

In addition to building on recent work on key areas of infrastructure, the Commission will shortly be looking at factors affecting the operation of labour markets, the provision of social infrastructure, urban environmental issues, and aspects of technology policy. These issues are of interest to a wide audience in the community as well as to all tiers of government. For example:

- In identifying the barriers to industry restructuring in regional areas, the Commission's inquiry will be raising

awareness of impediments to the mobility of people and other labour market arrangements, and how the availability of government services affects adjustment.

- The inquiry into workers compensation will examine, among other things, the extent to which this substantial labour on-cost is provided effectively and efficiently.
- The Commission is addressing a range of social and economic issues which help determine the quality of daily life in Australian cities in its inquiry on the impact of taxation and financial policies on patterns of urban settlement. The Commission's work on social infrastructure will be extended in the inquiry on public housing, which will consider options for delivering housing objectives as efficiently as possible. The inquiry on urban transport systems will deal not only with the efficiency of those services but also how best to tackle the impact of transport systems on urban environments.

The Commission has a role to play in opening to public scrutiny other areas of social infrastructure and policy, and the efficiency with which government adminis-

ters social and other programs. It also sees labour market operations and related education and training arrangements as priorities.

Industry development references

The new industry development references are intended to supplement the Commission's broad-ranging inquiry program, rather than replace it. In announcing this new class of reference, the Treasurer indicated that they would "allow the Commission to extend its vision in such a way that it can make a positive contribution to industry development in a low-tariff environment." The references will require the Commission to "investigate opportunities for growth in specified industries where, *prima facie*, Australia ought to have comparative advantages."

The Commission will be asked to:

- expose and quantify impediments to growth of such industries;
- investigate industry strengths and weaknesses;
- identify ways by which industry can improve its own prospects; and
- find ways of "optimising the circumstances and prospects of specific industries."

Contribution to removing impediments to growth

The Government has indicated that exposing and quantifying impediments to growth will be one of the central concerns of industry development references. The new style of reference should offer further opportunities to remove impediments to better performance on the 'supply side' of the economy — impediments which constrain the international competitiveness of Australian industries. They should thus complement the Commission's other inquiry work which tackles impediments to growth on a broad front.

The new references are industry-specific in nature. This will provide opportunities to focus on how particular user industries are adversely affected by inefficiencies elsewhere in the economy in a way that is tangible. Such practical and accessible illustrations of the adverse effect of constraints on the supply side of the economy can be an important element in building a constituency in favour of changes which benefit the community generally.

Industry development references will also serve as a channel to monitor progress on reform in related sectors of the economy, to assess their impact on the industry under review and to

ascertain whether the gains from reform are being passed on to user industries.

By looking at the whole range of factors which impact on particular industries, detailed industry-specific investigations can also help to clarify and prioritise the broad agenda for reform. Indeed they may open up new opportunities and build momentum to expand the reform agenda. For example, there is an invitation to examine labour-market issues in an industry-specific context which can help to lay foundations for greater flexibility required at the enterprise level. This opportunity is enhanced by the pressure that movements towards enterprise bargaining are creating to identify the scope for improved work practices and other productivity improvements within industries and firms.

While industry development references provide the ability to remove impediments to better economic performance, the industry- (or product-) specific nature of this new class of reference limits the contribution they can make. Where regulations or other obstacles holding back an industry are specific to that industry, they can be thoroughly examined in the context of an industry development reference, and a plan of action to remove the obstacle recom-

mended. But when the impact of regulation or other factors is broader than on the industry under review, the scope for identifying impediments and, more particularly, dealing with them may be more limited.

A product-specific inquiry may establish, for example, how taxes and depreciation allowances impact on the cost structure of the industry under reference. But to establish whether such tax rates and allowances are appropriate or efficient requires a detailed understanding of the overall taxation system. In many cases, this will be beyond the practical limits of individual industry development references. The Commission will be in a better position to make informed judgments if the impediments identified have already been covered by the Commission's broad-based inquiry program.

Market prospects

The new references also carry an expectation that the Commission, through its public inquiry process, will be able to make more of a contribution to assessing the market and growth prospects for specific industries. Enhancing understanding of demand factors can make a contribution to the reform effort. But it also requires careful handling if undue expect-

tations within industry are to be avoided.

An understanding of market prospects for specific industries can work towards alleviating supply-side constraints on industry. It can:

- draw attention to development potential which will not be realised unless supply-side bottlenecks are removed;
- assist public understanding of the impact of inefficient policies on individual industries; and
- build pressure on suppliers to accept reform.

Enhanced understanding of demand factors underlying industry growth potential should not create an expectation that government will underwrite investment. Demand analysis undertaken by the Commission will not be a substitute for private sector decision making. It will in no way alter the responsibility that must lie with individual firms to determine whether particular investments are commercially justified.

Maintaining an economy-wide perspective

The new directions in which industry development references lead will not diminish the importance of the Commission taking an

economy-wide view — one which takes account of inter-relationships between industries, consumers and taxpayers. The requirement to take that view remains central to the Commission's role and is embedded in the Act of Parliament under which it operates. This perspective will be applied to industry development references, as it is in all other inquiry work.

It is also important that the more specific focus of the new industry development references does not recreate a momentum for *ad hoc* compensation to specific industries for impediments that would generate greater gains if tackled directly. A recent example of a government decision to provide compensatory assistance was the introduction of a citric acid bounty partly on the grounds of offsetting government-induced distortions to the price of sugar in Australia. In past industry-specific inquiries, it has been common for the Commission to receive requests for compensatory assistance or requests to slow the pace of tariff reform until other reforms are completed.

An over-riding consideration is that the Commission continues to make the most effective contribution to microeconomic reform. This requires a balance to be struck between industry development reference work and broad-based inquiries. As

stressed in Chapter 2, the broadly based reform program has put significant runs on the board, but the need is to press on and indeed expand the coverage of the program. The Commission has finite resources at its disposal. Indeed, with the inevitable dislocation associated with the move to Melbourne, including the loss of experienced staff, the Commission's ability to meet its workload will need to be carefully managed.

Greater involvement of States and Territories

The new directions foreshadowed for the Commission will see an enhanced role for the States and Territories. This is welcomed by the Commission. The changes will mean:

- a greater role for the States and Territories in proposing and developing references to the Commission;
- explicitly requesting the Commission to address the practical issues of implementing its recommendations — such as phasing and sequencing, the desirability and level of adjustment assistance, the role of different levels of government, and the appropriate agencies to both drive and co-ordinate change; and

-
- establishing agreed processes for consideration and where appropriate joint consideration of Commission reports by the Commonwealth and the State and Territory Governments — and seeking an undertaking from them to publicly announce responses within a reasonable time frame.

The States and Territories have become increasingly active participants in Commission inquiries. Service provision in areas such as the railways, energy generation and distribution, water resources and waste water disposal — which have represented a

large proportion of the work program — are almost the exclusive province of the States and Territories. Thus, in the recent inquiry into water resources and waste water disposal the Commission visited and was welcomed by all State and Territory Governments. They all co-operated with the inquiry, presented substantial submissions and most attended public hearings.

The initiatives announced by the Government will build on the co-operation which has already developed between the Commission and the States and Territories.

4 OPERATIONS OF THE COMMISSION

This chapter details the operation of the Commission over the last year, including management of the Commission's human and financial resources.

The role of the Industry Commission

The Industry Commission is the

Commonwealth Government's major review and inquiry body in industry matters. Its expertise is in examining microeconomic pol-

The Commission at a glance

Inquiries	1990-91	1991-92
References on hand as at 30 June	11	7
References received	10	8
Reports completed	9	13
Staffing	30 June 1991	30 June 1992
Holders of Public Office	15	11
Senior Executive Service	18	18
Other staff	215	210
Total	248	239
Expenditure	1990-91	1991-92
Salaries and allowances		
Holders of Public Office	775 900	711 500
Senior Executive Service	1 334 900	1 394 800
Other staff	7 499 100	7 817 100
Administrative expenses	4 032 600	4 368 500
Property operating expenses	1 773 000	2 183 400
IMPACT Project	147 000	203 000
MONASH Project	0	100 000
Total expenditure	15 562 500	16 778 300

icy issues. Its functions are:

- to hold public inquiries and report on matters referred to it by the Government;
- to undertake activities incidental to its inquiry function — such as advising on business regulation, and publishing information papers to enhance community understanding of industry policy issues; and
- to report annually on the economic performance of industry and the effects of assistance and regulation on industry and the economy.

The operations of the Commission are governed by the *Industry Commission Act 1989*. The Commission operates on three fundamental precepts:

- it is an independent advisor on industry policy matters, free of executive/administrative responsibilities;
- its inquiry procedures are open and public, providing the opportunity for community input to and scrutiny of the advice the Commission provides to Australian governments; and
- it approaches industry policy issues from the perspective of the community as a whole — rather than the interests of any particular industry or group.

The Office of Regulation Review within the Commission is responsible for examining and advising the Government on proposed business regulation.

Inquiry program

The Commission identifies and assesses opportunities to improve society's well-being through the public inquiries referred by governments.

The Commission's inquiries improve policy-making by providing information and an opportunity for public scrutiny of claims by those potentially affected by change. Inquiry reports also provide a unique opportunity to raise public understanding of various policy issues.

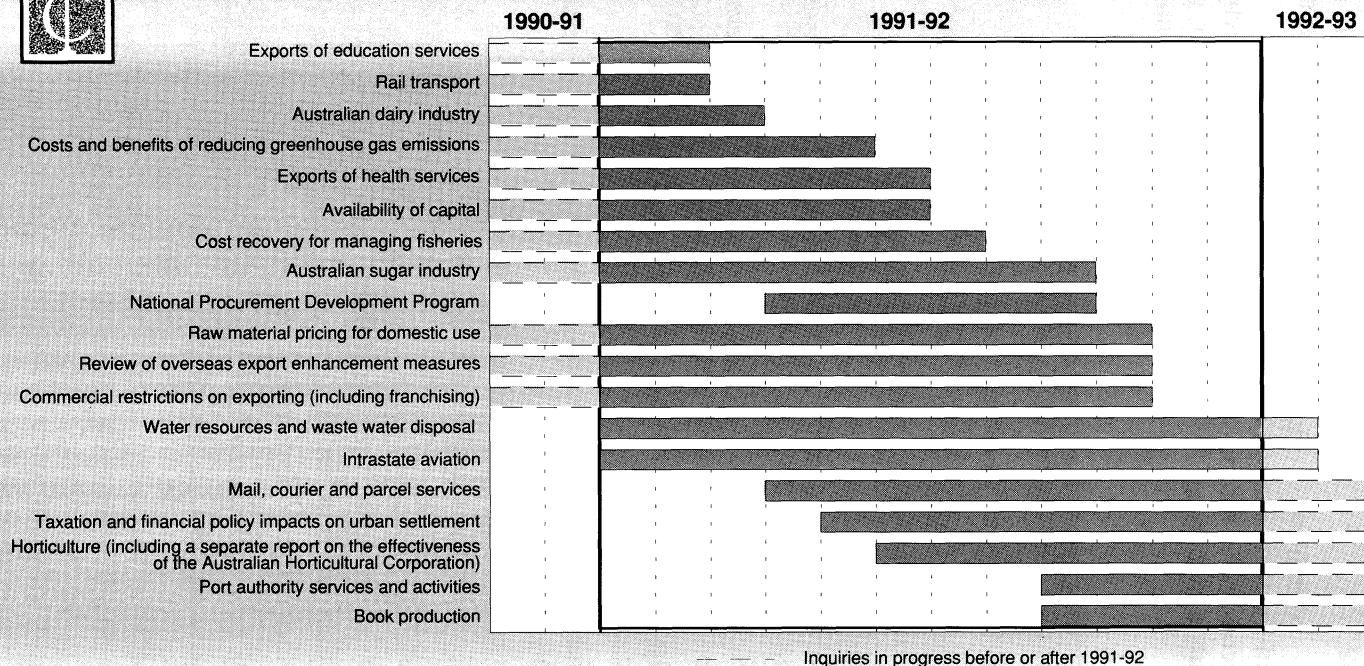
The Commission had a challenging inquiry load during 1991–92. At the beginning of the year, 11 inquiries were on hand. Eight new references were received and 13 reports were completed during the year, and 7 references were on hand at the end of the year (Figure 4.1).

On 20 August 1991, the Treasurer announced the Commission's work program for 1991 to 1993. Details of the inquiries announced and those since received are provided in Box 4.1.

In addition, the Commission received a reference on port auth-



Figure 4.1: The Commission's inquiry program



Note: An Inquiry commences when its Terms of Reference are received and is completed when the final report is signed.

ority services and activities in March 1992.

Inquiries completed during 1991-92 addressed many issues in microeconomic reform and industry policy including:

- improving the performance of Commonwealth and State government business enterprises;
- integrating environmental and conservation goals into economic policy making;

Box 4.1: Announced work program through to 1993

References to be sent in 1991 and 1992:

- mail, courier and parcel services
- national procurement development program
- implications for Australia of firms locating offshore (*)
- land use planning (since entitled taxation and financial policy impacts on urban settlement)
- horticulture (including an interim report on the effectiveness of the Australian Horticultural Corporation)
- regional impediments to industry restructuring (*)
- book bounty
- end-use by-laws for chemicals, plastics and inputs to paper and printing (*)
- urban public transport including rail (*)
- national industry extension service (*)
- meat processing (*)
- grants for industry research and development (*)
- workers compensation (*)
- competition in the professions (*)
- provision of public housing (*)

References to be sent in 1993:

- tobacco (*)
- long term agreements (*)

(*) references not received as at 30 June 1992

- aspects of taxation policy, labour-market arrangements, commercialising research and the efficiency of capital markets;
- impediments to the efficient export of health and education services and the implications for the provision of these services to Australians;
- industry assistance, marketing and regulatory issues, including assistance provided by foreign governments to their exporters.

The Commission has moved well beyond inquiries which focussed on tariffs and small parts of manufacturing. An indication of the range of issues covered recently is provided in Boxes 4.2 to 4.5. Further details of the inquiry program are in Appendix M.

The Commission uses a range of techniques to gather information (Appendix L):

- Commissioners and staff travel extensively to discuss inquiry issues with inter-

Box 4.2: Rail transport (Report no. 13)

Australian railways have failed to keep pace with international best practice. This has penalised industries, such as mining, and taxpayers generally. (In the case of passenger trains, this burden is equivalent to 7 to 8 per cent of income tax collections).

The Commission proposed a variety of measures to produce a more competitive environment in the rail systems and to increase the efficiency and equity of charging practices.

More cost-effective rail services would result if an arm's-length relationship were developed between rail managers and government. Unprofitable services would be discontinued. Where governments wished to pursue social objectives, these should be explicitly specified and funded under contract.

The Commission found that additional cost savings could be made by allowing competition from the private sector. Although no gains are likely to be achieved from the duplication of tracks and other fixed assets, competition could occur by allowing the private sector to run trains on public lines (or even build and operate its own lines), as well as being allowed to tender for the provision and maintenance of rollingstock.

**Box 4.3: Costs and benefits of reducing greenhouse gas emissions
(Report no. 15)**

Atmospheric warming is a potentially serious and wide-ranging environmental problem. An international meeting in Toronto in 1988 suggested that in an effort to redress the problem, emissions be reduced globally to 80 per cent of 1988 levels by 2005.

Australia adopted this as an "interim planning target", subject to an evaluation of net economic impacts, and on the participation of major greenhouse gas producing countries.

There are clearly costs involved in greenhouse gas reducing strategies. Commission modelling indicates that the adoption of the Toronto target for carbon dioxide emissions would lead to a decline in Australia's national income in the vicinity of 1.5 per cent.

The consequent benefits of emissions reductions are more difficult to quantify. Even the degree to which possible global warming is occurring is uncertain and prediction hazardous and imprecise. But where scientific orthodoxy is accepted, there remains uncertainty as to the impact of global warming, especially at a regional level; and given known impacts, the assigning of monetary values would be extremely difficult.

The Commission drew a number of conclusions from examining the costs of meeting reduction targets in its review. These were that:

- costs would rise steeply with any deeper cut in emissions;
- costs would be higher if emission reductions were achieved through regulatory controls rather than market-based measures such as taxes and tradeable emission permits;
- adjustment costs are likely to be important and would be concentrated in particular industries and regions;
- reducing carbon dioxide emissions would be cheaper than reducing methane emissions; and
- technological changes such as the development of cost-effective renewable energy sources would lessen costs.

The Commission also concluded that unilateral (or small group) action would be ill-advised, since the costs would be comparable to those from global action, with negligible potential for climate-related benefits.

-
- ested parties and to conduct public hearings.
 - Associate Commissioners are appointed to sit on particular inquiries.
 - Staff are seconded and consultancies arranged where necessary to supplement available in-house expertise.
 - The Commission also holds workshops so its analysis
- can benefit from expert input. For example, 75 people from State and Commonwealth governments, conservation groups, trade unions, universities and industry attended the workshop on economic modelling of greenhouse abatement strategies.

**Box 4.4: Review of overseas export enhancement measures
(Report no. 22)**

There have been calls for Australia to emulate the export enhancement schemes used by other countries.

Export enhancement measures, while undoubtedly beneficial to those firms receiving assistance, impose a direct cost on the community through increased taxation requirements. Subsidies also attract resources away from more productive (unsubsidised) endeavours.

Much effort in recent years in international forums such as the GATT has been devoted to the restriction of export enhancement measures which distort and restrict trade. This and other factors have led to a decline in export enhancement measures as a feature of world trade, except in the area of agricultural trade. The general trend is particularly noticeable in the case of the fast-growing economies of the Asia-Pacific region.

Australia's interests will be best served by seeking to promote the processes of the GATT and other multilateral bodies in reducing export enhancements and other impediments to world trade.

The Commission's review confirmed that Australia has nothing to gain from the selective targeting of exports. However, gains could be made through lowering as much as possible the tax burden on industry and fostering a stronger export culture throughout the community, in the interests of achieving greater international competitiveness.

Evaluation of inquiry performance

The Commission's 1991 corporate plan committed it to evaluate its inquiry performance. To gauge

the effectiveness of its inquiries, reaction to reports would be monitored and, for selected reports released in the previous

Box 4.5: The National Procurement Development Program (Report no. 20)

The National Procurement Development Program (NPDP) seeks to facilitate a greater level of collaboration between government agencies and industry in the trialling of new products for future government procurement by providing non-repayable subsidies to local suppliers for collaborative projects with government.

Such subsidies are justified in circumstances where the total Australian benefit of R&D development exceeds that accruing to the project partners and the efficiency losses and scope for government failure are within acceptable limits. However, the Commission found that the NPDP did not rigorously test for these circumstances. In fact, the program was being used to sponsor projects on the grounds that they appeared commercially viable if taxpayers funded a share of the costs. It was also clear that some applicants were using the NPDP as a cheap source of funds for projects — some of which could have proceeded without assistance.

The Commission's review highlighted a number of problems relating to project accountability and evaluation of the scheme:

- Many of the projects funded had received assistance (in earlier stages) under other R&D assistance programs, making attribution of results to the program difficult, and clouding any assessment of the assistance given.
- There was a tendency to measure the success of a program on the commercial successes of a few of the projects sponsored, and by comparing gross sales with the cost of support from the NPDP program. Such a comparison does not address whether, overall, the program increases value added relative to other investments.
- More attention to objectives and design of the program is required. There is a danger of damaging Australia's competitiveness by encouraging subsidy dependence and weakening the capacity of markets to determine R&D priorities.

12 months, an assessment prepared of their impact on the reform process.

The Commission arranged a consultancy to canvass a cross-section of policy advisors and opinion leaders for their views on the effectiveness of those reports. The survey highlights the difficulties of assessing the Commission's performance when views on its work are so diverse. The consultant's report is available from the Commission and is summarised in Appendix N.

General reporting and research

Its annual report is a major vehicle for the Commission's reporting on the performance of the Australian economy and the conclusions drawn from its research program. The Commission also published information and other papers as part of its general reporting program (Appendix L). Papers and speeches for conferences, workshops and seminars were also prepared by Commissioners and staff.

The Commission's corporate plan identified research priorities for the period to 1994. They are:

- economic adjustment – successes and failures;
- labour market issues;

- environment and natural resources;
- competition policy; and
- ways of improving the performance of the public sector.

Assistance measurement and evaluation

Updated estimates of assistance to agriculture and mining are in Appendix K. Assistance estimates for manufacturing and agriculture are being rebased and the methodology, procedures and data sources reviewed. This has meant that updated manufacturing assistance estimates cannot be published until 1993. An aggregated version of previously published estimates of manufacturing assistance for 1990–91 is in Appendix K.

Estimates of assistance are supplemented by information on developments in industry-specific arrangements, alternative assistance measures and anti-dumping activity (Appendixes H, I and J respectively).

Modelling

An important element of the Commission's analytical capacity is the ORANI model of the Australian economy. This model is used to illustrate the effects of proposed changes to government

assistance or other policy initiatives, for example, strategies to reduce greenhouse gas emissions. The Commission undertook its own enhancements of the ORANI framework, including a facility to model a much wider range of industry production structures and a prototype treatment of domestic and foreign-owned assets.

The Commonwealth Government (through the Commission) continues to support the development of ORANI by the IMPACT Project Research Centre at Monash University and also supports the development of a new model at the Centre of Policy Studies at Monash. The MONASH model is designed to capture the evolution of the economy over time and the effect of economic decisions on the environment. Such a facility will enhance the ability of the Commission, and users generally, to assess the effects of policy changes — including potential social and environmental consequences.

During the year, the Commission completed a review of the IMPACT Project drawing on a survey of views of major users, both within Commonwealth agencies and outside. The evaluation recommended Commonwealth support for the IMPACT Project continue at current levels and a further review be undertaken of the Project's contribution to economic

research in conjunction with an assessment of the MONASH model in 1994.

With the sponsorship of the Department of Foreign Affairs and Trade, the Commission continued the development of a model to analyse the economic effects of alternative trade-liberalisation scenarios. The SALTER world trade model is an adaptation of OECD work, extended to reflect Australia's pattern of trade.

The WEDGE model was developed by the Commission to capture the effects of international policy actions to reduce greenhouse gas emissions. It was useful in estimating the implications for Australia of various reduction scenarios particularly because of its modelling of Australia's regional trading patterns.

National performance monitoring

The July 1991 Special Premiers' Conference established a steering committee to monitor and report on the performance of government trading enterprises. The Commission provides the secretariat and contributes a research capability to the committee.

The national performance monitoring system is initially concentrating on a core of the larger and more significant enterprises of each State, Territory and the Commonwealth. Enterprises at

the state and territory level include those involved in energy, water, urban public transport, railways and ports. Some major Commonwealth enterprises are also included. This core group of about 50 enterprises is to be expanded progressively once the system is operational. The initial focus of the monitoring is on accounting and non-financial measures, but with economic indicators to be included at a later stage.

In its first year, the main emphasis has been on developing suitable indicators and agreeing on a consistent approach to measurement. As part of this, a trial set of indicators for 1990-91 has been compiled by the Secretariat, using data supplied by governments. Drawing on the experience gained from this trial, performance indicators for the five years to 1991-92 will shortly be sought and collated.

In addition the Secretariat has undertaken a number of case studies of total factor productivity, in conjunction with participating enterprises. These were published by the Committee in July 1992, along with other work on productivity prepared by the Commission (SCNPMGTE 1992).

The Commission is also continuing its involvement in calculating economic performance indicators for government busi-

ness enterprises, and updating previous work on total factor productivity indexes and economic rates of return.

Evaluation of research performance

In its corporate plan the Commission undertook to evaluate its research performance against agreed timetables, to assess the use of research in inquiries and the annual report and to seek the views of professional referees on completed projects.

Research projects have mostly been completed on time. They have been used extensively in inquiries and in this annual report. Some research is being considered for publication in other outlets. A review of these projects is being undertaken by the Commission's research committee as part of the process of developing a research plan for 1993.

To evaluate this annual report, the Commission proposes to monitor media response, community reaction and evidence of its impact on decision makers. The information collected will be publicly available.

Office of Regulation Review

The Office of Regulation Review (ORR) is a unit within the Commission responsible for:

- examining and advising the Government on proposed changes to regulation; and
- preparing public information papers and submissions on overall developments in regulation and on particular aspects of regulation.

The Commonwealth Government's policy is that regulatory intervention in the economy will be supported only when it is justifiable on grounds of efficiency and/or equity. To meet this test, a well-defined social or economic problem must exist, other solutions must have been already considered (for example, private or non-regulatory methods), and the expected benefits of regulation must outweigh its costs. Efficiency in this respect refers to the overall impact on the community, not simply the costs of government administration.

Procedures have been established to ensure that information on the expected costs and benefits of regulatory proposals is made available to Cabinet. The Minister for Science and Technology and Minister Assisting the Treasurer has responsibility for matters relating to the ORR.

During 1991-92, the ORR advised the Structural Adjustment Committee of Cabinet on all important new regulatory proposals on its agenda. These included product liability arrangements, the regulation of telecommunications and environmental matters. It also advised the Commonwealth-State working group on the development of national arrangements for mutual recognition of regulation. Further, it continued to assist the Department of Industry, Technology and Commerce in implementing the Government's decisions on the House of Representatives' report on small business in Australia (Beddall Report).

The ORR co-operated with state deregulation units in analysis of state regulation and finalised the provision of information on Commonwealth regulatory requirements to state 'one-stop' business licensing centres in New South Wales, Victoria and Queensland.

Relations with other agencies

The Commission continued to have contact with government departments and other economic research agencies, especially the Australian Bureau of Agricultural and Resource Economics, the Bureau of Industry Economics, the Bureau of Transport and

Communications Economics and the Trade Practices Commission. In a number of cases, departments and agencies — including those of state and territory governments, and local councils — made submissions and provided data and research support for inquiries.

Management of the Commission

On 13 May 1992, the Treasurer announced the relocation of the Commission and staff from Canberra to Melbourne. Arrangements are currently being made for a progressive transition over the period 1992 to 1995. Three or four inquiry teams are scheduled to be operating from Melbourne from the end of 1992. Due to its close links to Cabinet processes, the Office of Regulation Review will continue to be located in Canberra.

The Commission is in the process of obtaining temporary office accommodation in Melbourne for its initial presence. A firm of property consultants has been engaged to help identify and secure suitable longer-term office accommodation. Management has consulted and will continue to consult with staff and unions on the relocation.

Mr S T Sedgwick commenced duty as Chairman of the Com-

mission on 5 August 1991 and left on 20 January 1992 to take up appointment as Acting Secretary to the Department of Finance. A new Chairperson, Mr Bill Scales, took up his appointment in June 1992.

Evaluation of management performance

The Commission assesses the effectiveness of management by reviewing the performance of different areas within the Commission on a rotating basis and surveying staff to determine how well they believe they are being managed, and to identify management problems that need to be addressed.

In 1991-92 a second survey of staff was commissioned to judge improvements in the management of the Commission. The main conclusions supported by the survey are:

- practically all staff groups rated the Commission a better place to work in 1992 than in 1990;
- staff perceived management skills to have improved, though there was thought to be scope for further improvement; and
- more than half the staff found the Commission's performance appraisal system useful.

As part of its evaluation program, there was a review of corporate services functions. Independent consultants found the Commission to have already achieved significant savings in the delivery of corporate services, current staffing resources were generally appropriate to its needs, and there was limited scope for further reductions.

The Office of Regulation Review is to be evaluated in 1992-93.

Administrative matters

Appendix L contains further information on the administration of the Commission, including:

- summary financial information;
- structure;
- staffing; and
- Commission appointments.

The Commission records its appreciation to staff for their continued efforts during a difficult year.

Performance of the economy

- A** **Changes in the industrial composition of the
Australian economy**
- B** **Recent changes in the industrial composition of
Australia's trade**
- C** **Australia's productivity record**

A CHANGES IN THE INDUSTRIAL COMPOSITION OF THE ECONOMY

All industry sectors have grown in real terms over the last 15 years. Some — such as communication — have performed consistently well, while others — such as manufacturing — have grown more slowly than the average for all industries. Reflecting this lower growth rate, the share of gross domestic product accounted for by manufacturing has declined by around 4 percentage points over the period. Agriculture's share has also decreased by around 1 percentage point. These changes have been counterbalanced by the increased share accounted for by the services sector. In this respect the experience of Australia has been similar to many other OECD countries. These broad trends mask significant variations in the performance of individual industries — both over time and geographically (ie at the state/territory level). Such variability reflects a wide range of industry- and region-specific factors.

The purpose of this appendix is to examine three features of the evolving industrial structure of the Australian economy, namely:

- How much has it grown and changed over time?
- Is there much variation across states and territories in industry structure? and
- Is Australia's industry structure markedly different from other developed economies?

The main sources for such analyses are data on gross domestic product (GDP) by industry — for the economy as a whole and for the states and territories — compiled by the Australian Bureau of Statistics (ABS); and OECD compilations for member countries in making international comparisons with other developed economies.

Australia's evolving industry structure

Table A1 presents details of the industrial structure of the economy, in terms of individual industry contributions to gross product, at five-yearly intervals since 1975-76 (see also Figure A1 which depicts the economy's structure as it has evolved over the period).

Over the 15-year period, the economy grew in real (ie inflation-adjusted) terms by 56 per cent (or 3 per cent per annum, on average). The average annual growth rate was similar in both the 1980s and the latter half of the 1970s.

All industry sectors¹ expanded in real terms over the period, but annual growth rates varied markedly — ranging from 1.3 per cent for Construction to 7.6 per cent for Communication. Reflecting these differences, Manufacturing's share of total GDP fell by around four percentage points to 17 per cent. Manufacturing performed consistently below average over each five-year period, along with Construction, and Wholesale and retail trade — while Communication consistently grew significantly faster than the average for all sectors, as did Electricity, gas and water, and Finance, property and business services. Other sectors exhibited greater variation in growth relative to the average, for example, Mining grew faster over the 1980s, but below average in the latter half of the 1970s.

Other below-average performers included Public administration and defence, Agriculture, forestry, fishing and hunting; and Recreation, personal and other services (Table A1).

These changes in the industrial structure of the economy reflect many influences, including:

- the effects of rising incomes and technological developments — both of which boosted Communication;
- changing demands and community standards — which encouraged growth of Community services but held back Public administration;
- financial deregulation and the boom in asset values — which encouraged the growth of Finance, property and business services;
- new mineral discoveries — which benefited Mining;

¹ Industry sectors are defined in terms of Divisions of ABS's Australian Standard Industry Classification (ABS 1985).

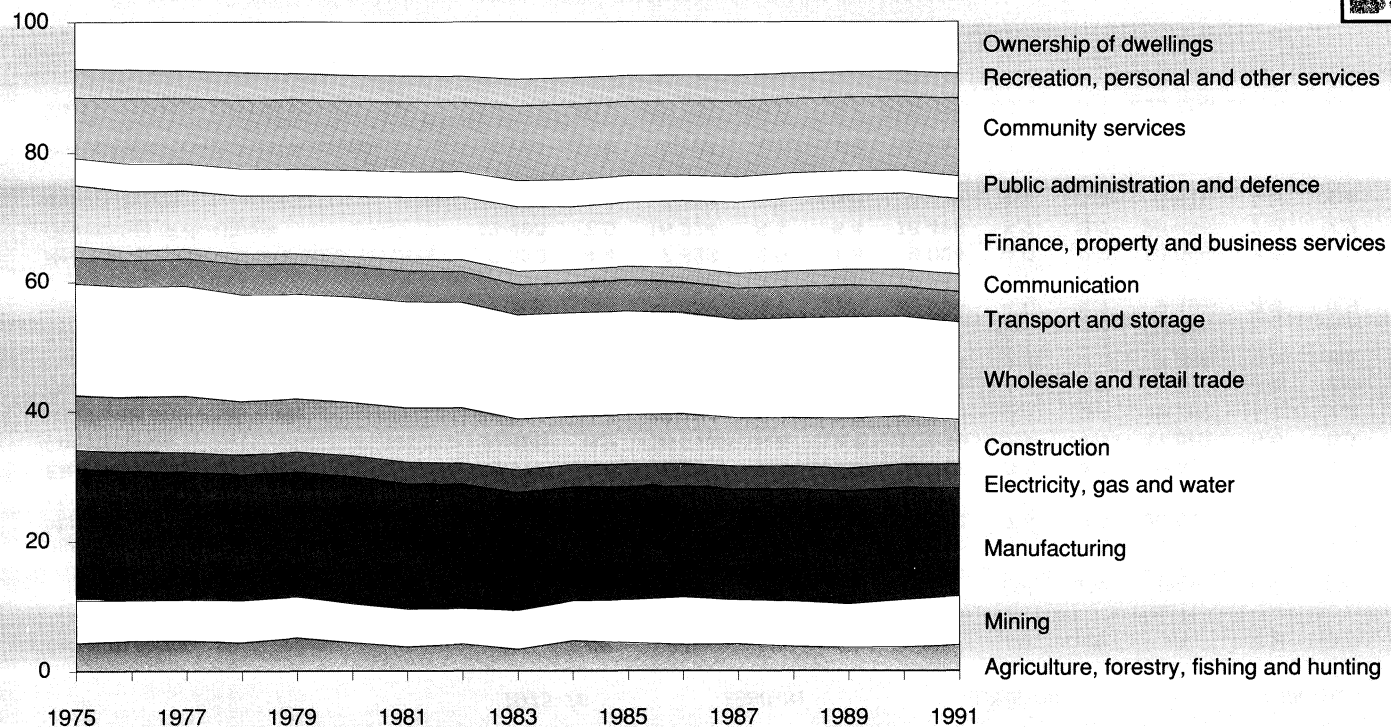
Table A1: Real GDP at market prices, by industry, 1975-76 to 1990-91
(\$ million in constant 1984-85 prices and per cent)

Industry sector	1975-76		1980-81			1985-86			1990-91			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	(\$m)	(%)	(\$m)	(%)	(%)	(\$m)	(%)	(%)	(\$m)	(%)	(%)	(%)
Agriculture, forestry, fishing and hunting	7 974	4.8	7 411	3.8	-1.5	9 408	4.2	4.9	10 516	4.0	2.3	1.9
Mining	10 615	6.4	11 516	5.9	1.6	16 672	7.4	7.7	20 040	7.7	3.7	4.3
Manufacturing	33 637	20.2	38 036	19.6	2.5	39 091	17.3	0.5	43 556	16.7	2.2	1.7
Electricity, gas and water	4 957	3.0	6 329	3.3	5.0	7 917	3.5	4.6	9 687	3.7	4.1	4.6
Construction	14 485	8.7	16 573	8.5	2.7	17 530	7.7	1.1	17 661	6.8	0.1	1.3
Wholesale and retail trade	28 911	17.3	32 184	16.6	2.2	35 638	15.8	2.1	39 787	15.3	2.2	2.2
Transport and storage	7 013	4.2	9 357	4.8	5.9	10 996	4.9	3.3	12 114	4.6	2.0	3.7
Communication	2 464	1.5	3 519	1.8	7.4	4 935	2.2	7.0	7 386	2.8	8.4	7.6
Finance, property and business services	15 663	9.4	18 851	9.7	3.8	23 664	10.5	4.7	30 401	11.7	5.1	4.5
Public administration and defence	7 304	4.4	7 880	4.1	1.5	9 006	4.0	2.7	9 401	3.6	0.9	1.7
Community services	17 092	10.3	21 101	10.9	4.3	26 250	11.6	4.5	31 596	12.1	3.8	4.2
Recreation, personal and other services	7 326	4.4	7 823	4.0	1.3	9 024	4.0	2.9	10 068	3.9	2.2	2.1
Ownership of dwellings	12 493	7.5	16 224	8.4	5.4	18 498	8.2	2.7	20 655	7.9	2.2	3.4
Import duties	1 736	1.0	2 352	1.2	6.3	3 039	1.3	5.3	3 840	1.5	4.8	5.4
less Imputed bank service charge	4 948	3.0	5 257	2.7	1.2	5 459	2.4	0.8	6 110	2.3	2.3	1.4
Totals/average annual growth rate	166 722	100.0	193 899	100.0	3.1	226 208	100.0	3.1	260 598	100.0	2.9	3.0

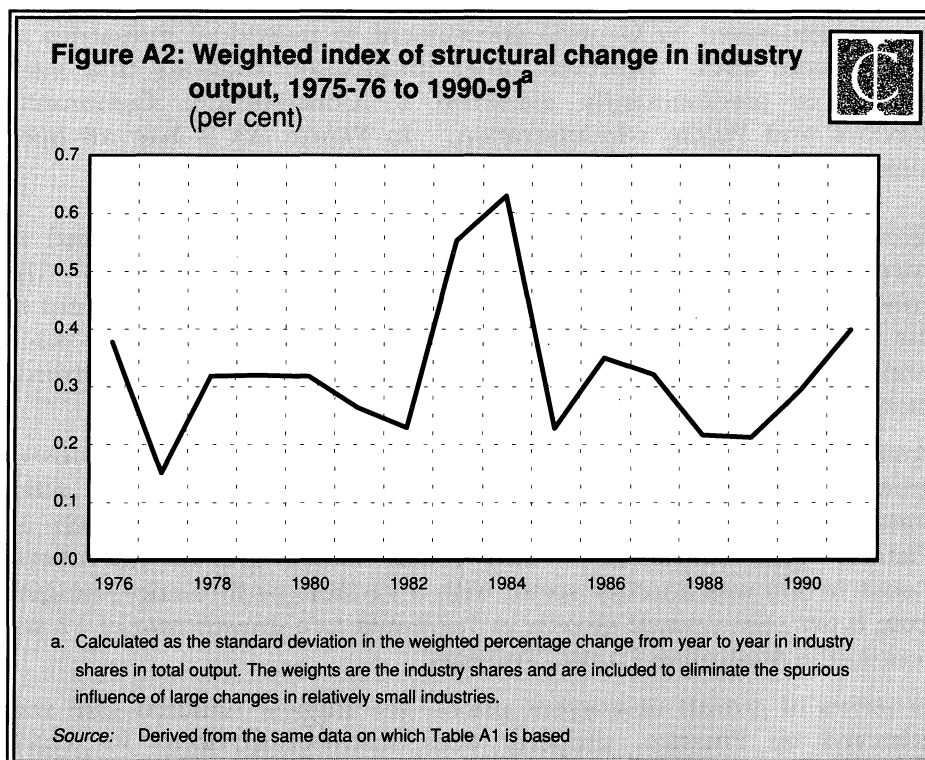
Notes: Figures in columns (1), (3), (6) and (9) are constant price estimates of GDP (1984-85 prices) for the year indicated.
Figures in columns (2), (4), (7) and (10) show proportions of total GDP accounted for by each industry sector in that particular year.
Figures in columns (5), (8) and (11) show average annual growth rates over the five-year period ending in the year indicated.
Figures in column (12) show average annual growth rates over the fifteen-year period 1975-76 to 1990-91.

Source: ABS, *Australian National Accounts: National Income and Expenditure* (Catalogue no. 5204.0)

Figure A1: GDP by industry, 1974-75 to 1990-91
(per cent)



Source: Derived from the same data on which Table A1 is based



- increased import competition — which affected Manufacturing; and
- increased specialisation — which encouraged growth in services, as more inputs were purchased from this sector, rather than being produced in house.

Figure A2 shows the pace of structural change over the last fifteen years, based on changes in industry shares in total output. The more industry growth rates diverge, the higher is the index value.

It is striking that the recession in the early 1980s and the recovery following brought substantial structural change. An increase in structural change is also evident as the 1990s recession took effect.

Regional differences

Table A2 gives details of GDP by industry at factor cost for each state and territory in 1980-81 and 1990-91 (see also Figure A3). The data are only available at current prices, and the ABS is unable to allocate

income generated by General government to individual industries at the regional level. However, other information suggests that such income is predominantly classified to Construction, Community services and Public administration. In Figure A3 it has all been included with the latter two sectors.

Over the last decade, Australian GDP at factor cost measured in current prices increased by some 10.3 per cent per annum.² The growth rate varied from 8.7 per cent in Tasmania to 12.2 per cent in the Northern Territory over this period. As with many such comparisons, the performance of New South Wales closely mirrored that of Australia as a whole.

Each region, however, exhibited significant variations in industry growth around the regional average. Mining exhibited the most variability, with below-average growth in some states – such as Victoria and Tasmania – and much faster growth in others. Construction was another sector with a variable performance, ranging from 6 per cent annual growth in Tasmania to a growth rate of 17 per cent in the Australian Capital Territory.

In terms of growth at current prices, the highest national rate was achieved by Finance, property and business services³ — which expanded at an annual rate of 15 per cent. This sector did better in each state (if sectors that grew from a low base are ignored), except for Mining in Northern Territory. Recreation, personal and other services and Ownership of dwellings also grew at above the average rate in all regions other than the Northern Territory. The growth in Agriculture, forestry, fishing and hunting was below average in each region.

The general picture to emerge from Table A2 is that there are significant variations in overall performance across the states and territories of Australia, and much greater variability in growth for industries across those regions. These two factors are inter-related. Industry structure helps to explain overall growth — but the growth of industries also depends on how well the region in which they are located performs.

2 Real GDP at market prices (ie including indirect taxes) only increased by around 3 per cent per annum over this period.

3 The Communication sector is not identified separately at the regional level.

Table A2: GDP at factor cost, by industry and region, 1980-81 and 1990-91
(\$ million and per cent)

	New South Wales				Victoria				Queensland			
	1980-81	1990-91	(3)	(4)	1980-81	1990-91	(7)	(8)	1980-81	1990-91	(11)	(12)
	(1)	(2)			(5)	(6)			(9)	(10)		
	(\$m)	(\$m)	(%)	(%)	(\$m)	(\$m)	(%)	(%)	(\$m)	(\$m)	(%)	(%)
Agriculture, forestry, fishing and hunting	1 662	3 220	2.8	6.8	1 698	2 361	2.7	3.4	1 459	2 731	5.4	6.5
Mining	1 093	2 961	2.5	10.5	1 538	3 062	3.5	7.1	1 164	3 794	7.5	12.5
Manufacturing	9 340	17 743	15.2	6.6	8 218	17 088	19.4	7.6	2 658	6 113	12.0	8.7
Electricity, gas and water	1 546	3 978	3.4	9.9	1 083	3 860	4.4	13.6	605	1 890	3.7	12.1
Construction	3 568	9 132	7.8	9.9	2 359	6 495	7.4	10.7	1 691	4 782	9.4	11.0
Wholesale and retail trade	6 308	17 158	14.7	10.5	4 947	12 800	14.5	10.0	2 663	7 327	14.4	10.7
Transport, storage and communication	3 903	10 536	9.0	10.4	2 655	6 576	7.5	9.5	1 427	4 549	9.0	12.3
Finance, property and business services	3 590	13 504	11.6	14.2	2 192	9 342	10.6	15.6	1 180	4 082	8.0	13.2
Public admin, defence and community services	6 522	16 879	14.5	10.0	5 196	14 000	15.9	10.4	2 724	7 426	14.6	10.5
Recreation, personal and other services	1 836	5 852	5.0	12.3	1 036	2 859	3.2	10.7	716	2 478	4.9	13.2
Ownership of dwellings	4 191	13 489	11.6	12.4	2 685	8 112	9.2	11.7	1 327	4 441	8.7	12.8
General government ^b	982	2 152	1.8	8.2	786	1 625	1.8	7.5	526	1 201	2.4	8.6
Totals/average annual growth rates	44 541	116 604	100.0	10.1	34 393	88 180	100.0	9.9	18 140	50 814	100.0	10.8

Table A2: GDP at factor cost, by industry and region, 1980-81 and 1990-91
(cont) (\$ million and per cent)

	South Australia				Western Australia				Tasmania			
	1980-81	1990-91	(3)	(4)	1980-81	1990-91	(7)	(8)	1980-81	1990-91	(11)	(12)
	(1)	(2)			(5)	(6)			(9)	(10)		
	(\$m)	(\$m)	(%)	(%)	(\$m)	(\$m)	(%)	(%)	(\$m)	(\$m)	(%)	(%)
Agriculture, forestry, fishing and hunting	823	834	3.3	0.1	1 058	1 149	3.4	0.8	198	423	5.7	7.9
Mining	82	755	3.0	24.9	1 295	5 030	15.0	14.5	159	349	4.7	8.2
Manufacturing	1 904	4 746	18.8	9.6	1 704	4 006	12.0	8.9	631	1 328	17.9	7.7
Electricity, gas and water	287	699	2.8	9.3	289	1 134	3.4	14.6	153	364	4.9	9.1
Construction	713	2 003	7.9	10.9	971	2 884	8.6	11.5	263	461	6.2	5.8
Wholesale and retail trade	1 531	3 571	14.2	8.8	1 510	4 118	12.3	10.6	437	1 004	13.5	8.7
Transport, storage and communication	745	1 975	7.8	10.2	971	2 836	8.5	11.3	247	580	7.8	8.9
Finance, property and business services	559	1 972	7.8	13.4	715	3 304	9.9	16.5	134	413	5.6	11.9
Public admin, defence and community services	1 750	4 725	18.7	10.4	1 673	4 709	14.1	10.9	577	1 426	19.2	9.5
Recreation, personal and other services	364	1 055	4.2	11.2	342	1 228	3.7	13.6	135	352	4.7	10.1
Ownership of dwellings	709	2 346	9.3	12.7	687	2 300	6.9	12.8	173	497	6.7	11.1
General government ^b	253	533	2.1	7.7	334	726	2.2	8.1	112	242	3.3	8.0
Totals/average annual growth rates	9 720	25 214	100.0	10.0	11 549	33 424	100.0	11.2	3 219	7 439	100.0	8.7

Table A2: GDP at factor cost, by industry and region, 1980-81 and 1990-91
(cont) (\$ million and per cent)

	Northern Territory ^a				Australian Capital Territory				Australia			
	1980-81	1990-91	(3)	(4)	1980-81	1990-91	(7)	(8)	1980-81	1990-91	(11)	(12)
	(1)	(2)			(5)	(6)			(9)	(10)		
	(\$m)	(\$m)	(%)	(%)	(\$m)	(\$m)	(%)	(%)	(\$m)	(\$m)	(%)	(%)
Agriculture, forestry, fishing and hunting	48	135	3.5	10.9	9	21	0.3	8.8	6 955	10 874	3.3	4.6
Mining	196	852	21.8	15.8	2	9	0.1	16.2	5 529	16 812	5.1	11.8
Manufacturing	67	166	4.2	9.5	82	159	2.2	6.8	24 604	51 349	15.4	7.6
Electricity, gas and water	1	123	3.1	61.8	15	128	1.8	23.9	3 979	12 176	3.7	11.8
Construction	149	413	10.6	10.7	113	549	7.6	17.1	9 827	26 719	8.0	10.5
Wholesale and retail trade	123	471	12.0	14.4	184	694	9.6	14.2	17 703	47 143	14.2	10.3
Transport, storage and communication	93	234	6.0	9.7	105	377	5.2	13.6	10 146	27 663	8.3	10.6
Finance, property and business services	59	250	6.4	15.5	124	700	9.7	18.9	8 553	33 567	10.1	14.7
Public admin, defence and community services	372	868	22.2	8.8	1 312	3 090	42.9	8.9	20 126	53 123	16.0	10.2
Recreation, personal and other services	47	153	3.9	12.5	64	322	4.5	17.5	4 540	14 299	4.3	12.2
Ownership of dwellings	62	172	4.4	10.7	166	671	9.3	15.0	10 000	32 028	9.6	12.3
General government ^b	19	72	1.8	14.3	163	483	6.7	11.5	3 175	7 034	2.1	8.3
Totals/average annual growth rates	1 236	3 909	100.0	12.2	2 339	7 203	100.0	11.9	125 137	332 787	100.0	10.3

a Only gross operating surplus data available by industry for the Northern Territory in 1980-81. GDP estimated as residual.

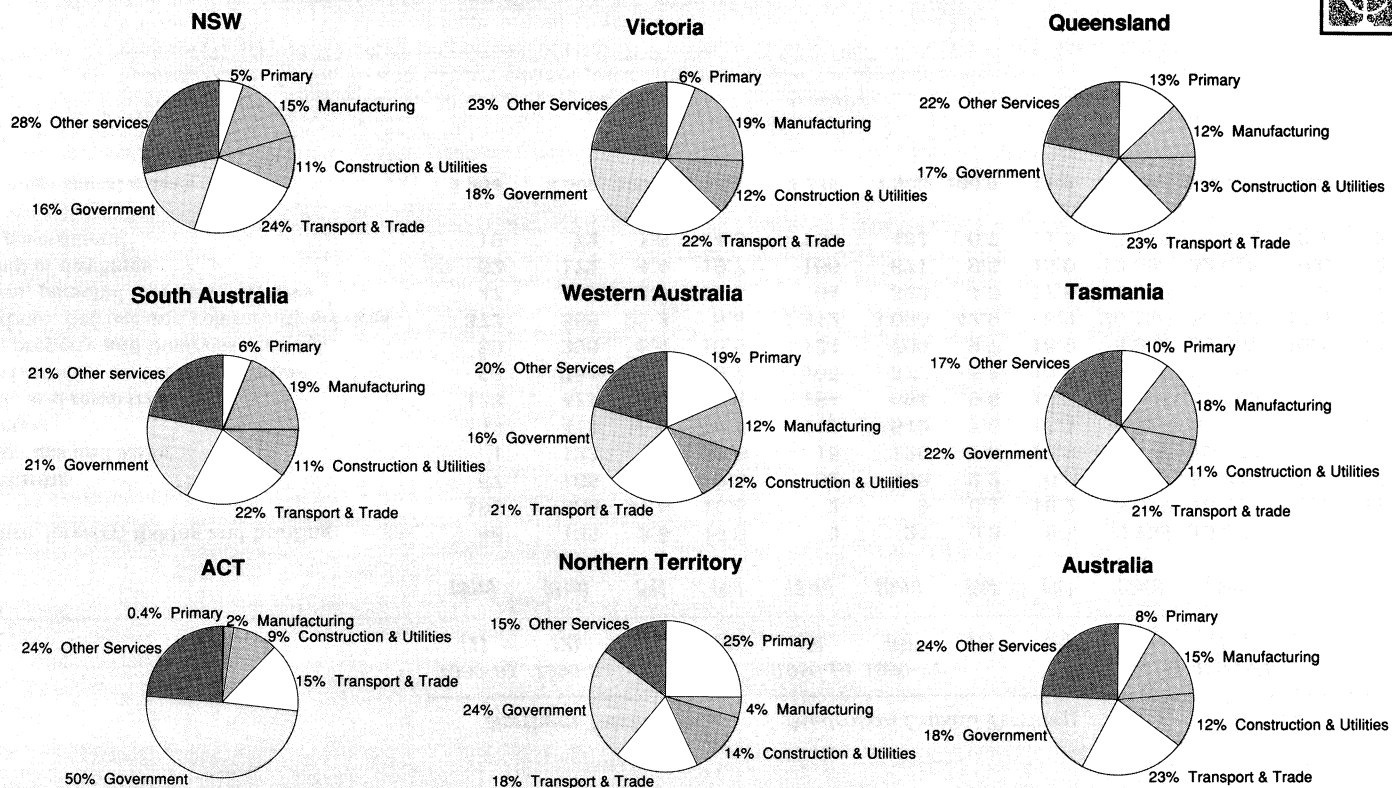
b State details for General government gross operating surplus by industry are not available.

Notes: Figures in columns (1), (2), (5), (6), (9) and (10) are current price estimates of GDP for the year indicated.

Figures in columns (3), (7) and (11) show proportions of total GDP accounted for by each industry sector based on data for 1990-91.

Figures in columns (4), (8) and (12) show average annual growth rates over the ten-year period 1980-81 to 1990-91.

Source: ABS, *Australian National Accounts: State Accounts* (Catalogue no. 5220.0)

Figure A3: GDP at factor cost, by sector and region, 1990-91

Source: Derived from data presented in Table A2

Figure A3 depicts the broad sectoral structure of each state and territory. Except for the Utilities/construction group, for each of the broad groups of activities that are distinguished in the figure there are large regional variations in the industry composition of output. This still applies if the two territories (which have atypical industry structures) are excluded from the comparison. For example, Western Australia is most oriented to Primary production, while Victoria and South Australia are the most reliant on Manufacturing for their GDP; Government activities have a disproportionate share in Tasmania and South Australia, while the share of Other services (which include finance, recreation and ownership of dwellings) in GDP is largest in New South Wales.

International comparisons of industrial structures

It is not easy to make international comparisons of industrial structures because of differences in concepts, definitions, availability and timing of data on GDP by industry across countries. Nevertheless the OECD does attempt to do so. Table A3 provides some details across the 24 OECD member states of broad sectoral shares of GDP in 1980 and 1990.

The table should strictly include numerous footnotes to indicate the measurement differences across countries. For this reason it is unwise to do more than draw out the broad picture. The first point to note is that the OECD uses a wider definition of 'Industry' — it includes Mining, the Utilities and Construction, besides Manufacturing. While the 5 percentage point decline in Industry's share of GDP in Australia over the last decade is noteworthy, similar declines are apparent in other countries — including Finland, France, Italy, New Zealand, the United Kingdom and the United States. Many other countries exhibited declines in the Industry share of GDP of around 3 percentage points over the period. Similarly, most countries recorded a declining share of activity for Agriculture of around 1 or 2 percentage points. In all countries (for which data were available) the share of Services in GDP increased. On the basis of simple averages, the share of Services in GDP increased by around 4 percentage points.

In a few countries – including Japan and Sweden – the Industry share of GDP did not change significantly over the decade.

There are significant variations across industry in the broad sectoral shares of GDP. Agriculture's share varied from 1 per cent in the

Table A3: International comparisons of the sectoral composition of GDP, 1980 and 1990
(per cent)

	<i>Agriculture</i>		<i>Industry</i>		<i>Services total</i>		<i>Approximate breakdown of Services total</i>									
							<i>Wholesale</i>		<i>Transport</i>		<i>Finance</i>		<i>Community</i>		<i>Government</i>	
	1980	1990	1980	1990	1980	1990	1980	1990	1980	1990	1980	1990	1980	1990	1980	1990
Australia	5.3	4.1	36.5	31.0	58.3	65.0	15.5	18.2	7.1	7.4	17.3	21.5	14.8	15.6	4.6	3.6
Austria	4.5	3.1	39.6	36.1	56.0	60.8	16.8	16.4	5.8	6.2	12.0	16.7	4.0	4.7	13.0	13.1
Belgium	2.1	2.1	34.1	31.0	63.8	67.0	15.8	16.9	7.8	7.4	4.3	6.1	16.6	20.5	14.0	11.5
Canada	3.8	2.9	33.0	30.0	63.2	67.1	12.5	12.6	6.4	6.1	15.6	17.4	6.6	7.5	14.0	13.7
Denmark	4.8	3.9	25.0	24.4	70.2	71.7	12.1	11.6	6.9	7.7	14.0	16.7	5.0	5.3	19.4	19.2
Finland	8.7	5.4	35.3	29.9	56.0	64.7	10.5	9.8	7.1	7.2	12.5	16.8	4.8	6.0	13.1	15.6
France	4.2	3.4	33.7	28.6	62.0	68.0	14.1	15.4	5.8	5.8	16.8	22.2	4.3	5.6	16.0	15.6
Germany	2.1	1.7	42.7	39.3	55.2	59.0	10.7	9.8	5.8	5.6	10.3	12.4	12.9	17.3	11.7	10.7
Greece	15.8	14.4	27.7	24.3	56.5	61.3	11.5	11.4	6.9	6.9	7.7	7.6	10.8	12.7	8.6	10.0
Iceland	10.1	9.7	25.7	24.7	64.2	65.7	8.0	8.9	5.9	5.6	12.0	14.3	4.2	6.1	10.7	11.9
Ireland	10.6	9.6	34.0	32.6	55.4	57.8	11.5	11.1	6.1	5.7	4.9	5.7	11.9	12.4	16.4	14.5
Italy	5.8	3.1	39.0	33.0	55.2	63.8	18.1	18.7	5.2	5.8	19.2	24.5	0.8	0.9	11.0	12.8
Japan	3.7	2.6	41.9	41.5	54.4	55.9	15.3	12.7	6.2	6.6	14.6	16.9	13.5	17.3	8.5	7.8
Luxembourg	2.6	2.1	38.7	36.8	58.7	61.0	16.7	15.9	5.4	6.3	10.9	13.6	15.7	15.5	12.9	12.6
Netherlands	3.5	4.2	32.8	31.5	63.7	64.2	12.9	13.3	6.3	6.4	13.9	17.2	11.5	11.0	13.9	10.8
New Zealand	10.8	8.6	31.3	26.7	57.9	64.7	19.1	15.4	8.0	8.1	14.0	22.2	4.8	4.1	13.5	11.8
Norway	3.8	2.9	39.6	36.3	56.5	60.8	11.7	11.3	9.4	9.2	9.9	13.1	4.4	4.9	13.6	15.8
Portugal	10.3	6.2	40.2	38.1	49.5	55.7	21.7	19.6	5.5	5.8	10.5	11.8	3.5	6.7	11.5	9.7
Spain	7.1	5.5	38.6	35.2	54.3	59.3	18.2	20.2	5.8	5.5	13.2	16.8	8.5	4.8	10.3	12.2
Sweden	3.4	2.9	30.8	30.5	65.8	66.7	10.5	10.5	6.2	5.8	14.2	18.2	4.4	4.8	22.3	19.5

Table A3: International comparisons of the sectoral composition of GDP, 1980 and 1990
(cont) (per cent)

	<i>Agriculture</i>		<i>Industry</i>		<i>Services total</i>		<i>Approximate breakdown of Services total</i>									
							<i>Wholesale</i>		<i>Transport</i>		<i>Finance</i>		<i>Community</i>		<i>Government</i>	
	1980	1990	1980	1990	1980	1990	1980	1990	1980	1990	1980	1990	1980	1990	1980	1990
Switzerland	na	3.6	na	35.5	na	60.9	na	19.3	na	6.5	na	16.2	na	10.4	na	11.4
Turkey	21.7	15.4	31.0	36.9	47.3	47.7	15.4	17.2	9.7	10.0	7.5	8.0	5.4	5.5	8.7	5.8
United Kingdom	1.8	1.3	36.6	30.0	61.6	68.7	11.1	12.1	6.2	5.9	15.8	20.8	5.3	6.9	13.4	12.6
United States	2.6	2.0	33.6	29.2	63.8	68.8	16.9	17.2	6.4	6.1	20.4	25.1	8.3	9.7	12.4	12.0
Average^a	6.5	5.0	34.8	32.2	58.7	62.8	14.2	15.0	6.6	6.9	12.7	16.6	7.9	9.4	12.8	12.8

na not available.

a Unweighted (simple) average of countries for which data are available.

Source: OECD National Accounts data, 1992 (various publications), including 'OECD in Figures', Supplement to *OECD Observer* No. 176, June/July 1992

United Kingdom to around 15 per cent in Greece and Turkey in 1990. The Industry share ranges from around 24 per cent in Denmark, Greece and Iceland to 41 per cent in Japan in 1990. In the same year, the GDP share for Services ranged from 48 per cent in Turkey to 72 per cent in Denmark. The sectoral shares for Australia in 1990 were similar to a simple average of the shares across all 24 OECD countries.

There is greater variation at a more disaggregated level within the Services sector. Australia is characterised by a relatively large role for both Financial and Community services and a relatively small government-provided services sector (narrowly defined as Public administration and defence). In the case of government-provided services, the share of GDP in Australia is much smaller than for other OECD countries.

B RECENT CHANGES IN THE INDUSTRIAL COMPOSITION OF AUSTRALIA'S TRADE

Throughout the 1980s and into the 1990s, Australia's merchandise exports have continued to be dominated by products of agricultural and mining industries, along with those of certain downstream manufacturing industries (such as aluminium and food processing). Over the same period, imports have also remained dominated by electronic equipment, motor vehicles and parts, machinery, and other manufactures. Expansions in the export shares of mining and mining-related manufacturing industries were largely matched by declines in the relative contribution to total exports of agriculture and agriculture-related manufacturing industries. Exports from the highly assisted textiles, clothing and footwear and passenger motor vehicle industries — as well as other manufacturing industries — grew rapidly during the 1980s, but from small bases. Their increased contributions to total exports remained modest, and were overshadowed by increases in imports of manufactures classified to these industry groups.

Historically, Australia's pattern of exports and imports has reflected its *comparative advantage* in resource-based commodities and *comparative disadvantage* in elaborately transformed manufactures respectively (except where high levels of protection have distorted trade flows). This appendix documents changes which have occurred over the last decade in the (merchandise) trade orientation of the Australian economy generally and in the industry composition of that trade (Box B1).

Australia's trade growth and trade orientation

Growth in the nominal value of merchandise exports, imports and the overall level of economic activity — as measured by gross domestic product (GDP) — are shown in Figure B1 for the period 1981–82 through 1990–91.

Box B1: Commodity versus industry classifications of trade data

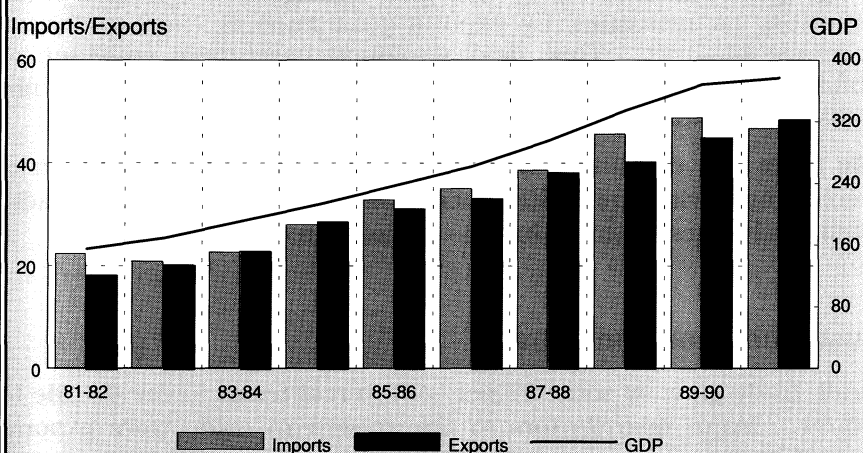
Analyses of changes in imports and exports have typically been made on a commodity basis as the basic trade data are recorded by the Australian Customs Service on that basis. This has highlighted the importance of particular commodities in Australia's trade performance, such as coal and wool in exports, and motor vehicles and electronic equipment in imports. It has also been used to highlight the growth of trade in particular types of commodities, such as elaborately transformed manufactures. However, it has been difficult to relate these data to other industry-based information or to provide an economy-wide perspective of changes in the industry composition of trade.

For the purposes of this appendix, detailed trade data have been converted to an industry-of-origin basis (from a commodity basis), using commodity-to-industry concordances and the Australian Standard Industrial Classification (ASIC) (ABS 1985). The Commission has adopted the ASIC definition of industry sectors — Agriculture, Mining and Manufacturing. Like most international classification systems, the definition of Manufacturing under ASIC is extremely broad. To provide a more meaningful analysis, this category was split into four on the basis of an industry's dependence on inputs from the other sectors, and the provision of assistance. The broad industry classification adopted for the purpose of this appendix were:

- agriculture;
- agriculture-related manufacturing;
- mining;
- mining-related manufacturing
- highly assisted manufacturing — industries covered by the textiles, clothing and footwear (TCF) plan, and the passenger motor vehicles and parts (PMV) plan; and
- 'other' manufacturing.

A detailed description of the industries included in each category is provided in Attachment B1.

**Figure B1: GDP, exports and imports,
1981-82 to 1990-91**
(\$ billion)



Source: ABS, Foreign Trade Statistics on magnetic tape and Australian National Accounts: National Income and Expenditure (Catalogue no. 5206.0)

**Table B1: Trade orientation of selected economies,
1981-90^a**

Country	Period average	Average annual change
	(%)	percentage points
Australia	28	0.10
Canada	48	0.89
New Zealand ^b	46	-1.21 ^c
Netherlands	95	-0.70
Sweden	55	-0.44
Republic of Korea	64	-0.72 ^c
Thailand	49	2.80 ^c
Japan	21	-1.17 ^c
United States	15	0.10

a Trade orientation is measured by exports plus imports expressed as a percentage of GDP.

b For the nine years 1981 to 1989.

c Significantly different from zero at the 95 per cent level of confidence.

Source: IMF International Financial Statistics, (various issues)

Annual growth in real GDP, exports and imports over the decade averaged 3.5, 4.1 and 3.5 per cent respectively, with imports exhibiting most variation around the average.¹

During the last decade, there was little change in Australia's trade orientation, as measured by exports plus imports expressed as a percentage of GDP. This ratio remained essentially constant at around 28 per cent.² This constancy in trade orientation was not peculiar to Australia during the 1980s (Table B1).

While there was essentially no change in overall trade orientation of the economy during the 1980s, there was significant growth in trade, as well as changes in the industry composition of that trade.

Industry composition of trade

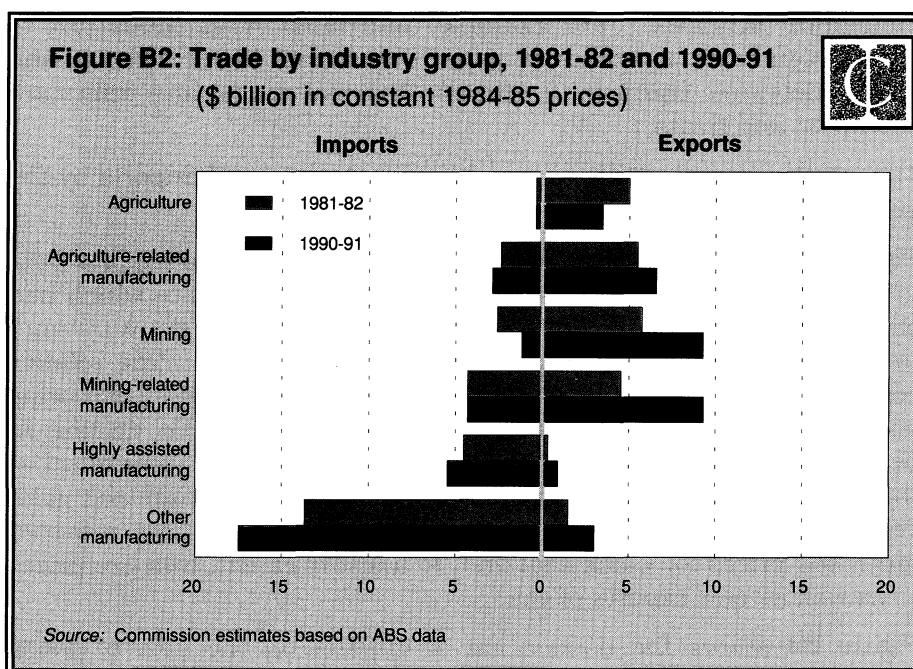
Overall, trade grew by some 27 per cent in real terms in the decade to 1990–91. Major contributors to the growth in trade were exports from mining and mining-related manufacturing industries, and imports classified to the 'other' manufacturing category (for the six industry groups used in this analysis — see Box B1 and Attachment B1). The real value of imports and exports in 1981–82 and 1990–91 are shown in Figure B2. Details of imports, exports, total trade (exports plus imports) and the 'balance of trade' (exports minus imports), by industry group for the decade are given in Attachment B2.

Figure B2 shows there was strong growth in trade over the decade for all industry groups except agriculture, where the real value of exports was some 30 per cent lower in 1990–91. Agricultural exports fluctuated over the decade, but were unusually low in 1990–91 as a result of low prices for wheat, and the collapse of the wool market (leading to stock accumulation) under the (now defunct) floor-price scheme of the Australian Wool Corporation.

Overall, imports were some 14 per cent higher in real terms in 1990–91 than in 1981–82. However, as a result of the onset of the recent recession, imports were lower in 1990–91 than in 1989–90 for all

1 Real (or constant price) estimates are derived from nominal (or current-price) values by using the GDP implicit price deflator to remove the effects of inflation.

2 This figure would be some three percentage points lower if re-exports and re-imports are removed from the merchandise trade data. Merchandise trade accounts for approximately 75 per cent of total trade in goods and services.



industry groups except mining. A similar phenomenon occurred during the 1982-83 recession. In 1990-91, Australia recorded a balance of trade surplus for the first time in six years.

Australia's stronger performance over recent years in mining and mining-related manufacturing is illustrated by comparing 'balance of trade' data by industry group for 1981-82 and 1989-90 — both pre-recession years. The 'surpluses' on balance of trade for mining and mining-related manufacturing increased between those two years by some \$4000 million and \$3800 million respectively, while the balance of trade 'deficits' in the case of 'other' and the highly assisted manufacturing sectors grew by some \$3800 million and \$1600 million respectively (in constant 1984-85 dollar prices). Despite some growth in imports, there was no decline in Australia's large balance of trade 'surpluses' for agriculture and agriculture-related manufacturing.

The trade 'deficits' for 'other' and the highly assisted manufacturing sectors grew throughout the decade, despite strong growth from small bases in exports that occurred in those industry groups. Most of the export growth was from industries that received explicit production subsidies or implicit subsidies for exports through export

facilitation schemes. For example, individual ASIC industries to record significant increases in exports included: Motor vehicles and parts; Electronic equipment; Aircraft; Pharmaceutical and veterinary products; and Boats.

The relative contributions to merchandise exports and imports by the six industry groups are shown in Figures B3 and B4.

Figure B3 illustrates the growing relative contribution to exports from mining and mining-related industries during the 1980s — which had the effect of reducing the relative contribution from agriculture and, to a lesser degree, agriculture-related manufacturing. The relative contribution to exports of mining and mining-related manufacturing changed in the mid to late 1980s. This reflected the decline in petroleum exports and lower prices for black coal. This was offset at that time by increases in export revenue from aluminium and gold. The subsequent recovery in the value of mining exports reflected increased prices for black coal and, to a lesser extent, iron ore prices — as well as new exports of gas.

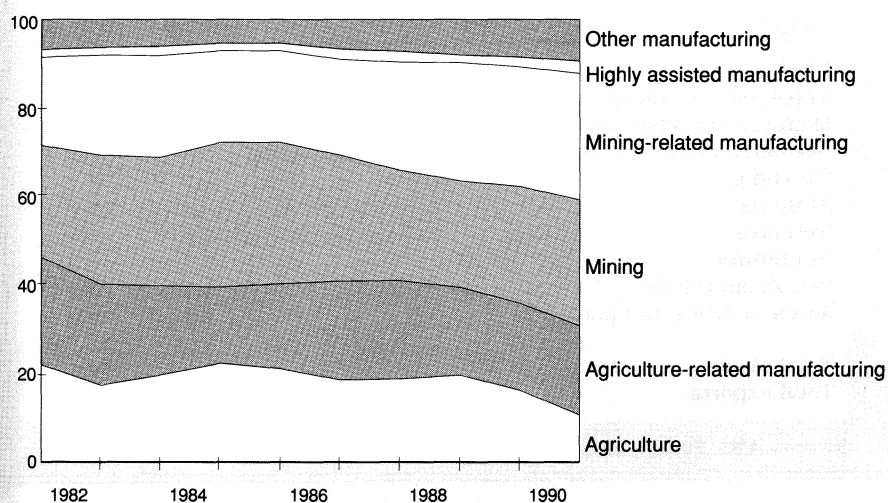
Figure B4 shows the domination of imports on the part of goods classified to the 'other' manufacturing category, and the highly assisted TCF and PMV industry groups. That domination increased during the 1980s as imports from mining industries declined (most notably the value of oil imports).

Industry composition of exports

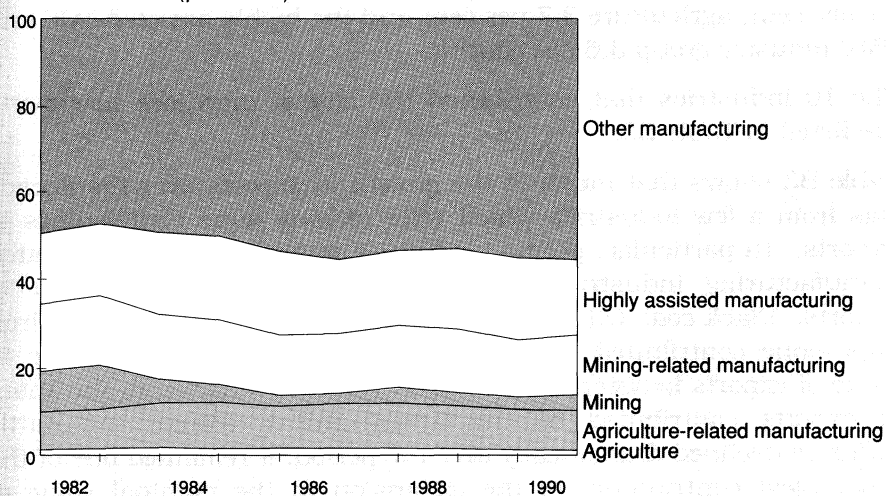
Like many countries, Australian exports are concentrated in the products of a relatively narrow range of ASIC industries. The 10 industries that contributed the largest proportions of merchandise exports in 1990–91 are listed in Table B2, together with their contributions a decade earlier.

Table B2 shows there were substantial increases in export shares from: the Non-ferrous metals, nec, smelting, refining, extruding category (reflecting the growth in gold exports); Oil and gas; and Aluminium industries. There was also a substantial decline in the share accounted for by the Cereal grains, sheep and cattle industry reflecting, in 1990–91, the low price for wheat and the collapse of the wool market referred to earlier.

**Figure B3: Share of exports by industry of origin,
1981-82 to 1990-91
(per cent)**



**Figure B4: Share of imports by industry of origin,
1981-82 to 1990-91
(per cent)**



Source: ABS, Foreign Trade Statistics on magnetic tape

Table B2: Ten largest contributors to exports in 1990-91 and their contribution in 1981-82 (per cent)

<i>Industry</i>	<i>1981-82</i>	<i>1990-91</i>
Black Coal	12.5	13.1
Cereal grains, sheep and cattle	21.0	9.3
Meat (except small goods or poultry)	9.2	7.9
Non-ferrous metals nec, smelting, refining, extruding	0.6	6.9
Oil and gas	1.7	5.7
Alumina	6.0	5.6
Iron ores	6.5	5.2
Aluminium	0.9	3.3
Petroleum refining	2.9	2.9
Motor vehicles and parts	1.3	2.2
Total above	62.6	62.1
Total exports	100.0	100.0

Source: ABS, Foreign Trade Statistics on magnetic tape

Exports increased in nominal value by \$30 billion between 1981-82 and 1990-91. Of the total increase, the mining-related manufacturing group contributed 34 per cent, mining 30 per cent, agriculture-related manufacturing 18 per cent, 'other' manufacturing 11 per cent, agriculture 3.7 per cent and the highly assisted TCF and PMV industry group 3.6 per cent.

The 10 industries that contributed the largest increases in exports are listed in Table B3.

Table B3 shows that much of the growth in exports over the decade was from a few industries which were already large contributors to exports. In particular, products of a few mining and mining-related manufacturing industries were the major sources of growth in exports. Black coal, Oil and gas, Alumina, Aluminium, Gold and Iron ores alone contributed almost 50 per cent of the total increase in value of exports between 1981-82 and 1990-91. Although the share of exports contributed by the Cereal grains, sheep, and cattle industry declined dramatically over the period, it remained one of the ten largest contributors to the expansion in the nominal value of exports over the decade.

Table B3 Industries contributing most to the increase in exports in the decade to 1990-91 (per cent)

<i>Industry</i>	<i>Share of increase</i>
Black coal	13.4
Non-ferrous metal nec, smelting, refining, extruding	10.7
Oil and gas	8.2
Meat (except small goods or poultry)	7.1
Alumina	5.4
Aluminium	4.7
Iron Ores	4.4
Petroleum refining	2.9
Motor vehicles and parts	2.7
Cereal grains, sheep, cattle	2.2
Total above	61.7
Total increase in exports	100.0

Source: ABS, Foreign Trade Statistics on magnetic tape

Industry composition of imports

Imports are also concentrated in the products of a relatively narrow range of industries. Listed in Table B4 are the 10 industries which contributed the largest proportions of merchandise imports in 1990-91, together with their contributions a decade earlier.

Features of the industry import shares shown in Table B4 are the significant increase in shares accounted for by the Electronic equipment and Aircraft industries, and declines in shares of the Oil and gas and Petroleum refining industries.

Of the total increase in the nominal value of imports of \$24.4 billion between 1981-82 and 1990-91, products from the 'other' manufacturing group contributed over 60 per cent of the total increase, compared with 18 per cent from for the highly assisted TCF and PMV industry group, 11 per cent from the combined mining and mining-related manufacturing groups, and 11 per cent from the combined agriculture and agriculture-related manufacturing group.

Table B4: Ten largest contributors to imports in 1990–91 and their contributions in 1981–82
(per cent)

<i>Industry</i>	<i>1981–82</i>	<i>1990–91</i>
Electronic equipment nec	4.8	10.2
Motor vehicles and parts	8.5	9.4
Industrial machinery and equipment nec	5.7	5.7
Aircraft	2.7	5.6
Oil and gas	8.2	3.2
Petroleum refining	5.3	3.1
Measuring, professional and scientific equipment nec	1.9	2.8
Plastic and related products	2.0	2.5
Pulp, paper and paperboard	2.6	2.3
Radio and TV receivers, audio equipment	2.5	2.3
Total above	44.2	47.1
Total imports	100.0	100.0

Source: ABS, Foreign Trade Statistics on magnetic tape

Table B5: Industries contributing most to the increase in imports in the decade to 1990–91
(per cent)

<i>Industry</i>	<i>Share of increase</i>
Electronic equipment nec	15.2
Motor vehicles and parts	10.2
Aircraft	8.3
Industrial machinery and equipment nec	5.6
Measuring, professional and scientific equipment nec	3.6
Pharmaceutical and veterinary	3.5
Non-ferrous metal nec, rolling, drawing, extruding	2.9
Plastic and related products	2.9
Electrical machinery and equipment nec	2.6
Radio and TV receivers, audio equipment	2.1
Total above	56.9
Total increase in imports	100.0

Source: ABS, Foreign Trade Statistics on magnetic tape

The 10 industries that contributed most to the increase in imports over the decade to 1990–91 are listed in Table B5.

Like exports, the increase in the nominal value (as opposed to the share) of imports over the decade to 1990–91 was concentrated in the products of a narrow range of industries — largely from industries that were already accounting for the largest shares of imports. Major imports classified to the Electronic equipment industry included: computer and telecommunications equipment; electronic parts and accessories; radio and television broadcasting equipment; and electronic integrated circuits and micro assemblies. The major import classified to the Non-ferrous metal industry was gold ores.

B1: Concordance between industry groupings and ASIC

<i>Agriculture</i>	<i>Mining</i>	<i>Textiles, clothing and footwear; and Passenger motor vehicles</i>
012 Poultry	111 Ferrous metal ores	234 Textile fibres, yarns and woven fabrics (excluding 2341, 2342)
013 Fruit	112 Non-ferrous metal ores	235 Other textile products
014 Vegetables	120 Coal	244 Knitting mills
018 Cereal grains, sheep, cattle and pigs	130 Oil and gas	245 Clothing
020 Services to agriculture	140 Construction materials	246 Footwear
030 Forestry and logging	150 Other non-metallic minerals	323 Motor vehicle and parts (excluding 3232)
043 Fishing	161 Mineral exploration (own account)	
044 Hunting and trapping	162 Mining and exploration services nec	
<i>Agriculture-related manufacturing</i>	<i>Mining-related manufacturing</i>	<i>Other manufacturing</i>
211 Meat products	275 Basic chemicals	254 Furniture and mattresses
212 Milk products	277 Petroleum refining	264 Printing and allied industries
213 Fruit and vegetable products	278 Petroleum and coal products nec	276 Other chemical products
214 Margarine and oils and fats nec	285 Glass and glass products	314 Structural metal products
215 Flour mill and cereal food products	286 Clay products and refractories	315 Sheet metal products
216 Bread, cakes and biscuits	287 Cement and concrete products	3232 Motor vehicles bodies, trailers, caravans
217 Other food products	288 Other non-metallic mineral products	316 Other fabricated metal products
218 Beverage and malt	294 Basic iron and steel	324 Other transport equipment
219 Tobacco products	295 Basic non-ferrous metals	334 Photographic, professional and scientific equipment
2341 Cotton ginning	296 Non-ferrous metal basic products	335 Appliances and electrical equipment
2342 Wool scouring and top making		336 Industrial machinery and equipment
253 Wood and wood products		346 Rubber products
263 Paper and paper products		347 Plastic and related products
345 Leather and leather products		348 Other manufacturing

Source: ABS, Australian Standard Industrial Classification 1983

B2: Imports, exports, trade and balance of trade, 1981-82 to 1990-91^{a,b,c}
(\$ million in constant 1984-85 prices)

	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
Agriculture										
Imports	373.3	363.8	395.2	417.3	487.1	494.1	498.7	496.9	418.0	365.1
Exports	5032.3	3963.1	4766.5	6403.9	6213.6	5354.1	5800.3	5873.2	5084.4	3492.2
Trade	5405.6	4326.9	5161.7	6821.2	6700.8	5848.1	6299.0	6370.1	5502.4	3857.4
Balance	4659.0	3599.2	4371.3	5986.6	5726.5	4860.0	5301.6	5376.2	4666.3	3127.1
Agriculture-related manufacturing										
Imports	2367.3	2104.8	2464.7	2968.3	2951.0	3120.3	3242.9	3298.4	3135.1	2868.0
Exports	5545.9	5237.0	4869.6	4946.4	5582.1	6446.8	6857.1	5873.1	6212.8	6634.8
Trade	7913.1	7341.8	7334.3	7914.6	8533.1	9567.1	10100.0	9171.5	9348.0	9502.8
Balance	3178.6	3132.2	2405.0	1978.1	2631.1	3326.5	3614.2	2574.7	3077.7	3766.7
Mining										
Imports	2568.4	2371.3	1314.1	1127.1	801.1	709.5	1072.8	984.5	1000.8	1162.9
Exports	5798.4	6666.5	7044.3	9350.7	9355.9	8259.0	7719.7	7182.6	8257.7	9319.4
Trade	8366.8	9037.8	8358.4	10477.8	10157.0	8968.4	8792.5	8167.1	9258.5	10482.2
Balance	3230.1	4295.2	5730.3	8223.6	8554.8	7549.5	6647.0	6198.1	7256.9	8156.5
Mining-related manufacturing										
Imports	4300.2	3756.3	3528.0	4110.4	4245.9	4182.9	4420.5	4915.5	4440.0	4295.3
Exports	4572.2	5201.7	5584.7	5939.6	6051.8	6259.5	7537.0	7906.7	8471.5	9364.0
Trade	8872.4	8958.0	9112.7	10050.0	10297.7	10442.4	11957.5	12822.3	12911.4	13659.3
Balance	271.9	1445.5	2056.7	1829.2	1805.8	2076.6	3116.4	2991.2	4031.5	5068.8

B2: Imports, exports, trade and balance of trade, 1981-82 to 1990-91^{a,b,c}
 (cont) (\$ million in constant 1984-85 prices)

	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
Highly assisted industries										
Imports	4498.3	3854.0	4440.5	5339.5	5855.6	5157.9	5327.3	6150.6	6336.7	5432.6
Exports	386.3	395.4	491.0	498.6	467.7	666.1	729.8	541.3	667.4	947.6
Trade	4884.7	4249.4	4931.4	5838.1	6323.3	5824.0	6057.1	6691.9	7004.1	6380.1
Balance	-4112.0	-3458.6	-3949.5	-4840.9	-5388.0	-4491.8	-4597.4	-5609.3	-5669.3	-4485.0
Other manufacturing										
Imports	13674.3	11077.3	11746.0	13916.4	16382.9	16826.9	16505.7	17688.3	18645.8	17462.7
Exports	1540.4	1417.4	1459.3	1492.2	1563.6	1923.1	2201.3	2353.4	2665.3	3058.4
Trade	15214.8	12494.7	13205.3	15408.5	17946.5	18750.0	18707.0	20041.6	21311.2	20521.1
Balance	-12133.9	-9660.0	-10286.7	-12424.2	-14819.2	-14903.7	-14304.4	-15334.9	-15980.5	-14404.2
Total										
Imports	27781.9	23527.5	23888.4	27878.9	30723.7	30491.5	31067.8	33534.3	33976.5	31586.6
Exports	22875.6	22881.1	24215.5	28631.4	29234.7	28908.5	30845.3	29730.3	31359.1	32816.4
Trade	50657.4	46408.6	48103.8	56510.3	59958.4	59400.0	61913.0	63264.6	65335.6	64403.0
Balance	-4906.3	-646.4	327.1	752.4	-1489.1	-1582.9	-222.5	-3804.0	-2617.4	1229.8

a Converted to constant 1984-85 dollars using the GDP implicit price deflator.

b Figures for 'Trade' in the table are equal to the sum of exports and imports.

c Figures for 'Balance' in the table are equal to exports less imports.

Source: Commission estimates based on ABS, Foreign Trade Statistics on magnetic tape

C AUSTRALIA'S PRODUCTIVITY RECORD

Until relatively recently, productivity figures for Australia have largely been judged by past standards of performance. Such a perspective, while possibly providing some comfort, reveals nothing about the potential for further gains nor the pressure to improve performance that comes from overseas — especially as comparisons did not typically involve what other countries were achieving. Comparisons with other countries, and between firms producing comparable outputs — both here and overseas — provide a means of assessing whether an economy is realising its potential. From an international perspective Australia's productivity record suffers by comparison with the achievements of other countries, while at the industry level there is generally even less to boast about.

Aggregate comparisons

International comparisons of productivity at the level of the overall economy suggest that Australian productivity *levels* are substantially below those achieved by countries such as the United States and Japan (EPAC 1989; IC 1991f; OECD 1992a). This result still tends to hold when comparisons are made between major sectors of economies (eg manufacturing). Exceptions are agriculture and mining, in which Australia compares very favourably.

As noted in last year's Annual Report (IC 1991e), Australian productivity *growth* is also generally unexceptional. On average, Australian productivity slipped in the latter half of the 1980s compared to the OECD average. The exception to this was public utilities — whose productivity grew relatively quickly; however, as the OECD has noted, the level of productivity in Australian public utilities is about half that of member states (ie the growth was from a low base).

There are two general groups of problems associated with making international comparisons of productivity using aggregate data. The first revolves around the appropriate concept or measure of productivity (ie whether it is best to compare partial or total factor productivity indexes); the practical problems of measuring

outputs and inputs (labour and capital); and whether underlying assumptions have been met (such as constant returns to scale).¹

The second set of problems relate to the comparability of data gathered in different countries. The main issues relate to possible differences in the way that the data have been collected and classified. Differences here give rise to measurement errors that can bias estimates of both the level of and growth in productivity, and so contribute to incorrect conclusions.

The scope for misleading productivity comparisons is increased when comparisons focus on levels rather than how productivity has grown over time. Aggregate output and capital are commonly measured in (domestic) monetary terms and need to be converted to a common currency to enable productivity comparisons to be made. Purchasing power parity exchange rates are often used for this purpose, because here an attempt is made to equate the purchasing power of two currencies for a 'standard' bundle of goods and services — thus removing pricing effects peculiar to individual economies.² However, these exchange rates are based on consumption bundles which are not necessarily representative of the industries or sectors being compared.

The second issue that arises in making direct comparisons of productivity levels (and to some extent growth rates) is that it is assumed like is being compared with like. Differences in the composition and size of economies, and the availability of different resources suggest that varying technologies of production may be employed, and economies of scale may be available to larger economies. Given that productivity measures the conversion of inputs to output, such differences contribute to the behaviour of the indexes.

One response to the problems raised in making economy-wide comparisons is to make the comparisons at a disaggregated level — in an attempt to compare like with like (eg by comparing factories or narrowly defined industries likely to employ very similar technology). Comparisons based on this type of approach are reported in the next section.

The productive performance of individual industries

A major advantage of more narrowly focussed comparisons is that they enable very specific comparisons, so that it is possible to better isolate the causes of

1 These issues are addressed briefly in IC (1991e, Appendix 4).

2 An example of this approach is in the OECD International Sectorial Data Base — the basis of comparisons made in OECD (1992a).

differences in productivity (such as economies of scale or work practices), and to identify the changes that would be required to attain best possible practice.

Two types of comparisons of industry productivity have been undertaken in Australia. The first compares the productivity of different domestic producers: the second has involved the comparison of Australian and overseas factories. This section surveys published productivity comparisons.

A summary of some international comparisons is presented in Table C1. While the range of activities studied is small, they tend to be consistent with the broader results attempted at more aggregate levels. Information presented in Table C1 suggests that manufacturing and public utilities in Australia tend to be substantially less productive than their overseas counterparts.

Indeed, a consistent theme of available studies is that productivity in manufacturing and utilities in Australia is low compared to world best practice. In addition, a consistent message to emerge is that large gains can be achieved through better use of labour and capital resources already employed. The key is better management and a more flexible workforce.

Manufacturing

Photographic paper

In a comparison of similar plants in 1988, the Bureau of Industry Economics (BIE 1990) found that the productivity of Australian production of photographic paper was lower than similar plants in Brazil, Canada and the United Kingdom. Labour and capital productivity in the Australian plant were around 56 and 58 per cent respectively of the most productive plant (United Kingdom). The higher unit cost of production in Australia was argued to be the result of lower labour and capital productivity, as wages were similar in Canada and the United

Table C1: Summary of overseas productivity comparisons
(per cent)

<i>Industry</i>	<i>Country of comparison</i>	<i>Australian productivity relative to best overseas</i>
Photographic Paper	United Kingdom	56 to 58
Water Heaters	United States	25 to 50
Electricity	United States	70
Postal Services	New Zealand	99
Railways	United States	10 to 30

Kingdom.

A large contributor to the lower productivity in the Australian plant at the time of the study was the lower utilisation rates of capital equipment (which was modern) and the 'availability' of labour. While some of this appears to be related to the smaller production runs for the markets served by the Australian plant, a major part was due to rigidities in the utilisation of labour and capital equipment.

Water heaters

Water heaters are produced using mature technology. In a comparison of plants the BIE (1991a) found that Australian production was between 25 and 50 per cent as efficient as a comparable plant in the United States, based on measures of capital and labour productivity. In terms of competing on price and quality, Australian plants were hampered by lower quality and more expensive inputs.

Part of the difference in the productivity of the plants in Australia and the United States could be explained by the organisation and utilisation of labour. Lack of capital was not the problem, as the Australian plants had more capital per employee than the factory in the United States.

However, the BIE also noted that economies of scale played a role in explaining the differences in productivity. For the Australian plants to take advantage of economies they would need to export, given the size of the domestic market. For this to occur successfully the BIE argued that large improvements in productivity were needed in transport and on the waterfront.

In comparing Australian plants, the study also noted that the smaller Melbourne plant was more productive. This, it argued, was the result of poorer industrial relations arrangements and the associated less-productive organisation of labour and management in the Sydney plant.

Electricity generation

Studies of electricity generation indicate that while there have been substantial improvements in the productivity of the generating sector, there is a wide range of productivity levels among Australian states — and still a large difference between Australia and the United States (which has been used as a benchmark in a number of studies).

The BIE (1992a) concluded that there was potential to raise performance substantially, based on comparisons of Australian generators with best practice overseas. This was supported in Swan Consultants (1991) who estimated that Australian total factor productivity was around 70 per cent of the levels

achieved by privately owned electrical utilities in the United States. The study suggested that if Australian production was to achieve the levels of the United States, there would have to be major efficiencies in the use of labour and capital, and to a lesser extent fuel. Further, substantial gains in efficiency could be achieved by reorganising some of the work — for example by contracting out certain tasks (eg some maintenance jobs).

The productivity of the Australian state generation systems also varies substantially. The Industry Commission (IC 1991d), Lawrence *et al* (1991a,b), Swan Consultants (1991) and the BIE (1992a) ranked Queensland as the best of the Australian producers in 1988–89,³ with a difference of around 15 per cent between the least and most productive of the state systems. However, the productivity of the states tended to converge over the latter half of the 1980s.

Postal services

Estimates of the productivity of the Australian and New Zealand postal systems indicated that, in 1990–91, New Zealand Post was about 1 per cent more productive than Australia Post (Swan Consultants 1992).

Both organisations exhibited substantial growth in productivity in the previous two years, as a result of restructuring. New Zealand Post made greater gains in labour productivity (about 20 per cent higher than Australia), while the partial productivity of contractors to Australia Post was approximately 20 per cent higher.

Swan Consultants (1992) anticipated that the productivity of New Zealand Post was likely to increase at about 6 per cent a year between 1991–92 and 1993–94, indicating that Australia Post would need to lift its performance to remain as productive as its New Zealand counterpart.

Railways

A study by BIE (1992b) indicated that Australian rail freight operations are between 10 and 30 per cent as efficient as best observed practice (many of which were in the United States). These results were based on a variety of partial measures of productivity (including both labour and capital productivity estimates). The study also indicated that there were substantial differences in productivity among the state systems.

3 The studies exclude Tasmania, as it is based on hydro-generation (a significantly different technology).

This latter result is supported by estimates of multilateral productivity for passenger and freight services presented in the Industry Commission's recent report on Australian railways (IC 1991f). The productivity gap between the most and least productive of the five systems analysed was 40 per cent (Queensland and Victoria respectively).

Adjusting to change

D Labour adjustment

D LABOUR ADJUSTMENT

Unemployment in Australia reached over 11 per cent in 1992, compared with an OECD average of 7.5 per cent. This appendix examines various dimensions of the way the labour market has adjusted over the last 20 years to changes in the level and composition of output and the consequential demands for labour with various skills. The labour force has, over that period, exhibited substantial adjustment to change through various mechanisms — including changing workforce participation rates (both up and down); increased participation in higher education and training; and increased mobility. However, a problem has existed with the adjustment of labour that predates the recent economic downturn. Since the early 1970s, the Australian economy has not grown at a rate that would have been sufficient to absorb increases in the labour force. This has led to high and persistent unemployment. Further, certain groups in the community have been hit harder by the recession than others.

This appendix examines the adjustment of labour markets in aggregate over the long haul and in the recent recession. It examines trends in the composition of employment and the mechanisms through which adjustment takes place. Finally, it documents the problem areas of adjustment — the characteristics of those who face the greatest adjustment burden.

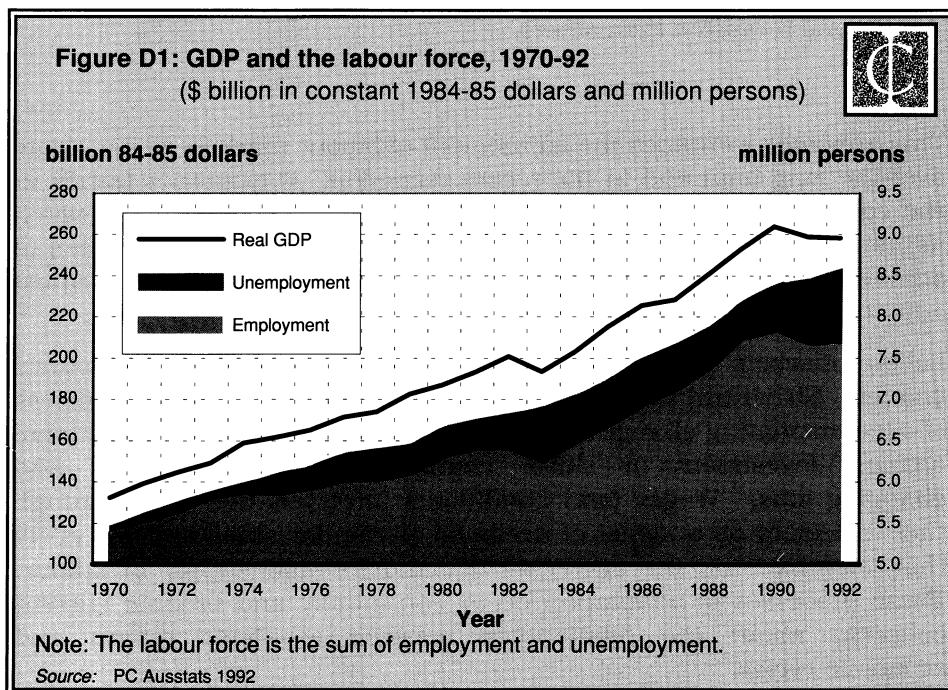
Labour markets play an important role in the process of structural change. Structural adjustment in the labour force is a broad process of accommodating change through a mixture of growth, compositional change, investment in skills, changing participation rates and changing jobs. Wages (and conditions) affect change both through their efficiency as a signal of needs for particular skills and the effect that they have on the aggregate demand for and supply of labour. These processes of adaptation occur continually and predate current concerns about the relationship between economic reform and economic cycles.

Aggregate employment trends

Over the 1970s and 1980s, there has been a steady increase in labour force growth with some acceleration in the mid 1980s — mainly reflecting increased participation rates of females (Figure D1). However, employment growth has been more varied. While there was substantial growth through the mid to late 1980s, declines in employment in the recessions of the early 1980s and 1990s have opened up a substantial and sustained unemployment gap.

Between 1983 and 1990 employment growth exceeded labour force growth by around 0.5 per cent per year, absorbing at least some of the unemployed. This was a period of high growth in both employment (3.2 per cent per annum) and the labour force (2.7 per cent). However, over the 20 years from 1970 to 1990, the labour force grew faster, on average, than labour demand — at 2.15 and 1.85 per cent per annum respectively.

However, even if the favourable performance of the mid 1980s were to be repeated from the current situation, the unemployment outlook would remain grim. Specifically, if labour demand (employment) were to outgrow labour supply by the same 0.5 percentage point margin,



unemployment would still be around 750 000 or 7 per cent in the year 2000.

Employment growth is the key determinant of the final outcome. Assuming the labour force grows at about 2 per cent in line with projections published by the Australian Bureau of Statistics, unemployment at the end of the millennium could be:

- less than 200 000 (a rate of about 2 per cent) if the employment growth between 1983 and 1990 (of 3.2 per cent annually) is repeated over the remainder of the decade; or
- little change in current numbers of unemployed (around 1 million) if employment growth is also around 2 per cent annually.

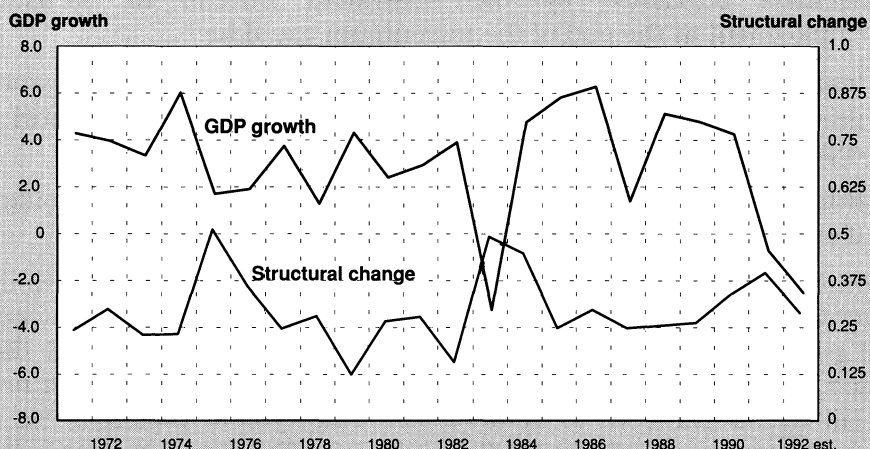
Recent analyses of unemployment commissioned by the Economic Planning Advisory Council support the view that high unemployment will persist (EPAC 1992a). Gregory (1992) has also suggested that, based on a comparison with the United States, real wages would need to fall by 35 per cent to achieve 'full' employment (taken to be an unemployment rate of around 2.5 per cent). The figure indicates that substantial productivity improvements are necessary if high real wages are to be maintained.

Employment trends in the recent recession

Recessions can be the trigger for change in the structure of total employment. Employment in different industries is affected to differing degrees leading to changes in industry shares in total employment. The relationship between the level of economic activity and structural change is illustrated in Figure D2 which presents a weighted 'index of structural change' in employment (based on changes in industry shares in total employment — see note to Figure D2). Greatest structural change in employment is evident in each of the recessions of 1974-75 and 1982-83. The largest relative changes occurred with the recovery from the 1974-75 recession.

Figure D2 indicates that structural change in the recent recession is less than at a comparable stage of the other two recessions. Thus, the slowdown in employment growth in the economy has been more widespread than in previous recessions and less concentrated in particular industries. It is not apparent that structural reform, which gathered pace in the mid to late 1980s, has had much impact on the structure of employment.

Figure D2: Structural change in employment^a and GDP growth, 1972-92 (per cent)



^a The structural change index is calculated as the standard deviation of weighted deviations in industry employment growth from total employment growth. If employment in all industries grows or declines at the same rate, industry shares in total employment remain the same, and the structural change index takes a value of zero. When rates of employment growth and decline vary between industries, industry shares in total employment change and the structural change index takes a positive value. The more industry growth (or decline) rates diverge, the higher the index value.

The slowdown in the growth of the economy since early 1990 caused an absolute decline in the level of employment. While the decline affected most industries, its incidence was not evenly distributed. Between February 1990 and May 1992 the net decline in employment in Australia was 121 600 jobs (Table D1); but the largest industry declines in employment nationally were in Construction (101 200) and Manufacturing (99 400). A comparison of employment declines in the recessions of 1974-75, 1982-83 and 1991-92 (Figure D3) confirms that the most recent job losses are more widespread than in the previous two recessions. Manufacturing employment fell in all three recessions, but less so in the most recent recession than on the two previous occasions.

Table D1: Employment changes, February 1990–May 1992
(thousands)

	<i>New South Wales</i>	<i>Victoria</i>	<i>Queensland</i>	<i>South Australia</i>	<i>Western Australia</i>	<i>Tasmania</i>	<i>Total^a</i>
Agriculture, forestry, fishing and hunting	-0.7	-1.2	-3.9	-3.1	-9.7	-2.6	-23.7
Mining	-7.1	-4.2	-2.6	-1.2	1.9	-0.3	-14.8
Manufacturing (see below for details)	-41.0	-25.1	2.3	-25.1	-7.1	-4.1	-99.4
Electricity, gas and water	3.2	-1.9	2.8	0.1	0.8	-0.1	5.7
Construction	-38.5	-39.8	-25.9	6.1	-4.7	1.9	-101.2
Wholesale and retail trade	-2.0	-35.2	22.2	-2.8	-4.4	1.9	-19.8
Transport and storage	11.0	-3.2	-14.3	-2.8	3.7	-2.1	-10.1
Communication	-3.1	-5.2	-3.5	-2.2	0.9	1.0	-12.7
Finance, property and business services	-6.5	-30.3	13.2	1.1	5.7	-2.9	-21.1
Public administration and defence	5.2	-4.6	4.7	0.2	2.4	-0.6	5.9
Community services	57.4	10.8	28.0	2.7	13.6	-1.1	121.8
Recreation, personal and other	37.7	1.4	-2.9	6.5	1.3	0.3	48.0
Total	15.4	-139.0	20.2	-20.4	4.1	-8.7	-121.6

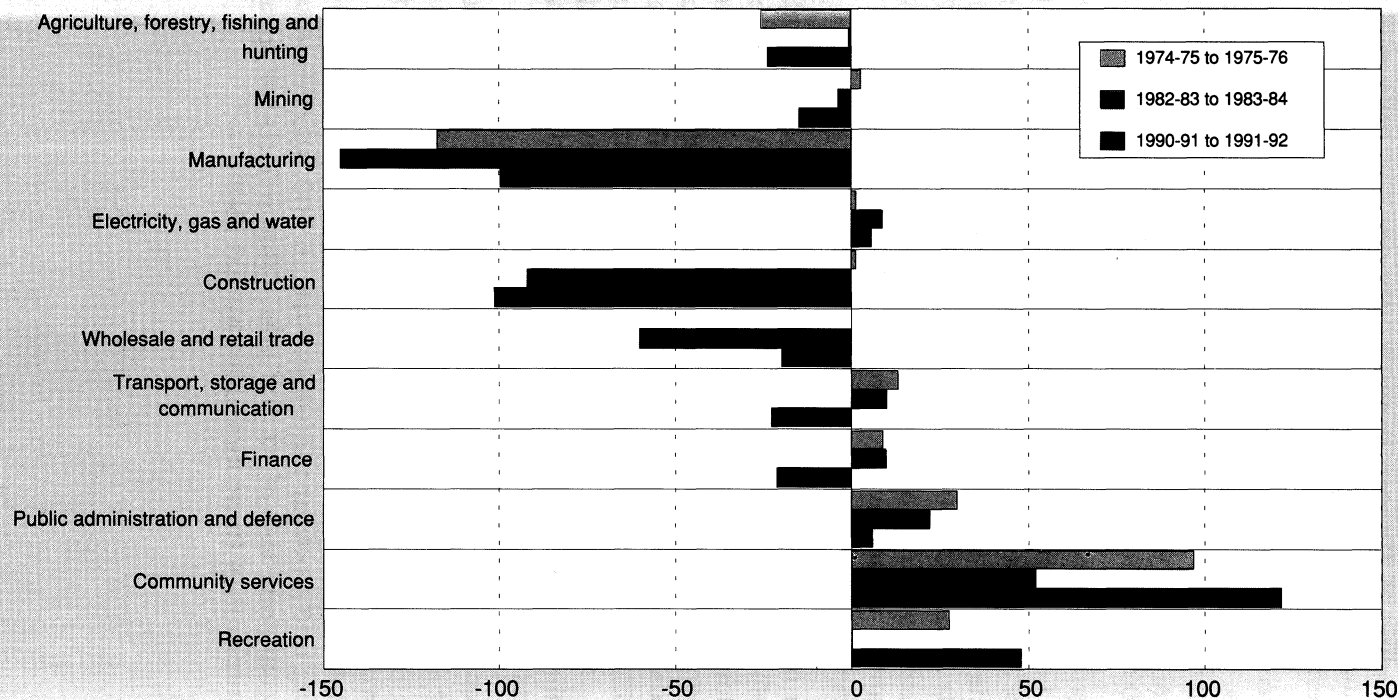
Table D1: Employment changes, February 1990–May 1992
(cont) (thousands)

	<i>New South Wales</i>	<i>Victoria</i>	<i>Queensland</i>	<i>South Australia</i>	<i>Western Australia</i>	<i>Tasmania</i>	<i>Total^a</i>
Manufacturing							
Food, beverages and tobacco	1.9	7.5	1.7	1.7	1.8	-1.5	12.8
Textiles	-0.8	-2.7	0.5	-1.6	0.6	0.1	-3.9
Clothing and footwear	-1.4	-9.8	1.6	-2.2	-1.1	0.3	-13.0
Wood, wood products and furniture	-3.7	-0.9	3.5	-2.8	-2.3	-2.9	-9.6
Paper, paper products etc	-2.3	2.2	-0.7	-1.1	1.3	1.2	1.1
Chemicals, petroleum and coal products	-1.6	-1.3	2.4	-1.1	-0.7	-0.3	-2.6
Non metallic mineral products	-0.4	-1.5	1.9	0.2	-1.3	-0.3	-0.6
Basic metal products	-4.7	4.9	1.1	0.1	2.5	-0.3	4.5
Fabricated metal products	-1.9	-6.0	-3.6	-2.7	-2.9	-1.1	-18.2
Transport equipment	-8.6	-4.6	-3.9	-5.0	-2.4	0.5	-23.6
Other machinery and equipment	-11.8	-10.5	0.8	-7.7	-3.3	0.3	-32.5
Miscellaneous manufacturing	-5.7	-2.8	-2.9	-3.1	0.9	-0.3	-13.9

a Includes figures for the Australian Capital Territory and the Northern Territory.

Source: ABS, unpublished data from the Labour Force Survey

Figure D3: Employment changes by industry, 1974-75 to 1991-92
(thousands)



Source: ABS, Australian National Accounts: Gross product, employment and hours worked (Catalogue no. 5211.0)

The decline in the construction industry has been significant in the last two recessions. Public sector employment has grown throughout the period.

The recession has also had an uneven impact on employment in the states. There were net increases in employment in New South Wales, Queensland, Western Australia, Northern Territory and the Australian Capital Territory. The largest losses of employment were in Victoria (139 000) and South Australia (20 400).

The generalised nature of the decline in employment in Victoria again does not support the argument that structural reform is the major source of job losses. Employment falls appear to be most closely associated with the business cycle. The largest falls in Victoria were in Construction (39 800), Wholesale and retail trade (35 200) and Finance, property and business services (30 300). As Table D2 indicates, these were among the industries with the highest employment growth in Victoria during the 1980s.

Much of the recent public discussion has focussed on the decline of manufacturing employment in Victoria (25 100) and more particularly the loss of employment in the Textiles, clothing and footwear industries. The Victorian losses are substantially less than the 41 000 manufacturing jobs lost in New South Wales. The decline in manufacturing employment in Victoria represents less than one-fifth of total job losses in that state. The decline in employment in manufacturing in South Australia (25 100) is the dominant source of job loss in that state.

An examination of the decline in employment in the manufacturing sector indicates that the largest absolute declines occurred in the metal manufacturing industries (69 800), with the largest proportionate declines in New South Wales, followed by Victoria and South Australia. The combined decline in employment in the Textiles, clothing and footwear industries was 16 900, with Victoria accounting for a combined loss of 12 500 jobs. This reflects, to some extent, the concentration of these industries in that state.

Table D2: Annual growth in employment, by industry and region, 1981-82 to 1989-90^a
(per cent)

	<i>New South Wales</i>	<i>Victoria</i>	<i>Queensland</i>	<i>South Australia</i>	<i>Western Australia</i>	<i>Tasmania</i>
Agriculture, forestry, fishing and hunting	-0.1	0.3	-1.0	0.2	2.8	3.3
Mining	-2.3	9.5	5.5	-0.6	3.0	-8.7
Manufacturing	-1.1	-0.3	2.4	0.9	2.6	2.9
Electricity, gas and water	-0.9	-4.5	-4.0	0.8	-1.8	-2.7
Construction	2.8	6.1	3.6	2.4	2.5	-3.3
Wholesale and retail trade	2.8	3.4	4.0	2.8	4.7	2.2
Transport and storage	0.1	0.2	2.2	0.8	-1.2	1.1
Communication	0.4	1.5	0.8	0.8	-0.1	-6.3
Finance, property and business services	5.0	5.5	5.6	4.5	6.2	6.9
Public administration and defence	1.3	2.3	3.6	2.2	4.0	4.8
Community services	2.9	2.4	4.2	2.5	3.1	1.9
Recreation, personal and other services	3.2	4.5	7.4	4.8	6.1	3.2
All industries	1.9	2.4	3.5	2.2	3.5	2.0

a Average annual changes over the nine-year period.

Source: ABS, unpublished data from the Labour Force Survey

Trends in the composition of employment

Industry demand

The composition of production and employment changes continuously. Table D3 shows changes between 1981-82 and 1989-90 (corresponding to the two peaks in output).

Change in the composition of employment largely follows change in the composition of output (Appendix A). Differences in the growth of output and employment are reflected in changes in the average product of labour.

Table D3: Trends in employment and related ratios, by industry, 1981-82 to 1989-90
(per cent and thousands)

Industry	Employment		Output/employment	Capital/labour
	Annual growth ^a	Total change	Annual growth ^a	Annual growth ^a
	(%)	('000s)	(%)	(%)
Finance, property and business services	4.34	322.6	0.91	2.19
Recreation, personal and other services	3.39	160.0	-0.77	2.62
Community services	2.96	321.0	0.57	0.89
Wholesale and retail trade	1.96	242.7	0.81	0.99
Transport, storage and communication	1.54	60.5	2.81	2.31
Public administration and defence	1.46	44.0	-0.18	-0.10
Construction	1.39	61.7	0.71	3.42
Agriculture, forestry, fishing and hunting	0.55	13.8	1.36	-0.39
Mining	-0.33	-2.3	5.34	3.70
Manufacturing	-0.83	-73.3	2.77	2.24
Electricity, gas and water	-1.54	-14.5	4.84	2.68
All industries	1.62	977.0	1.75	1.27

a Average annual changes over the nine-year period.

Sources: Derived from ABS, *Australian National Accounts: Gross product, employment and hours worked* (Catalogue no. 5211.0); and ABS, *Australian National Accounts: Capital stock* (Catalogue no. 5221.0)

The largest increases in employment were in Finance, property and business services, Wholesale and retail trade, Community services and Recreation, personal and other services. These increases easily outweighed the falls in employment in Manufacturing and Electricity, gas and water — leading to a net increase in employment of just under one million people.

Growth in employment over the period also differed between regions. Table D2 illustrates that the highest rates of growth occurred in Queensland, Western Australia and Victoria. At the industry level, growth was highest in service industries in most states. Employment growth was weak in manufacturing in New South Wales and Victoria, but grew strongly in Queensland, Western Australia and Tasmania.

Full- and part-time employment

While full-time employment remains the dominant form of work, there has been strong growth in part-time employment for both males and females (Table D4).

Full-time work has also grown over the last 20 years, but is declining in relative importance (Table D4). The growth rate for female

Table D4: Growth in and share of full- and part-time work, 1970–92
(per cent)

	<i>Proportion of labour force</i>			<i>Annual growth^a</i>		
	1970	1990	1992	1970–82	1982–90	1990–92
Males						
Full-time	97	92	89	0.55	1.29	-2.9
Part-time	3	8	11	4.41	4.23	12.2
Females						
Full-time	74	60	58	1.16	2.82	-1.8
Part-time	26	40	42	3.88	4.31	2.5
Persons						
Full-time	89	79	76	0.73	1.77	-2.5
Part-time	11	21	24	3.99	4.29	4.8

a Average annual changes over the periods indicated.

Sources: ABS, *The Labour Force, Australia* (Catalogue no. 6204.0 an irregular series); ABS, *The Labour Force, Australia* (Catalogue no. 6203.0 a monthly series); and ABS, *Labour Statistics, Australia* (Catalogue no. 6101.0)

participation in full-time work is higher than that for males, but in both cases not as high as the growth in part-time work.

Occupational change

The changing structure of the economy outlined above suggests changing occupational requirements. Increasing capital intensity in the economy generally requires an increasingly skilled labour force (Table D5).

Table D5: Trends in employment, by occupation, 1970-91^a
(per cent)

	1970-82	1982-91
Managers and administrators	1.10	2.34
Professionals	3.32	2.79
Para-professionals	2.58	2.25
Tradespersons	0.25	0.61
Clerks	1.65	2.29
Salespersons and personal service workers	1.70	2.87
Plant and machine operators and drivers	0.09	0.60
Labourers and related workers	0.54	1.42
All occupations	1.29	1.95

a Average annual changes over the periods indicated.

Source: Commission estimates derived from ABS, *The Labour Force, Australia* (Catalogue no. 6204.0)

Employment in skilled occupations has generally grown faster than in unskilled occupations. The occupations in which employment grew faster than the national trend in the 1970-82 period were Professionals, Para-professionals, Salespersons and personal service workers, and Clerks.¹ — occupations which require more skilled or educated people to perform increasingly specialised and complex tasks.

1 The Australian Standard Classification of Occupations (ASCO) (ABS 1986) is based on a continuum of skill. For example, Para-professionals (which includes registered nurses and police) are classified as less skilled/specialised than Professionals (which includes school teachers and engineers, for example).

Between 1982 and 1991 the higher growth in employment of skilled groups became more marked.² Employment of Managers and administrators grew faster than in the previous decade. Other occupations which grew faster than average were Sales persons and personal service workers (growing at 3 per cent in line with the growth in the services sector), Professionals, Para-professionals and Clerks.

There has been a consistent and substantial movement away from unskilled occupations towards the more skilled occupations in most industries. This is evident in the Manufacturing, Communication, Construction, Finance, property and business services, and Electricity, gas and water sectors (Table D6).

Education and training

The education and skills of the labour force are an important component of growth and employment creation. A recent cross-country study of GDP growth by Mankiw *et al* (1992) suggested that education was a highly significant ingredient, in addition to investment in plant and equipment. However, the relationship between these factors is complex — for example countries such as Sweden and Japan approach education and training and organise work in different ways, but both have low unemployment. Thus, measuring the quality of the labour force using partial measures, such as years of formal education, only provides an imperfect indicator of the role of education and training.

The level of formal training of the Australian labour force has risen over the last decade (Table D7). Increases have been recorded in both the degree and trade qualifications categories. This is consistent with the higher rates of growth in employment of the higher-skilled occupations noted earlier.

2 In 1970, the higher-skilled occupations (Managers and administrators, Professionals, and Para-professionals) accounted for 24 per cent of total employment. In 1990, they accounted for 30 per cent.

Table D6: Changes in employment, by industry and occupation, 1986–91
(per cent)^a

<i>Industry</i>	<i>Managers and administrators</i>	<i>Professionals</i>	<i>Para- Professionals</i>	<i>Tradespersons</i>	<i>Clerks</i>	<i>Salespersons and personal service workers</i>	<i>Plant and machine operators and drivers</i>	<i>Labourers and related workers</i>
Agriculture, forestry, fishing and hunting	-5.23	b	0.81	-1.15	1.38	b	-0.80	4.44
Mining	0.05	5.55	-0.18	-6.43	1.35	b	3.05	-3.38
Manufacturing	1.23	1.26	0.40	-2.15	0.16	0.50	-1.83	0.41
Electricity, gas and water	b	5.25	-1.46	-5.37	2.76	b	-0.14	-1.69
Construction	2.28	-0.62	0.00	-2.31	0.07	b	0.39	-0.06
Wholesale and retail trade	0.54	-0.07	0.17	-0.78	0.01	0.05	0.54	-0.47
Transport and storage	1.02	0.40	-0.41	-0.31	-0.25	1.59	0.88	-2.99
Communication	0.54	3.01	1.37	-7.88	0.40	b	b	-0.88
Finance, property and business services	-0.70	3.60	0.00	-0.04	-2.99	-0.92	-0.14	1.18
Public administration and defence	0.05	3.15	-0.64	-1.65	0.41	0.38	0.46	-2.09
Community Services	0.21	-1.78	0.20	-0.51	1.02	0.86	0.24	-0.24
Recreation, personal & other services	0.24	0.38	-0.08	-2.77	0.72	-2.29	0.64	3.15
All industries	0.15	0.85	0.06	-1.71	0.30	0.86	-0.52	0.01

a Percentage point changes from 1986 to 1991.

b sampling errors too large to provide reliable estimates.

Sources: ABS, *The Labour Force, Australia* (Catalogue no. 6203); ABS, *Labour Force Survey* (unpublished data)

Table D7: The composition of employment, by educational attainment, 1979–90^a
(per cent)

	1979	1986	1990
Without post-school qualifications	61.7	53.6	50.6
With post-school qualifications: of which	37.2	44.9	47.5
Degree or equivalent	7.0	10.2	10.8
Trade	29.5	33.4	36.1
Other	0.7	1.3	0.6

a The balance of those in employment are accounted for by those still at school.

Source: ABS, *Labour Force Status and Educational Attainment, Australia* (Catalogue no. 6235.0)

Adjustment mechanisms

Flows of labour into and out of employment (and indeed the labour force) provide an important mechanism of adjustment. Workers constantly make decisions about whether they should participate in, retire from, enter or exit the labour force, or move to another part of the country.

Labour force participation

The pattern of labour force participation in the economy has changed significantly over the last 20 years (Table D8) and is consistent with trends in other OECD countries (OECD 1992c). Male participation fell during the 1980s, while female participation increased. The fall in male participation is concentrated in older age groups. The growth in participation of married females was the main cause of the increased female presence in the labour force.

Retirement

Older members of the labour force can elect to retire early in response to economic conditions, representing a form of adjustment. However, the latest available date does not support the view that retirement due to lack of job opportunities is an important factor — with 88 per cent of early retirees in 1989 choosing to do so for personal reasons;

Table D8: Participation rates, 1970–92^a
(per cent)

	<i>Males</i>	<i>Females</i>		
		<i>Married</i>	<i>Unmarried</i>	<i>Total</i>
1970	83.0	35.2	48.5	39.6
1980	77.9	42.6	45.8	44.7
1985	75.2	44.3	47.8	45.7
1990	75.0	52.8	50.6	51.8
1992	75.0	52.6	51.7	52.2

a The participation rate for each group is defined as the ratio of the labour force to the civilian population (aged 15 and over) expressed as a percentage.

Source: ABS, *The Labour Force, Australia* (Catalogue no. 6203)

whereas only 5.9 per cent of early retirees did so because they were unable to obtain work.³

Retirement need not mean complete separation from the labour force. Retirees can maintain some attachment through varying degrees of part-time work. Table D9 suggests that part-time work has become marginally more important for retirees as has, to a lesser extent, income derived from investments. There is little change in the proportion of retirees primarily dependent on age pensions and superannuation. Although the small changes are consistent with changes making superannuation more accessible to a growing proportion of the population, the effects of more recent changes will not become readily apparent for some years.

Geographic mobility

Between 1981 and 1986 population movement has predominantly been from the south-east to the north and west of the country (Bell 1992). This is consistent with trends that have been apparent since the late 1940s, with movements to Queensland becoming dominant since 1971.⁴ The impact of these movements is such that the

³ Derived from irregular ABS collections, the latest of which is for 1989 (ABS 1989).

⁴ Net movements are small relative to total population, with Queensland, Western Australia, the Australian Capital Territory and the Northern Territory gaining 90 000, 16 000, 4800 and 3700 respectively. The losses to New South Wales, Victoria, South Australia, and Tasmania were

Table D9: Sources of retirement income, 1986 and 1989^a
(per cent)

	1986	1989
Pension	44.0	43.5
Superannuation	9.7	9.8
Part time work	3.5	4.3
Investments	12.1	12.9

a Income unaccounted for comprises items such as war disability payments and reliance on someone else's income.

Source: ABS, *Retirement and Retirement Intentions, Australia* (Catalogue no. 6238.0)

population of Queensland increased by 60 per cent above that attributable to natural increases.

Geographic mobility is dominated by the young employed. Young adults are the most mobile, with 25-44 year old males dominating interstate movements. Interstate migration between 1981 and 1986 comprised 60 per cent employed, 30 per cent not in the labour force and 10 per cent unemployed.

Employment mobility

Data presented in Table D10 illustrates that new entrants are a major source of change in the labour force. For example, over half of those who changed their 'not in the labour force' status between September and October 1991 secured a job, although the work was predominantly part-time employment (and unaffected by sex or marital status). The data also suggest that part-time work is often a path to obtaining full-time employment.

Unemployed people who change employment status are evenly split on average between those who decide to exit the labour force and those who find employment. Disaggregation of the data indicates that there is a greater tendency for males to find work once unemployed, while females are more likely to leave the labour force.

62 000, 40 000, 8700, and 2100 respectively. The losses were spread over most of the regions of the states.

**Table D10: Movements between labour force categories,
September–October 1991**
(per cent)

<i>Labour force status in October 1991</i>				
	<i>Employed full-time</i>	<i>Employed part-time</i>	<i>Unemployed</i>	<i>Not in labour force</i>
<i>Labour force status in September 1991</i>				
<i>Employed full-time</i>	95.3	2.8	0.8	1.2
<i>Employed part-time</i>	10.7	77.9	2.7	8.7
<i>Unemployed</i>	8.2	7.5	67.0	17.3
<i>Not in labour force</i>	0.9	2.0	2.3	94.8

Source: ABS, *The Labour Force, Australia* (Catalogue no. 6203.0)

Job mobility

The duration of employment provides an indication of the frequency of job changes and allows for an analysis of how much adjustment actually takes place in labour markets. Duration here is measured by looking firstly at those employed less than three months — so as to provide some indication of 'turnover' within industries (Table D11) — and secondly, by looking at those employed five years or more — to

**Table D11: Duration of employment of less than three
months, by industry, 1972 and 1991**
(per cent of employed persons)

<i>Industry of current job</i>	<i>1972</i>	<i>1991</i>
Agriculture	8.14	8.52
Manufacturing	10.06	6.16
Construction	14.26	7.73
Wholesale and retail trade	13.10	9.57
Finance, property and business services	10.93	8.52
Public administration and defence	8.63	6.86
Community services	6.39	9.00
Recreational, personal and other services	16.07	13.18
Other	9.62	8.14
Average	10.67	8.28

Source: Commission estimates derived from ABS, *Labour Mobility: Australia* (Catalogue no. 6209.0)

**Table D12: Duration of employment of more than five years,
by industry, 1972 and 1991**
(percentage of employed persons)

<i>Industry of current job</i>	<i>1972</i>	<i>1991</i>
Agriculture	63.15	59.56
Manufacturing	39.45	42.07
Construction	35.44	42.34
Wholesale and retail trade	31.50	28.49
Finance, property and business services	49.78	32.71
Public administration and defence	30.37	49.19
Community services	41.17	43.91
Recreational, personal and other services	24.89	22.92
Other	38.51	39.89
Average	37.67	39.42

Source: Commission estimates derived from ABS, *Labour Mobility: Australia*
(Catalogue no. 6209.0)

gain some idea of the stability of employment in individual industries (Table D12).

The information in the two tables suggests a labour force in which significant job movement occurs around a stable 'core'. The core represents about 40 per cent of the labour force who have been in the same industry or occupation for more than 5 years. Job movement involves, on average, about 9 per cent of workers. This holds also when duration of employment is examined by occupation.

There is some suggestion in Table D11 that the labour force is becoming less mobile, with people tending to stay in certain industries or occupations longer. From Table D11 it is evident that there is less turnover in 1991 than there was in 1971 — and at the same time a greater proportion of people are staying on in industries and occupations for more than five years. It is not clear whether this change represents the effects of the recession (during which there are fewer alternative employment opportunities) — so that people tend to stay in existing jobs and lay-offs are concentrated on the most recently recruited employees.

Wages

Over the 1980s, both real average weekly earnings and real unit labour costs (the cost of labour per unit of output) tended to fall (Table D13). However, towards the end of the 1980s the fall appeared to have stabilised.

Wage differentials — along with employment conditions — can induce people to change jobs and to undertake necessary training in order to do so. This can act as an adjustment mechanism, with higher wages and better conditions in more productive industries drawing people from less competitive industries and less well paid occupations. Generally speaking, the larger the scope for variation in wages (and conditions), the more effective is this mechanism. While a simple summary measure of variations in employment conditions is not available, some indication of movements in wage relativities is provided in Table D14, which shows the ratio of the highest to the lowest wages, broken down by industry and occupation, together with a measure of the extent of the dispersion of wages, by occupation.

The data paints a mixed picture of what has happened to wage

Table D13: Real wages and unit labour costs, 1981–82 to 1991–92
(indexes, 1981-82 = 100.0)

<i>Year</i>	<i>Real average weekly earnings</i>	<i>Real labour costs</i>
1981–82	100.0	100.0
1982–83	101.5	100.7
1983–84	102.4	96.1
1984–85	102.5	94.3
1985–86	100.4	93.9
1986–87	98.5	93.7
1987–88	98.3	92.3
1988–89	97.9	88.5
1989–90	96.9	90.2
1990–91	97.5	92.0
1991–92 (estimate)	98.5	90.9

Source: ABS, *Average Weekly Earnings, States and Australia* (Catalogue no. 6302.0); Treasury, *Round-Up*

Table D14: Changes in wage relativities, 1981–91
(ratios and coefficients of variation)

	<i>Award wages</i>					<i>Average weekly earnings</i>				
	1981	1986	1987	1990	1991	1981	1986	1987	1990	1991
Ratio of lowest to highest:										
Industries										
Manufacturing	0.81	0.71	0.70	0.73	0.71	0.85	0.78	0.71	0.73	0.81
Non-manufacturing	0.71	0.65	0.63	0.72	0.64	0.55	0.56	0.55	0.61	0.56
Occupations ^a						0.58	0.63	0.65	0.64	0.62
Wage Dispersion										
Occupations ^b						0.21	0.23	0.24	0.16	

a Occupations classified by Australian Standards Classification of Occupations (ASCO) system (ABS 1986). Prior to 1986 Classification and Classified List of Occupations used.

b Calculated as the coefficient of variation of average ordinary time earnings by one digit ASCO classification. (The larger the coefficient, the greater the dispersion.)

Source: ABS, *Distribution and Composition of Employee Earnings and Hours, Australia* (Catalogue no. 6306.0)

relativities over the last decade. While there is evidence of a tendency towards wage compression between occupations, this is not apparent in the industry data.

The structure of unemployment

While there is evidence that the labour force in Australia has made substantial adjustments to change in terms of the structure of employment, there are still some sections of the population that are having trouble adapting to change.

An examination of unemployment data indicates that unemployment experience differs between groups. Young people, even though they have higher rates of unemployment, are less likely to experience long-duration unemployment. This is similar to the structure of unemployment in the majority of OECD countries (OECD 1992c).

Older people have lower unemployment rates but face a higher probability of long-term unemployment if they lose their job — suggesting difficulty in adjustment. In May 1992, 24 per cent of males (90 400 people) aged 15–19 years were unemployed and 20 per cent

(18 000) of them were long-term unemployed, compared to an unemployment rate of 7 per cent (159 000) for males aged 35-54 years of whom 41 per cent (64 000) were unemployed for over a year. The high rate of unemployment amongst the young may be explained in terms of a period of job search in the transition from school to work, which may be lengthy if there are few vacancies available.

The difference in unemployment experiences of younger and older unemployed — in terms of duration of unemployment — may be explained to some extent by differing skill composition. The probability of becoming long-term unemployed appears to be lower the higher the level of skill or training possessed (Table D15). This suggests that long-duration unemployment is more likely to be made up of the unskilled (OECD 1992). The average educational attainment and skill level of young unemployed people is often higher than older workers. Many young unemployed enter the labour force with a variety of recently acquired and relevant qualifications, as they begin to search for work; whereas older unemployed are more likely to

Table D15: Average duration of unemployment, by educational attainment, 1980-90
(weeks)

<i>Highest qualification</i>	<i>1980</i>	<i>1983</i>	<i>1986</i>	<i>1990</i>
With post-school qualifications ^a	22.7	23.4	35.9	33.1
Degree	20.1	22.0	23.4	27.6
Trade qualification or apprenticeship ^b	22.5	23.0	38.0	37.4
Certificate or diploma ^b				33.5
Without post-school qualifications ^c	29.6	34.6	47.5	41.9
Attended highest level of secondary school available	18.5	24.5	29.5	23.5
Did not attend highest level of secondary school available	31.4	37.2	52.5	48.0
Total^d	27.5	30.9	42.7	37.4

a Includes people with other post-school qualifications.

b Prior to February 1987 the data now published in the Educational Attainment categories 'Trade qualification or apprenticeship' and 'Certificate or diploma' were published as a single group 'Trade technical or other certificate'.

c Includes people who never attended school.

d Includes people aged 15 to 20 still at school.

Source: ABS, *Labour Force Status and Educational Attainment, Australia* (Catalogue no. 6235.0); reproduced from Junankar and Kapuscinski (1991)

become long-duration unemployed because of a lack of skills which are in demand. Also, increasing school retention rates and the expansion of post-secondary education further suggest that younger age groups will be better educated on average than earlier generations. The compositional differences then lead to lower average duration for younger members of the labour force as, on average, they have more saleable skills. It is also possible that the perception of the ease of training younger compared to older members of the labour force also affects the decision to hire. Wages structures also influence decisions to employ. Given that awards fix the downward flexibility of wages, for a given wage, an employer is more likely to prefer employees with better skill bases, as it reduces the cost of training.

Junankar and Kapuscinski (1991) found that migrants, especially from non-English speaking countries, Aborigines and Torres Strait Islanders experienced above-average duration of unemployment. It is not clear from the data the extent to which the worse experiences of these groups reflect inadequate skills, geographic location relative to work opportunities, initial learning difficulties or discrimination.

The time spent unemployed also appears to increase the probability of remaining unemployed for longer in two major ways.⁵ First, over time the search for employment becomes less intense due to disillusionment and as contacts with former colleagues and workmates decline. Second, potential employers may regard unemployment as a negative indication of suitability for employment, with the longer the period of unemployment the more negative the signal. Such an interpretation makes sense to the extent that skills can rapidly atrophy without use, and that specific skills — especially those learnt on the job — are even more likely to become quickly outdated.

Regional data indicate that the increasing duration of unemployment is nation-wide. While there are regional differences in the rate of unemployment, the proportion of unemployment accounted for by long-duration unemployment is clustered in a band of between 20 and 30 per cent in all states.

5 See Junankar and Kapuscinski (1991) for a discussion of unemployment duration.

Governments and the reform process

- E Reforming government business enterprises**
- F Progress on microeconomic reform**

E REFORMING GOVERNMENT BUSINESS ENTERPRISES

Efficient government-owned business enterprises are vital to Australia's economic performance because of the key role they play in influencing the quality and cost of economic infrastructure. Commission inquiries into this area (eg electricity, rail, water and postal services) have served to demonstrate the importance of competition, commercial focus, accountability and performance monitoring in promoting efficient service delivery.

Improving the performance of government business enterprises (GBEs) is an important challenge for a number of reasons. GBEs are a vital component of the Australian economy (Box E1). In addition, they often provide essential goods and services to households and firms which can represent a significant part of household expenditure and industry costs. GBEs also compete with private firms for resources such as labour and capital. Furthermore, loss-making GBEs impose a significant burden on taxpayers.

Given the contribution GBEs can make to improving Australia's economic performance, the Commission has evaluated — in several of its recent inquiries — the potential to improve performance via a range of measures. Examples include:

- removing barriers to competition and, in some cases, structural reform to actively promote competition;
- institutional and administrative reforms designed to enhance commercial focus and accountability;
- privatisation, to promote on-going cost reductions, and;
- other measures — such as pricing reform and improved investment appraisal — designed to improve the way in which resources are used.

Box E1: Importance of GBEs in the Australian economy

- 6% of total employment (439 000 employees).
- 10% of total wages (\$17.3 billion)
- 10% of gross domestic product (\$33.9 billion).
- 14% of gross fixed capital expenditure (\$8.2 billion).
- 19% of the net capital stock (\$202.1 billion)

Source : EPAC 1992b

In the past year, the Commission has considered GBE reform in its water resources and waste water disposal; intrastate aviation; and mail, courier and parcel services inquiries. There is also an inquiry underway into port authority services and activities.

As a result of these inquiries the Commission is continually refining its approach and applying it on a case-by-case basis.

Removing obstacles to competition

It is now widely recognised that the best incentives for improved performance are generated in a competitive environment. Competition provides direct incentives for on-going reductions in costs, the implementation of efficient pricing practices and for soundly based investment decisions.

However, in the past, obstacles to competition have existed in many of the markets dominated by GBEs. These have taken several forms, with legislative barriers to entry and exemptions from specific government taxes and charges being important examples. Such restraints on competition were analysed during the course of the Commission's inquiry program during the past year.

Legislative barriers to entry

A number of participants in Commission inquiries have argued that it is necessary to retain legislative barriers to entry to ensure that GBEs can continue to meet government directives to undertake and fund loss-making activities which they would not otherwise provide — commonly referred to as community service obligations or CSOs.

However, in a competitive environment arising from the removal of what are in many cases artificial barriers to entry, CSOs can continue to be met by governments contracting with service providers and financing non-commercial activities directly via their budgets.

In its draft report on mail, courier and parcel services, the Commission recommended that this approach be applied in the area of letter services to meet the social objective of providing reasonable access to such a service for all Australians. However, the current CSOs for Australia Post also include a requirement to impose a uniform charge for standard letters. In a competitive environment Australia Post would not be able to meet this obligation because it would have no influence over charges for letter services provided by private operators. If Australia Post were forced to maintain a uniform charge for standard letters, it would be placed at a competitive disadvantage in that other suppliers would be able to offer lower prices in low-cost areas of the network.

The Commission's response to this issue was to suggest, in its draft report, that the Government should abandon its uniform charge objective in favour of the alternative objective of providing universal access to standard letter services at a maximum 'affordable' price. This would involve the Government paying costs in excess of a 'maximum' charge for a standard letter. The Commission noted that this charge could be set initially equal to the current uniform charge. No member of the community would need to pay more than the maximum charge. Prices for lower-cost services would be set competitively.

The Commission has continued to suggest that direct funding of CSOs by governments is preferable to resort to cross-subsidies by GBEs. Direct funding has a number of advantages — it would:

- encourage regular review and scrutiny of CSOs in the context of annual budgetary cycles;
- reinforce the commercial focus of GBEs;
- encourage greater public scrutiny than is possible when services are being cross-subsidised; and it can
- help reduce hidden economic costs associated with cross-subsidies.

Direct funding therefore makes it possible to eliminate barriers to competition which are required to support the practice of cross-subsidisation.

Exemptions from taxes and charges

In its inquiry into intrastate aviation, the Commission considered special advantages accruing to publicly owned airports. A number of airports owned by state government authorities do not have to pay Commonwealth taxes (for example, sales and income taxes). As a result, these airports are provided with a competitive advantage over other airports (and, indeed, other economic activities which are liable for all government charges). In addition, exemption from taxes can lead to landing charges which are lower than they would be otherwise. Such an artificial stimulus to demand could lead to inappropriate investment decisions being made about increasing capacity.

The Commission reaffirmed its view that public enterprises — such as publicly owned airports — should not be advantaged by being exempted from the payment of Commonwealth, state or local government charges.

Structural reform

The removal of regulatory barriers to entry may not be sufficient in itself to promote competition. A variety of factors — such as significant 'sunk' costs and strategic behaviour by incumbent firms — may prove just as effective as legislative barriers to entry and the existence of natural monopoly in preventing emergence of a competitive market (at least in the short term).

In examining ways to introduce effective competition to industries dominated by GBEs, it is important to assess the likely benefits that separation of activities could confer. Market power exercisable by a vertically integrated firm can represent an obstacle to potential new entrants because of the ability of the incumbent to stifle competition (eg via predatory pricing). Vertical separation seeks to break up the dominant firm into a number of separate units and, by removing artificial barriers to entry (such as legislative prohibitions), encourage the entry of new firms.

However, once separation occurs it may be necessary to regulate reintegration and other anti-competitive behaviour. Access to networks is particularly important in this regard as the owner of a network has an incentive to exploit potential users by raising prices above the cost of supply — thus limiting access. Regulation of investment programs and prices may therefore be necessary to ensure that deliberate over- or under-investment does not occur, and to prevent (inefficient) discriminatory pricing.

Clearly, there will be trade-offs between efficiency gains from greater competition and efficiency losses due to an increase in 'transactions' and regulatory costs.

The relative importance of each of these issues will be determined by the characteristics of the industry under consideration. For example, transaction costs are particularly important when close co-operation between the firms in a separated industry is required to maintain the reliability of the system and minimise costs. In addition, interdependency between outputs may increase the cost of vertical separation, particularly when the writing of long-term contracts is expensive and risky. Given the central role of industry characteristics in determining the magnitude and direction of the efficiency trade-offs associated with vertical separation proposals, it is necessary to adopt a case-by-case approach. For example, in its *Energy generation and distribution* report, the Commission advocated the structural break-up of the electricity industry in order to encourage effective competition, particularly in generation. The report proposed that the generation, transmission and distribution elements of the electricity industry be separated. The Commission concluded that the benefits from increased competition were likely to outweigh any loss in transaction economies due to the increased costs of co-ordination and regulation.

However, the Commission's *Water resources and waste water disposal* draft report concluded that there is limited scope for the development of effective competition through the structural break-up of the industry and that any potential benefits of vertical separation were likely to be outweighed by increased transactions and regulatory costs.¹ It therefore recommended that reform should be directed towards enhancing the commercial focus and accountability of water,

¹ A possible exception identified by the Commission is in the area of sewerage treatment where the development of new technologies may allow new firms to enter, providing services to specific industries and groups of households.

sewerage and drainage enterprises, within the existing integrated industry framework.

Institutional and administrative reform

Where competition is difficult or judged to be too costly to introduce and maintain, there are other measures for promoting GBE efficiency. Examples advocated by the Commission in its recent inquiries include:

- institutional reform;
- performance monitoring; and
- regulation to limit the misuse of monopoly power.

In applying these measures, there is a need to take into consideration the range of institutional and market arrangements prevailing in industries dominated by GBEs — by tailoring reform to individual circumstances.

Institutional reform

Institutional reform can encompass a variety of reforms which are collectively designed to reinforce incentives for GBEs to become more efficient. The measures listed in Box E2 generally aim to provide greater commercial focus for managers, distance government from day-to-day operations and decision-making processes of GBEs, provide greater accountability and put GBEs on the same commercial footing as private enterprises (competitive neutrality).

There are a number of ways in which these initiatives can be implemented. For example, they could be introduced to GBEs without any fundamental change in the structure of the organisation. Alternatively, they could be introduced as part of the process of corporatisation.

Corporatisation involves the incorporation of GBEs under Corporations Law. (Corporations Law aims to ensure the free flow of information on the financial position and prospects of commercial organisations. It also imposes additional disciplines upon managers and directors).

The initiatives listed in Box E2 should also be tailored to the circumstances applying in particular industries. For example, in its water report the Commission recognised that many water authorities can be required to pursue a range of potentially conflicting objectives

Box E2: Reforming institutional arrangements for GBEs

- Provide clear and non-conflicting objectives that relate to commercial performance only.
- Vest management in a commercial Board of Directors accountable to parliament through a minister.
- Identify, cost and directly fund any community service obligations so as to make subsidies transparent.
- Require dividends at levels equivalent to similar private companies.
- Remove constraints such as government employment policies and advantages such as government borrowing guarantees.
- Require the adoption of uniform and commercial accounting practices.
- Make authorities liable for all government taxes and charges.

(eg in the areas of service provision, resource management and regulation). Governments therefore need to ensure that service providers are commercially focussed, with responsibilities clearly set out and processes for resolving conflicts between commercial and other objectives clearly defined. They should also clarify the relationship between water management, service provision and regulatory functions and how conflicts are to be resolved.

Performance monitoring

In the absence of competitive disciplines, monitoring of GBEs is necessary to ensure that service providers do not seek to improve their commercial performance by abusing their monopoly power — by either restricting output, reducing service quality or 'stripping assets' in order to meet rate-of-return targets. With continued government ownership of GBEs, monitoring is also necessary to ensure that services are provided in a cost-effective way, and that proper analysis is carried out of proposed investments.

Given the range of objectives for performance monitoring, it must embrace a range of indicators. For example, it should include monitoring both financial and non-financial performance, using a wide

range of indicators focussing on particular areas — such as rates of return and service quality.

In its reports on water resources, intrastate aviation and draft report on mail, courier and parcel services, the Commission has reiterated its support for use of rate-of-return targets to discipline the performance of GBEs.

The Commission has recognised that there are a number of difficulties associated with interpreting rate-of-return indicators. For example, a divergence in an enterprise's achieved returns from the financial target may not necessarily indicate a change in strategy or management is required. It is first necessary to establish the cause of the discrepancy, for example, whether the divergence is due to diminished operational efficiency, past bad investment decisions, or a temporary discrepancy which is in the normal range expected for the enterprise concerned.

The inherent usefulness of rate-of-return targetting therefore arises from the process of reviewing performance and identifying the major factors impacting on financial outcomes. The experience of the Commission in many inquiries into GBE-dominated industries suggests that it is not possible to develop one all-encompassing criterion by which to judge the performance of GBEs. On its own, a financial target is not a sufficient test of performance. Non-financial indicators should therefore be used to complement financial targets as indicators of GBE performance. Non-financial indicators may be used to provide measures of quality of service, efficiency and effectiveness. Appropriate indicators may be specific to particular industries.

Formal procedures for auditing and publishing the performance of GBE investments is another measure which can usefully supplement financial targetting. Post-completion audits of capital expenditure are now undertaken by many large private sector companies. They help identify problems, review the accuracy of forecasts and highlight questions which should have been asked and/or satisfactorily answered before the project was undertaken. Used in this way they provide useful reminders of relevant analyses as necessary inputs to subsequent investment decisions.

Regulation

Monopoly control of networks without provision for access on appropriate terms and conditions by other than incumbent firms may

be used to restrict competition. Some form of regulation may be necessary to ensure that access is available at an efficient price. This question has been considered previously by the Commission in its reports on *Energy generation and distribution* and *Rail transport*. In both cases, the Commission preferred to adopt a 'light-handed' regulatory approach to minimise the cost of regulation. It has recommended that Commonwealth and state legislation be changed so that coverage of the Trade Practices Act be extended to oversee such matters.

The Commission has also relied on this approach in its draft recommendations on encouraging further competition in the provision of postal services. It suggested that the Trade Practices Act could also be used to ensure that the terms and conditions of access to Australia Post's network were fair to all parties involved.

Transfer of ownership

In its inquiries, the Commission has considered the additional benefits that may accrue from privatisation — involving the transfer of ownership of a GBE to the private sector.

A key factor determining the efficiency of an enterprise is how it is managed — not whether it is publicly or privately owned. It may be possible to create the kind of incentives which will maximise efficiency under any type of ownership. However, there are often problems in introducing appropriate incentives to public enterprises. Furthermore, there may be other features of private ownership that are likely to give managers far greater incentives to pursue efficiency gains — examples include the threat of takeover or bankruptcy.

In this context, the primary purpose of privatisation is to reinforce the incentives for managers to pursue commercial objectives and to operate the enterprise efficiently. In fact, it can be argued that private ownership would be preferred to public ownership even under monopoly conditions. However, in reality there are clearly trade-offs between the efficiency of private ownership and regulation to curb expected monopoly behaviour.

The major factor promoting efficiency is likely to be competition rather than ownership *per se*. In its approach to GBEs, the Commission has taken the view that the major aim of reform should be to promote competition, where this is likely to be beneficial. The case for transfer

of ownership as a means for improving efficiency then depends on whether privatisation is likely to confer additional net benefits.

In its water report the Commission found that, while public ownership of urban water authorities should be maintained, there are potential gains to the community from privatisation of irrigation systems. While ownership of irrigation assets remains in public hands, a taxpayer commitment to maintain and refurbish uneconomic systems is likely to be ongoing. But with private ownership, decisions regarding the refurbishment of existing irrigation infrastructure are more likely to be determined by commercial criteria.

In its *Mail, courier and parcel services* draft report the Commission argued that the Government should only review whether Australia Post should remain in public ownership once competitive networks had been established.

Other issues

Pricing policies

Encouraging efficient pricing is a central feature of desirable GBE reform. The Commission has found in many of its inquiries that the pricing policies of GBEs have impaired economic efficiency. Prices have frequently borne little relationship to the cost of *efficient* supply.

The role of prices was accorded a particularly important role in the Commission's inquiry on water resources. In this inquiry it was found that prices charged for water services in most parts of Australia do not fully recover costs. This situation has been facilitated by the acceptance, by government, of less than full cost recovery. This has encouraged water users to demand levels of service which exceed their willingness to pay for additional units of water, and removed incentives for governments to resist unreasonable demands for water services. The resulting over-use of water contributes to environmental damage and requires substantial investments in new capital works, which could otherwise have been delayed or avoided. For this reason the major findings of the water report emphasised the need to get prices 'right'.

In the case of intrastate aviation, the Commission found that the pricing policies of the Federal Airports Corporation (FAC) resulted in:

the majority of FAC airports operating at a loss; aeronautical charges being cross-subsidised by revenue from non-aeronautical activities; and charges paid by general aviation aircraft bearing little relationship to their use of smaller FAC airports. The Commission found that these policies adversely affected the economic performance of both the FAC and aviation operators.

To achieve lasting improvements, the Commission has generally refrained from prescribing pricing policies or the structure of prices for GBEs. Instead it has relied on supporting progress towards greater cost recovery, removal of cross-subsidies and proposals such as removing barriers to entry and structural reform to provide the commercial environment in which more efficient pricing policies will emerge.

Where competition for services supplied by GBEs is possible, there is little to be gained from close government involvement in the determination of prices. In such cases, potential competition should be sufficient to assure efficient prices — along with minimisation of costs and a rate of return commensurate with the cost of capital to the enterprise.

Exceptions to this approach have arisen where an enterprise enjoys a natural monopoly in the supply of some services, which enables it to control and raise prices. In such cases, the Commission has recommended regulatory guidelines and oversight of pricing.

In its water resources report, the Commission recommended the adoption of two-part tariffs by urban water authorities. The recommended approach incorporates an access charge and a usage charge for each kilolitre of water supplied. The Commission adopted this approach partly in recognition of the natural monopoly characteristics of water-supply networks and the indivisibilities involved in the expansion of capacity. There can be no presumption that natural monopoly firms will adopt efficient pricing policies in the absence of actual or potential competition.

The water inquiry also brought into sharp focus the importance of proper decision making on new investment in infrastructure to improve efficiency in the use of community resources. Efficient pricing is fundamental to making best use of available capacity and to guide the timing and nature of new investment to augment capacity.

Investment appraisal

New investments on the part of GBEs are typically large and long-lived. In the interests of maximising their contribution to economic growth, the capital resources invested in GBEs should be used as efficiently as possible. Efficient investment policies require that assets are neither replaced prematurely nor belatedly, encouraged by a careful economic evaluation of proposed new capital works.

The evaluation of new capital works was a significant issue in the Commission's water inquiry, perhaps more so than in other recent inquiries into GBEs. As noted above, government preparedness to subsidise the capital costs of water authorities has encouraged over-investment in water infrastructure, especially in rural areas. The willingness of governments to support the capital costs of authorities has removed the incentive for them to adequately justify new investments and to properly manage existing assets.

The Commission said that, in principle, investment in new water, sewerage and drainage infrastructure and new irrigation schemes should only proceed if it can be demonstrated that the investment will support prices sufficient to fully recover costs — including an appropriate rate of return on capital.

However, the Commission recognised the practical difficulties of applying this rule when the new investment involves infrastructure to refurbish or augment an existing network which is not fully recovering costs. In such cases the Commission argued that, in setting annual limits on permissible price increases, the owner government should have regard to both the need for improved cost recovery on existing assets and the need to ensure that, for new investments, there is full cost recovery over the life of the assets in question.

In addition, it suggested there is a need for greater public disclosure of investment plans and project analysis as a discipline on the investment policies of governments and water authorities, and for *ex post* monitoring — particularly for large GBE investments.

F PROGRESS ON MICROECONOMIC REFORM

Since 1989–90, the Commission's Annual Report has included a list of microeconomic reforms undertaken by Commonwealth, State and Territory governments. This appendix summarises reforms that have been undertaken in the past year.

Reforms listed in this appendix rely on information supplied by State and Territory governments. Commonwealth reforms were compiled by the Commission itself.

The appendix is intended to provide a broad outline of the scope and depth of new reform initiatives. As with last year's survey, the reforms have been categorised in the following sections:

- industry-specific reforms;
- general reforms;
- environmental management;
- labour market reforms; and
- government business enterprise reform.

Attachment F1: Industry-specific reforms

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
General				
Mining and mineral exploration	NSW	May 1992	The Mining Act introduced streamlined and simpler administrative procedures.	Cost savings and increased productivity for both government and business.
	NSW	1991-92	Lease consolidation program completed by the Department of Mineral Resources.	Allows for faster lease processing times and easier management of title administration for both government and industry.
	NSW	1991-92	Introduction of new access arrangement provisions which allows for a system of negotiation and arbitration between explorers and landholders/occupiers.	Speed up and promote mineral exploration.
	Qld	1991-92	Review of tenure processing procedures and introduction of a revised policy on survey requirements for mining leases prior to grant.	Substantial reduction in the processing time for exploration and mining tenures and reduced the backlog of unprocessed tenures.
Mine safety	NSW	1991-92	The Department of Mineral Resources allows accredited private firms to undertake routine regulatory testing and evaluations and approve explosion protected electrical equipment in coal mines.	Offers industry a choice in how to meet regulatory requirements, reduce overservicing by government and may reduce the cost of these services by allowing competition.
	NSW	1991-92	Strategies in place to shift 'ownership' for mine safety to mine management by integrating safety into management culture.	Allows department to focus resources on core activities. Reduces regulatory intrusion, duplication and unnecessary servicing of those companies with a good safety record.

Attachment F1: Industry-specific reforms
(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Coal	Qld	April 1992	Elimination of the up-front royalty element from coal freight rail charges for new mines and mine expansions above Queensland Rail's normal commercial return.	Enhances the competitiveness of the Queensland coal industry. Indicates a move to a more transparent royalty system for coal.
	Qld	1991-92	Removal of restriction on amount of coal allowed to be exported from Blair Athol. (Review of similar restrictions at other sites being undertaken).	Allows negotiation of new export contracts and maximises value of the resource.
Petroleum	Qld	1991-92	Amendment of the Petroleum Act to facilitate sub-leasing arrangements.	Greater commercial flexibility for operators.
	WA	1991-92	Retention of tenure of non-commercial finds on petroleum leases.	Provides for higher security and increased exploration.
	WA	1991-92	Small area permits to allow small area, limited time exploration of petroleum.	Provides an incentive to small scale exploration.
Fisheries	SA	1991-92	Joint industry/government management of renewable fisheries resources, where industry includes commercial as well as recreational fishing interests.	Increased private sector participation in the management of fisheries.

Attachment F1: Industry-specific reforms (cont.)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Eggs	SA	May 1992	Repeal of egg marketing and industry stabilisation Acts.	Reduction in impediments to future development of industry and lowers egg prices to the community.
Bread	Qld	May 1992	Removal of controls over bread prices and returns by the Bread Industry Authority.	Deregulation of industry which allows bread prices to be determined by competition.
Dairy	Tas	June 1992	Deregulation of the processing sector and deregulation of all pricing beyond the processors inward door.	More efficient allocation of resources through easing of entry restrictions and improved price signals.
State forests	Tas	May 1992	A 7.5 per cent reduction in Crown hardwood sawlog allocation together with offering 18 500 cubic metres for competitive tender.	First step towards getting proper market signals for timber pricing.
	Tas	May 1992	New long term (10 year) contracts for hardwood sawlog and veneer customers offering 5 year volume guarantees and the ability to trade either long term rights or logs in the short term.	Establishes property rights over wood supply contracts together with security of supply.
	NSW	1991	Sale of forest log timber is moving towards a more market based system with deregulated prices and allocation system. The annual quota sawlog marketing arrangements are being made more competitive with the introduction of price tendering for 5 and 10 year term allocations of volume.	Promote resources security for the timber industry along with a clearer definition of timber rights.

Attachment F1: Industry-specific reforms

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Water	NSW	July 1991	Approval to introduce catchment wide charges for urban development in the Blue Mountains from October 1992.	All new developments will pay a share of infrastructure costs to protect environmentally sensitive catchments of the Blue Mountains.
Energy	NT	1992	Administrative reform. Full cost of production tariffs are to be imposed on government departments and installations for electricity; movement to full cost recovery of water supply over the next few years.	Improved cost recovery. Will eventually lead to a better pricing structure and competition between generators.
	NSW	Ongoing	Introduced use of system charges for the transmission network.	Provides transparency of costs; better pricing signals for users.
Transport Roads	Joint	November 1991	National Road Transport Commission established.	This body is to develop and implement reforms covering a national registration scheme for all heavy vehicles; uniform technical and operating regulations; nationally consistent and efficient road charges for heavy vehicles. This will promote a more efficient and effective provision and maintenance of roads throughout the country.
	Vic	1992	Declaration of a State and National network of roads for use by B-Doubles.	Savings in transport costs as more direct routes are opened up.
	SA	1991-92	Motor vehicle dealers may now apply to be authorised to register new motor vehicles.	Reduction in costs of registering new motor vehicles.

Attachment F1: Industry-specific reforms (cont.)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Motor vehicle registration	SA	November 1991	Introduced open entry licensing system for hire cars.	Opens hire car market to competition.
	NT	July 1991	Provision for supplementary or short term taxi licences.	Allows taxi industry to more efficiently cater for periods of peak demand.
	Qld	July 1991	Revised system for the registration of primary producer motor vehicles.	Providing seasonal registration and other systems designed to reduce costs and increase primary producers operating flexibility.
	SA	April 1992	Partial timetable deregulation and deregulation of some routes.	Provides more flexibility in meeting market demand.
Intrastate aviation	NT	January 1992	All commuter air services were deregulated.	Improved service efficiency.
	NSW	September 1991	Deregulation of air services to fifteen NSW country towns and permitting competitive operations on cross-State routes.	Part of a move to competitive intrastate air services which will promote efficiency and customer service.
Rail	SA	1991-92	Introduction of train driver only operation of suburban trains.	Removes the need for 129 guard positions on suburban trains. Large gains in labour productivity.
	Tas	1992	Phasing out, by July 1995, of existing subsidy arrangements applying to rail and restrictions on the types of freight that can be carried by road.	This will improve efficiency and reduce transport costs.

Attachment F1: Industry-specific reforms

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Water	Tas	1991	Removal of restrictions on the number of water carriers permitted to operate in Tasmania.	Public vehicle licences will be issued to all vehicles that meet Department of Health quality based regulations applying to water carriers.
Ports	SA	1991-92	Major elements of the Department of Marine & Harbours' commercialisation program completed. New pricing policy (Stage 1) linking charges to costs came into effect July 1992.	Enhancement of commercial objectives. Efficiency increases of 37 per cent (throughput/employee), decreases in real level of charges by 3.2 per cent and a workforce reduction of 38 per cent since February 1990.
	Qld	1991-92	Renegotiation of contract for pilotage into the Port of Brisbane.	Increased efficiency in service delivery. Gains passed onto users by minimising existing rates.
Maritime operations	Qld	1991-92	Identification of business units within the Maritime areas of government that could operate on a cost recovery basis.	Savings to Government by charging users a market price for services.
Telecommunications	C'wealth	June 1992	New entrant (Optus) commenced operations in the mobile telephone market; will interconnect the AOTC network to provide public switched network services in November.	Increased competition in the telecommunications market will promote efficiency for the benefit of consumers.
Cinemas	Tas	1992	Repeal of Cinema Act.	Repeal of Act will lead to 7 needless licences being abolished and existing restrictions applying to the showing of cinematographic films removed.

Attachment F1: Industry-specific reforms (cont.)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Health	SA	July 1991	Operation of new legislation, Public & Environmental Health Act.	Significant reduction in level of specific regulation; rationalisation of administration between State and local governments.
	Vic	June 1992	Changes to the Health Radiation and Safety Regulations to remove planning controls of computerised tomography scanners.	Victorian regulations in line with all other States and Territories.
Occupational health and safety	Vic	Ongoing	Development of a set of Common Essential Requirements related to the regulation of plant and equipment safety, in conjunction with NSW, Qld, ACT.	Forms the basis of a national approach to occupational health and safety standards; minimises the significant costs associated with regulatory inconsistencies between jurisdictions.
Retail	Vic	November 1991	Shop Trading (Further Amendment) Act allowed general trading in the Melbourne metropolitan area on up to 10 specified Sundays.	Reduces unnecessary restrictions on trade, promotes competition between traders and increased convenience for consumers.
Building	ACT	Ongoing	Deregulation of building controls as part of a national process.	Reduction in administrative costs to government and building industry.
	Vic	June 1992	Amendment to Building Control Act to restrict local building legislation made by Councils.	Remove barriers to uniformity of building regulations.
	Qld	January 1992	Rationalise and consolidate, into the Building Act a range of building matters previously contained in the States workplace health and safety and fire safety legislation.	Eliminates conflicts and duplication of approvals. Quicker development approvals.
	Qld	January 1992	Reduction in building approval time from 40 days to 30 days.	Quicker development approvals.

Attachment F1: General reforms

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Uniform standards	Joint	Ongoing	Develop uniform standards for certain goods and occupations by the end of 1993.	Reduces disparities in regulation, allows for greater flexibility and mobility in use of resources.
Ownership and control	C'wealth	October 1992	Removal of one radio station per market restriction.	Will result in greater competition between radio stations.
Business licence information system	ACT	May 1992	The ACT Business Licence Information Service enables inquirers to obtain information and application forms on all government licences and permits required to conduct a business in the ACT.	Saves time and resources for both business and government.
Development approval process	Qld	1992-93	An integrated Development approval system with a final objective of overhauling both State and Local Government approval procedures, with State Government approvals being incorporated into local planning.	Gradual removal of unnecessary and ineffective regulations and provides efficient, open and accountable decision making process.
Corrective service industries	NSW	1991	Restructuring so that superintendents are responsible for industries in their centres. Business managers are responsible for promoting and marketing of prison products.	Introduction of commercial disciplines and standards. Chance for greater private sector involvement. Long term aim is that the corrective service industries will become self funding.
	NSW	1991	Enactment of legislation to allow private management of corrective centres.	Private sector involvement to reduce pressure on government resources.
Courts administration	NSW	July 1991	Support of alternative dispute resolution such as arbitration and mediation.	Reduction in court delays and provides parties with a reduction in legal costs.

Attachment F1: General reforms (cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Department of Water Resources	NSW	Ongoing	Plan to allow a wider range of joint ventures between landlords and the department, particularly in environmental protection schemes in the irrigation areas and districts.	Flexibility in selection of appropriate schemes.
River service charges	NSW	1991	Introduced charging for services provided to the community in managing commercial activities within river corridors. These services include management of sand and gravel extraction from rivers.	Help signal to the community the true cost of providing such services and provide a source of funds which could be directed to the natural resource programs.
Public sector	WA	March 1992	Introduction of cost recovery for audiometric testing and for vocational rehabilitation services through the establishment of a business unit approach to service delivery.	Introduction of a more commercial approach to service delivery.
	WA	Ongoing	Formation of the Office of Strategic State Projects.	The Office will ensure the 'fast-tracking' of projects of strategic importance to the State, and will aim to reduce the cost to developers of investment decisions through a better coordinated and effective process.
	Vic	Early 1992	Transfer of part of the Inter Country Adoption Service to private sector and revision of user fees.	Operate on full cost recovery basis, eliminate unnecessary administrative procedures.

**Attachment F1: General reforms
(cont.)**

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Vic	July 1991	Major review and rationalisation of Government housing stock for employee housing. Agencies to be charged full market rate for employee occupied housing. Transfer of housing to one central authority.	Efficient management and control of housing stock. Improved value and condition of housing stock.
Urban planning	Vic	1991-92	Streamlining of planning procedures and controls.	Improve administrative efficiency.
Regulatory reform	Vic	1991-92	Sunsetting of all regulations made prior to 30 June 1982 by 30 June 1992. Any proposed replacement regulations are required to meet 'sunrise' assessment processes under the Subordinate Legislation Act.	Revocation of 600 regulations of which 200 were substantive. Removal of counter-productive regulation and cost benefit assessment of alternative proposals.
	Vic	March 1992	Cost benefit assessment to be extended to principal legislation.	Improves decision making.
Local government	Vic	October 1992	Rating provisions of Local Government Act 1989 to come into force with the abolition of minimum rates, optional introduction of municipal charge, and greater access to differential rating.	More options for an equitable and efficient rate setting basis.

Attachment F1: General reforms

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Vic	October 1992	New Local Government (Reporting and Accounting) Regulations.	Will provide greater operational flexibility. More accurate reporting will assist councils to assess their financial performance.
	Qld	May 1992	Remove restrictions on local authorities to undertake and to enter into joint ventures with the private sector.	More efficient use of public infrastructure and resources.
	Qld	May 1992	Delete administrative procedures requiring ministerial approval for a range of local government planning activities.	Quicker planning and development decisions by local Government.
	NSW	Ongoing	Review and publication of comparative performance data of all councils.	Increase accountability of all councils.
Fire brigades	NSW	1991	Plan to introduce user pay principle for selected services such as installation and monitoring of automatic fire alarm systems.	Signal to the private sector the cost of such services. Recoup costs.

Attachment F1: Environmental management

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Environmental management	Tas	1991	Public Land Use Commission established.	Provides an open assessment process for the allocation and use of public land and advice on environmental implications of public land use decisions.
	NSW	February 1992	Intergovernmental agreement (C'wealth and State) on the Environment was signed. Clarifies roles and responsibilities of different levels of government on policy and management issues.	Streamlines environmental decision making.
	Qld	1991	A port environmental policy has been developed in consultation with environmental agencies and the community.	A framework will exist within port authorities which will minimise the impact of port activities on the environment.
Environmental protection	NSW	March 1992	Established environmental protection authority to consolidate environmental activities into one agency.	Move towards regionalisation and deployment of additional staff has seen a reduction in time and costs.
Environment and planning legislation	Tas	1991-92	Infrastructure contributions by developers.	Environmental and other costs to be taken into account with new developments.
Environmental auditing	NSW	1991	Pacific Power has implemented auditing of power stations.	Improved environmental control of operations.

Attachment F1: Environmental management

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Pollution licensing	NSW	Ongoing	Integration of waste and pollution licences into a single environmental licence. Further plans flagged to change legislation to allow more rationalisation of environmental licences.	Increase efficiency by providing greater clarity for industry in determining responsibilities for environmental control. Provides 'one stop shop' for work approvals.
	Vic	1991-92	Introduction of 'bubble' licences to focus on total pollutant loads.	Simplifies licence administration, monitoring and enforcement and allows for trade-off between pollution sources.
Water resources management	Vic	Ongoing	Melbourne Water charges on developers for additional infrastructure works.	Promotes urban consolidation, user pays.
	Vic	Ongoing	Melbourne Water programmes to supply recycled water to industry, and to generate electricity from methane gas.	Defer capital expenditure, more efficient use of natural resources.
	ACT	1992	Environmental levy charged on sewage rates.	Financing of sewage effluent quality enhancement.
	ACT	1992	Water pricing changes in keeping with user pays principle.	More efficient water resource use; expected to delay the need for a new dam.
Waste management	Vic	June 1992	Resource Recovery Act establishes an integrated framework for waste management and resource recycling at a municipal level. Supported by programme of waste auditing and support for clean production initiatives.	Encourages more efficient treatment of waste production and disposal, better use of raw materials, avoids future regulatory requirements.

Attachment F1: Environmental management
(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Vic	August 1991	Progressive introduction of audited self monitoring for selected trade waste sewer discharge agreements	Cost reduction.
	NSW	Ongoing	Introduction of waste management approach which recycles 'wastes' as products wherever possible.	Has assisted in the creation of new industries e.g. soil production and remediation.
	NSW	July 1991	Improved pricing mechanism as an incentive to industry to install pre-treatment equipment on site to meet 1994 Trade Waste Standards.	Further application of polluter pays principle to make it economically viable for increased private spending on pre-treatment at source.
Catchment management	NSW	July 1991	Introduction of total catchment management strategies and planning regulations to protect outer water supply catchments.	Emphasis on extending life of water storages and reduces risk of serious pollution.

Attachment F1: Labour market reforms

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Industrial relations	C'wealth	October 1991	Introduction of a new avenue for workplace bargaining, relating to Certified Agreements, in the Industrial Relations Act 1988.	Facilitates enterprise bargaining.
	C'wealth		The Australian Industrial Relations Commission accepted decentralisation of wage determination through continued government support for workplace bargaining.	Provides a vehicle for labour market reform to complement other microeconomic reforms undertaken.
	NSW	October 1991	Passed revised industrial legislation.	Facilitates enterprise bargaining and enterprise based associations.
	Vic	1992	Amendment of Industrial Relations Act 1979 with the Industrial Relations (Enterprise Bargaining) Act 1992 provides for abolition of Conciliation and Arbitration Boards, introduction of a panel system and replacement of registered agreements with certified agreements.	Facilitates and enhances Enterprise Bargaining through increased efficiency and flexibility in the Industrial Relations Commission of Victoria.
Union amalgamation	Vic	March 1992	State Electricity Commission of Victoria (SECV) application to Industrial Relations Commission for single union coverage in power stations. Continuing use of Skills Extension Program for multi skilling.	Reduction in demarcation disputes, increased labour productivity and targeted workforce reduction of 7 per cent.
Mutual recognition of standards for occupations	Joint	January 1993	Overrides State and Territory legislation.	Reduces impediments to a national labour market in certain occupations and a national market in goods and services.

Attachment F1: Labour market reforms

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Occupational regulations	Vic	July 1992	Reform of State Training Board's trade certification process commenced, affecting 63 trades.	Removes inconsistencies and streamlines processes. Will improve access to occupations with assessment based on competencies.
	Vic	1991-92	Development of uniform approach to Occupational Health and Safety plant operators' certification.	Improve labour mobility.
Award restructuring	SA	October 1991	In line with the Structural Efficiency Principle, the 100 or so awards covering public sector employees were restructured into 4 awards.	Apart from simplification of award structures covering public sector employees and associated organisational changes, development of nationally consistent core competency skills for public sector jobs provides a sound basis for enhanced career development.
	NSW	June 1992	State Transit Authority (STA) reform. Bus operators award reformed with the introduction of part time employment, shift and roster changes. Rewrite of the Ferry Operated and Engineers Award.	Estimated financial savings of \$7 million per year.
	NSW	July 1991	Alterations to Industrial award to allow salary packaging with child care service.	Increased flexibility, retention of key staff and skills and reduced turnover is expected.

Attachment F1: Labour market reforms

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Vic	1991-92	Restructure of Health and Allied Services award to introduce broadband classification.	Increases the opportunity to improve workforce skill level and work practices with resultant efficiency savings.
	Vic	1992	Rationalisation of Waterfront awards close to completion. Continuing process of award restructuring, enterprise based agreements and workplace reforms.	Reductions in number of awards from 27 Federal and State awards to 3 Federal awards. Work forces of port authorities collectively reduced by approximately 25 per cent.
	Vic	April 1992	Melbourne Water award restructuring included broad banding into 5 classifications.	Reductions in number of awards and unions, productivity improvements and removal of structural barriers and inefficiencies.
	Vic	December 1991	Gas and Fuel Corporation total job redesign. Common Conditions award negotiated and implemented to cover all employees; single incentive based 10 band wage structure negotiated and implemented to replace more than 170 different wage classifications. Job evaluation system implemented to ensure objective classification relativity.	Broad banding of duties into fewer, more skilled and satisfying jobs. Improved operational efficiency and flexibility. Reduction in employee numbers by approximately 16 per cent and improved controllable costs per customer by about 8.5 per cent. Extension of hours.
Enterprise agreements	NSW	October 1991	Enterprise agreement was introduced and features a single salary scale and means to progress by more than one salary point at a time, removes unnecessary qualification and classification barriers, allows for job redesign and a comprehensive job evaluation process.	Intended to allow employees to reach their full potential by recognising good performance.

Attachment F1: Labour market reforms

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Training	Vic	1992	Enterprise Agreements approved by industrial tribunals for the Public Transport Corporation and the Metropolitan Fire Brigade.	Improved efficiency in the public sector through linkage of wage adjustments to reforms in organisation and work practices. Public Transport Corporation able to bid for National Rail Corporation contracts.
	WA	May 1992	Development and implementation of guidelines for enterprise bargaining in the private sector.	Progression of enterprise bargaining in the public sector will facilitate workplace reform and further improve productivity.
	NT	December 1991	Employment and Training Authority established.	Encourages increased efficiency in delivery of training and services by colleges and employers. Encourages delivery of training at cost recovery levels.
	WA	January 1992	Industry Employment and Training Councils established.	Will rationalise more than 130 Commonwealth and State Government industry training advisory councils, committees and boards.
	WA	1991-92	Creation of the College of Customised Training within the Department. of Employment, Vocational Education and Training.	Provides an enhanced capacity for industry responsive fee for service training.
Education	WA and Vic	1991-92	Reforms to TAFE include an extension of ordinary working hours for Victoria and a longer year for WA.	Greater availability and flexibility of service.

Attachment F1: Labour market reforms

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Ports	NT	1992	A joint venture company, Darwin Port Services has been formed by the Darwin Port Authority to employ all labour in the port.	Resulted in substantial reductions in waterside workers employed in the port and costs to port users.
	WA	1992	Replacement in the non-Pilbara Regional Ports of existing separate stevedoring and port authority workforces with one integrated workforce.	Cost savings; reductions in staffing; more flexible workforce; establishment of career paths for workers; and reduction in demarcation disputes.
Structural efficiency	SA	1991-92	Implementation of a package bringing together award restructuring, job redesign, redeployment and the management of voluntary separation packages by Department of Housing and Construction in areas facing significant restructuring.	Increased productivity and job mobility; reduced labour costs.
Public sector employment	Vic	December 1991	Local Government qualifications board has replaced four municipal boards to oversee qualifications requirements for local Government positions	Broaden range of qualifications acceptable for key positions and reduce barriers to entry
	Qld	July 1991	Introduction of broadbanded classification structure into awards covering public servants and employees of regional health authorities.	Significant reduction in the number of salary scales and pay points applying in a large number of awards. Designed to facilitate the amalgamation of a multitude of awards covering similar types of employees.

Attachment F1: Labour market reforms

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Qld	July 1991	Introduction of a revised policy for the management of redundancy in the public sector.	Designed to promote redeployment and retraining of employees whilst providing employees with the option of voluntary early retirement as a result of restructuring.
Public housing	WA	June 1991	Restructuring of trades workforce involved in the provision of public housing , involving rationalisation and setting up teams in competition with private contractors.	Changes should result in increased productivity, and multi-skilling of the workforce.
Transport	Qld	1991	Broadbanding and multiskilling within the Department of Transport.	Decrease in restrictive work practices through increased flexibility. Increased productivity.
Flexibility	ACT	1992	Flexibility in shifts for nurses.	Meets patient care needs as well as providing employment opportunities for staff (mainly women) who have family responsibilities.
	SA	1991-92	Introduction by the SA Housing Trust of more flexible hours, evaluation and industrial agreements.	Reduction in salary costs, improved flexibility of workforce and reduced administration costs.

Attachment F1: Government business enterprise reforms

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Administrative reforms				
Performance monitoring	WA	1992	A performance monitoring unit established in WA Treasury.	Provides for effective monitoring of government owned enterprises to enhance their efficiency and maximise the value of the government's investment in its trading enterprises.
	Tas	1992	Performance monitoring of all government business enterprises (GBEs) operating under the State Authorities Financial Management Act has commenced.	Provides on-going measurement of GBE performance and assessment of performance against predetermined performance assessment criteria, should lead to improved and commercially based performance levels by GBEs.
Performance management	NT	1991	Introduction of performance management and measurement across the public service.	Introduction of performance targets and monitors should result in greater efficiencies within the public service.
Administration	Qld	1991-92	Amendments provide public sector entities with greater flexibility to manage resources and require greater accountability for results achieved.	Encourages improved resource management in the Queensland public sector.
	Qld	August 1991	Adopted the principle of uniform presentation for the reporting of government financial information.	Improves the comparability and transparency of States' budget documentation. Uniform Presentation facilitates direct interstate comparison and analysis and requires State governments to more closely review revenue and expenditure decisions.

Attachment F1: Government business enterprise reforms

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
GBE pricing	NSW	1992	Provisional Prices Tribunal and Government Pricing Tribunal established to recommend on prices for government monopoly services such as electricity, water and public transport.	Should reduce the potential for abuse of monopoly power; has scope for reducing cross subsidies.
	NSW	March 1992	A long term pricing strategy has been submitted to the Pricing Tribunal.	This reform is based on customers receiving services at the correct price and giving the Boards an appropriate return on its investments thereby promoting allocative efficiency.
GBEs	Qld	March 1992	Cabinet endorsed a white paper establishing the basis for corporatisation of government owned enterprises.	Provides a comprehensive framework for corporatisation of GBEs.
Public infrastructure	WA and Qld	April 1992	Guidelines for private sector participation in public infrastructure.	Provision of infrastructure beyond what the government could provide will provide benefits to the government, the community and private sector; may accelerate required infrastructure projects in the State.
Taxation	C'wealth	1991-92	Agreement to apply full complement of Commonwealth and State taxes and charges on GBEs via a system of equivalent payments.	Places GBEs on an equal footing with the private sector.

Attachment F1: Government business enterprise reforms (cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Asset revaluation	NSW	1991	Assets of all electricity distributors have been revalued on a replacement cost basis instead of the previous historical cost approach.	Obtain a more accurate valuation of the industry's asset base and depreciation costs.
Corporate down sizing	NSW	1991-92	Abolished divisional management structure in the State Transit Authority with the aim of devolving responsibility and accountability to business units (depots).	Restructure generated savings of \$3.6 million.
Government fleet	NT	July 1992	NT fleet established. All vehicles leased to government agencies on full user pays principle.	Substantial potential savings. Reduction in number of government vehicles.
Gas	Qld	1991-92	Adoption of financial reporting for the State gas pipeline on an accrual basis.	Implementation of accrual accounting is expected to enhance commercial performance evaluation through examination of profit and loss balance sheets in reports.
	Qld	1991-92	Introduction of a transportation tariff structure for gas.	Should ensure a competitive yet profitable tariff is charged for transportation of varying quantities of natural gas. Expected to improve the predictability of the operating environment for prospective gas users.
	Vic	1991-92	Gas and Fuel Corporation of Victoria restructured to operate in business units.	Increase accountability of managers.

Attachment F1: Government business enterprise reforms
(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Ports	WA	August 1991	Restructuring of the Fremantle Port Authority involving a 40 per cent reduction in staff, introduction of enterprise based agreements, formation of business units.	Improved efficiency and greater responsiveness to customer needs.
	Vic	June 1992	Port of Melbourne Authority selection of a single private operator for Swanson Dock East container terminal.	Increase competitiveness of operations and competitive pressures on other operators.
	Vic	1991-92	Refinement of port pricing policies to reflect user pays principles, including implementation of berthing and mooring fees, and taking into account the specialised nature of car carrying vehicles.	Increase the transparency of costs and charges, removal of cost penalty on specialised vessels.
	Qld	1991-92	Asset valuation for port authorities commences with port authorities land values to be included in 1991-92 financial statements.	Determination of the return on investment to the Government from its land assets managed by port authorities and a means of determining efficient use of resources.
	Qld	1991-92	Business units within Port Authority accounting procedures established.	The resulting transparency will aid performance monitoring and the identification of cross subsidies and community service obligations (CSOs).

Attachment F1: Government business enterprise reforms

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Electricity	C'wealth	July 1991	Establishment of a National Electricity Grid Management Council.	To coordinate the planning, operation and development of the eastern and southern Australian grid.
	NSW	Ongoing	Path to corporatisation of Pacific Power has led to a restructuring of the entity into profit centres and financial separation of the generation and transmission functions.	Improves the performance and accountability of electricity generation and transmission.
	NSW	Ongoing	Division of generation into three separate groups that will be required to compete to supply customers electricity needs.	Creates a more competitive market for electricity generation.
	Tas	1991-92	Hydro-electricity Commission (HEC) tariffs restructured along more market oriented lines.	Will improve the efficiency of energy use and production decisions.
	Tas	1991-92	State Authorities Financial Management Act implemented by HEC.	HEC to pay a rate of return on assets in form of annual dividend to State Govt. (\$6 million in 1991-92).
Water	NT	1991	Power and water authorities published for the first time a corporate plan including performance indicators.	Increased transparency and accountability.
	Vic	June 1992	Passage of Melbourne Water Corporation Act which establishes new corporate structure and new accountability structures.	Productivity increases through commercial focus, increased accountability and independence from government.

Attachment F1: Government business enterprise reforms
(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Vic	1991-92	Structural reform of Rural Water Corporation including establishment of specialist services as business units, identification and drafting of government services contracts, application of modern techniques to asset management, and introduction of user pays.	First step towards commercialisation of specialist services, more effective management of asset base, transparency in provision of government community services.
	Vic	1991-92	Merger of water authorities and boards.	Economies of scale and scope, efficient and effective management of water and waste water services on a regional or catchment basis.
	WA	1991-92	WA Water Authority separately identified and costed CSOs; continued pricing reform towards user pays.	A more commercial approach is being taken to management of Water Authority resources.
	NSW	June 1992	Proposed separation of the board's service and trading activities from core business functions to improve task clarity and accountability for performance.	Core operations will be more focused on system management and improved product delivery and improved customer service. The trading arm objective is to operate as a commercial entity in competition with the private sector.
	NSW	February 1992	Involvement of the private sector in the important area of provision of water at the best quality possible. Legislative change has enabled such arrangements.	Maintenance of a quality water delivery service and improved standards by taking advantage of the best technical and operational skills possible.

Attachment F1: Government business enterprise reforms (cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Telecommunications	C'wealth	July 1992	The Australian and Overseas Telecommunications Corporation (AOTC) to undertake transparent accounting, separating network services and other (value added) services to assist in the regulation of pricing and interconnection.	To prevent cross subsidisation within AOTC and to ensure that each of the main parts of the overall business are encouraged to improve performance.
Post		Ongoing	Australia Post's retail network. Retail Post, to act with a more commercial focus.	Changes to provide fair and equitable rewards for effort and an incentive for Australia Post agents to expand their businesses and cut costs.
National Parks and Wildlife Service	NSW	1991	National Parks and Wildlife Service (NPWS) adopted a business plan approach to its operations in a variety of parks. Aimed at assessing the role of the NPWS in the market and determining strategies for cost recovery.	More effective involvement of the private sector in the provision and operation of commercial and semi-commercial visitor facilities.
Public housing	WA	October 1991	Setting up of a Rental Property Trust to facilitate use of private sector funding in public housing.	Reduces resource impact on Government; increased public housing.
Construction Group	Vic	Ongoing	Reform of Government Construction Group work and management practices.	Reduction of workforce by 20 per cent; reduction of Government funding; and improvement in delivery of projects.
Peanuts	Qld	May 1992	Restructuring of the Peanut Marketing Board into an unlisted public company from August 1992. A new peanut growers' cooperative to hold controlling interest.	Deregulation of the peanut industry to provide external funding and enhanced commercial flexibility.

Attachment F1: Government business enterprise reforms
(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Grain elevators	Vic	1991-92	Grain Elevators Board's powers have been broadened to allow it to handle products other than grain.	Efficient utilisation of excess capacity and resources.
Fruit and vegetable industry	Qld	February 1992	The commercial activities of the Committee of Direction of Fruit Marketing (a statutory body) were assigned to a separate private marketing company; Freshmark Ltd, and shares issued to Queensland growers.	Partial deregulation of the horticulture industry. Enhanced accountability in commercial operations.
Pineapple industry	Qld	December 1991	The cannery board, a statutory authority, converted into a private company Golden Circle Ltd. with shares issued to existing holders of the cannery board.	The conversion will enable greater commercial flexibility, marketing, access to capital markets and clarifies the issue of ownership of the Golden Circle Cannery.

Attachment F1: Government business enterprise reforms

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Competitive reforms				
Electricity	WA	February 1992	<p>A number of reforms including:</p> <ul style="list-style-type: none"> • ongoing commitment to the private ownership and operation of the States next baseload power station; • corporatisation of the State Electricity commission of Western Australia (SECWA); • restructuring SECWA after assessing the benefits of splitting its electricity and gas operations; • establish a pipeline Authority to own and operate the Dampier to Bunbury natural Gas pipeline; • moving SECWA's regulatory and policy functions to the Department of Minerals and Energy, which will also take over the functions of the Energy Policy and Planning Bureau. 	The Government aims at reducing the real cost of energy by at least 25 per cent by the year 2000.
Corporatisation	NSW	January 1991	Hunter Water Board corporatised.	Operations of the Corporation placed on a commercial footing; barriers to new competitors removed. Now liable to State for tax equivalent payments.
	ACT	1992	Corporatisation of Tolcare Industries Ltd. and review of non-core activities.	Improved efficiency of operations, generation of new business and employment opportunities and reduced costs to the ACT health budget.

Attachment F1: Government business enterprise reforms
(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Contracting out				
General	WA	November 1991	Contracting out of mechanical services of the Agriculture Protection Board.	Improvements in efficiency; salary savings.
	ACT	1992	Fleet maintenance activities are now contracted out.	Expected to lead to a reduction in costs.
	NSW	July 1991	Road maintenance contract has been awarded to a private firm for maintenance of 100 km of road in the Sydney Western Region.	Cost savings and a reduction in demand for public resources.
	Vic	Feb/April 1992	Use of contractors to remove overburden at SECV open cut mines.	Productivity improvements and cost effectiveness.
	Vic	1991-92	Transfer of government warehousing to private sector.	Reduction in operating costs and improved service levels.
Water	Vic	1991-92	Gippsland Water construction of works awarded part in-house, part to private contractors.	Promotes competition between in house and outside construction operations.
	Vic	1991-92	Greater use by Water Victoria of private laboratories for water testing.	Competition between State and private laboratories.

Attachment F1: Government business enterprise reforms

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Vic	Ongoing	Corporatised Melbourne Water, contracting out some non-core functions, and establishment of business units to compete with private sector.	Commercial focus and improved cost recovery of services.
Energy	NT	1991-92	Many functions are now contracted out including general engineering for utilities in addition to other administrative services.	Focus on core activities. Efficiency gains and cost savings expected.
Private infrastructure	NSW	June 1991	A private consortium was awarded a contract for the design and construction and management of Junee Correction Centre.	Reduces costs and the demand on public resources.
Public works Department	NSW	Ongoing	Contracted out mailing services, water and sewerage and management activities; rationalisation of certain services.	Reduction in operating costs by an estimated \$85 million per annum.
Transport regulations	Qld	1991-92	Transfer of significant inspection tasks to industry and private sector organisations.	Increased responsiveness and cost savings.
State Transit Authority	NSW	1991-92	Contracting out of tyre retreading, ferry cleaning, motor vehicle fleet management, courier and mail service, bus cleaning, property & investment management, media services and workers compensation administration.	Estimated savings of \$1.8 million per year.

Attachment F1: Government business enterprise reforms

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Building control	NT	1991	Private certification of building construction.	Building certification will be handled by the private sector on a user pays basis. This will result in a significant cost saving to the government - approximately \$960 000 per annum.
Franchising	Vic	June 1992	Feasibility study has been conducted to quantify the potential benefits of franchising parts of the SECV distribution business.	Potential reduction of operating costs, introduction of competition.
Commercialisation				
General	ACT	Ongoing	Commercialisation of Public trustee service.	Reduces dependence on the budget; increased productivity, and revenue and curtailing expenditure.
	ACT	1991	Corporate Services Bureau established to provide a range of corporate services on a commercial basis.	Significant efficiency gains and improved responsiveness to client needs are expected.
	Tas	March 1992	Hydro Electricity Commission (HEC) commercialised.	Improved financial performance; efficiency of energy production and distribution improved.

Attachment F1: Government business enterprise reforms

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Tas	April 1992	Transport Tasmania Line and Public Trust Office commercialised.	Will lead to improved efficiency of operations including identification of specific trading operations which will be run as a business operation responsible to an independent Board.
	Qld	1991-92	Go-Print commercialisation.	The organisation was restructured along commercial lines into profit and cost centres. Greater efficiency expected.
	Vic	1991-92	Commercialisation of the Government Vehicle fleet.	Introduction of commercial standards, opening up to private competition, full cost recovery.
Government services	ACT	1991-92	Further move of a range of government services towards a more commercial basis, establishment of trust accounts and institution of accrual accounting.	Significant efficiency gains are expected through, for example, separating the clients from the service providers, and increasing accountability and improving client focus.
Government fleet	Qld	1991-92	Government motor garage.	Commercialisation of the government motor garage has resulted in continual improvements in its monthly financial performance, and savings within government.
Land freight transport	WA	1991-92	Commercialisation, deregulation and rationalisation of commercial goods vehicle licensing system.	Savings for transport users and greater choice of transport mode, net savings to Government finances of \$5 million a year.

Attachment F1: Government business enterprise reforms

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Agriculture	SA	1991	Operation of SA Meat Corporation (SAMCOR) commercialised.	SAMCOR now profitable and in the corporate plan for the period 1992-96, SAMCOR is expecting to earn a return on its assets of approximately 20 per cent.
State Conservation Centre	SA	1991-92	Commercialisation of the State Conservation Centre.	Improved service delivery more oriented to client.
Building	Vic	1991-92	Complete commercialisation of government contracts in the Building Division of the Department of Planning and Housing.	More efficient contract system, improved project delivery. Operate on fee for service basis.
Health	WA	Late 1991	Commercialisation of the Hospital Laundry and Linen Service through the removal of its operating monopoly and the implementation of best labour and management practices, including an enterprise-based agreement.	Aim is to ensure competitiveness in a deregulated market; reducing costs to clients and improving returns to Government; and more effective use of scarce capital resources.
	WA	February 1992	Commercialisation of State Laboratory Services.	Efficiency of operations enhanced through increased management accountability, better integrated laboratory functions and the adoption of a more commercial business practices; enabling an improved return on investment, more transparent pricing policies and an improved quality of services which can compete more effectively with private sector providers.

Attachment F1: Government business enterprise reforms (cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Administrative Services Department	Qld	July 1992	Introduction of commercialisation reforms for Administrative Services Department with user charging regimes put in place for 1992-93. Further measures for improving efficiency of these services, including the introduction of competition, will be progressively implemented from 1993-94.	User charging will encourage efficient use and production of services. Costs to government will be reduced significantly over time.
Ownership				
Aviation	C'wealth	June 1992	Government approved the sale of Australian Airlines to Qantas and endorsed the sale of 100 per cent of the combined airline.	Expected to result in greater operational efficiency as well as increasing the sale value of Qantas. This will allow for a re-capitalisation of the airline on a competitive commercial basis and add \$1 billion to budget.
Cargo handling	NSW	November 1991	Privatised cargo handling operations	Efficiency gains expected.
Joint venture	NSW	1991-92	Maritime Services Board (MSB) to participate with private sector in developing a second bulk liquids berth at Botany.	MSB is encouraging an increase in the extent of private sector involvement in the development and ownership of port facilities.
Rail	NSW	November 1991	State Rail Authority sold its small parcel service.	Rationalisation of operations; Ongoing efficiency gains.
Survey and mapping	NT	1991	Privatisation of government survey and photogrammetry work.	Savings to government of approximately \$2 million per annum.

Attachment F1: Government business enterprise reforms

(cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
R & I Bank	WA	February 1992	Future partial sale (at least 40 per cent) of the R & I Bank.	Elimination of burden on consolidated revenue of additional capital injections.
State Government Insurance Office	WA	February 1992	Future sale of the State Government Insurance Office.	As above.
State Insurance	Vic	August 1992	Sale of the State Insurance Office to the Government Insurance Office.	Possible efficiency gains.
Electricity	NT	1992	Privatised power line from Alice Springs to St Teresa.	Reduced call on government for provision of infrastructure.
	Vic	June 1992	Negotiation of part sale and private operation of Loy Yang B.	Introduction of private owned and operated station into the power generation sector.
	Vic	July 1992	Sale of equity in Portland Smelter Unit Trust.	Partial privatisation of Government's interest.
	Vic	October 1991	Sale of SECV electrical workshops.	Cost reduction in maintenance.
Tasmanian Government Insurance Office	Tas	April 1992	Privatisation announced.	Will lead to retirement of State debt and improve financial position of State.
Tasmanian Development Authority	Tas	April 1992	Tasmanian Development Authority's Home Loan Portfolio sold.	Will allow Government to retire debt.

Attachment F1: Government business enterprise reforms (cont)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Roads and Traffic Authority	NSW	April 1992	Sale of central asphalt depot and directed funds to road works.	Sell off raised \$20 million. Savings from purchase of asphalt estimated at \$1.5 million to \$3 million per annum.
Toll roads	NSW	Ongoing	Private construction and operation of toll roads becoming more important in NSW.	Government funding for such road works would not have been available for many years.
Provision of infrastructure	NSW	1992	Private construction of pedestrian footbridge in return for advertising rights on the bridge.	Improved safety and access for pedestrians without need for government funding.
Locomotive services	NSW	June 1992	Service contract for the provision of locomotive services. Private sector will own and maintain the locomotives and the State Rail Authority will lease them on a per kilometre basis.	Net Present Value of savings is estimated to be \$60 million. Represents withdrawal of the State Rail Authority from a non-core function.
Sale of grain lines	NSW	June 1992	Approval to sell some low volume high cost grain lines to the private sector for operation.	Anticipated that small private sector businesses will be able to successfully operate lines not viable to the State Rail Authority, thereby retaining a service to the rural community.
Land sales	WA	July 1992	Sale of government owned land as superlots to private land developers; and joint venture with private sector partners to develop and market industrial, commercial and residential land.	Early return on government assets and support of private sector enterprise.
Water	Vic	June 1992	Build, own and operate arrangements for private sector involvement in infrastructure operations at Yan Yean and Cardinia.	Private sector involvement in construction and operation of infrastructure assets.

Assistance and regulation review

- G Developments in regulation and its review**
- H Developments in specific industry arrangements**
- I Alternative assistance measures**
- J Anti-dumping activity**
- K Overview of assistance to industry**

G DEVELOPMENTS IN REGULATION AND ITS REVIEW

While many existing inefficient, outdated and anti-competitive regulations are being dismantled, new regulation of the business sector has continued apace. The Government has recently introduced several far-reaching reforms to corporations and competition laws, and there has been a continuation of the sustained growth in new regulations to pursue emerging social objectives.

In developing new regulations, past mistakes need to be avoided. Regulations which rely as far as possible on market-based instruments should be preferred as they can augment market forces to achieve community goals most efficiently. The Commonwealth Government also needs to adopt comprehensive procedures for vetting new subordinate legislation, such as those proposed by the Administrative Review Council.

Microeconomic reform involves more than reforming the existing stock of government interventions in markets: it also involves measures to ensure that the flow of new regulation is justified and that new regulatory regimes are well designed.

In assessing the flow of new regulatory proposals, the Office of Regulation Review (ORR) — which was incorporated into the Commission in 1989 — applies principles adopted by the Government in 1985. These require proponents of new regulations to demonstrate, using adequate documentation, that their proposals address real social or economic problems, that non-regulatory alternatives have been first considered and found inappropriate, and that the expected benefits of the regulation exceed the costs. Where regulation is deemed warranted, the ORR seeks to have efficient features incorporated into the design of the regulatory regime. These features include specification of the objectives of the regulation, market-based

incentives to meet the objectives, and targeted programs to enforce the regulation. The ORR can require agencies proposing regulation to comply with the regulation review guidelines, and it advises the Structural Adjustment Committee of Cabinet on all submissions involving business regulation. In addition to these specific functions, the ORR monitors developments in regulation and contributes to the Commission's general work program.

In this appendix, the Commission discusses:

- long-term trends and major changes which have occurred in 1991-92 in the general regulatory environment of business; and some specific reforms in sectors which have been the subject of review;
- the performance of new national regulatory agencies established by the Commonwealth Government; and
- some proposed changes to regulation review procedures.

Changes in Commonwealth regulation

The overall flow of regulation is difficult to judge. Inappropriate regulation has been steadily wound back in some sectors and the Commonwealth Government has recently introduced some important reforms to the general laws controlling business formation and operation, but governments at all levels continue to routinely regulate business activity.

Some aspects of aggregate regulation-making activities can be measured and a sustained growth in new regulation is apparent. In a recent study of subordinate legislation, the Administrative Review Council (ARC 1992, p.7) observed:

There has been vast growth in the volume of delegated legislative instruments. This is illustrated by [the table reproduced overleaf] which shows the number of statutory rules and disallowable instruments made since 1982-83. The trend is evident. The number of instruments has more than doubled, the main contribution coming from the growth of disallowable instruments, with the number of statutory rules remaining relatively constant. By 1990-91, the Senate Standing Committee on Regulations and Ordinances reported 484 statutory rules and 1161 other instruments made in that year.

Statutory rules and disallowable instruments from 1982-83 to 1990-91

<i>Year</i>	<i>Statutory rules</i>	<i>Disallowable instruments</i>	<i>Total</i>
1982-83	553	150	703
1984-85	445	276	721
1985-86	429	426	855
1986-87	322	335	657
1987-88	345	493	838
1988-89	398	779	1177
1989-90	411	820	1231
1990-91	484	1161	1645

Source: Senate Standing Committee on Regulations and Ordinances

The effects of the growth in this new regulation, or the reduction in other forms of regulation, on the performance of the economy is difficult to assess at the aggregate level. A number of factors apart from regulation affect overall economic performance and, at present, the recession is masking the effects of structural reform in the economy.

However, judgments about impact can be made by examining changes to each class of regulation separately. There are three major classes:

- pro-competitive regulation — laws which establish private property rights, secure private contractual obligations and keep markets open and competitive;
- anti-competitive regulation — laws which control the entry of firms and individuals into markets, or prices or production, generally to achieve income distribution objectives; and
- social regulation — interventions which direct firms' production and marketing activities to achieve social objectives.

Pro-competitive regulation

Together, general laws and industry-specific regulation define the legislative framework of business. The most important Commonwealth general laws are the Companies and Securities Act and the Trade Practices Act. They supplement and codify the regulation of trade

under common law, by establishing the foundations of corporate formation and operation, by maintaining competition in markets and by reducing the risks of contractual collusion or exploitation.

After a long period of little change, several far-reaching reforms to general business laws have been introduced or proposed this year, to rectify weaknesses perceived in the operations of certain markets in the 1980s. The more important changes are discussed below.

Companies and securities regulation

Companies and securities regulation aims to ensure the free flow of information on the financial position and prospects of corporations. It stipulates penalties for misrepresentation or financial misconduct by company directors and agents.

A new national companies and securities regime came into effect in January 1991. It replaced the previous separate State and Commonwealth laws and agencies with a national Corporations Law and a new and more independent Australian Securities Commission (ASC). As well as unifying and simplifying companies and securities law Australia-wide, the new regime was designed to significantly deregulate business activity. The ASC focuses on ensuring that companies provide adequate information to investors through general disclosure rules, rather than prescribing how businesses should operate and what they should include in their prospectuses. (These reforms were complemented by January 1992 changes to the Australian Stock Exchange listing rules which also emphasise disclosure by companies). The Government also established a Companies and Securities Advisory Committee (CSAC) to monitor the implementation of the Corporations Law and to make recommendations to the Attorney General on desirable legislative change.

The Government has since launched or foreshadowed a raft of amendments and further reforms to the Corporations Law, in four waves. Some of the amendments are procedural; others more far-reaching.

The first wave of amendments took effect in August 1991. They were intended to clamp down on the misuse of 'off balance-sheet vehicles', to require consolidation of group accounts and to strengthen insider-trading provisions.

The second wave took effect in December 1991. One of the amendments simply sought to clarify fund-raising provisions. Another introduced a standard 12 month buy-back/redemption notice period for 'public' unlisted property trusts, and provisions to facilitate investor participation in the affairs of unit-trust and collective-investments schemes.

A third wave of amendments was initially released for public comment in February 1992. The proposals, contained in the Corporate Law Reform Bill, were based on the recommendations of three reports.¹ The Bill deals with all aspects of loans to directors, transactions between related companies, the duties and responsibilities of directors, and insolvency provisions. The business community criticised the size and complexity of the draft legislation, particularly the provision to restrict loans to directors and related parties. The Attorney General set up an Advisory Committee to re-draft the Bill, especially the provisions relating to loans to directors and directors duties. The aim of the redraft is to reduce the length and complexity of the existing draft Bill and use more 'general principle' law.

In March, the CSAC (1992) released a report in response to criticism that the prospectus provisions placed onerous conditions on directors and their advisers and made it difficult to raise funds cheaply. While the CSAC recommended various modifications to the law, it endorsed the non-prescriptive nature of the prospectus provisions which had replaced the check-list style of disclosure.

The fourth wave of changes to the Corporations Law, based on an earlier report on statutory disclosure arrangements (CSAC 1991a), introduces obligations for continuous disclosure of all beneficial or adverse material matters. It will introduce mandatory half-yearly and annual reporting, and more comprehensive annual disclosure requirements. More frequent reporting will enable companies to issue abbreviated prospectuses by incorporating other documents into them. This move away from all-inclusive prospectus documents will reduce the cost of prospectuses, at the expense of higher costs for periodic reporting. The Attorney General recently indicated that the changes would be narrower in coverage than those proposed by the CSAC or by the ASC. The proposals would impose continuous disclosure obligations on companies that presently have only limited disclosure

1 The reports are the SSCCLA (1989) report on Company Directors' Duties, the ALRC (1988) report on Insolvency, and the CSAC (1991b) report on Corporate Financial Transactions law.

obligations. In the Commission's view, the simplest and most cost-effective reform would be to limit coverage to those entities that access the market for funds generally.

Many of these changes attempt to replace prescriptive statutory rules with performance standards, by using general legal principles. These principles are applied by the courts to individual cases and, over time, a body of law based on actual commercial behaviour of firms will be built up. This approach is preferable to the alternative of allowing the political process to anticipate and predict the likely behaviour of firms and individuals in diverse commercial circumstances.

Critics argue that this approach reduces the certainty in the law, but any problems with uncertainty can be dealt with by according 'deemed to comply' status on the prescriptive rules — thus allowing firms who prefer to adhere to the old-type rules to continue to do so with impunity. In any case, prescriptive rules create uncertainty because of the ongoing identification of 'loopholes' and subsequent amendments.

While 'general principle' law allows firms to pursue least-cost compliance, this approach to amendments to the law may not alone be sufficient to ensure that the body of corporations law in Australia is sound. Across-the-board review of the law similar to that conducted earlier this year in the third wave of amendments is required. This would need to ensure that all remaining provisions are necessary to the overall aims of corporations law discussed at the outset.

Competition policy: changes to mergers regulation

In June 1992, the Government (Duffy 1992) announced that it would accept the major recommendations of the Cooney Committee inquiry into Mergers, Monopolies and Acquisitions regarding the mergers provisions of the Trade Practices Act. While full details are not yet available, the changes will involve amending Part IV the Trade Practices Act to:

- prohibit mergers and acquisitions which have the effect of "substantially lessening competition" in a substantial market, rather than mergers which "create or enhance a position of dominance of a market";
- increase penalties for breaches of all provisions — except the 'industrial relations' provisions: sections 45D (secondary boycotts) and 45E (primary boycotts) — to \$10 million for corporations and \$500 000 for individuals;

- introduce a simple form of compulsory pre-merger notification; and
- make undertakings given to the Trade Practices Commission by parties under investigation enforceable.

The Trade Practices Commission (TPC) will prepare administrative guidelines which will explain in detail how it will administer the new mergers test.

Also in accordance with Cooney recommendations, the new merger test will be accompanied by a list of statutory factors to be taken into account in determining whether a merger substantially lessens competition:

- (a) the actual and potential level of import competition in the relevant market;
- (b) the ease with which new participants may enter and exit the market, now or in the future (barriers to entry);
- (c) the level of concentration in the relevant market;
- (d) the degree of countervailing power;
- (e) the ability of the merged firm to increase prices or profit margins significantly and sustainably without being inhibited by other market participants;
- (f) the extent to which acceptable substitutes for the products of the merged firm are available or likely to be available;
- (h) the likelihood that the merger would result in the removal of a vigorous and effective competitor;
- (i) the nature and extent of vertical integration; and
- (j) any other relevant factor.

These factors will assist the courts, the Trade Practices Tribunal and the TPC in assessing competition in markets and whether proposed mergers are likely to reduce community welfare. They will help ensure consistent approaches to these issues that take into account all the important aspects of competition, not only in static terms but also in the dynamic nature of competition over time.

Potential import competition and the significance of barriers to entry to the relevant market are particularly important factors in this respect, but several of the remaining factors may need to be approached

carefully. Concentration ratios and profit levels in the short-to-medium term, for example, can provide ambiguous signals on the extent of competition in a market.

At present, these factors will not apply to interpretations of 'substantial lessening of competition' in relation to other provisions of the Act, and to the similar threshold competition test in the misuse of market power provision — section 46. One of the justifications for the change in the mergers test was to make the provision more consistent with other provisions of the Act. However, applying statutory factors to this provision and not to others could undermine this goal. This suggests that relevant statutory factors should be applied to all provisions of Part IV of the Act.

Competition policy: the Commonwealth-State review

Sixteen years ago the Swanson Committee (1976) expressed the view that restrictive trade practices regulation should be applied as universally as possible:

We believe it to be extremely important that the Trade Practices Act should start from a position of universal application to all business activity, whether public sector or private sector, corporate or otherwise.

More recently, there have been calls to extend the range of individuals and organisations that are subject to restrictive trade practices regulation.

In response to an initiative by the then Prime Minister in March 1991, a Commonwealth-State review will examine the possible development of a national competition policy.

At present, application of the restrictive trade practices provision of the Trade Practices Act is not comprehensive because of:

- current exemptions applying to government;
- government industry-specific interventions;
- current exemptions applying to the labour market, particularly the professions and unions; and
- protections provided for intellectual property.

Various government business enterprises are exempt from restrictive trade practices legislation, particularly in markets where the government enterprise is the sole supplier. Commonly, governments in Australia have exclusively supplied markets considered, at least in part, to exhibit natural monopoly characteristics — that is, where the

markets were thought to be supplied most efficiently by only one producer. Examples include electricity generation, transmission and supply; telecommunications; water; and transport infrastructure. Governments have also undertaken exclusive supply of some products primarily to further social goals. These government business enterprises are often regulated using industry-specific regulation.

However, with current moves toward the corporatisation, privatisation and/or structural separation of existing government business enterprises, there should be a stronger role for general pro-competitive regulation — such as restrictive trade practices law — compared with industry-specific regulation in these markets. Indeed, public monopolies should be the prime targets of restrictive trade practices regulation, rather than enjoy substantial immunity. The role in these markets of another arm of pro-competitive regulation in Australia — prices surveillance — should also be examined. It is therefore timely to consider the overlap and inconsistencies between these various forms of regulation for government business enterprises.

The current special treatment of the professions is also difficult to justify: there is no economic justification for a blanket exemption from the operation of trade practices law.

The application of restrictive trade practices law to intellectual property and the unions involve more difficult issues. In both cases, however, a review is warranted to assess if the balance of regulation is appropriate.

In the Commission's view, the Commonwealth-State review could usefully address all these issues. Before it considers how the operation of the restrictive trade practices provisions of the Trade Practices Act should be extended, it could first examine how pro-competitive regulation should be applied generally. This would involve considering the goals of pro-competitive regulation, and the relationship between pro-competitive regulation and other pressures in the community to increase competition and ensure competitiveness. The most important of these pressures is the gradual removal of anti-competitive regulation, such as tariffs, other industry assistance measures, and statutory barriers to entry to, for example, the aviation and banking industries. The review might also benefit from a general examination of the nature and dynamics of competition, and whether all the current provisions of Part IV of the Act are necessary to protect the competition process.

Product liability

Product liability laws specify the circumstances in which people who suffer product-related loss or injury are entitled to receive financial payment from the producers (or sellers) of the goods. They are essentially the legal means of compensating consumers for faulty products, and they affect the incentives for firms to increase the safety of their goods, and for consumers to use goods safely.

Australian laws governing product-related loss are complex and overlap. Each state has its own peculiar regime operating in parallel with Federal law. These in turn complement common law rules of tort and contract to give claimants a range of potential actions, all of which might be included in the one case.

However, gaps remain in the provision of compensation. For example, in some instances, children have experienced great difficulty attaining compensation in deserving cases.

In 1989, the Australian Law Reform Commission proposed a new scheme, which would do away with the legal concept of 'defect' or 'fault' (ALRC 1989).

Largely as a result of business opposition to the Australian Law Reform Commission (ALRC) proposals, in October 1989 the Government asked the Industries Assistance Commission (now the Industry Commission) to report on:

- the economic effects of the ALRC's proposals, and
- the effects on product innovation and insurance charges.

In its report, the Commission (IC 1990) found a number of problems with current Australian laws, but considered that the ALRC's proposals would probably worsen things overall. It recommended that the ALRC's proposals not be adopted and, instead, that less fundamental reform measures should be implemented.

In its March 1991 Economic Statement (PM&C 1991), the Government announced that it had accepted the Industry Commission's main recommendation not to implement the regime proposed by the ALRC, and would introduce a new product liability scheme based around the European Community (EC) Directive on product liability.

Unlike the EC Directive, though, the Government's regime would include a unique double reversal of legal onuses compared to the norm. Claimants would have to show that their losses did not arise

solely through misuse of the product. In turn, the onus of proving whether or not a product defect caused loss would be on producers.

In November last year, the Minister for Justice and Consumer Affairs, Senator Tate announced that the Government would modify its proposals. The double reversal of onuses of proof would be replaced by evidentiary rules that more closely reflect existing common law arrangements, while still aiming to facilitate just claims in the courts. Draft legislation was tabled in Parliament in December 1991.

However, after receiving further comment on the legislation, in June 1992 the Government introduced a new bill which removed the remaining three contentious provisions.² First, the new legislation does not include any special 'onus of proof' provision — legal and evidentiary onuses of proof will remain in accordance with general principles of Australian law. Second, the extra-territorial impact of the draft bill has been removed. This means that overseas customers of Australian products will not be able to take action under the Australian law. Third, the draft bill's 20-year statute of repose for personal injury — the period after the sale of products within which an action must be commenced — has been reduced to 10 years. The new legislation took effect on 9 July 1992.

Anti-competitive regulation

Anti-competitive regulation controls entry to markets or governs prices or production. This form of regulation redistributes income by limiting competition but, in doing so, it can reduce national wealth. Its reform is the main priority of the Commonwealth Government's microeconomic reform program and those co-operative reforms being undertaken with the states.

As discussed extensively in this report, there has been considerable progress in recent years in the reform of anti-competitive regulation. This has included reducing tariffs, liberalising primary industry markets, and opening up transport and communication markets.

2 These three provisions are, however, currently the subject of an inquiry by the Senate Standing Committee on Legal and Constitutional Affairs.

Social regulation

Social regulation, whilst not directly limiting competition, seeks to regulate the production, marketing and employment policies of firms to achieve a variety of social objectives. These may include improved health and safety, environmental or cultural goals.

In common with other developed countries, social regulation is the predominant form of new regulation in Australia. Recent empirical research in the United States has concluded that environmental, road safety, occupational health and consumer product safety controls are the classes of social regulation having greatest economic impact (Hahn and Hird 1990).

From an economic perspective, there are cogent reasons for social regulation. Unfettered market forces can in some circumstances fail to provide optimal levels of particular social goods, services or activities. For example, firms which do not pay the full costs of pollution will emit excessive amounts of waste into the environment or undertake insufficient recycling. Social regulation can help to overcome such market failures. Hence, provided the costs of regulation do not exceed the costs associated with the original market failure, social regulation can potentially deliver benefits to the community.

However, traditional approaches to social regulation have often failed to achieve the potential benefits or, where they have, have not done so at minimum cost. Often, governments have insufficient information to develop economically efficient regulations; and the political imperative to regulate in response to short-term social crises results in overly prescriptive, stringent and costly regulation, much of which is not efficiently enforced. Where regulation is wasteful and inefficient, community welfare is reduced because society has fewer resources available to spend on other social goals.

The reform of social regulation requires a different approach to that of economic regulation. Unlike the case of anti-competitive regulations, a general deregulatory approach is not desirable. Rather, to reform the development and review of social regulations, institutions, decision-making processes and administrative practices must be created which are able both to identify real public problems and deliver efficient solutions. As far as possible, these should use methods which harness, not over-ride, market incentives.

In determining the effects of changes in social regulation, it is therefore necessary to examine the nature of such regulations and the

procedures followed by institutions entrusted to develop and administer them.

Environmental regulation

The high profile of environmental issues over recent years has been reflected in an increase in the number of Environmental Protection Agencies (EPAs). Most states already have an EPA or similar body. In 1991, the Commonwealth Minister for the Environment announced the establishment of a Commonwealth EPA within the Minister's Department. In addition, a National EPA is to be established as part of the Intergovernmental Agreement on the Environment signed by the Local Government Association and Territory, State and Commonwealth governments. The Intergovernmental Agreement (HOG 1992) sets out the roles of the parties and establishes 'ground rules' under which they will interact on the environment. The National EPA will fulfill a similar function to the one played by the Australian and New Zealand Environment Council (ANZEC). The Commonwealth EPA will provide administrative support for the National EPA.

In June 1992, the Commonwealth Government released a National Waste Minimisation and Recycling Strategy (CEPA 1992). The strategy includes an information campaign designed to encourage people and firms to reduce waste and increase recycling; a commitment to collect further and better data on waste-disposal activities in Australia; and targets for waste reduction. The strategy will be administered by the Commonwealth EPA.

Government environmental agencies released a number of draft strategies during the year for public comment. These include, in addition to the draft of the waste and recycling strategy, a draft proposal on waste lubricating oil and used tyres (ANZEC 1991), a draft biodiversity strategy (BDAC 1992), a draft strategy on greenhouse emissions (NGSC 1992) and a draft Ecologically Sustainable Development Strategy (ESDSC 1992). The Department of Administrative Services also released a strategy on environmentally friendly product buying for government departments (DAS 1992).

The two draft strategies examined by the Commission — the draft waste and recycling strategy and ANZEC's draft proposal on oil and tyres — contained a number of undesirable features, many of which breach the Government's regulation review guidelines. First, they did not specify particular objectives. Second, they contained inadequate analysis: they failed to identify market failure or to consider the costs

and benefits of the regulation. Third, they recommended various forms of regulation without comparing different instruments for achieving environmental goals. Fourth, they contained a range of 'command and control' regulations such as waste bans; and arbitrary voluntary targets which, since they are accompanied by a threat of regulation if not met, qualify as *de facto* mandatory targets (IC 1991b; ORR 1991).

The Government has also introduced an 'Environmental Choice' product labeling program. It aims to encourage businesses to register their products and receive government endorsement for their environmental claims. The program's rationale is largely to reduce misleading environmental claims made about goods. However, the cost of registration and testing and the lack of demand for government endorsement appears to have rendered the initiative ineffective. The Advertising Standards Council also recently ruled that a commercial promoting the scheme was itself likely to be misleading (Garraan 1992).

Overall, the approach to environmental regulation requires modification if the community's environmental objectives are to be met at least cost.

Motor vehicle safety regulation

US research suggests that several road-safety interventions have yielded a substantial net gain to the community (Hahn and Hird 1990, p.256). For these interventions, the sum of the benefits of avoiding collisions and/or minimising their impact exceeded the total costs of collision avoidance and protection by margins larger than for other forms of social regulation (including safety regulations in other areas).

Optimising the regulation of safety enhances social welfare as it seeks the greatest benefit, a large part of which is a reduction in human loss and suffering, at least cost. Inefficient regulation detracts from this objective as it reduces the resources available to achieve other social goals. For example, if regulation requires excessive expenditure on, say, air-safety, the community will have fewer resources available to spend on more pressing safety needs, such as road safety.

The Commonwealth Government shares responsibility for road safety regulation with the states. Since 1989, it has had a monopoly over specifying vehicle safety standards through Australian Design Rules (ADRs) made under the Motor Vehicles Standards Act.

In the past, the development of such rules, while based on sound engineering practice, has relied little on formal economic analysis to determine their net worth. The rules have often been prescriptive and have differed from the standards of other markets, thus requiring importers to make special fitments or alterations to Australian vehicles and adding costs to Australian vehicle exports.

However, some recent experience demonstrates a move towards sounder regulation development processes. For example, following a detailed study, the Federal Office of Road Safety (FORS 1992) has proposed a new vehicle occupant protection ADR — covering devices such as air-bags and seat-belt pre-tensioners — based on US Federal Motor Vehicle Safety Standard 208. The study involved risk assessment, benefit-cost analysis, a move towards contingent valuation to determine consumer willingness to pay for higher levels of safety in cars, and consultation processes. It also marks a move to performance safety standards. Manufacturers are required only to show that their cars reach a certain level of safety, rather than being forced to include particular safety features in their cars. This allows producers more flexibility to meet the regulations at lower cost.

Notwithstanding this positive development, it is apparent that the Commonwealth Government also sees the motor vehicle standards as an instrument of industry policy. In the recent inquiry conducted by the Senate Standing Committee on Industry Science and Technology into the Government's decision to impose a \$12 000 per unit duty on second-hand imported vehicles, the Minister for Industry, Technology and Commerce stated:

Anybody who comes to this inquiry and says that the issue in 1989 was purely an issue of the safety of cars can only be described as extremely naive. It was not just an issue of the safety of cars, it was the whole question of second-hand car volumes eroding the new car market (Button 1992d).

Clearly then, the intention of the Motor Vehicle Standards Act was not only to establish regulation for safety reasons but also to protect local producers from import competition.

As the Commission has noted in other contexts, it is inefficient to use social regulation to pursue industry development objectives. In the case of motor vehicle standards, such a dual-purpose policy approach not only reduces the transparency of the cost of assistance provided to domestic automotive manufacturers, it also impairs the FORS from regulating vehicle safety on a risk-related and cost-effective basis.

New national regulatory agencies

Intergovernmental co-operation on various social and economic issues is increasing. Governments at all levels have long acknowledged the cost of market fragmentation caused by excessive duplication and overlap of regulation in a federal system. However, effective political means to deal with the problem have been established only in the last few years — the Special Premiers' Conference arrangements being the most prominent. This increased co-operation between Australian governments has resulted in the Commonwealth Government being given a greatly increased role in the regulation of firms for a wide range of social and economic purposes — a role which the Constitution and practice has largely left with the states.

This trend has seen the creation of a number of institutions charged with developing national regulatory standards and, to a lesser extent, strategies for enforcing these standards. The more important national institutions established under Commonwealth/State agreements to rationalise regulation include the National Occupational Health and Safety Commission (Worksafe Australia), the Australian Securities Commission, the National Food Authority, the Therapeutic Goods Administration in the Commonwealth Department of Health, Housing and Community Services and, as mentioned, a National Environment Protection Agency. Negotiations are proceeding with the states to establish a national Agricultural and Veterinary Chemicals Authority and an agency to regulate the release of genetically modified organisms.

These agencies have been established by either: first, a referral of power to the Commonwealth under the Constitution; second, the implementation of parallel legislation by the States and Commonwealth; or, commonly, third, the establishment of national councils who recommend implementation of parallel legislation one by one. Each involves participation by the Commonwealth and the States, with a declining level of surrender of State influence and an increasing degree of uncertainty associated with implementation. Nonetheless, in all three, the Commonwealth enjoys a prime role.

However, these developments have occurred ahead of the Commonwealth Government's adoption of comprehensive procedures for vetting new regulatory proposals, of the type used by some states.

Centralisation of regulatory authority has a number of potential advantages. Whilst allowing individual states to opt out of particular national arrangements in unusual circumstances, it can:

- establish clear responsibility for the regulation of a particular activity and thereby improve political accountability for results;
- facilitate the development of uniform regulatory standards and their national application;
- provide a framework for efficient enforcement — for example, by encouraging the sharing of compliance information between authorities;
- ease the introduction to Australia of the desirable regulations and regulatory practices of other countries; and
- bring a greater concentration of expertise to the technical and economic evaluation of regulatory proposals.

However, centralisation of regulatory authority and the creation of supporting institutions does not guarantee these benefits. The Commonwealth Government has had little experience in some areas of economic activity it is now responsible for controlling, and assembling technical expertise is proving to be a difficult task for the agencies.

More importantly, where a national agency acquires an effective monopoly on regulatory power, there are increased risks that:

- organised interest groups will be in a better position to exercise undue influence;
- the absence of competing regulatory agencies will reduce incentives to regulate efficiently;
- more directive, rather than consultative, approaches to regulation will be adopted; and
- comprehensive parliamentary and executive procedures for the vetting of new regulatory proposals used by some states will be avoided.

Given these risks, it needs to be remembered that the goal of intergovernmental co-operation is not to pursue uniformity of regulation for its own sake, but rather to widely apply regulations which deliver real community benefits at least cost.

Early experience with the performance of the national authorities is mixed. No agency undertakes and publishes adequate analysis of its proposals — indeed most agencies lack a capability to do this. The

public consultation practices of the authorities are also sometimes unsatisfactory. Some agencies, notably the Australian Securities Commission, have been under pressure to produce a large amount of new regulation in a very short time, and at an early point in their life. Other agencies, such as the National Food Authority, have inherited backlogs of outstanding applications which have inhibited them from formulating their own approach, while others, such as the Therapeutic Goods Administration, have been undergoing extensive internal reorganisation.

While the new national regulatory arrangements are potentially more efficient than those they replaced, it is unclear that they have yet delivered substantial benefits to the community. There remains considerable scope for the national agencies to adopt efficient regulatory practices — such as consideration of market-based solutions, comprehensive economic analysis of proposals, adequate public consultation and adoption of transparent decision-making criteria.

There are a number of approaches to improve the regulatory practices of agencies. One is the development and adoption by all Australian governments of standardised 'sunrise' procedures for the assessment of new regulation. These would require all proponents of regulation to follow a common set of administrative procedures prior to the approval of new regulation. In this regard under the parallel legislation approach discussed above, there is a risk that 'sunrise' procedures will either be duplicated or totally avoided in the establishment of an agency or in the implementation of its recommendations. A mechanism needs to be established whereby the recommendations of national agencies are subject to a single sunrise procedure. If comprehensive Commonwealth procedures are developed (see below), these should probably be applied. Further, these agencies should to the maximum possible extent accept the regulations of comparable countries: for example, new drug approval decisions made in the USA and the European Community. The Commission will pursue these issues with the national agencies and the states during the year.

Regulation-making processes

The processes used by governments to make and review regulations were subject to some significant reforms during the year, and the

Administrative Review Council completed the first major review of Commonwealth regulation-making practices.

Mutual recognition of regulation

Most important of these reforms was the final agreement reached by the Commonwealth and the states to recognise each others' product and occupational regulations. Heads of government of the Commonwealth, States and Territories signed a final agreement at their meeting on 11 May 1992 to introduce complementary legislation to achieve a common market within Australia. On present planning, subject to the successful passage of legislation through the Commonwealth and all State parliaments, the arrangements will commence on 1 March 1993.

Mutual recognition will allow free trade between the states in locally produced and imported goods which meet agreed base-line standards, notwithstanding continuing differences between detailed state requirements. It also facilitates labour mobility by allowing free entry by practitioners of regulated occupations to the markets of all states provided tests of the equivalence of occupations are met. It puts a strong discipline on governments not to introduce impediments to inter-state trade and, consequently, is an important adjunct to the tariff reduction program.

The mutual recognition agreement provides for a review in due course of New Zealand's participation. This option is being pursued in the present round of extensions to the Closer Economic Relations agreement.

The Commission first proposed a mutual recognition policy in its 1989-90 Annual Report. Its achievement has been acknowledged as a particularly successful outcome of the 'new federalism' processes established by the Hawke Government. These processes, which centred on a series of Special Premiers' Conferences, proved to be an effective means of progressing micro-economic reform. The future pace of reform depends on continuing intergovernmental co-operation. The new Council of Australian Governments has been established to pursue this objective.

Administrative Review Council report

The Administrative Review Council (ARC) completed its review of Commonwealth regulation making and presented its report to the Attorney General on 26 March 1992. It summarised its major findings as follows (ARC 1992, p.ix):

... the traditional form of delegated instrument has been the statutory rule, most commonly the regulations made by the Governor-General in Council for which a framework for making, publication and scrutiny has developed over time. However, in recent years there has been a vast growth in the volume and diversity of delegated legal instruments. Different and often inconsistent practices for drafting, consultation, scrutiny and publication apply. The extension of some procedures associated with statutory rules has overcome some anomalies but significant problems still remain. In particular, the framework of principles and procedures for the making of delegated legislative instruments is patchy, dated and obscure.

The Council recommended the enactment of a new statute, to be known as the Legislative Instruments Act, to control the assessment, making and retiring of all subordinate legislation. It proposed that the new regime contain the following elements:

- better guidance on matters appropriate for inclusion in Acts of Parliament and matters which can be included in delegated legislation;
- improved practices to ensure high-quality drafting for all Commonwealth rules;
- mandatory consultation with the community before important rules are made;
- 'sunsetting' of all rules on a ten-year rotating basis;
- establishment of a Legislative Instruments Registrar in which all rules should be published (rules would not be enforceable if they were not published in this way); and
- special adaptation of these general procedures for rules of court and rules made under intergovernmental schemes for nationally uniform regulations.

The ARC's proposals extend the Commonwealth guidelines for internal governmental scrutiny of new major regulatory proposals to all subordinate legislation, and they introduce standardised and enhanced public consultation processes. Importantly, the ARC recommended that, should agencies avoid the use of these processes, the regulation should be liable to disallowance by the Senate.

In the Commission's view, public justification of proposals to regulate will improve the efficiency of regulations, by requiring that the costs and benefits be identified and by reducing the opportunities for authorities to push through regulations which simply confer benefits on some sectors of the community at the expense of others.

But while the Commission supports early adoption of the ARC's recommendations, its experience suggests that the Commonwealth regulatory agencies will need to improve their expertise in economic analysis if those recommendations concerning the justification of proposals are to be met.

Integration of business licensing databases

Most States and Territories in Australia have established 'one-stop shop' Business Licensing Centres. These centres assist people getting started in business with information on the licences, permits, approvals or registration required, and by providing the necessary paperwork.

In December 1990, Commonwealth, State and Territory Ministers responsible for small business agreed to several initiatives to enhance the performance of the small business sector, including the integration of State/Territory and Commonwealth registers of business licensing and regulatory information. Commonwealth licensing information has now been integrated in the data-bases operated by the New South Wales, Victorian and Queensland governments. The enhanced systems will enable business to obtain both Commonwealth and State licensing information through a central one-stop licence shop.

In addition to improving individuals' access to licensing information, the centralised collation of licensing and regulatory information will enable governments to review and rationalise licensing requirements across jurisdictions, to avoid duplication, overlap and inconsistencies, and to enable the reform and elimination of needless requirements and regulation.

Risk assessment in regulation development and review

Many types of risk are encountered in daily life and there are pressures on governments to use regulation to moderate the consequences of adverse events on individuals and firms. For example, governments are called on to intervene in markets to cover

losses from investments or to subsidise the costs of insurance against common occurrences such as the risk of illness.

Safety risk is a generic class of risk which is extensively regulated, but policy analysts are increasingly questioning the efficacy of this form of regulation. This is partly because high economic costs are involved but mostly because the record shows that it is difficult for regulatory authorities to remain remote from political concerns about particular types of dangers.

While high risk levels are undesirable, society cannot be risk-free. For example, short of banning motor vehicles, there will always be some risk and incidence of road accidents. Similarly, short of taking all therapeutic drugs off the market, there will always be some risk of people suffering injury or dying from drugs with adverse side-effects.

Further, measures to reduce risk are often costly. For example, airbags can reduce the risk of injury to those motor vehicle occupants involved in road accidents, but can cost around \$500 each to purchase. Overly stringent drug testing procedures are costly not only in financial terms but also because they can stall the introduction of safe (even life-saving) drugs to the market.

Traditional approaches to regulation development often fail to strike an appropriate balance between risk-reduction and costs, for five main reasons. First, regulatory agencies often lack proper procedures for evaluating different policy proposals, and often fail to apply procedures consistently. Second, regulatory agencies sometimes lack transparency in their decision making. Because agencies often produce their own data on costs and benefits, there is the risk of bias in the selection process such that data will be chosen to exaggerate the importance of the agency's jurisdiction or to overstate the effectiveness of its actions (Morrall 1986). Third, regulatory agencies face incentives to 'err on the side of caution'. For example, an agency that approves a drug which turns out to have adverse side-effects may face political retribution or loss of prestige, whereas one that keeps a life-saving drug from the market is less likely to be criticised. Given this 'fear of regret', agencies tend to be overly cautious in estimating risk levels. Where cautious assumptions are compounded, the level of risk being addressed can be seriously overstated (Nichols and Zekhauser 1986). Fourth, this cautiousness may be exacerbated by pressure from incumbent firms to keep new competing products from the market. Fifth, technical specialists are often required to make not only technical judgments about the actual level of risk but also value

judgments about what constitutes an acceptable level of risk, when the latter should be determined by policy makers (Refshauge 1982; Kjellstrom 1983).

These problems can all lead to overly stringent regulations which impose greater costs on the community than the benefits they confer by reducing risk levels. For example, estimates from the US show that the cost per life saved (in 1984 \$US) ranges from \$100 000 for steering column protection regulations to \$72 billion for formaldehyde emissions regulation (Morrall 1986). This implies that, if the latter regulation were removed, the United States could afford to save more lives in other areas. Similarly, a study of mandatory swimming pool fence legislation in Western Australia found that the legislation would cost between \$1.8 million and \$3.2 million per young life saved: this is approximately equal to the cost of buying 200 to 300 humidicribs for public hospitals. Looked at another way, the regulation costs between \$40 000 to \$70 000 per year of life saved, which is far higher than the cost per year of life saved of any screening or health promotion measure (Harris, Warchivker and de Klerk 1992). Because of the trade-offs involved in pursuing health and safety goals, regulations and programs should be carefully analysed and, where necessary, rationalised.

In May 1992, the NSW Economic and Regulatory Efficiency Unit — the ORR's NSW counterpart — released guidelines for dealing with risk management in regulation development and review (EREU 1992). The guidelines set out:

- the nature of the risk-management problem in regulation;
- actual and perceived levels of risk;
- socially acceptable and unacceptable levels of risk; and
- procedures for incorporating risk assessment into cost-benefit and cost-effectiveness analysis.

If adopted by government, the guidelines will provide a rational, data-based, analytical process to evaluate whether regulatory proposals involving risk will confer the greatest overall benefit to the community.

The Commission sees the adoption and implementation of such proposals as a desirable adjunct to regulation development and review activities. Again, however, it is cautious about the capacity of current regulatory agencies to undertake such procedures and notes that, at the Commonwealth level, successful implementation would require

that personnel in the agencies receive appropriate training in evaluation techniques.

H DEVELOPMENTS IN SPECIFIC INDUSTRY ARRANGEMENTS

As part of its annual review of the performance of Australian industry, the Commission monitors developments in special arrangements that apply in the case of some industries. These include major infrastructure industries — such as road, rail, sea and air, along with energy supply and telecommunications — as well as industries for which special assistance arrangements apply (and which may not be covered by the Commission's measurements of assistance to agriculture, manufacturing and mining industries, see Appendix K). Measures and policies that support selected groups of industries or particular activities are reviewed in Appendix I.

Industries for which summaries of recent developments in special arrangements are reported in this appendix are:

- aviation;
- waterfront and shipping;
- rail;
- road transport;
- energy supply;
- telecommunications;
- dairy;
- wool marketing;
- pharmaceuticals;
- automotive; and
- textiles, clothing and footwear.

The list is not exhaustive of specific industry arrangements.

Aviation

The development of aviation in Australia has been severely constrained by the prevalence of economic regulation. However, reforms introduced in 1990 have led to increased competition in the provision of interstate air services, with significant benefits for consumers. More recently, the Government announced initiatives to remove some of the regulatory barriers separating Australia's domestic and international aviation sectors, and to develop a single aviation market with New Zealand. In addition, there has been some further deregulation of intrastate air services, though these remain subject to extensive regulation in Tasmania and New South Wales.

Deregulation of interstate aviation

The Commonwealth ended its formal regulation of interstate aviation in October 1990. Under its two-airline policy, the Government had effectively controlled capacity, prohibited competitors to Ansett and Australian Airlines on interstate routes and set airfares.

A new operator — Compass Airlines — entered the market in December 1990, concentrating on high-density and long-distance routes. In the eighteen months to March 1992, passenger activity on the top 18 interstate routes grew by 45 per cent, while average revenue per passenger-kilometre fell by 23 per cent (PSA 1992b). Indeed, between September 1990 and December 1991 — which includes the twelve months' operation of Compass — revenue per passenger-kilometre fell by 32 per cent. Discounting occurred network-wide, not just on routes serviced by Compass.

At its peak, Compass carried 10 per cent of total domestic aviation traffic and 21 per cent of the traffic on markets in which it operated. However, Compass' financial position steadily deteriorated from its inception and it terminated operations after just one year. In its inquiry into the causes and consequences of the airline's collapse, the Trade Practices Commission concluded that "shortcomings in the entry strategy and management of Compass appear to have been the most important contributing factor" (TPC 1992a, p.54).

The failure of Compass does not imply the failure of deregulation. After decades of 'duopoly' under a tightly regulated system, the two major domestic airlines have already been exposed to significant competitive pressures — which have persisted despite the collapse of

Compass. Competition (including the threat of it in the form of prospective new entrants) has induced both the incumbent airlines to operate with greater efficiency. Since deregulation, Ansett and Australian have each cut staff by about 10 per cent. Further efforts have been made to cut operating costs by introducing more flexible working arrangements for cabin crew.

The indications thus far are that domestic airline travellers have also enjoyed better value for money. Australian and Ansett have sought to differentiate their cabin configuration and other services across fare classes. Frequency has increased, as has the number of non-stop services. There have also been improvements in on-time performance and cabin and ground services — and aviation safety has been maintained.

Continued scope remains for new entrants in what has become a contestable market. Indeed, Southern Cross Airlines Holdings Limited commenced operations in August 1992 after acquiring Compass. The development of a single aviation market with New Zealand offers further prospects for competition.

Nevertheless, there remain barriers to entry to which government attention should be directed if the full benefits of reform are to be obtained. In particular, the experience of Compass has focussed attention on access to adequate terminal facilities — a problem which the Government has more recently sought to address (see below). In addition, the TPC continues to monitor strategic factors such as alliances between airlines, their integration with travel agents and arrangements covering computer reservation systems.

Recent developments in domestic and international aviation policy

In February 1992 as part of its 'One Nation' statement, the Government announced a strategy to accelerate changes in the Australian and Australasian aviation markets. The strategy included:

- permitting equity investments between Australian operators and allowing Qantas to operate on domestic routes;
- implementing a policy of multiple designation for Australian international carriers and renegotiating bilateral air service agreements;

- seeking the New Zealand Government's agreement to implement a single aviation market, allowing Australian and New Zealand carriers full access to the Australasian market;
- support for the development of common-user terminal facilities at Federal Airports Corporation (FAC) airports; and
- additional funding to accelerate the transfer of Commonwealth aerodromes to local authorities, and withdrawal of airports from the Aerodrome Local Ownership Program.

The first three areas were addressed further in subsequent announcements.

Support for common-user facilities is expected to resolve some of the current problems of inadequate access to terminal facilities. The assistance required by the FAC from the Government is to be subject to commercial negotiation.

Accelerated transfer and withdrawal of the Commonwealth from ownership of non-FAC airports may be expected to place airport infrastructure on a more commercial footing.

During the already extended sales process for 100 per cent of Australian Airlines and 49 per cent of Qantas, the Government made a number of announcements in June 1992 (and subsequently) concerning its aviation policy. These included:

- sale of Australian airlines to Qantas for \$400 million by the end of September 1992;
- sale of 100 per cent of the combined airline;
- establishment of an independent tribunal, the International Air Services Commission (IASC), to allocate capacity rights on international aviation routes among Australian carriers previously identified by the Australian Government; and
- following negotiation with the New Zealand Government, the trans-Tasman market will be gradually opened to competition.

Subsequently, in a memorandum of understanding signed in early August 1992, the Australian and New Zealand Governments agreed that a second Australian domestic carrier can offer trans-Tasman services commencing in November 1992, with an increased range of services in 1993 and full access by 1994. The agreement facilitates a staged expansion of 'beyond rights' for both Australian and New Zealand carriers from November 1992 through to 1994. Agreement was also reached to seek a new airline treaty by November 1993,

which would form the basis of a single airline market — allowing airlines of either country to operate domestic services in the other country.

The merger of Qantas and Australian Airlines may of itself reduce the potential for competition on the Australian domestic market relative to their retention as separate carriers. On the other hand, the combined resources of the two airlines should provide opportunities for some rationalisation of facilities and operations. The subsequent formation of a single Australasian aviation market should encourage further competition.

Ansett's role in international aviation is yet to be seen. The memorandum of understanding with New Zealand will initially allow Ansett to link up with its existing services in specified points in New Zealand, and its trans-Tasman operations will be unrestricted from the end of 1994.

The IASC has been given a charter to take a proactive approach to providing domestic airlines with the ability to compete equitably with Qantas in international markets where Australia has negotiated bilateral rights. However, the provisions under which the IASC operates restrict the scope for new Australian carriers to compete with Qantas in servicing international routes. For example, the capacity and route entitlements in use by Qantas at 1 July 1992 are unable to be reallocated to other Australian carriers until July 1997. Rather than allocating rights to fly on other international routes by tender, the IASC will make administrative determinations allocating available capacity to designated Australian carriers. Under the *International Air Services Commission Act 1992*, the IASC is required to make a judgment on the capability of applicants who wish to operate on an international route and issue licences in accordance with the perceived benefits as they apply to, or are obtained by, inbound tourism, consumers, international trade, the level of competition in and structure of the industry, and "such other criteria as the Commission considers relevant". How these criteria will be reconciled will have important ramifications for the development of competitive air services.

Developments in the regulation of intrastate aviation

The Industry Commission recently found that the intrastate aviation sector is not performing to its full potential (IC 1992b). The sector's present performance and future development is being hampered by a

number of factors which are subject to the control of governments in Australia. The most significant of these is 'economic' regulation which continues to apply to intrastate airline operations in a number of states. The Commission concluded that the costs of continuing to regulate intrastate air services outweigh the benefits of deregulation. The Commission recommended that all economic regulation of intrastate aviation activity by state and territory governments be dismantled.

The Northern Territory deregulated all intraterritory aviation services on 1 January 1992, leaving services in Victoria, South Australia and the Territories no longer subject to state/territory regulation. Minimal regulation remains in Queensland, while in Western Australia only the relatively small non-jet network is regulated — and this is to be reviewed during 1992–93.

However, intrastate aviation continues to be subject to extensive regulation in Tasmania. In addition, in New South Wales the Government has announced that entry to most routes will continue to be restricted. But an additional operator will be permitted on some major routes, and open competition will be allowed on routes relinquished by existing licensees. Licence conditions will continue to specify the standard of service on some regulated routes in New South Wales.

To the extent that the new measures in New South Wales lead to effective competition among the licensed duopolists — an important proviso — they should improve efficiency. However, the experience of the two-airline policy suggests that the prospects of meaningful competition are small. There appears to be some inconsistency in permitting open competition on those routes relinquished by licensees, but preserving regulation on other 'thin' routes which the regulated operator wishes to maintain. This approach is oriented more towards the interests of existing licence holders than the communities they service.

The Commission's report on intrastate aviation also considered inefficiencies associated with the provision and operation of airports, and in the provision of safety and air navigation services. It expressed particular concerns about the lack of competitive pressures to which the Civil Aviation Authority (CAA), airports generally and the FAC are exposed, and the current charging policies of the CAA and the FAC.

Waterfront and shipping

In June 1989, a three-year program was initiated to reform Australia's waterfront and shipping sectors. The program involved reducing stevedoring labour and reforming work practices on the waterfront, recrewed Australian vessels and retraining seamen, and consultations with the states about reform of port authorities at the state/territory level. Reform of the towage industry was initiated in December 1989.

Stevedoring reform

In September 1989, an In-Principle Agreement (IPA) was signed by the Australian Council of Trade Unions (ACTU) and the Association of Employers of Waterside Labour — spelling out the principles for a negotiated, orderly implementation of change in waterside employment structures, work and management practices, training and career opportunities and a reduction in the number of unions. The IPA was endorsed by the Commonwealth Government in October 1989. The waterfront reform process was implemented under the auspices of the Waterfront Industry Reform Authority (WIRA), established in 1989. The Authority's existing mandate is due to terminate in October 1992.

Progress on reform

The central feature of the program is the progressive introduction of enterprise-based agreements (EBAs) to replace industry-wide arrangements. The original Agreement provided for a reduction in the stevedoring workforce of 2000 (3000 voluntary redundancies partly offset by 1000 new, younger recruits) — with the Commonwealth providing \$154 million for redundancy packages and retraining on a dollar-for-dollar basis with industry. These funds were to be released as EBAs were approved by WIRA and implemented.

In the twelve months to 30 June 1992, WIRA approved a total of 47 EBAs. Of these, 28 concerned the five major ports of Sydney, Melbourne, Brisbane, Adelaide and Fremantle. In the case of regional ports, 19 EBAs have been approved in a total of 14 ports, with negotiations for 10 other agreements concluded and 6 more well advanced. Agreements and proposals under discussion cover all 32 regional ports. In total, 53 EBAs have been approved by WIRA.

A total of 3220 employees left the industry under the voluntary redundancy/retirement option in the period up to 30 June 1992. In addition, 836 employees left through natural attrition and existing

redundancy schemes. Recruitment of 265 new employees has been well below that originally anticipated, leading to a net reduction of 3791 (or 42 per cent of the original workforce).

A further 800 workers are still considered surplus to requirements. These workers have been placed on Transitional Labour Lists, established to assist with implementing EBAs by facilitating the redeployment of employees who have not left the industry under the IPA, yet remain excess to the requirements of the relevant enterprise. Funding for these redundancies is being negotiated between WIRA, the unions, employers and the Government.

A new skill-based classification structure, rates of pay and basic working conditions — such as hours of work and leave provisions — were set out in the *Stevedoring Industry Award 1991* and ratified by the Australian Industrial Relations Commission on 25 November 1991. The award replaced 21 previous Awards and superseded the interim Award of 12 July 1990. The new Award is intended to operate in conjunction with EBAs.

During February and March 1992, WIRA completed the preparation of contracts for the release of Commonwealth funds for training undertaken by enterprises under the provisions of the IPA. Stevedoring enterprises which have the required training arrangements in place can access these funds.

WIRA commenced a review of the three-year reform program in mid April 1992, as required under the IPA. The first substantive meeting of the parties undertaking the review was held on 5 May. WIRA considers that other IPA issues which need to be finalised before the expiry of the Agreement include the termination of transitional arrangements, training arrangements, safety, union coverage at grain terminals, and the removal of industry arrangements which are no longer appropriate under enterprise employment arrangements (WIRA 1992). A final report on these matters will be prepared by the end of October 1992.

The benefits of reform

The benefits of stevedoring reform have been significant, including reductions in prices to shipping lines, reduced ship turn-around times, declines in truck-queuing times and a fall in time lost through industrial disputes. WIRA has monitored reform on the waterfront and has regularly published performance indicators. These show an

average 100 per cent increase in containers handled per employee shift, a 39 per cent decline in ship turn-around times, a rise of more than 100 per cent in tonnes handled per employee shift at grain terminals, and a reduction in stevedoring charges of 20 to 25 per cent over the past twelve months (WIRA 1992).

However, some shippers have claimed that the benefits of reform are not being passed on to them; instead they are being captured by other industry participants. The PSA is inquiring into land-based charges levied in Australian ports by ocean carriers and conferences, with regard to the current basis for establishing land-based charges, and whether reductions in stevedoring charges arising from reforms to the stevedoring industry are being reflected in these land-based charges. The PSA's report is due to be completed in September 1992.

Port authority reform

Port reform is a vital part of microeconomic reform. Port authorities, by virtue of their control of the port waterways, land and infrastructure and the charges they set for port services, are in a position to influence competition and efficiency in ports and hence Australia's international competitiveness.

The structures, objectives and functions of Australian port authorities differ widely between and within states/territories. While much of the waterfront and shipping sectors have been undergoing substantial reform on an Australia-wide basis, port authority reform has been largely pursued on a state-by-state basis.

Several port authorities have continued to rationalise their activity, either through reducing the range of services they provide, or through contracting out of their activities. As a result, total employment has fallen from almost 7000 in June 1988 to a projected 5150 in June 1992 (P. Brown 1992).

Change in port pricing arrangements has continued, with an increasing emphasis being given to user-pays pricing. This has resulted in greater weight being given to ship-based charges, and less to cargo-based charges. Because of resistance from some shipping lines, the pricing reform process has slowed somewhat over the last year.

In April 1992, the House of Representatives Standing Committee on Transport, Communications and Infrastructure reported on the

efficiency of the interface between seaports and land transport. The report concentrated on how to improve co-ordination and interaction in the sea-land transport chain. The Committee made a number of recommendations — including establishment of Interface Efficiency Councils, greater use of Electronic Data Interchange, simplification of cargo and financial documentation, and monitoring of port efficiency. The Committee also considered that port authorities should play a facilitation role in the sea-land transport link.

Currently, the TPC is studying the effects of port authority leasing practices on intraport competition, and the efficiency with which cargo is moved between ship and shore.

The Industry Commission is currently conducting an inquiry into port authority services and activities. A draft report is due to be published before the end of 1992, with the final report due by 19 March 1993.

Shipping reform

Following and Industries Assistance Commission report on coastal shipping, in November 1988 the Government established the Shipping Reform Task Force to report on the scope for further improvements in the efficiency and competitiveness of the Australian shipping industry — following from the Crawford and Maritime Industry Development Committee (MIDC) initiatives of the 1980s. This Task Force recommended to the Government that a program be introduced to reduce the size of crews on new and existing ships, with redundancies and retraining to be jointly financed by Government and industry. The new program retained the policy of *cabotage* (under which coastal trade must be carried in Australian licensed vessels), but the flexibility of the permit system for using foreign ships on the coast was increased. The Shipping Industry Reform Authority (SIRA) was established for three years from 1 July 1989 to oversee the development and implementation of this strategy.

Progress on reform

All elements of the reform strategy adopted in 1989 have been, or are in the process of being, completed. A major part of the shipping reform strategy was the reduction of crew levels. 'Pre-Crawford' vessels have had crews reduced from an average of 31.2 to 25.5 berths, while 'Crawford' vessels have now been recreated to MIDC levels, decreasing from 25.9 to 21.9 berths. Further agreements have

been reached on a number of other vessels to reduce crew levels to as few as 18. Overall, average manning levels for trading vessels over 2000 deadweight tonnes has fallen from 27.7 to 20.9 over the period July 1989 to June 1992 (SIRA 1992b).

The Commonwealth Government has contributed toward the voluntary early retirement of 450 ratings over the three-year period, at a total cost of \$10.8 million. Funding has also been provided for the voluntary early retirement of electricians, deck officers and radio officers — to facilitate removal of these berths. Overall, 729 voluntary early retirement packages have been taken up by seafarers since the start of the reform program, at a total cost to the Government of \$17.5 million and to shipowners of \$42 million (SIRA 1992b).

Over the life of the reform program, the Government has also contributed \$5 million towards the non-tuition costs of 1574 seafarers undertaking retraining, as well as \$4 million in tuition costs associated with the retraining of 481 ratings (SIRA 1992b).

With the conclusion of the three-year program in June 1992, SIRA reported to the Government on the results of the program and options for future reform. Its report, entitled *Shipping Reform: Past, Present, Future*, recommended that continuing reform of the Australian shipping industry be expedited and that the Government, through SIRA, maintain its involvement in an ongoing reform process. The Government agreed that negotiation on future reform be facilitated by SIRA, with a further report due to be provided to the Government by the end of August 1992 (SIRA 1992a).

A relaxation of coastal voyage permit guidelines has seen a steady increase in the number of 'single voyage' permits (SVPs) issued. In 1989–90, a total of 88 SVPs were issued, rising to 142 in 1990–91 and 203 in 1991–92. However, no continuous (multiple) voyage permits have yet been issued.

The benefits of reform

In February 1992, the PSA released its first report on the *Monitoring of Coastal Shipping Freight Rates*. The main conclusion of the report was that, while it was difficult to apportion the reduction in freight rates to the effects of the shipping reform process or to current economic conditions, reductions appear mainly to reflect the downturn in the economy and the increase in capacity in some trades (PSA 1992a).

The Authority will continue to monitor coastal shipping freight rates and intends to report further on the impact of the reforms in 1992-93.

Towage reform

In December 1989, the Government endorsed the key elements of the Towage Industry Reform Strategy — which included reductions in tugboat manning, a review of port practices and the introduction of training. The Towage Industry Reform Implementation Committee (TIRIC) was established to oversee this strategy.

Progress on reform

At the commencement of the process, harbour tugs were crewed with up to 8 persons (and ocean going tugs up to 14). Crews have been progressively reduced over the three-year period, with harbour tugs now with a crew of 4 and 'outside' tugs with a crew of 9.

The Government has contributed \$5.76 million for 240 voluntary early retirement packages, with the employers contributing approximately \$17 million. A further 21 compulsory redundancies have taken place at a cost to employers of \$430 000. Thus a reduction of 25 per cent of the workforce has occurred since the commencement of the program in 1989 (TIRIC 1992).

Reductions in crew numbers have been complemented by a comprehensive review of port practices, resulting in a more efficient utilisation of plant, equipment and human resources. Changes in rostering arrangements have increased the availability and flexibility of tugboats, while rationalisation has minimised duplication. In excess of 90 per cent of employees in the industry have completed industry-specific training courses, with the Government contributing \$2 million towards non-tuition costs (TIRIC 1992).

The question of ongoing reform in the towage industry is currently being considered by operators and unions. Any specific recommendations will be incorporated in the SIRA report on the continuing reform of the shipping industry in August 1992.

Rail

All five government-owned railway systems in Australia have implemented some reforms in recent years. But there remains

considerable scope for further efficiency gains, as evidenced by the Industry Commission's estimate that, together, railways operate at an annual loss of \$4 billion, equivalent to around \$12 million per day.

During 1991-92, the only significant reform within individual states was in Queensland where the Government has modified the much-criticised coal rail freight rates which have been excessively high because they were used, *de facto*, to impose a resource royalty. In April 1992, the Queensland Government announced that it had eliminated the royalty element from coal rail freight charges for new mines and for expanded output from existing mines. In its place, a specific resource utilisation charge will be imposed. Other adjustments have been made to rail freight rates to enhance the competitiveness of the Queensland coal industry (Goss 1992).

The most important recent national reform has been establishment of the National Rail Corporation (NRC). In October 1990, Commonwealth, State and Territory leaders signed an agreement to proceed. The NRC was incorporated as a company in September 1991. It is owned jointly by the Commonwealth and relevant State Governments and will be a strictly commercial undertaking operating 'at arm's length' from government.

The Government's 'One Nation' statement in February 1992 included an announcement that the Commonwealth would provide \$454 million over two years for rail infrastructure investment — which would complement investment planned by the NRC. Principal elements are standardisation of the Melbourne-Adelaide line (\$115 million), upgrading of the Melbourne-Sydney track (\$118 million) and the Sydney-Brisbane track (\$82 million).

In order to ensure that such investment is efficiently utilised, the Commonwealth imposed the following conditions:

- firm commitments from unions for a 'greenfields' NRC labour agreement;
- firm commitments from state governments to accelerate reform of their rail systems, including the early adoption of relevant recommendations from the Industry Commission's 1991 report on the rail industry; and
- that the NRC agree with the design of investment projects and subsequent maintenance standards.

The first of these conditions appears to have been difficult to meet. Negotiations between the ACTU and NRC were not finalised until August 1992.

The second of the conditions led to commitments from State Premiers at the 11 May 1992 Heads of Government meeting to accelerate reform of their rail systems over the next three years. It is proposed there be a review in early 1994 to assess states' progress (B. Brown 1992).

On 6 August 1992, the Commonwealth Government announced that approval had been given for funding of \$181 million of rail infrastructure projects — the first stage of the \$454 million program included in the 'One Nation' statement (Keating and Brown 1992).

Road transport

The major initiative in road transport during the last 12 months was the Heads of Government agreement in July 1991 to introduce nationally consistent road regulations and to improve the efficiency of charges for heavy vehicles. The agreement is a milestone in intergovernmental relations on road transport and an important first step towards introducing microeconomic reforms into this key area of infrastructure.

A National Road Transport Commission (NRTC 1992a) was established in 1992 to develop reform proposals through research and public consultation. The NRTC is charged with recommending simplified road transport arrangements that are fairer and more efficient. Governments have agreed that recommendations accepted by a majority of a Ministerial Council will be introduced on either a national or zonal basis.

A key feature of the government agreement is the acceptance of a common procedure for allocating road-user costs. Under the procedure, expenditure on roads in each year is taken as an approximation of the annualised cost imposed by road users. This cost is allocated to vehicles according to the extent of their estimated road use, as measured by factors that affect construction and maintenance costs. Accordingly, road expenditure is fully recovered where charges are matched to the allocated costs. This will help clarify debates about the level of cost recovery for roads, and make governments accountable for the indirect taxation burden placed on road users.

The Ministerial Council recently considered the NRTC's initial recommendations on charges for heavy vehicles. They comprise a notional fuel charge of 18 cents per litre and a nationally uniform annual payment based on the average cost attributed to each class of vehicle (NRTC 1992b).

Two states have rejected the recommendations: New South Wales because the charges will result in an overall loss of revenue; and Western Australia because it considers the charges to be too high. The recommended charges will be introduced, however, because a majority of jurisdictions are in agreement.

The recommended basis of charging is in accordance with the agreement that, initially, mass-distance charges should be based on average distances. However, the Premiers also agreed that, as a matter of principle, road pricing should lead to a better allocation of resources, with decisions on equipment and infrastructure being based on more relevant demand signals. To this end they asked the NRTC to consider whether more refined road charges based on distance travelled are warranted. Specifically, the Commission was asked to report on the manner that this might be done, the classes of vehicles to be covered and when the distance-charges should be introduced.

The NRTC chose not to report on the feasibility and justifiability of mass-distance charges. Furthermore, the discussion paper on heavy vehicle charges that preceded the determination did not provide an indication of the magnitude of the difference between average and mass-distance charges. This omission may have inhibited comment on the efficiency and equity of the proposed average-distance charges (NRTC 1992b).

Annual fixed charges are not efficient because costs vary with the distance travelled and the mass of the vehicle. The result is that some vehicles — the heaviest travelling long annual distances — will meet less than 20 per cent of their attributed costs.

Charges for heavy vehicles that reflect costs they impose are essential to ensure best use is made of the nation's road and rail infrastructure, and that industry location decisions are appropriate in terms of minimising the overall cost of economic activity. Differences between the recommended charges and road-related costs are greatest for vehicles competing with rail. The charges, as recommended, will

therefore potentially distort the long-haul freight market as rail reforms take effect.

A major drawback of the charging determination handed down by the NRTC is its lack of transparency — its failure to make clear how it took into account factors such as the impact of increased charges on regional and remote operators and regions, and the indirect tax burden on the road transport industry.

Failure to relate road-use charges to the costs attributable to particular vehicle types will increase the cost of road provision. Furthermore, the additional costs will be borne largely by users who are already meeting their costs.

Another consequence of the under-recovery of costs from heavy vehicles is that road authorities will be reluctant to increase axle loads. This will delay vehicle productivity improvements that have the potential to significantly reduce road freight costs.

As part of the reform agenda, road authorities should also be made more accountable for their investment and asset-management decisions. This could be achieved by linking charges to services provided — such as road capacity and condition — rather than the outcomes of their expenditure decisions. With the service to be provided clearly identified, the performance of road authorities could be measured and more easily compared.

Consultation with road users on the level of service to be provided would enhance transparency and also help mitigate a significant efficiency shortcoming of existing investment decisions. In the absence of a market mechanism to reveal user preferences, the demand for road infrastructure services is unknown. Furthermore, investment in roads is often conditioned by short-term fiscal considerations — and influenced by lobbying that is far from representative of community priorities. As a consequence, investment is unlikely to be appropriate in terms of achieving allocative efficiency, where the quantity of resources devoted to road infrastructure and use produces the greatest overall benefit to the nation.

While the NRTC and the Ministerial Council are working within the framework for road charging decided upon by Heads of Government, they have not grasped the opportunity afforded by the initial charging determination to further microeconomic reform in this key area. They could have done this by taking further steps to help ensure that

investment decisions are, as far as practicable, based on demand backed by willingness to pay for services provided.

Energy supply

Most governments have continued to pursue programs to 'commercialise' or 'corporatise' their electricity and gas utilities. Broadly speaking, such programs are intended to improve performance by placing utilities on a more commercial basis. This has encompassed measures to provide managers with greater autonomy — but with increased accountability — and changes to create a more neutral operating environment between public utilities and private enterprises (eg requirements that utilities pay all government taxes and charges and pay dividends to government). These measures have increased the incentive for utilities to reduce overstaffing and to improve productivity generally.

It is not possible to determine empirically the effect of commercialisation/ corporatisation initiatives on energy utilities. Nonetheless, such measures have undoubtedly contributed significantly to improvements in efficiency. A recent report by the Electricity Supply Association of Australia (1992) provides an indication of improvements that have been achieved in the performance of public electricity utilities over recent years as a result of pressures to lift performance (including reform initiatives of various sorts). It states that (p.3):

Labour productivity has risen by 46% and real electricity prices have fallen on average by around 12% since 1987.

However, the report also acknowledges that (p.4):

... there remains considerable scope for improvement in efficiency.

Initiatives

A range of initiatives has been introduced over the last twelve months or so. Some of the more important ones are discussed below.

National Gas Strategy

In November 1991, the Commonwealth Minister for Resources announced a National Gas Strategy. Essential elements of the package include:

- a commitment to remove barriers to the free and fair interstate trade of gas;
- administration of the liquid natural gas export approval system as a price approval and monitoring system only, with no approvals required for new or incremental contracted volumes;
- the adoption of a 'light-handed' approach to the regulation of pipeline operations, with matters such as price discrimination, monopoly abuse and open access being addressed through the TPC and PSA; and
- implementation of reforms to The Pipeline Authority to give it a more commercial focus (Griffiths 1991).

National Electricity Strategy

In May 1992, a discussion paper was released outlining the Commonwealth Government's National Electricity Strategy (DPIE 1992). The Strategy builds on a proposal announced in the 'One Nation' statement — in particular, the Government's objective of establishing a National Grid Corporation to own and operate an interconnected grid comprising the transmission assets existing in Victoria, New South Wales, Queensland, South Australia and Tasmania. To facilitate this, the Commonwealth is offering \$100 million to upgrade the existing links between New South Wales, Victoria and South Australia. The proposal involves the separation of generation and transmission functions. This principle was agreed to at the Heads of Government meeting on 11 May 1992.

The Strategy also outlines the Government's proposal to corporatise the Snowy Mountains Hydro-Electric Authority. This will require negotiations with New South Wales and Victoria which, under the present arrangements, are entitled to the majority of the electricity generated by the Authority.

Interstate trade

In addition to the proposed formation of a National Grid Corporation, a number of other developments have impacted on interstate trade in electricity and gas:

- a draft protocol was released in December 1991 covering aspects of the planning, operation and future development of an interconnected electricity grid in eastern and southern states. The draft was widely criticised for failing to:
 - provide private generators, distribution bodies and large users with access to transmission facilities until an unspecified later date;
 - allow for independent assessment of proposals for new capacity; and
 - provide adequate mechanisms to guard against the possible abuse of market power by transmission operators;
- a study of the feasibility of constructing a submarine cable linking Victoria and Tasmania found that the linkage would yield net benefits, and that the optimum timing for the development was for connection in 1998–99; and
- in April 1991, an agreement was reached which will permit gas from south-west Queensland to be supplied to South Australia. This involves the construction of a \$180 million, 190 kilometre pipeline from the Jackson fields in Queensland to Moomba (Crean *et al* 1991).

Private sector ownership

Proposals to increase private ownership of electricity and gas utilities have been announced by a number of governments. These include proposals to:

- sell 40 per cent of the State Electricity Commission of Victoria's partly completed Loy Yang B power station to Mission Energy of California. (Mission Energy will also be the operator of the plant.);
- replace Transfield-Mitsubishi with ASEA Brown Boveri as the sole bidder for the next major power station in Western Australia;
- sell Queensland Electricity Commission's Gladstone power station to Comalco Ltd, and

- sell all of the South Australian Government's equity (around 57 per cent) in SAGASCO Holdings — the sole distributor of natural gas in South Australia.

A proposal to privatise the Gas and Fuel Corporation of Victoria was considered but rejected by the Victorian Government. The Corporation already has some private equity holders.

Deferred initiatives

In New South Wales, plans to corporatise the State's Electricity Commission were postponed. Nonetheless, in January 1992 the Commission assumed a new identity — Pacific Power — and was split into five separate accounting entities, consisting of three generation units, a grid/pool unit and a unit for co-ordinating and marketing electricity.

In the Australian Capital Territory, plans to corporatise the Territory's electricity and water authority were abandoned following the change in government in 1991.

Telecommunications

In November 1990, the Minister for Transport and Communications announced a package of reforms to promote network competition in telecommunications. Included in this were arrangements for: a telecommunications duopoly until 1997; network access and interconnection; 'ring-fencing' of carrier accounts; price-cap regulations; an independent regulatory body; community service obligations; and resale of capacity. Details of the package were provided last year (IC 1991e, Appendix 1).

Developments during 1991–92 either consolidate or add to this reform package. They include:

- the merger of Telecom and OTC;
- the sale of AUSSAT (the Government-owned satellite network), and licensing of a second carrier;
- competition in the cellular mobile phone market;
- access and interconnection arrangements;
- new price-cap arrangements;
- cost allocation manual and chart of accounts;

- new industry development arrangements; and
- industrial relations reform.

Merger of Telecom and OTC

On 31 January 1992, Telecom and OTC officially merged to become the Australian and Overseas Telecommunications Corporation (AOTC).

The two carriers will continue as separate divisions within AOTC, despite the merger, to avoid any cross-subsidisation from more efficient to less efficient areas of operation. To this end, OTC (the more efficient of the two divisions) has negotiated a transfer price with the Telecom division for provision of services and access to its domestic network.

To ensure AOTC is in a better financial position to compete with the second carrier, the Government reduced its debt-to-equity ratio with a \$2 billion conversion of debt to equity.¹ The carrier received one half of this conversion on 1 July 1992 and will receive the remainder in sums of \$250 million on 1 July each year over the next four years.

In return, AOTC paid to the Commonwealth an interim dividend of \$215 million for the period to the end of June 1992. In future, the carrier will be expected to pay 50 per cent of its annual profit to the Commonwealth. (Previously, Telecom remitted 26 per cent of annual profit.)

To further improve its financial position, AOTC has been selling off its Telecom properties on a lease-back basis. This arrangement has allowed it to free up working capital, while retaining the use of its former properties.

Sale of AUSSAT and licensing of a second carrier

AUSSAT Pty Ltd was prepared for sale to a second carrier by the *AUSSAT Repeal Act 1991*. This Act provided for the absorption of AUSSAT's debts of \$740 million by the Commonwealth — so that it could be sold unencumbered.

¹ AOTC's initial capital was estimated to be \$10.4 billion at 27 April 1992.

Optus Communications (Optus) was declared the successful bidder for the second carrier licence and purchased AUSSAT for approximately \$800 million.²

Under 'network rollout' conditions of its general carrier licence, Optus must, by 31 December 1992, have offered and be in a position to supply domestic long-distance and international services to not less than 45 per cent of the population of Australia. This requirement will increase annually until 31 December 1997 when it is required to be able to service all of the Australian population, regardless of whether this is profitable or not.

Optus will continue to use satellites for services which are most suited to that technology and, in addition, plans to establish a fibre-optic network before 1997, including the installation of fibre-optic loops in all capital cities.

Competition in the market for cellular mobile phones

In addition to its general carrier licence, Optus was also awarded the second cellular mobile telephone licence. From June 1992 (and until it constructs its own network), Optus Mobile will be reselling services provided by Telecom's cellular mobile network.

The Government has called for expressions of interest in a third cellular licence to commence operations from 1 July 1993. Selection of this third licensee is to be completed by 31 December 1992. Like Optus, the successful bidder will initially interconnect to AOTC's mobile network.

Access and interconnection arrangements

Optus will pay AOTC to carry calls on its behalf until its own domestic fibre-optic network is operational. After unsuccessful negotiations between the carriers on the price for interconnection, AUSTEL (the independent regulatory authority) arbitrated an initial interconnect price. This price was set at a wholesale rate that allows Optus to

2 The Optus syndicate includes the US-based Bell South and UK-based Cable and Wireless. Together they have a 49 per cent stake. The remaining 51 per cent is held by Australian-based Optus Pty Ltd, which comprises the transport group Mayne Nickless, AMP, National Mutual and the Australian Industry Development Corporation telecommunications fund.

undercut AOTC prices. However, provisions exist for AUSTEL to review the interconnect price as Optus' market share increases.

New price-cap arrangements

On 1 July 1992, the Minister for Transport and Communications (Collins 1992) announced new price-cap arrangements to apply to AOTC from 26 June 1992 until 31 June 1995. These provide for further real price reductions to a wide range of AOTC telephone services.

The overall price cap was reduced from CPI-4 per cent³ to CPI-5.5 per cent per annum. Within that price cap, individual sub-caps were set for international calls (CPI-5.5 per cent per annum), trunk calls (CPI-5.5 per cent per annum), and for connections, rentals and local calls (CPI-2.0 per cent per annum). Charges for individual services within connections, rentals, local calls and trunk calls were further constrained not to exceed the change in the CPI in any one year.

Cost allocation manual and chart of accounts

Both carriers will be subject to the requirements of a Chart of Accounts (COA) and Cost Allocation Manual (CAM) from 1 July 1992. The COA-CAM is a financial reporting system developed by AUSTEL to provide for account separation between a carrier's different operations as well as to increase the 'transparency' of their activities. The system is also designed to provide information to assist AUSTEL in the setting the interconnect price, price caps, and other regulations. It will also be used to assist AUSTEL to judge when AOTC's position of market dominance has ended.

Telecom previously accounted for its assets on a group basis. Under the new procedures set down by the COA-CAM system, Telecom must account for its assets on an item-by-item basis and then recalculate depreciation on that itemised basis. The reassessment of \$17.5 billion worth of Telecom's depreciable assets using the itemised method led to a writedown of the carrier's asset base by \$1.3 billion. Further

3 That is, prices were constrained not to exceed the movement in ABS's Consumer Price Index less 4 per cent. For example, if during the course of the year the CPI increased by 5 per cent, then the price of telecommunication services would not be allowed to exceed 1 per cent over this period.

writedowns are expected as more assets are reviewed and also as the accounting for assets used for 'universal service' obligations are changed to comply with the revised Australian Accounting Standard AASB 1010.

New industry development arrangements

Under new industry-development arrangements, telecommunications carriers have been required to maintain and implement development plans as a condition of their general carrier licence. They must report annually on progress in achievement of their plans, advise of any variations and have regard to any views expressed by government.

In July, the Minister for Industry Technology and Commerce (Button 1992b) announced he will refer these progress reports to the newly established Telecommunications Industry Development Authority (TIDA).⁴ TIDA will advise the Government on the overall effectiveness of carriers and suppliers in meeting government objectives for growth in the industry and advise whether an individual carrier's industry-development performance is satisfactory.

Government objectives for industry development include:

- maintenance of a leading quality network at affordable prices to users;
- support for carriers, equipment suppliers and value-added service providers to expand their international activities;
- recognition and encouragement of the industry's potential to generate \$2 billion of equipment and service exports by 1997;
- promotion of new (and maintenance of existing) long-term strategic relationships between the carriers and global equipment suppliers;
- support for indigenous equipment suppliers in export markets;
- support for the development of software and R&D skills in telecommunications;
- recognition of the Commonwealth's role as a purchaser of telecommunications services and equipment; and
- seeking state/territory co-operation in developing a national approach to industry development (Button and Beazley 1991).

4 TIDA was established in May 1992 and will operate until 1997, when the duopoly arrangements will be removed to allow open competition.

AOTC has signed an industry plan under which \$40 billion will be spent over five years on local goods and services. As part of this, \$10 billion will be spent on equipment from local industry and about \$200 million per year will be spent on R&D, provided the tax concession of 125 per cent for R&D continues to apply.

AOTC has undertaken to continue to favour local equipment and service suppliers in domestic operations and to seek suitable Australian equipment and services early in the tendering process for foreign projects. The carrier has also undertaken to support software development in Australia. It will continue joint-venture funding for the manufacture of customer-premises equipment where: this is the best means of achieving AOTC's objectives; there are demonstrable advantages to the carrier; and where it has sufficient capital available. The carrier has also committed to spend more than 3 per cent of its annual payroll on training, which translates to about \$100 million a year.

Optus has pledged to spend \$4 billion over the next five years as part of its industry-development plan. The carrier has promised to embark on collaborative R&D work with local manufacturers and has undertaken to ensure the average local content of its capital expenditure (of \$2 billion) will be at least 70 per cent. It also plans to establish a training program with supply partners.

Industrial relations reform

Optus has negotiated with the telecommunications unions for there to be single-union coverage of its operations. The new Communications Workers Union will comprise representatives from the Australian Telecommunications Employees Association, the Australian Telephone and Phonogram Officers' Association and the Australian Postal and Telecommunications Union.

Dairy

The Australian dairy industry has traditionally received a high level of assistance from both the Commonwealth and States' marketing arrangements. New Commonwealth dairy industry assistance arrangements came into effect from 1 July 1992. The arrangements continue the assistance strategy of the Kerin Plan which was introduced in July 1986.

The main thrust of the Kerin Plan was to provide increased returns for milk used in manufacturing through market support payments (or subsidies) on exports of manufactured dairy products. The payments are funded by a levy on all milk production. Under the Kerin Plan, a maximum rate of 45 cents per kilogram of milk fat (around 2 cents per litre) was set for this levy. Also a maximum level of 30 per cent of the estimated average export price was set for the market support payments. The level of the payments was further limited by the total levy funds available and import competition (with respect to the quantity of exports requiring funding). The extra returns to manufacturing milk result from the higher prices received for domestic sales of dairy products and the contribution by market milk producers to the market support fund. The Kerin Plan originally included supplementary market support payments which provided additional assistance for manufacturing milk. These supplementary payments, which were funded by levies on domestic sales of butter and leviable cheeses, were phased down and ended on 30 June 1989.

Under the new plan, the market support payments on exports of dairy products are to continue at present levels until 1993-94 " in recognition of the current difficult circumstances facing many producers " (Crean 1992b). Commencing in 1993-94, market support payments are to be phased down in equal steps to 10 per cent by the year 2000. The cheese tariff quota on imports is to remain, while underwriting assistance was terminated on 30 June 1992.

The Commission's projections indicate that the dairy industry will belong to a select group of industries which will continue to receive a relatively high level of Commonwealth assistance out to the year 2000. The assistance arrangements for manufactured dairy products set the minimum level of assistance for all milk production. The States' marketing arrangements for fresh milk sales provide additional assistance for market milk production.

Assistance developments

A 10 per cent market support payment in the year 2000 indicates that assistance to manufacturing milk production will decline to less than half that presently received. In 1990-91 the average nominal rate of

assistance for manufacturing milk output was 21 per cent.⁵ The projected nominal rate of assistance for the year 2000, based on output and price data for 1990-91 and market support payments of 10 per cent, is around 7.5 per cent. The nominal assistance provided to outputs includes the transfer from domestic consumers, who will pay prices 10 per cent higher than export prices for dairy products, and the transfer from market milk producers who currently contribute approximately 27 per cent of the market support fund from which export subsidies are paid.

Industry Commission projections indicate that by 1 July 1996, when most manufacturing and agricultural industries will be subject to assistance no higher than a 5 per cent tariff, the dairy industry will receive assistance at a level equivalent to a tariff rate for an import competing industry of between 10 per cent and 13 per cent (depending on world prices). This tariff equivalent is expected to decline to around 8 per cent in the year 2000. Only the textiles, clothing and footwear and the passenger motor vehicle industries are scheduled to receive higher levels of assistance. For agriculture, the sugar and tobacco industries are projected to receive high levels of Commonwealth assistance — however, assistance to these industries is subject to review. A small number of agricultural commodities are assisted by State arrangements and may also receive high assistance levels in the year 2000.

Cheese tariff quota arrangements

The new dairy industry arrangements include retention of the existing tariff quota on imports of cheese.⁶ The tariff quota applies to most varieties of cheese, the exceptions being Roquefort and Stilton and soft surface ripened cheese which constitute only a small part of total Australian production of cheese.

The tariff quota is an integral part of the arrangements to maintain domestic cheese prices at levels higher than duty paid imports. Market support payments made on exports of Australian cheese raise

5 Output assistance for manufacturing milk also included export incentive payments of \$1.5 million which contributed 0.2 percentage points to the nominal rate of assistance for 1989-90.

6 A general tariff of \$96 per tonne applies to imports of cheese up to 11 500 tonnes. A prohibitive tariff of \$2100 per tonne applies to imports in excess of 115 000 tonnes. Imports of cheese from New Zealand are exempt from the cheese tariff quota.

the domestic price of cheese above the world price and hence attract imports of cheese. The tariff quota arrangements limit the extent to which consumers can substitute imported for domestic cheese.

The Commission estimates that, based on 1990–91 prices and importing costs, market support payments for cheese would need to be reduced to below 15 per cent of the export value before the General Tariff of \$96 per tonne would, by itself, be sufficient to limit imports from non-New Zealand sources. As imports from New Zealand are free of duty, market support payments for cheese would need to be reduced to below 10 per cent of the export value before Trans-Tasman freight rates would act to limit imports from New Zealand.

Assistance to fresh milk production

State government arrangements for marketing fresh milk provide a premium for market milk sales over and above that required for assurance of continuity of supply. The Commission estimates that market milk is the most highly assisted agricultural commodity. In 1990–91 the average nominal rate of assistance for market milk output was 41 per cent (refer to Appendix L, Table L2). If these arrangements continue, market milk will receive significantly more assistance than manufacturing milk in the year 2000.

Higher returns to market milk have to some extent been supported by Commonwealth legislation. The recent changes in the dairy industry arrangements include the removal of the 'comfort clause' from the legislation. This clause gave the States the right to suspend the market support arrangements for manufacturing milk in the event of interstate trade in milk. As market support payments on exports of manufactured dairy products decline, the disparity in assistance levels between market milk and manufacturing milk will increase. The pressures for interstate trade in milk, particularly from Victoria which is the predominant producer of manufacturing milk, are likely to increase as market support are reduced under the new plan. As indicated by the Minister (Crean 1992b), the removal of the 'comfort clause' is expected to place a discipline on market milk pricing.

Wool marketing

The fortunes of the Australian wool industry have changed dramatically over the last few years. During 1989–90 the previously

buoyant market for wool began to deteriorate. Under the ensuing market conditions of falling demand and rising supply — a response to earlier high prices and favourable seasonal conditions — the Australian Wool Corporation (AWC) attempted to maintain the high reserve price set by the industry. As a result, AWC's wool stockpile rose from 188 000 bales in June 1989 to 4.7 million bales at the end of 1990 (see Figure H1). In response to the deteriorating financial position of the AWC, the Government decided to increase its support to the industry and implemented new marketing arrangements in 1990 and 1991.

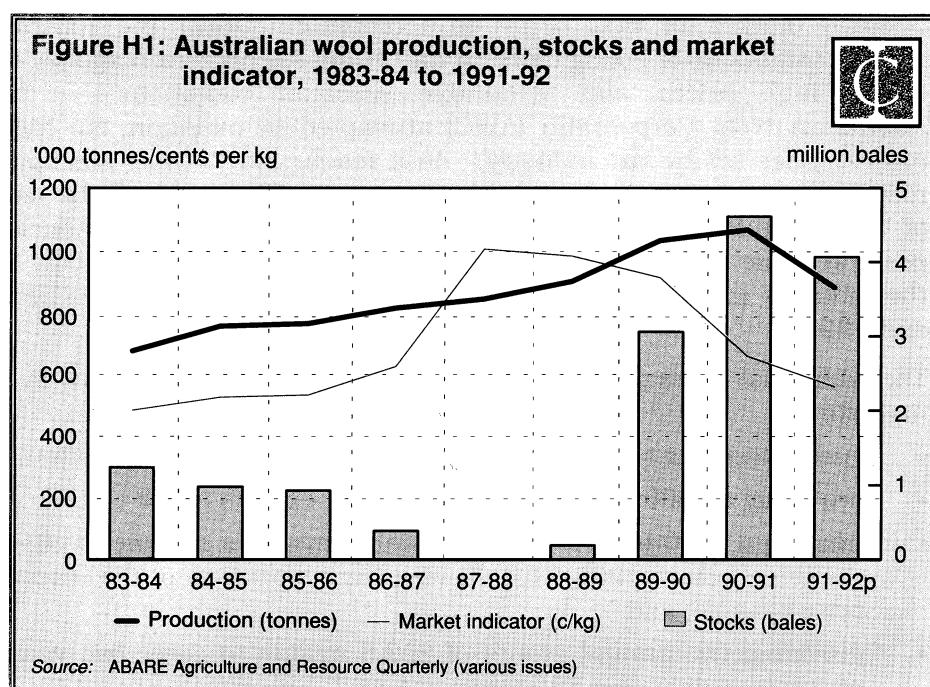
The additional Government support is to be temporary and takes four main forms:

- guaranteeing the borrowings of the Australian Wool Corporation;
- providing a \$400 million credit facility for exports to the USSR;
- funding a \$300 million supplementary payments scheme to offset the price falls in 1990–91, following the suspension of the reserve price scheme; and
- providing two annual grants of \$22.5 million to cover two years interest payable on a \$200 million loan.⁷

Debt repayment

As part of the new arrangements the Australian Wool Realisation Commission (AWRC) was established and made responsible for managing the industry's debt and stockpile. The AWRC is required to repay the industry's \$2.8 billion debt over a maximum of seven years, with annual fixed repayments sufficient to meet minimum debt targets. Since the new arrangements were put in place, wool supply contracted faster than expected resulting in higher prices. As a consequence the AWRC had funds available which exceeded its fixed debt repayment for the year.

⁷ For more information on the arrangements and the methodology for measuring assistance from the recovery package see IC (1991e), and McLachlan, Valdes and Ironfield (1991).



In response, the Prime Minister announced in the 'One Nation' statement (Keating 1992) a new cumulative debt reduction scheme to replace the system of fixed annual debt reduction targets. The arrangements still require the AWRC's debt to be repaid at the same rate as the existing fixed schedule but provides greater flexibility in managing revenue earned from the stockpile sales. This means that the AWRC can pay the debt off faster in some years, and slower in other years so long as they comply with the minimum fixed schedule. The Government intended that funds in excess of those required for the annual debt repayment be used as a cash rebate to woolgrowers. The industry, however, was strongly opposed to the rebate scheme and indicated a preference for a cut in the wool tax.

On 25 June 1992 the Minister for Primary Industries and Energy (Crean 1992c) announced a reduction in the wool tax from 12 per cent to 8.5 per cent. Of the 8.5 per cent, 4.5 per cent will be used by the AWRC for debt management purposes, 3.5 per cent for promotion and marketing, and 0.5 per cent for research and development. The Minister indicated that the wool tax will not automatically stay at low

levels after the 1992–93 season. The tax will be set annually on the basis of AWRC's performance during the previous year.

USSR credit facility

The recovery package for the wool industry included a \$400 million roll-over credit facility to the former USSR for the purchase of wool and mutton. The credit was backed by an Australian Government credit guarantee provided through the national interest provisions of the Export Finance and Insurance Corporation.

As at July 1992, approximately \$272 million dollars in wool repayments were overdue.

Implications for assistance

Over the past decade, assistance to the wool industry has remained relatively low. As a result of the additional government support, assistance to the wool industry increased sharply in 1990–91. In that year nominal and effective rates of assistance were 14 per cent and 30 per cent, respectively. Although assistance is expected to be halved in 1991–92 it will still be significantly higher than assistance provided in recent years. Based on the scheduled maximum seven-year debt repayment, assistance is expected to continue at high levels until 1997–98. Details of assistance to agricultural commodities are given in Appendix L.

Pharmaceuticals

New initiatives introduced over the past 12 months to influence the development of the pharmaceutical industry were:

- extension of the 'factor f' scheme;
- reform of drug evaluation procedures; and
- review of the self-regulation arrangements for the promotion and advertising of therapeutic goods.

'Factor f' scheme

The aim of the factor f scheme, introduced in 1987, was to encourage local activity by returning some of the savings from negotiated lower

pharmaceutical prices for drugs supplied under the Pharmaceutical Products Benefits Scheme. The factor f scheme has been administered through the Pharmaceutical Benefits Pricing Authority which is required to take into account the level of a company's pharmaceutical activity in Australia when negotiating manufacturers' prices for products sold under the Pharmaceutical Products Benefits Scheme. Firms receive increased prices for pharmaceuticals provided they meet either quantitative targets for research and development and export activity or satisfy the Authority that they are substantially increasing activity in Australia. The payments are limited to not more than 25 per cent of the additional exports, research and development, and import substitution that companies are able to achieve over the life of the scheme. Originally, the scheme was proposed to operate until 1992-93.

Bureau of Industry Economics review

In 1990, the Commonwealth Government commissioned the Bureau of Industry Economics (BIE) to review the effectiveness of the factor f scheme. The BIE released its report titled, *The Pharmaceutical Industry: Impediments and Opportunities*, in November 1991 (BIE 1991b). While the BIE were given very broad terms of reference, the report was largely confined to an assessment of the factor f scheme. The Bureau did not conclude whether or not the scheme should be continued but considered:

... it highly uncertain that the factor f scheme in its current form enhances economic welfare.

The BIE recommended that, *if* the scheme were to be continued, a number of modifications should be introduced, including that it should be re-evaluated in not more than five years to determine the extent to which it enhances economic welfare. The recommended modifications would not, however, result in any fundamental change to how the scheme operates.

The Government's decision

In response to the BIE report, on 31 March 1992, the Minister for Industry Technology and Commerce (Button 1992a) foreshadowed a substantial increase in assistance for the pharmaceutical industry in an effort to create an environment in which the industry will prosper. It was stated that:

The pharmaceutical industry exhibits many of the characteristics which the Government is seeking to encourage in the manufacturing sector. It has the potential to make a major contribution to wealth creation and exports of high value-added manufactures.

Under the revised scheme, factor f payments to industry are forecast to increase to \$150 million per annum compared with estimated *total* payments of \$170 million over the entire five year period of the initial scheme. The major intention is to provide encouragement and incentive to manufacturers of ethical (human use) pharmaceuticals. The new factor f guidelines are based on four fundamental principles:

- prices for pharmaceuticals listed on the Pharmaceutical Benefits Scheme should not be an impediment to the significant development of the industry;
- higher prices should only be recommended if they are likely to contribute to the development of significant internationally competitive activity in Australia;
- PBS prices should not exceed the average prices of pharmaceutical products in the European Community; and
- a net benefit to the economy should result from any price increases granted on the basis of Australian activity.

The major implication of the changes to the scheme means that company proposals will now be assessed in terms of their qualitative contribution to net benefits to Australia as opposed to a quantitative one. Some closer assessment may well be required to ascertain if the costs of granting price increases will automatically result in net benefits to the economy. Other amendments include that the level of price increases to companies will not exceed the average European price (as opposed to the average world price under the previous scheme) with the expected outcome being that prices will fall. Furthermore, the emphasis of the scheme has changed from no longer being one based on exports or import replacement, but rather production or value added criteria. At present, 10 of the 120 or so

companies that supply pharmaceuticals to Australia are in the factor f scheme.

The new arrangements are scheduled to run for a further six years to 1998-99.

Also included in the Minister for Industry, Technology and Commerce's March 1992 statement was the creation of a high level consultative forum with the pharmaceutical industry whereby Chief Executives from three of Australia's biggest drug companies would meet regularly with senior Government officials. The aim of this forum is to increase collaboration between government and industry which will contribute significantly to the long term success of the industry and to general wealth creation.

Drug evaluation procedures

Australian drug evaluation procedures have been of major concern for the pharmaceutical industry for many years. In particular, they have been critical of the delays created by Australia's unique drug evaluation requirements. Also, they have been critical that clinical trial work, which is a major expense in developing new drugs, is not considered as research and development for purposes of the factor f scheme, especially as this often results in new or more effective use of the drug. In its report, the BIE considered that the eligibility criteria for clinical trial work were appropriate.

In March 1991, the Government commissioned Professor Peter Baume to advise on any necessary changes to the existing process for evaluating new chemical entities and prescription drugs for marketing approval which would result in the earliest possible access for consumers to new drugs and the minimum regulatory burden on industry. Any changes proposed would also need to be consistent with the maintenance of appropriate medical and pharmaceutical standards, with community expectations for safety and efficacy, and with the Government's policy of cost recovery for the evaluation process.

In his report released in July 1991, Professor Baume recommended, *inter alia*, that attempts be made to address the question of balance between safety and availability, including:

- changes to the objects clause of the Therapeutic Goods Act to include the words 'timely availability';

- strict evaluation times for the Therapeutic Goods Administration, with significant sanctions if these times are not met;
- earlier access to experimental drugs through improved special access and clinical trial schemes, particularly for terminally ill patients; and
- greater use be made of overseas drug evaluation reports, while at the same time taking proper account of Australian interests (Baume 1991).

The recommendations of his report are to be implemented in full by Government. These include harmonising Australia's regulatory requirements and procedures with those in the major international markets for pharmaceuticals, particularly the European Community and the United States. To date drug evaluation procedures have been revised and the regulatory harmonisation with the European Community has proceeded as scheduled.

Self regulation

In July 1992 a report was released by the Trade Practices Commission (TPC 1992b) reviewing the self-regulation arrangements of the promotion and advertising of therapeutic goods. The four categories of therapeutic goods are: prescription drugs; non-prescription, or over-the-counter medicines; medical devices; and natural therapies. The report highlighted a finding of an evaluation carried out by an international consumer group, Health Action International, against the World Health Organisation's ethical criteria for medicinal drug promotion. The finding was that recent changes to the self-regulatory code and its administration have been responsible for an increase in the effectiveness in the performance of the code in regard to ethical control of drug promotion. Health Action International also reported that Australia obtained the highest score of any country.

Automotive

Post-1992 assistance arrangements for the passenger vehicle industry were announced by the Commonwealth Government in March 1991, as part of its Industry Statement. Details of these arrangements were reported in last year's Annual Report (IC 1991e, Appendix 5).

Summary of the post-1992 plan

The main elements of the new plan, which will apply until the year 2000, are as follows:

Tariff reductions

The tariff on imported passenger vehicles (and derivatives) and original equipment components for these vehicles will be reduced by 2.5 percentage points annually, from 35 per cent at the end of 1992 to 15 per cent by the year 2000.

Reducing the tariff on these goods will result in a significant narrowing of the disparity in assistance afforded passenger vehicle production and the rest of the manufacturing sector. In the year 2000, the effective rate of assistance for vehicle production as a whole will be of the order of 30 per cent, down from an estimated 86 per cent at the end of 1992. By way of comparison, it is estimated that the average effective rate of assistance for the manufacturing sector as a whole will decline from 12 per cent to 5 per cent over that period. The differential in the year 2000 of 25 percentage points compares with the 74 percentage points differential that will prevail at the end of the current plan in 1992.

The tariff on replacement components for passenger vehicles (and derivatives) will be retained at its current level of 15 per cent over the period 1993 to 2000, while the tariff on light commercial and off-road vehicles, and components for those vehicles, will be reduced from 15 per cent at the end of 1992 to 5 per cent by 1 July 1996 in accordance with the post-1992 general tariff reduction program.

The Commission notes that the latter policy decision on components for 'non-plan' vehicles could lead to claims that assistance to local component production could be undermined by the difficulty of policing end-use criterion on imports of certain components. However, retention of the duty on replacement components for 'non-plan' commercial and off-road vehicles at 15 per cent beyond 1992, would involve backtracking on the post-1992 general tariff reduction program and result in a widening of the higher assistance net for the local automotive industry.

Automatic duty-free entitlements

Subject to the minimum volume requirements (see below), passenger vehicle producers are able to import, free of duty, vehicles or components to a value of 15 per cent of their total value of production.

Based on the 1991 value of plan production of \$4.76 billion, the value of duty free imports under the automatic by-law entitlement in that year would have been around \$715 million, of which some 90 per cent were components.⁸

Export facilitation

Additional duty free entitlements or 'export credits' are available for passenger vehicle producers which arrange or undertake exports of Australian vehicles or components. There is no ceiling on the amount of export credits that can be earned. Similar arrangements apply to component producers and vehicle importers.

Providing vehicle producers with additional duty free entitlements in return for exports, makes available a subsidy to these exports. That is, it will pay firms to subsidise exports, provided that the subsidy is less than the value of the resulting duty saving on imports. However, the extent of the subsidy will diminish as the tariff is reduced through to the year 2000.

In 1991, the total value of export credits earned was \$609 million.

Minimum volume provisions

The plan seeks to discourage low volume vehicle production but no longer contains directive measures specifying a target industry structure. Penalties continue to apply in the form of a progressive withdrawal of the 15 per cent automatic duty free allowance — from 15 per cent for individual models produced at volumes of more than 30 000 units a year, to zero for models produced at 20 000 units a year.

Under the minimum volume provisions higher effective assistance is provided to vehicles produced at more than 30 000 vehicles per

⁸ The Australian Customs Service does not differentiate between duty-free imports made using the automatic entitlement and those made using credits earned under the Export Facilitation Scheme. Moreover, there are provisions allowing for the carry over from year to year of duty-free entitlements (in 1991, some \$175 million was carried forward to 1992). Accordingly, the figure of \$715 million should be treated as indicative only.

annum than is provided to vehicles produced in smaller volumes. Such disparities in assistance are likely to have adverse efficiency consequences.

Developments during 1991–92

There have been a number of important developments in the automotive industry over the past year, some of which have significant protective effects. These include changes to the industry's structure, lowering the sales tax on certain passenger vehicles, altering vehicle classifications and imposing a \$12 000 specific tariff on high-volume imports of second-hand vehicles.

Structural change

Nissan announced in February this year (Nissan 1992) that it will be ceasing local vehicle manufacture in October 1992. However, it intends to continue its local aluminium engine castings operation and to expand its import operations. Further, in March 1992, General Motors-Holden and Toyota formalised their joint venture after a two year delay. The equally owned, joint-venture company is known as United Australian Automotive Industries (UAAI 1992).

These changes to the industry's structure mean that the Government's restructuring target for 1992 of three manufacturing groups operating at most six plants has effectively been achieved.

Sales tax changes

As part of the Government's 'One Nation' package, the sales tax on all passenger vehicles priced below the depreciation limit of \$47 280 (as at 1 July 1992), was reduced from 20 per cent to 15 per cent. For the typical Falcon or Commodore, this was estimated to result in a reduction in price of approximately \$800 per car. For passenger vehicles priced above the depreciation limit the sales tax has been retained at the previous level of 30 per cent.

As this change in sales tax arrangements does not differentiate between local and imported vehicles, it has no direct assistance implications. However, given — the pattern of domestic vehicle production and vehicle importation, local vehicle producers are likely to be the major beneficiaries of the resulting stimulus to demand.

Vehicle classification amendments

There have been a number of amendments made to vehicle classifications in the Tariff over the past year. They have arisen out of Government decisions to: increase the gross vehicle weight for vehicles to be classed as light commercial vehicles for duty purposes, from 2.72 tonnes to 3.5 tonnes; and to effectively remove the forward control vehicle and four wheel drive classifications from the Tariff. Classification of vehicles is now based solely on end use, with only three vehicle categories now applying: passenger carrying; commercial; and off-road.

These changes have been introduced to simplify vehicle classification and to cater for changes in vehicle technology.

However, they also have protective effects. In particular, as a result of the reclassification of vehicle categories the duty on certain commercial and/or four wheel drive variants of passenger carry vans — for example the four wheel drive Toyota Tarago and the Mitsubishi Starwagon has been increased from 15 to 35 per cent. Some 4-5000 vehicles are involved, imposing an additional cost on consumers of the order of \$14-17 million per annum.

Prohibitive \$12 000 tariff on second-hand imports

On 2 December 1991, the Government announced its intention to introduce a specific tariff of \$12 000 per car for high volume importations of second-hand vehicles (ACS 1991b). A Senate inquiry (SSCIST 1992) into this matter was held in June 1992, after which legislation was passed which took effect on 1 July 1992. This duty is in addition to the existing *ad valorem* tariff on passenger vehicles of 35 per cent. The imposition of the duty was in response to industry concerns that a proposed high volume importation of particular second-hand vehicles from Japan could have a significant adverse effect on the local industry, at a time when it is already under considerable pressure from the tariff cuts announced in March 1991.

The duty provides additional assistance to the local production of passenger vehicles by maintaining local demand for new cars, from all sources, at levels and prices higher than would otherwise prevail. The extent of such assistance largely depends on the degree of substitutability between imported second-hand vehicles and locally produced vehicles — both new and second-hand. Further discussion

of the assistance implications of this specific duty is contained in Appendix L.

Textiles, clothing and footwear

The present textiles, clothing and footwear (TCF) plan was announced in 1986 and reductions in border assistance began in 1989. The Plan has the aim of improving the efficiency and international competitiveness of the TCF industries, the most highly assisted manufacturing industries in Australia. This is to be achieved by abolishing tariff quotas, lowering tariffs, and by providing adjustment assistance for firms and employees. Originally up to \$120 million was provided under various programs in a special Industries Development Strategy (IDS).

The TCF plan was modified by the Government's March 1991 Statement. The timetable for removing tariff quotas was accelerated, with their abolition to be from 1 March 1993. The Plan was extended to 1 July 2000 and a schedule for the phasing down of tariffs on TCF goods was introduced. Under that schedule, the maximum tariff on TCF imports of 55 per cent will be phased down to 25 per cent. Nevertheless, the industries will remain the most highly protected in Australia at the end of the century. As a result, the effect of the assistance on the prices of clothing and footwear paid by consumers will remain substantially higher than for other goods.

The Government remains committed to the TCF Plan, and has maintained the previously scheduled timetable for the abolition of quotas and the phasing down of tariffs, with minor changes. In view of the severity of the recession, a number of adjustments were made over 1991-92, culminating in the TCF Statement of 16 July 1992. These measures provide substantial additional support for the TCF industries. The Government:

- cut security deposits on tender quota from 10 per cent to 5 per cent, and subsequently returned them to importers;
- modified the Plan's Labour Adjustment Package to increase usage;
- shifted \$15 million of the IDS to 1992-93, from 1993-95, increased funding for the IDS by \$10 million in the February 1992 Statement and increased it by a further \$30 million in the July 1992 TCF Statement;

- further liberalised access to the Import Credits Scheme, froze the credit at the maximum rate for four years, and introduced minor changes to the scheme to clarify eligible expenditure and to prevent fraud; and
- amongst other measures in its July TCF Statement, abolished the quota on footwear parts, reduced the tariff on footwear parts from 32 per cent to 10 per cent, and introduced an Overseas Assembly Provision.

In March 1992 the Textiles, Clothing and Footwear Development Authority (TCFDA), which was established in May 1988 to administer the Plan, was made solely responsible for TCF policy formation and advice to the Minister. Previously those functions were the responsibility of the TCF policy section in the Department of Industry, Technology and Commerce.

Tender security deposits

Tender security deposits were paid to Customs by firms which had successfully bid at the annual quota auctions. The deposits were proportionally forfeited to the extent firms failed to import their quota allocations, but firms had the option of selling their quota.

Security deposits on tender quota were initially reduced to 5 per cent for the 1992 quota year — the final year of operation of quotas. The deposit for previous years had been 10 per cent. The Minister for Industry, Technology and Commerce subsequently announced that securities would be returned to TCF importers, as from 2 March 1992. Tender securities were also returned for the 1990 quota year, towards the end of that year, and were not collected for the 1991 quota year. Before the decision to return the deposits, Customs had called for further applications for 1992 quota in five categories, and subsequently had to reallocate quota in another five categories when importers failed to take up the quota they had tendered for (ACS 1991a, 1992b and 1992d).

The return of security deposits removes an incentive for importers to lower their prices if they are unable to use all of their quota allocation. As a result, domestic manufacturers may be subject to less competition from imports and consumers may be faced with higher prices for TCF products covered by tender quota.

In its 1990–91 Annual Report, the TCFDA reported that average weighted tender premiums had declined for the third consecutive year. They declined from 37 per cent for the 1990 quota year to a provisional 9 per cent in 1992. The Authority attributed the decrease to a significant reduction in out-of-quota duty rates, the expanded quota pool and depressed market demand (TCFDA 1991, p.13).

Labour Adjustment Package modified

The LAP was announced as part of the Plan in 1986 to ensure that displaced TCF workers are offered better opportunities for re-employment than are generally available. However, despite a decline in TCF employment, from approximately 119 000 in May 1986 to 95 000 in May 1991, the LAP remained lightly used.

Following the review foreshadowed in the March 1991 Statement, the package has been modified to increase usage by relaxing eligibility criteria and increasing the value of the TCF retraining allowance. Usage of the package increased, from 3 per cent in 1988, to 85 per cent of TCF retrenchments notified to the Commonwealth Employment Service for the first five months of 1992.

Among other measures aimed at enhancing the delivery of the program, it was announced that:

- the LAP has been extended to the year 2000, with a review in 1995. It was previously to have ended in 1995;
- conditions for receipt of the training allowance component of the scheme have been relaxed. Six months continuous TCF employment, out of the last 24 months, retrospective to 12 March 1991, now satisfies the LAP eligibility criteria. Previously 24 out of 36 months TCF employment were required;
- the TCF Special Allowance has been increased from \$125 to \$168.85 a week. This aligns it with the generally available Formal Training Allowance (FTA). Like the FTA, the TCF Special Allowance covers the costs associated with retraining. However, unlike the FTA, it can be received while the spouse is still working. The Government has made the special allowance available because of the large number of two income families in the TCF workforce; and
- consideration is to be given by the Department of Industry, Technology and Commerce to activating the \$30 million special

regional adjustment assistance announced as a part of the TCF Plan in 1986.

No changes were made to the component of the program which offers assistance to displaced workers to relocate (Baldwin 1991).

Industry development expenditures increased

As part of the Government's November 1991 Statement on the Economy and Employment, \$15 million of the TCF IDS was brought forward from the 1993-94 and 1994-95 financial years to 1992. A further \$5 million will also be brought forward to 1993. This followed discussions between a number of companies and the TCFDA (Hawke 1991).

In addition, to enable TCF firms to "come to terms with increasing competition" due to the phasing arrangements for tariff quotas and tariffs, IDS expenditure was increased by \$10 million in the February 1992 Statement (Keating 1992) and by a further \$30 million in the July 1992 TCF Statement. Scheduled IDS expenditure on the industries by the TCFDA since 1988 now totals \$160 million.

In his July Statement the Minister for Industry, Technology and Commerce announced grants to six firms of \$24 million, for new projects with an estimated value of \$104 million. Payments already made to TCF firms by the TCFDA since 1988 under the programs it controls, including the Bounty Capitalisation Scheme but excluding bounty payments, now total \$209 million (Button 1992c).

Under the IDS, priority is given to assist the restructuring of existing firms, which are believed to be viable in the long run. The IDS requires the TCFDA to assist firms by providing funds for updating equipment, workforce training, value adding, advice on better management and production techniques, and restructuring. Provisions were included for new programs to be developed under the IDS. The February 1992 Statement suggested that some of the increased funding could be used by the TCFDA to establish a 'demonstration workplace reform program' (Keating 1992). This program remains under consideration.

Import Credits Scheme

The TCF Import Credits Scheme is a modified form of the export facilitation arrangements that apply to passenger motor vehicles. Implicit subsidies are provided by giving credits for exports that can be

used to reduce the duties otherwise payable on imports. Exporting manufacturers who don't wish to use their credits to import TCF goods, may sell their credits. Recently a market has developed to trade import credits between companies.

The scheme, which was introduced on 1 July 1991, gives exporting manufacturers a credit on import tariffs equivalent to 30 per cent of the value added in their exports. This rate was intended to be phased down annually to 15 per cent on 30 June 2000 (Keating 1992). Access to the scheme was liberalised in the July 1992 TCF Statement, with firms now eligible for credits if they achieve \$100 000 of exports over two years instead of within one year. This is intended to allow smaller firms access to the scheme. The 30 per cent rate of payment will now be maintained for four years before being phased down to 15 per cent on 1 July 2000. Over the 11 months to May 1992, about \$29 million of Customs revenue otherwise payable on TCF imports has been claimed under the scheme.

While the levels of assistance provided to TCF exports by the Import Credits Scheme are lower than is received by most TCF production for domestic consumption, they are nevertheless much higher than are available to other industries.

Administration of the Import Credits Scheme has caused Customs problems. The initial Australian Customs Notice (ACN) announcing the scheme (ACN 91/98) was withdrawn and replaced with a new ACN (ACN 92/13) which attempts to clarify arrangements for the scheme. Customs has announced that import credits accrued before the scheme ends on 30 June 2000 may be used until 31 December 2000. It has ruled that the cost of finding an overseas buyer for a manufacturer's goods, by way of a selling commission, may be taken into account when calculating the import credit, if it is included in the price. Customs has also found it necessary to guard against the overstatement of export values where exports are to a related overseas company. It may oblige the exporter to prove that transactions are at arms-length (ACS 1992a).

Other changes from the July 1992 Statement

The Government's July 1992 TCF Statement contained a number of other measures to support the TCF industries. In announcing the measures, the Minister noted that careful consideration had been

given to a joint submission from the Victorian and South Australian Premiers.

The footwear parts quota was abolished at the behest of shoe manufacturers from 1 July 1992 instead of 1 March 1993, and the tariff on footwear parts was cut to 10 per cent, from 32 per cent. This has the effect of increasing effective assistance to the manufacture of footwear while lowering that available for the manufacture of footwear parts. It will also increase disparities in assistance as footwear is currently the most highly assisted of all manufacturing industries.

The Government also introduced an Overseas Assembly Provision. This measure offers duty reductions to 'selected' participating firms which have Australian made apparel materials, which have been cut in Australia, assembled overseas. Participating firms may import the completed products into Australia with duty payable only on the overseas assembly costs. The provision will offer participating firms a competitive advantage over firms which continue to use relatively expensive domestic labour to assemble garments. Under the scheme effective assistance for producing clothing will be reduced, but it will be increased for textile manufacture.

Overseas Assembly Provisions will be negotiated with firms by the TCFDA. Agreements with the TCFDA may include commitments from firms on investment, sourcing, employment, international alliances, training, pricing, and research and development. The scheme will operate for a trial period of three years from 1 March 1993 when import quotas expire.

Other measures announced in the July Statement were:

- a new program to 'support' a number of companies currently considering investments in processing Australia's wool clip to the 'tops' stage;
- a review of the By-law system, under which companies import material not produced in Australia at a concessional rate of duty, to ensure that the scheme is working to the advantage of domestic TCF companies;
- the secondment of a Customs anti-dumping officer to the TCF Council to ensure that member companies take full advantage of the new anti-dumping procedures;
- the phasing out of preferential tariff rates for carpets imported from Canada;

- changes to the trade marks system to include increased penalties for the counterfeiting and forgery of trade marks;
- the advising of the New Zealand Government that Australia may seek consultations under Article 14 of the Closer Economic Relations treaty to protect the TCF industries from 'unfair' competition from New Zealand imports;
- the establishment of a consultative group comprising retailers and manufacturers to encourage the local sourcing of products; and
- a \$1 million project to assist 50 TCF companies to become 'quick response' suppliers to retailers.

I ALTERNATIVE ASSISTANCE MEASURES

This appendix reports on assistance policies that support selected groups of industries or particular activities — specifically export assistance and research and development (R&D).

Traditionally, government assistance to Australian industry has focussed on helping import-competing manufacturing industries through 'border' protection. For example, tariffs and quotas were used to raise the domestic price of imports so that local firms could compete. However, this approach stifled the development of internationally competitive Australian industries. The 1980s saw a reversal of this direction towards assisting industries to become internationally competitive and export oriented. Export assistance is provided through bounties, subsidies, various credit schemes, and subsidised export marketing and finance facilities. R&D is encouraged through tax incentives, direct grants and the support for research organisations like the Commonwealth Scientific and Industrial and Research Organisation (CSIRO).

These types of measures can provide substantial assistance. For example, the direct budgetary costs of export assistance and R&D support is estimated at \$3.6 billion. And this does not include the indirect support to export and R&D activities provided through such schemes as the Australian Civil Offsets Program, the 'Factor f' Pharmaceutical Scheme, The Customer Premises Telecommunications Equipment scheme, and the Partnerships for Development and Fixed Term Agreements. The extent of assistance provided by these latter schemes is difficult to quantify.

Export assistance

Export support is provided by both the Commonwealth and State Governments. There are generally available measures to support export marketing, product development, and export finance and insurance — as well as selective export support via specific industry 'plans' and programs. Exporters can also benefit from some generally available but non-specific assistance programs (for example, support for R&D).

In 1991–92, Commonwealth Government export assistance to Australian industry is estimated at over \$1 billion (Table I1).

Recent developments

During the year, the Commonwealth Government introduced a number of new export incentives and made changes to some existing measures.

In October 1991, the Export Access Program was introduced to help small- and medium-sized enterprises develop the expertise and resources to maintain a sustained export development effort. The assistance is available to firms with an annual turnover of less than \$20 million, to manufacturing firms employing less than 200 people, or to service industries with less than 50 employees. The program is run in conjunction with the Australian Chamber of Manufactures, the Confederation of Australian Industry, the Metal Trades Industry Association and the Council of Small Business Organisations of Australia. Funding for the program was increased in the Government's 'One Nation' statement from its initial level of \$4 million to \$12 million over three years.

In November 1991, the Export Finance and Insurance Corporation's (EFIC's) insurance guarantee and lending operations were significantly boosted with the provision of a further \$200 million in capital to supplement existing reserves of around \$160 million. Also, a Performance Bond Facility was established to provide cover for bonding requirements (where performance and other bonding requirements are demanded by overseas buyers) for exporters with a proven record of performance (but which are unable to meet the requirements of private bonders). Funding of the facility was increased from its initial level of \$50 million to \$150 million in the 'One Nation' statement.

Table I1: Assistance to exports, 1990-91 and 1991-92
(\$ million)

<i>Measure</i>	<i>1990-91</i>	<i>1991-92</i>
Export Subsidies		
Agricultural Industry Export Underwriting Schemes		
Apple and Pear	4.0	Nil
Dairy	Nil	22.5
Wheat ^a	Nil	6.0
Metal Working Machines and Robots Bounty ^b	4.0	3.5
Pharmaceuticals factor f scheme ^b	13.0	30.0
Shipbuilding Bounty ^b	18.0	16.0
Export Marketing		
Australian Tourist Commission	61.5	67.0
Australian Trade Commission (AUSTRADE)		
Export marketing and trade promotion	99.9	124.4
Engineering Industries Internationalisation	1.8	3.9
Textiles, clothing and footwear program	1.0	nil
Product development and export awareness programs	6.0	5.4
Asia-Pacific Fellowship Program	Nil	4.1
Export Market Development Grants (EMDG) Scheme		
operating expenses	5.9	3.5
payments	162.0	134.0
Innovative Agricultural Marketing Program (IAMP) ^c	4.1	8.4
International Trade Enhancement Scheme (ITES) ^d	4.5	41.7
Project Marketing Loans Facility ^e	Nil	0.8
Dairy Industry Market Support	141.0	119.2
Export Access Program	na	1.0
National Industry Extension Service (NIES)	0.5	0.7
State Government export and trade promotion	44.0	na
Wool promotion	22.9	30.0
Export Finance Assistance		
Export credit insurance EFIC interest subsidy	7.9	14.7
Development Import Finance Facility (DIFF) ^f	83.8	103.0
National Interest Business (NIB)	234.0	264.0
Compensation to the grains industry	Nil	35.1
Total	919.8	1038.9

na not available

a Residual payments in respect of 1986-87 wheat pool.

b Commission estimates.

c 1991-92 estimate includes a carryover of \$3.4m.

d 1991-92 estimate includes a carryover of \$19.8m.

e Funded from AUSTRADE's operating budget.

f 1991-92 estimate includes \$10m announced in November 1991.

Source: IC 1992a, vol. 1, p.130

In 1990-91, EFIC provided \$84 million in grants through its Development Import Finance Facility (DIFF) to extend mixed credits to Australian exporters. To help alleviate the growing backlog of projects seeking DIFF assistance, funding of the facility was increased in November 1991 from \$93 million to \$103 million. The 'One Nation' statement announced DIFF funding would be further boosted in 1992-93 to \$120 million.

The 'One Nation' statement also increased the funding of a number of other programs. For example, the Australian Tourist Commission received an additional \$5 million, lifting its 1991-92 budget to around \$67 million. A further \$10 million was earmarked for 1992-93. Also, AUSTRADE will receive an additional \$5 million each year for the next three years to open new offices in the Asia-Pacific region.

The Textiles, Clothing and Footwear (TCF) Import Credits Scheme introduced on 1 July 1991 assists TCF exports by enabling manufacturers to accrue import credits from export sales (see Appendixes H and K).

Research and development

Direct Commonwealth Government support for R&D in 1991-92 was \$2.6 billion. Table I2 lists major expenditure items. In addition, R&D receives indirect support through schemes such as: the Partnerships for Development Program, the Australian Civil Offsets Program, the 'Factor f' Pharmaceutical Scheme, the Small and Medium Enterprise Development Scheme and the Customer Premises Telecommunications Equipment Scheme. There are also state government schemes. No estimate of the cost of this indirect assistance is available. A summary of Commonwealth Government assistance to R&D is provided in the Commission's report on the National Procurement Development Program (IC 1992c, pp. F1-F12).

Table I2: R&D expenditure, 1990-91 and 1991-92
(\$ million)

	1990-91	1991-92
Higher education	987.4	1 081.8
<i>which includes</i>		
Estimated research component of general university funding	660.0	680.0
Identifiable research support for universities	155.0	160.0
Australian Research Council and other funding ^b	171.4	239.9
Commonwealth research organisations	859.9	891.7
<i>which includes</i>		
Commonwealth Scientific and Industrial Research Organisation	421.1	448.1
Defence Science and Technology Organisation	227.2	221.1
Bureau of Mineral Resources	52.9	54.2
Antarctic Division	62.8	68.2
Australian Nuclear Science and Technology Organisation	62.6	64.9
Special purpose and directed grants	309.1	384.0
<i>which includes</i>		
National procurement and development program	7.5	6.1
Grants for industry research and development	29.6	32.2
Advanced manufacturing technology program	0	5.0
Primary industries and energy research and development net of industry contributions	98.2	116.6
National health & medical research council research grants	94.7	103.3
Motor vehicle R&D	4.7	2.8
National teaching company scheme	2.7	na
Cooperative research centre grants	-	19.5
Revenue forgone as a result of tax concessions	266.0	250.0
<i>which includes</i>		
150 per cent tax concession for R&D expenditure	232.0	250.0
100 per cent tax concession for investment in Management Investment Companies	34.0	-
Total	2 422.0	2 607.0

a Budget estimates.

b Other funding includes postgraduate awards, fellowships, overseas postgraduate research scholarships, special centres and infrastructure.

Source: Free 1991

Recent developments

During the past year, the Commission released its report on the National Procurement Development Program (IC 1992b). The Commission expressed doubts not only about the value of this particular scheme but also about the 'piecemeal' way in which R&D policy is developed, co-ordinated and reviewed. Among the Commission's conclusions (see Appendix M) were:

While the NPDP can enhance the competitive position of selected firms, this comes at the expense of the competitiveness of other firms (p. vii).

Given the lack of rigour in the current approach to externalities in the NPDP, any contribution to community welfare would be largely a matter of chance (p. vi).

The 'One Nation' statement announced the formation of three new R&D programs: the Australian Technology Group, the Co-operative Research Centres Program, and the Advanced Manufacturing Technology Development Program. Commercialisation, in some sense, features in each of the schemes.

The Australian Technology Group is to be established in 1992-93 as a small, commercially focussed company with a one-off capital base of \$30 million. Its function will be to help identify research with commercial potential, secure effective control and protection of intellectual property for itself and partners; and market research output to Australian and overseas companies.

The objectives of the Co-operative Research Centres Program are to:

- support long-term high-quality scientific and technological research which contributes to national objectives, the maintenance of a strong capability in basic research and the development of internationally competitive industry sectors;
- capture the benefits of research and strengthen the link between research and its commercial and other applications — by the active involvement of the users of research in the work of the centres;
- build centres of research concentration by promoting co-operative research, and through it a more efficient use of resources in the national research effort; and
- stimulate education and training.

The program provides grants for the establishment of research centres. The first 15 centres were selected in 1990-91 to undertake research

relevant to the resource, manufacturing, information, environmental and biomedical sectors. In 1991–92, the program's budget was \$19.5 million. It is anticipated that by 1994–95 the program will fund up to 50 centres at an estimated annual cost of \$100 million.

The Advanced Manufacturing Technology Development Program began in early 1992 to support research, development, trialling and demonstration of innovative Australian advanced manufacturing technology products and services which meet the requirements of Australian manufacturing industries. The program targets:

- advanced materials and related process technology;
- advanced computer-controlled or microprocessor-based equipment used in design, production, testing of handling of products; and
- advanced manufacturing techniques or services.

The program's budget is \$20 million over a seven-year period. Assistance is by way of grants awarded over a four-year period for up to 50 per cent of eligible project costs. The program is administered by the IR&D Board, under the provisions of the *Industry Research and Development Act 1986*.

Commercialisation

Much has been made in the R&D debate that Australia's R&D activity is less than that of certain OECD nations. Typically, the call has been for increased resources to be devoted to R&D.

The recent emphasis on the 'commercialisation' of public sector research effort reflects the perception that Australia has not derived full benefit from such research because much of the development aspect of R&D has been undertaken by overseas — rather than local — firms.

This concern led to the Government to establish a task force to examine ways to promote the commercialisation of Australia's R&D and to change the funding arrangements of the National Health and Medical Research Council to promote greater commercialisation. The Government's 'One Nation' statement has taken this a further step. Each of the three new programs announced incorporates some aspect of commercialisation.

While commercialisation of publicly funded research will bring benefits (for example by involving Australian industry in bringing innovations to market), it may also involve offsetting costs. For example, resources may be diverted away from projects with the potential to substantially benefit the community in the longer term (eg basic research) simply because they have low immediate commercial value. Care should also be exercised lest projects are supported for which there is insufficient commercial demand. Most successful R&D projects are demand rather than supply driven.

J ANTI-DUMPING ACTIVITY

The anti-dumping system has the objective of discouraging 'unfair trade'. However, its effects are similar to those of other forms of border protection. It provides assistance to selected domestic producers, and imposes costs on other Australian industries and consumers. Australia's system continues to focus on injury to particular domestic producers, to the exclusion of the interests of the wider community.

Consistent with the experience during the 1982-83 recession, there has been a marked increase in anti-dumping activity over the past two years. The Government has also made changes to its anti-dumping procedures to facilitate access to — and maintenance of — anti-dumping actions. As a result, the potential for the system to conflict with the general program of tariff reductions, and other reforms to internationalise the economy, has increased.

This appendix reports on anti-dumping activity in 1991-92. It also discusses the outcome of the departmental review of the system conducted in 1991 and other related changes. Dumping was discussed in more detail in an appendix to last year's annual report.

If imported goods are sold on the Australian market below their 'normal value' in the country of export, they can be assessed as being dumped. If the dumping is found to cause or threaten 'material injury' to an Australian industry, anti-dumping action may be taken against those imports. Similar rules apply to countervailing action. This covers situations in which the Government of a foreign country provides its exporters with certain kinds of financial assistance for the production, freight or export of goods.

Anti-dumping action increased substantially in 1990-91 and 1991-92. The number of new anti-dumping and countervailing cases commenced rose to 88 in 1991-92. This is almost three times the level

Table J1: Anti-dumping and countervailing activity, 1986–87 to 1991–92
(number)

	1986 –87	1987 –88	1988 –89	1989 –90	1990 –91 ^a	1991 –92 ^a
New cases^b						
Cases under inquiry as at 1 July	44	44	19	16	19	53
New cases commenced	43	29	21	31	73	88
Cases where measures imposed						
• at preliminary finding stage	19	16	9	11	40	70
• at final finding stage	6	8	15	5	12	43
Cases where measures not imposed	37	46	9	23	46	
• at preliminary finding stage						40
• at final finding stage						37
Cases under inquiry as at 30 June						
• Australian Customs Service	44	19	12	10	20	6
• Anti-Dumping Authority	–	–	4	9	33	37
Measures						
Cases subject to measures as at 1 July	183	128	55	24	21	26
New cases subject to measures	6	8	15	5	12	43
Cases where measures removed						
• revocation	57	51	33	3	2	–
• release from undertaking	4	30	13	5	2	1
• lapsed (sunset provisions)	–	–	–	–	3	10
Cases subject to measures as at 30 June	128	55	24	21	26	77

– Nil.

a Figures do not balance due to cases subject to appeal or court-initiated inquiry.

b Cases defined as one commodity by one country.

Source: ACS 1992f

recorded in 1989–90, before the recent downturn in economic activity (Table J1).

Anti-dumping activity in 1991–92

During 1991–92, duties were imposed or price undertakings were accepted from foreign exporters in 43 cases, compared with 12 cases

in 1990–91. Provisional measures were imposed in 70 cases, compared with 40 in the previous year. The number of actions continuing in force rose to 77 as at 30 June 1992 (from 26 the year before), with a further 53 cases under investigation.

The chemical and petroleum products industries accounted for over 35 per cent of the anti-dumping and countervailing cases commenced in 1991–92 (Table J2). Food and beverages and non-metallic mineral products together accounted for a similar share.

Recent changes to the anti-dumping system

The institutional arrangements for investigating dumping complaints were revised in September 1988 following the Government's consideration of Professor Gruen's independent review of Australia's anti-dumping system (Gruen 1986). Under the revised arrangements, the Government established an Anti-Dumping Authority (ADA) for five years, with a review of the effectiveness of the new system to be undertaken after three years. The Minister for Industry, Technology

Table J2: Anti-dumping and countervailing cases, complaints formally initiated, by industry, 1986–87 to 1991–92^a
(number and per cent)

ASIC subdivision	1986 –87	1987 –88	1988 –89	1989 –90	1990 –91	1991 –92	6 year total	Share of total
	no.	no.	no.	no.	no.	no.	no.	%
Food and beverages	2	–	3	9	11	18	43	15.1
Textiles	1	–	1	3	–	–	5	1.7
Paper and paper products	–	–	–	–	3	2	5	1.7
Chemical and petroleum products	12	9	5	7	43	32	108	37.9
Metallic minerals	–	–	–	2	–	–	2	0.7
Non-metallic mineral products	–	2	–	1	1	13	17	6.0
Basic metal products	5	8	–	4	–	–	17	6.0
Fabricated metal products	4	–	–	1	–	7	12	4.2
Transport equipment	–	–	–	–	7	4	11	3.9
Other machinery and equipment	17	6	5	3	4	–	35	12.3
Miscellaneous manufacturing	2	4	7	1	4	12	30	10.5
Total	43	29	21	31	73	88	285	100.0

– Nil.

a Cases defined as one commodity by one country.

Source: ACS 1992f

and Commence delivered a Ministerial Statement announcing the outcome of this review on 5 December 1991 (Button 1991b).

The review also provided an opportunity for changes announced by the Government in its March 1991 Statement — and those proposed by the Senate Standing Committee on Industry, Science and Technology — to be examined in terms of their wider impact on the community (SSCIST 1991). The examination was limited to a departmental review conducted by the Department of Industry, Technology and Commerce, in consultation with the Australian Customs Service (ACS) and the ADA.

Outcome of the review

In announcing the outcome of the review, the Minister reiterated the Government's intention that "anti-dumping duties should not be a substitute for assistance to import competing industry in Australia. Nor should they be used to shield industry from the need to adjust to changing economic conditions." He noted that "there are ... arguments from respectable sources that Australia would be better off if it acted only against predatory dumping." However, he also reaffirmed that "the Government's view has not altered. Effective anti-dumping and countervailing arrangements are necessary to protect Australian industry from injury caused by unfair trading practices" (Button 1991b, pp.4291–2).

Rather than identifying a need for 'radical' change to the present arrangements, the review recommended some significant refinements to the system. The announced changes are consistent with the Senate Standing Committee's desire to make anti-dumping action "quicker, cheaper and easier" for industry to have invoked.

Extension of the term of the Anti-Dumping Authority

The life of the ADA was extended for eight years until September 2001 (contrary to the approach favoured by the Senate Standing Committee of establishing a tribunal within the ACS to replace the Authority). The Minister noted that "an independent review process and appeal mechanism is essential to an efficient and fair anti-dumping system" (Button 1991b, p.4293). The ADA has played an important role in improving the transparency of the system.

Shorter review period

The time limit for initial consideration of applications by the ACS to establish a *prima facie* case was reduced from 35 days to 25 days. With this most recent change, the statutory limit for the ACS's preliminary investigation (ie up to the point where provisional measures can be imposed) has been progressively reduced from 175 days in 1988 to 125 days currently (145 days for complex applications).

Extension of sunset period

The period for which anti-dumping and countervailing actions remain in force was extended from three to five years. Local industry is now also permitted to apply for an extension of measures in place before the end of the sunset period. This could result in a return to the situation which prevailed before the Gruen Review where, of the duties in force in December 1985, over a quarter had been in force for more than five years.

New system for the imposition and collection of duties

In the past, exporters have been able to avoid paying dumping duties by raising their price to the non-injurious level calculated by the ACS and the ADA. That avenue to avoid the payment of duty is no longer available. The duty payable is now based on the margin of dumping determined by the Minister following the ADA's inquiry, or on the lesser margin determined to be sufficient to remove injury, irrespective of what has happened to prices since the inquiry. There will be an administrative review on request by interested parties 12 months after the duties are imposed. If, following the review, it is established that excess duties have been collected, the excess will be refunded.

The effects of the new system are not yet clear. It certainly increases the penalty which foreign suppliers face for 'dumping' if duties are ultimately imposed, and adds to the administrative burden. But it may also lead to an increase in the proportion of cases resolved by foreign exporters entering into a price undertaking with the Government, thereby avoiding the application of dumping duties. As a result, exporters would still appropriate the revenue that would otherwise have been paid in duties to the Government.

Other decisions

The Government rejected the Senate Standing Committee's recommendation that the ACS and the Australian Bureau of Agricultural and Resource Economics develop computer-based industry models to help with the assessment of material injury. The Government concluded that "the wide range of industries subject to dumping and subsidisation, the complexity of computer modelling and the unpredictability of incidents makes the recommended approach impractical" (Button 1991, p.4289). The Minister proposed to write to the ACS and the ADA suggesting that particular issues be taken into consideration in applying the material injury test.

To cope with the increase in dumping investigations and the added requirements arising from the review, the Government also allocated additional resources to the ACS and the ADA.

Material injury

As foreshadowed in the review, the Minister for Industry, Technology and Commerce wrote to the ACS and the ADA suggesting that particular issues be taken into consideration in assessing material injury, namely:

- the greater impact of injury during periods of economic downturn — the 'materiality' of the injury caused by a given degree of dumping can depend on the current economic condition of the industry suffering the injury;
- regional dumping — injury caused by dumping which affects an industry only in a specific region can, in 'appropriate circumstances', be judged as material to the industry as a whole; and
- reduced rates of growth as an element of injury — a substantial diminution in an industry's rate of growth can be "just as serious to the Australian economy as the movement of an industry from growth to decline" (ACS 1992c).

In addition, the Minister requested the ACS and the ADA to better publicise the potential, under existing arrangements, for taking anti-dumping action where dumping is merely threatening to cause material injury (including the ability to take provisional action even before the goods in question have been exported to Australia).

Experience from previous Industries Assistance Commission reviews of anti-dumping cases has shown that assessing injury is an inherently subjective exercise. The Minister's 'clarification' of some of the issues which arise in assessing injury has the effect of widening the scope for injury to be judged as 'material'. Since his advice has not been accompanied by any legislative change, the assessment of injury remains subject to the limits of current anti-dumping law, and to Australia's obligations under the GATT. However, these continue to be focussed on injury to particular domestic producers, to the exclusion of the interests of the wider community.

Tender dumping

Also stemming from the Government's review, the issue of 'tender dumping' was referred to the ADA for investigation (ACS 1992e). Tender dumping involves the loss to overseas suppliers of contracts for plant and equipment offered at allegedly dumped prices. The Authority is to report on the 'adequacy' of current legislation and to recommend changes necessary to overcome any 'inadequacies'.

The inquiry raises the prospect of the anti-dumping system being widened to take in tenders for equipment, the manufacture and delivery of which are associated with long lead times (such as large electrical transformers and oil-drilling rigs). Any extension of anti-dumping action along these lines could have significant adverse consequences for the international competitiveness of industries which use such equipment.

K ASSISTANCE TO AGRICULTURE, MANUFACTURING AND MINING

The level of assistance provided to agriculture almost doubled in 1990-91, with the average effective rate for the sector increasing to 15 per cent. This increase is mainly due to the counter-cyclical nature of much of the sector's assistance and an increase in the level of assistance to wool. Disparities in assistance between commodities increased in 1990-91.

Assistance to manufacturing continued to decline in 1990-91, with the measured effective rate falling to 15 per cent. This trend will continue in line with the assistance reduction program announced in the Commonwealth Government's March 1991 Statement. However, at the end of this program, the textile, clothing and footwear and passenger motor vehicle industries will still enjoy assistance much higher than the average effective rate for the sector.

The tariff penalties on inputs used by the mining sector declined in 1990-91 — reflecting the reduction in assistance to the manufacturing sector. The combined effect of negligible assistance to the mining sector's output and tariff penalties on inputs used by the sector resulted in a negative effective rate of 2.8 per cent.

Reductions in industry assistance have been an important component of the Commonwealth Government's microeconomic reform program. This appendix reports on recent developments in assistance and provides details of the Commission's estimates of industry assistance for Australia's agricultural, manufacturing and mining sectors in 1990-91. Also presented for comparison are estimates for earlier years and projections of the assistance levels that will apply to the mining and manufacturing sectors after the assistance reductions announced in the Government's March 1991 Statement are fully implemented.

Tariff phasing announced by the Government in its May 1988 Economic Statement was, for most industries, completed by July 1992. In most cases, the maximum tariff rate was phased down to either 15 per cent or 10 per cent by 1 July 1992.¹ Exceptions were tariffs on certain imports covered by sectoral plans for passenger motor vehicles, and textile, clothing and footwear industries, and tariffs on certain agricultural products. The March 1991 Statement continued this program of phased reductions in assistance. By 1 July 1996, the maximum tariff, subject to the above exceptions, will be phased down to 5 per cent. Import quotas for textiles, clothing and footwear will be abolished from 1 March 1993.

In addition to lowering border assistance to certain import-competing industries, tariff reductions lower prices for imported materials and capital equipment used by all sectors of the economy. These lower prices will improve the international competitiveness of export industries and can help mitigate the effects of reduced assistance for some import-competing industries.

Methodology

The Commission uses nominal and effective rates of assistance to measure the levels of assistance to an industry's output and value added respectively.² These measures facilitate comparisons of the relative incentive effects of assistance on different industries within a sector and over time. The Commission's emphasis in measuring and monitoring assistance has been first — to identify the major government interventions that differentially assist industries in each sector and second — to measure consistently, at the most disaggregated level practicable, the assistance within a sector. Reflecting their relative importance and data limitations, the forms of assistance measured are broader in agriculture than in manufacturing. In the mining sector, estimates are restricted to

1 As a result of the May 1988 Economic Statement tariff rates above 15 per cent were reduced in annual steps to 15 per cent, while rates of 15 per cent or less (but above 10 per cent) were reduced to 10 per cent.

2 Value added is the return to land, labour and capital used in the production process.

border assistance.³ Hence care should be exercised when making intersectoral comparisons.

The measurement of assistance requires an assessment of the price Australian products would command if assistance were removed. For an internationally traded good, the Commission uses as this benchmark price either import parity (the landed duty-free price of the imported equivalent) or export parity (the ex-factory/ex-mine/farm-gate return of the exported equivalent). The choice depends on whether the good would be imported or exported in the absence of assistance. In some markets, particularly agricultural markets, the benchmark price is affected by subsidies that lower world prices. Nevertheless, the Commission believes that, when making comparisons of assistance across Australian activities, the prevailing world price is the appropriate benchmark.⁴

The estimates reported below cover major Commonwealth Government interventions which selectively alter incentives between activities. The estimates include assistance provided via tariffs, quantitative import restrictions, local content schemes, certain export incentives and, for agricultural commodities, domestic pricing arrangements. Due to their relative sectoral importance and data limitations, the estimates do not cover the entire range of assistance provided by the Commonwealth. For example, anti-dumping and many of the selective assistance measures reported in Appendix J are not included. State government interventions of national significance that raise the prices of agricultural commodities are included in the estimates. However, any assistance (positive or negative) which may arise from the Commonwealth or state government provision of infrastructure is not included. This is due to the difficulty in quantifying the level of assistance involved in activities where there is no clear alternative benchmark price.

The following sections discuss developments, trends and levels of assistance for the three sectors. The appendix concludes with a

3 For a more detailed discussion of the methodology used to derive the estimates of assistance see IAC (1985, 1987) and IC (1991e).

4 Although other countries' subsidies may alter the choices facing Australian industry, to make adjustments for those subsidies would be to suggest a different world trading environment than actually exists. This is not to imply that Australia should not continue to press in international forums to have trade subsidies removed.

summary of the assistance measures announced in the Government's 'One Nation' statement.

Assistance to agriculture

Trends and developments in agricultural assistance are summarised in this section. The following information on agricultural assistance is presented in tabular form:

- assistance to agriculture, by form (Table K1, page 259);
- price distortions and producer transfers (Table K2, page 260); and
- nominal and effective rates of assistance, by activity and standard deviations for the sector (Table K3, page 264).

Trends in measured assistance

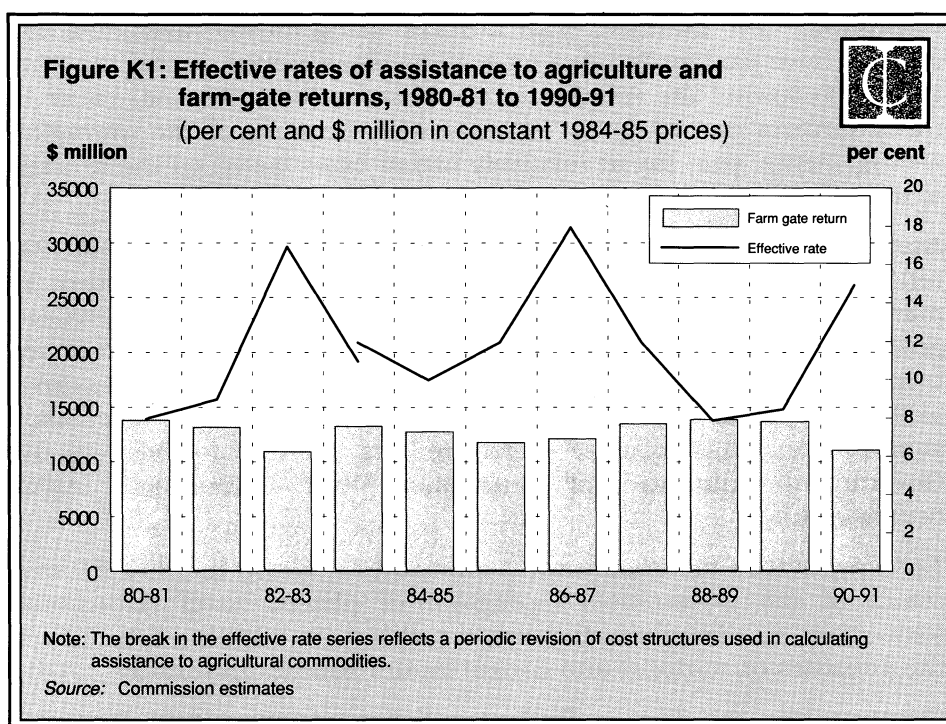
Sectoral assistance

Assistance to agriculture increased significantly in 1990–91. Between 1989–90 and 1990–91, the average nominal rate of assistance increased from 3.4 per cent to 6.8 per cent, while the average effective rate of assistance increased from 8.3 per cent to 15 per cent. These estimates represent the highest assistance measured for the sector since 1986–87, when the effective rate was 18 per cent (Figure K1).

As shown in Figure K1, the level of assistance to the agricultural sector is characterised by considerable variability between years. This variability reflects fluctuating returns to agriculture and the counter-cyclical nature of many of the assistance measures. In 1990–91, the value of output fell sharply.⁵ A lower value of output increases the rate of assistance by spreading any given amount of assistance over a smaller output and value added. If the previous years higher values of output and value added had applied in 1990–91, the effective rate of assistance for the sector would have been 3 percentage points lower.

The variability in agricultural assistance estimates means that year-to-year comparisons should be treated cautiously. It is often more useful to look at the trend in estimates over a number of years. For example, the effective rate of assistance to the sector has fluctuated between 8

⁵ The decline in the value of agricultural output is projected to continue in 1991–92, as a result of the drought in northern New South Wales and Queensland and a further fall in world commodity prices (ABARE 1992).



per cent and 12 per cent for much of the last decade — the exceptions being years affected by major droughts and/or sharp declines in commodity prices.

A large proportion of the increased assistance to the sector in 1990-91 was attributable to the Government's recovery package for wool production (see below). If the previous year's higher values of output and value added for the sector had applied in 1990-91, and assistance to wool had not increased, the effective rate of assistance for the sector would have been around 8 per cent.

Forms of assistance

The most significant change in the forms of assistance to agriculture in 1990-91 was the one-off \$300 million supplementary support payment to wool producers. Another significant change was the decline in assistance conferred by income taxation concessions. Assistance from that source decreased from \$205 million in 1989-90 to \$19 million in 1990-91 (Table K1, page 259). This reduction reflects the nature of the income-averaging scheme. More tax is paid (so that less assistance is received) when income is less than average income and

vice versa. For example, wool farmers using income averaging are likely to have paid lower taxes on high incomes earned during the wool boom. Following the collapse of the Reserve Price Scheme, many of these farmers earned lower incomes and, because of the averaging arrangements, paid tax at relatively higher rates based on the average of their previous incomes.

Assistance from domestic pricing arrangements increased in 1990–91, reflecting the counter-cyclical nature of the assistance afforded by many domestic pricing arrangements. For example, increased producer transfers for sugar and sultanias are due to domestic prices being partially insulated from downturns in export prices. Measured assistance from government loan guarantees also increased significantly. This increase largely reflects the first full year of the Government guarantee of Australian Wool Corporation (AWC) borrowings.

Tariff assistance to agricultural commodities declined in 1990–91 as a result of the Government's program of phased tariff reductions. Reductions in manufacturing-sector tariffs have continued to reduce the penalties on material and capital inputs used in agriculture.

Grants under the Rural Adjustment Scheme increased in 1990–91. However, the lower total adjustment assistance reported in Table K1 reflects a reduction in outstanding balances on old Rural Reconstruction Scheme and Rural Adjustment Scheme loans. Support provided under Part C of the Rural Adjustment Scheme has been treated as welfare rather than assistance to the sector.

Commodity assistance

Wool

Historically, the wool industry has received relatively low levels of assistance. The effective rate was less than 2 per cent in 1989–90. This situation was dramatically reversed in 1990 and 1991 when, in response to the deteriorating financial position of the AWC, the Government introduced a recovery package and implemented new marketing arrangements. The recovery package included a Government guarantee on AWC borrowings, a \$300 million supplementary payment to subsidise producers' 1990–91 returns, two

annual grants of \$22.5 million, and a Government guarantee of a credit facility for exports to the former USSR.⁶

Nominal and effective rates of assistance on wool jumped to 13 per cent and 29 per cent respectively in 1990–91. The 1990–91 estimates reflect all forms of assistance in the recovery package, except the \$22.5 million grants (the first grant was paid in 1991–92).

The Commission expects that assistance to the wool industry will halve during 1991–92. Assistance is expected to return to the former low levels after 1997–98, when the wool stockpile is scheduled to be depleted and the associated debt repaid.

Details of recent developments in wool marketing arrangements are given in Appendix H.

Wheat

The *Wheat Marketing Act 1989* introduced a number of changes to the marketing arrangements for wheat. In particular, the domestic marketing arrangements were deregulated, the underwriting which guaranteed growers a minimum payment *per tonne* was removed, and a Commonwealth Government guarantee of certain Australian Wheat Board (AWB) borrowings was introduced. Provision was also made for the establishment of a Wheat Industry Fund to be financed by an annual levy on commercial sales of wheat, and a Government loan guarantee (of up to \$100 million) to assist in the Fund's establishment.

The AWB has sole exporting rights for Australian wheat and makes initial payments to growers prior to realising the proceeds from sales. To finance these initial payments to growers, the AWB borrows funds on domestic and international markets. These loans are then repaid from export receipts. The Government guarantees these loans, but has limited its annual guarantee to less than estimated revenue. The guarantee limit was 90 per cent in 1989–90 and is phasing down to 80 per cent in 1993–94.

The Government guarantee (and the underwriting arrangements it replaced) provide assistance to the wheat industry. This point was clearly recognised by the Minister (Kerin 1989, p. 1617):

6 For a detailed discussion of the assistance provided in the wool recovery package and the methodology used to derive the estimates of assistance see McLachlan, Valdes and Ironfield (1991).

... the principal benefit of the GMP [guaranteed minimum price] scheme has been the backing it provides to enable the AWB to borrow at favourable interest rates and pay a relatively high first advance to growers delivering wheat to the AWB pools. The Government will continue to provide this benefit via a specific borrowing guarantee. Essentially this means that the AWB's borrowings will continue to be underwritten by Government. Should there be a call on the guarantee the Government will meet its obligation and will not seek repayment by the industry.

In addition to providing assistance by enabling the AWB to obtain loans at favourable rates, underwriting supported the wheat industry in periods when world prices fell below the guaranteed minimum price. This occurred in 1986–87.

In the past, the Commission has not attempted to measure the assistance afforded by the Government guarantee on AWB borrowings. Assistance attributable to the price underwriting scheme was restricted to recording underwriting payments made by the Government. However, the underwriting of wheat prices provided an implicit guarantee for AWB borrowings — and essentially transferred the risk component of the interest rate from the AWB to the public sector. Hence, in addition to providing support in the form of occasional underwriting payments, assistance was provided annually via increased net returns to the wheat industry as a result of lower interest charges.

The introduction of the explicit Commonwealth Government guarantee on AWB borrowings has led the Commission to reassess its methodology for evaluating assistance to wheat growing. The approach used is similar to that used for measuring assistance from the Government guarantee on AWC borrowings. Assistance from the Government guarantee has been estimated for the AWB's 1989–90 and 1990–91 wheat pool borrowings. These estimates are based on actual AWB borrowings and projections of future borrowings over the expected life of each pool. The assistance attributable to the Government guarantee on 1989–90 and 1990–91 expected wheat pool borrowings is estimated to be in the order of \$32 million and \$30 million, respectively.

Inclusion of this assistance from the loan guarantee has significantly increased the estimated nominal and effective rates of assistance to wheat. The nominal rates of assistance increased from 0.4 per cent in 1988–89 to around 2 per cent in 1989–90 and 1990–91. The effective rates of assistance increased from 0.5 per cent in 1988–89 to 3.8 per

cent in 1989–90 and 7.3 per cent in 1990–91. It should be noted, however, that the 1989–90 and 1990–91 estimates are not strictly comparable with estimates for earlier years, where assistance on AWB borrowings from explicit underwriting of wheat prices has not been included.

Sugar

Assistance to sugar increased in 1990–91. The nominal rate increased from 6 per cent in 1989–90 to 10 per cent in 1990–91. The effective rate increased by 11 percentage points to 27 per cent. Assistance is provided to raw sugar production by statutory marketing arrangements and a tariff on imports, which allows domestic prices to be raised above the export parity price. Although the specific tariff rate for sugar remained at \$115 per tonne in 1990–91, the significant decline in the world price of sugar resulted in the level of assistance provided increasing.⁷

The Commission has used a revised benchmark for measuring assistance to sugar. Previously, assistance had been estimated by comparing the unit returns received from the domestic and export markets. However, the recent Commission inquiry into the industry showed that the levels of export returns in a particular year were influenced by sales under long-term contracts and did not necessarily reflect the prevailing world price for sugar. As sugar under contract cannot be redirected to the domestic market, the Commission considers that the more appropriate benchmark for measuring assistance to the sugar industry is the prevailing world price — rather than unit returns from the export market. The world sugar price has been used as the basis for constructing an export parity benchmark price.

Dairy

Estimates of assistance to milk production are measured by reference to its end use. Assistance to manufacturing milk (that is, milk used in the manufacture of dairy products) reflects the support provided by the Government to dairy products. This support sets a minimum level of assistance to all milk produced. State government support provides premiums for sales of market (fresh liquid) milk.

⁷ The specific tariff rate was reduced to \$76 per tonne on 1 July 1991 and was further reduced to \$55 per tonne on 1 July 1992.

Assistance to manufacturing milk increased in 1990–91. The nominal rate of assistance increased from 17 per cent in 1989–90 to 21 per cent, while the effective rate increased by 10 percentage points to 49 per cent. Although manufacturing milk is primarily assisted by market-support payments (subsidies) on exports of manufactured dairy products, the increase in assistance in 1990–91 largely reflects the payment of underwriting support of \$22 million on exports of dairy products.⁸ Market-support payments also increased in 1990–91. For example, the market-support payment for butter, the reference product, increased from 21 per cent to 23 per cent.

In 1990–91, the nominal rate of assistance for market milk increased from 37 per cent to 41 per cent, while the effective rate of assistance increased by nearly 20 percentage points to 124 per cent. This increase in assistance reflects a wider disparity between returns for manufacturing and market milk. Market milk remains the most highly assisted commodity in the agricultural sector (Figure K2 and Table K3).

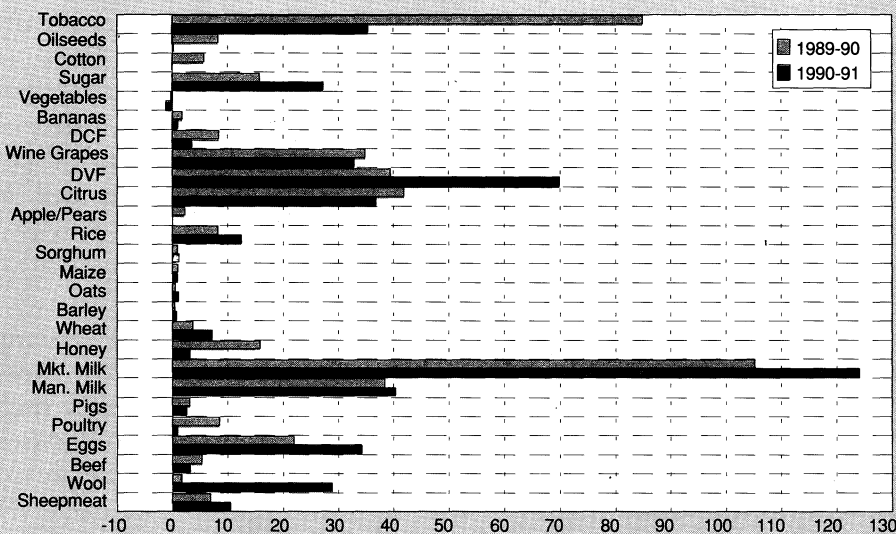
The high level of assistance afforded milk production is likely to continue for some time. Although market-support payments are scheduled to decline to 10 per cent by the year 2000, the phasing does not commence until 1993–94. Appendix H contains more detail on the recent changes in dairy assistance policy.

Dried vine fruits

Notwithstanding a further reduction in the tariffs on imports of currants and raisins, the nominal and effective rates of assistance for dried vine fruits increased significantly in 1990–91. Nominal rates increased from 19 per cent in 1989–90 to 30 per cent, while effective rates increased by 30 percentage points to 70 per cent. The higher assistance is due to an increase in the price differential between domestic and export returns from sales of comparable sultanas. This increase is despite the removal of the statutory equalisation scheme at the end of the 1990 season. In 1990–91, this price distortion was 46 per cent (compared with 28 per cent in 1989–90). The industry's exemption from section 45 of the Trade Practices Act and the licensing powers of state dried fruit boards may account for the major difference between the domestic and export prices in 1990–91. The Trade Practices Act exemption allows the Australian Dried Fruit Association

⁸ The underwriting of dairy exports by the Commonwealth Government ceased on 30 June 1992.

Figure K2: Average effective rates of assistance to agricultural commodities, 1989-1990 and 1990-91 (per cent)



Source: Commission estimates

to price discriminate, while state licensing restrictions have the potential to discourage new packers from entering the industry.

Other commodities

Assistance is provided to the production of wine grapes and citrus through tariffs on imports of grape must and orange juice. These tariffs declined in 1990-91 and were further reduced to 15 per cent on 1 July 1992.

Assistance to the egg industry increased in 1990-91. The New South Wales egg industry was deregulated in 1988-89. Since deregulation, the producer returns in that state have been used as the benchmark for estimating assistance. Despite deregulation, the number of operators, sheds and cages remained relatively stable. This resulted in an increased supply of eggs and lower producer returns in New South Wales — and hence a higher measured price distortion for the egg industries in other states.

The South Australian egg industry was deregulated in May 1992. This initiative was in response to increased supplies of lower-priced

interstate eggs, mainly from New South Wales (Arnold 1992). The pressures for interstate trade in eggs, and hence lower prices, should increase with the South Australian move.

Assistance to the tobacco industry decreased in 1990–91. For the second year in succession, the controlled price for domestically produced tobacco increased by less than the average price of comparable tobacco imports. The nominal rate of assistance, at 22 per cent, is less than half the assistance measured for 1988–89. Effective rates have declined from a high of 110 per cent in 1988–89 to 36 per cent in 1990–91. The local content scheme for tobacco leaf is scheduled to terminate on 1 October 1995.

Disparities in assistance

As shown in Figure K2, assistance varies significantly among agricultural products. Although market milk stands out as the most highly assisted activity, a number of other commodities also enjoy high levels of assistance. In sharp contrast, another group of commodities receives negligible assistance. Disparities in assistance, as measured by the standard deviation, increased between 1989–90 and 1990–91 (Table K3). Disparities in effective rates between commodities increased to 22 percentage points from 16 percentage points in 1989–90. Disparities in effective assistance levels are an indicator of the potential for loss of efficiency in resource use. The potential for a loss of efficiency is greatest when there are wide disparities in the effective assistance afforded commodities which compete relatively closely for resources and use similar production processes. The increased disparity in effective rates reflects the higher assistance levels for wool, market milk, eggs, sugar and dried vine fruits.

Disparities in nominal rates increased by 3 percentage points to 10 percentage points in 1990–91. The export orientation of the agricultural sector means that disparities in nominal rates only provide a weak indication of potential for losses of consumption efficiency. Domestic price distortions, which measure the difference between the domestic price of a commodity and the price that would prevail without assistance, have increased for many commodities in 1990–91. Price distortions vary significantly between agricultural commodities and, in 1990–91, ranged from zero in the case of some commodities to 54 per cent for sugar.

Infrastructure provision and assistance

Assistance arising from the under- or over-pricing of infrastructure services provided by government is currently excluded from the assistance estimates. Adoption of more efficient pricing for such services may lead to significant changes in the prices paid by industry for these necessary inputs. For example, in its recent draft report on *Water resources and waste water disposal* (IC 1992a) the Commission found that there is significant under-recovery of costs for irrigation. Although charges sometimes cover the direct costs of operating and maintaining irrigation and drainage systems, they make little provision for depreciation of the assets involved — let alone a return on the capital invested in dams and irrigation networks. In some areas, irrigation water was found to have considerable value over and above the price charged for its provision. As a result, the benefits derived from low prices for irrigation water have been capitalised into the value of water entitlements or land values.

Any assessment of the assistance to agriculture arising from such irrigation pricing policies should, ideally, take into account any divergence from the efficient pricing of these services. However, due to past investment policies and past and present regulation of water entitlements, the level of irrigation services is unlikely to coincide with efficient provision. The efficient price will depend on whether the system is to be run down or whether the service is to be maintained indefinitely. In the former case, the benchmark price would be a price sufficient to cover operating costs. In areas where the system is to be maintained, charges should not only cover operating and maintenance costs but also make adequate provision for depreciation on assets — as well as providing an appropriate return on that part of refurbishment expenses met by governments. The Commission found that the expectation of users in most areas was that systems would be maintained or improved. In these circumstances, the target rate of return on existing investments should not be negative. The Commission considered that a 5 per cent (real) rate of return could be reasonably expected for new investments.

Information supplied to the Commission by the Australian Water Resources Council gives an indication of the assistance provided through the under-recovery of irrigation costs in 1989–90. Assistance based on a zero real rate of return would be in the order of \$118 million in 1989–90. At a 5 per cent real rate of return, assistance would be in the order of \$424 million. By comparison, the

Commission estimates that, in 1989-90, the assistance derived from the two most important forms of measured assistance — domestic marketing arrangements and income tax concessions — amounted to \$403 million and \$205 million respectively.

Table K1: Assistance to agriculture, by form, 1986-87 to 1990-91
(\$ million)

	1986-87	1987-88	1988-89	1989-90	1990-91
Assistance to outputs					
Domestic pricing arrangements ^a	611	551	375	403	485
Export incentives	1	18	15	17	12
Export inspection services	48	37	48	69	46
Local content schemes	9	19	23	21	14
Marketing support	36	35	27	28	28
Underwriting arrangements	201 ^b	2	-	-	22
Tariffs	56	48	87	63	48
Government guarantees	-	-	-	34	79
Supplementary support payments	-	-	-	-	300
	962	710	575	635	1 034
Assistance to value-adding factors					
Adjustment assistance	65	64	60	72	65
Agricultural research	120	137	133	148	161
Income taxation concessions ^c	180	280	290	205	19
Natural disaster relief	39	31	36	26	16
	404	512	519	451	261
Assistance to inputs					
Disease control ^d	18	14	9	10	11
Fertiliser subsidies	-	-	-	-	-
Stockfeed ^e	-9	..	-17	-	-
Tariffs on materials ^f	-96	-112	-119	-115	-92
Tariffs on plant and machinery ^f	-121	-145	-169	-126	-90
	-208	-243	-296	-231	-171

- nil.

.. less than \$0.5 million.

a The amount of assistance derived from domestic pricing arrangements for certain products is increased by import restrictions — for example tariffs on dried vine fruits and, until 30 June 1989, the embargo on sugar imports — which enable the domestic price to exceed the landed duty-free price of competing imports.

b Includes the payment of a second advance of \$33.8 million made in July 1990 to the Australian Wheat Board for the 1986-87 wheat crop. A final payment is expected to be paid in 1992-93.

c Includes assistance provided to primary producers through income tax averaging provisions. Estimates of the assistance from these provisions were provided by the Australian Taxation Office. A small amount of this assistance supports activities for which nominal and effective rates have not been estimated.

d Covers assistance provided by the bovine tuberculosis and brucellosis eradication campaign.

e The estimated effects of domestic pricing arrangements, which ended on 30 June 1989, for stockfeed wheat used in pig, poultry and egg production. These arrangements could either tax or subsidise user industries depending on whether the stockfeed price was above or below the comparable export price.

f The additional costs incurred by farmers due to assistance measures which raise the prices of manufactured inputs.

Source: Commission estimates

Table K2: Price distortions and producer transfers for agricultural commodities, 1986-87 to 1990-91^{a,b}
(per cent and \$ million)

Commodity	1986-87		1987-88		1988-89		1989-90		1990-91	
	Price distortion	Producer transfer	Price distortion	Producer transfer	Price distortion	Producer transfer	Price distortion	Producer transfer	Price distortion	Producer transfer
	(%)	(\$m)	(%)	(\$m)	(%)	(\$m)	(%)	(\$m)	(%)	(\$m)
Domestic pricing arrangements										
Dairying and other animal products										
Cheese ^c	55	89	33	79	24	67	13	57	14	63
Butter ^c	89	33	67	28	40	18	18	24	23	25
Skim milk powder	37	18	38	25	19	19	19	19	24	17
Wholemilk powder	42	8	25	8	17	6	16	7	18	6
Casein	41	1	33	1	19	1	19	1	29	..
Market milk ^d	56	205	48	192	24	121	36	176	38	198
Eggs ^e	52	62	25	23	na	na	8	21	17	38
Honey	1	..	1	..	1	..	1	..	1	..
Fruits										
Dried vine fruits ^f										
Sultanas	27	10	52	16	45	13	28	10	46	22
Currants	12	1	15	1	20	1	18	1	17	1
Raisins	15	1	15	..	20	1	18	1	17	1
Deciduous canning fruits ^g	51	4	na	na	-	-	-	-	-	-

Table K2: Price distortions and producer transfers for agricultural commodities, 1986-87 to 1990-91^{a,b}
(cont) (percent and \$ million)

Commodity	1986-87		1987-88		1988-89		1989-90		1990-91	
	Price distortion	Producer transfer	Price distortion	Producer transfer	Price distortion	Producer transfer	Price distortion	Producer transfer	Price distortion	Producer transfer
	(%)	(\$m)	(%)	(\$m)	(%)	(\$m)	(%)	(\$m)	(%)	(\$m)
Grains										
Rice ^h	44	12	49	14	20	6	18	5	18	6
Wheat										
Human use	13	26	2	5	2	6	-	-	-	-
Stockfeed	2	3	1	-	-	-	-
Industrial	-2	-1	-2	-1	1	..	-	-	-	-
Other crops										
Sugar ⁱ	53	66	57	72	38	62	23	50	54	70
Cotton ^j	53	16	20	9	27	9	-	-	-	-
Commodities assisted by tariffs										
Wine grapes	16	17	18	27	21	53	16	32	15	22
Citrus	19	18	10	12	25	34	21	31	18	26
Potatoes	8	17	4	7	-	-	-	-	-	-
Onions	1	1	1	..	-	-	-	-	-	-
Tomatoes	1	1	1	1	-	-	-	-	-	-
Other vegetables ^k	1	2	1	1	-	-	-	-	-	-
Local content schemes										
Tobacco ^l	14	8	34	19	43	23	38	22	20	14

Table K2 (cont)

na not available.

- nil.

.. Producer transfer less than \$0.5 million or price distortion between -0.5 per cent and 0.5 per cent.

- a The price distortion is the proportional difference between the domestic price of a commodity and the price that would prevail without assistance, expressed as a percentage. For export-competing commodities, it is the proportional difference between the domestic and comparable export prices. For import-competing commodities, it is the proportional difference between the domestic and import (landed duty-free) prices. In the case of tariff assistance, the price distortion is the tariff rate applying to imports expressed as a percentage of the landed duty-free price.
- b Producer transfers represent the income transfer to farmers from domestic consumers/users due to domestic prices being maintained above export/import parity. A negative transfer indicates a transfer from farmers to domestic consumers/users. The transfers are derived for export industries either by multiplying the difference between the domestic and comparable export price by domestic sales or by multiplying the difference between the average prices received by farmers and comparable export prices by production. With the exception of sugar and deciduous canning fruits, it is assumed that all transfers accrue to the farming activity.
- c The methodology for estimating producer transfers for butter and cheese have been revised to exclude the levies charged on domestic sales of butter and cheese which were used to fund the supplementary support payments. The domestic price distortion includes the added costs of the levies to consumers and users of butter and cheese.
- d For the years 1986-87 through to 1988-89 the producer transfers were estimated for each state by multiplying the difference between the state market milk price and a notional deregulated price, by market milk sales in the state. For New South Wales, Queensland and South Australia, the deregulated price was assumed to be the Victorian manufacturing milk price plus freight from Victorian to the respective states. For Western Australia and Tasmania, the deregulated price was assumed to be the local manufacturing milk price, plus winter incentive payments. The estimates since 1989-90 are based on a revised methodology. The producer transfer is now based on the difference between the state market milk price and the local manufacturing milk price plus an allowance of 20 per cent of the average Australian manufacturing milk price (to represent the cost of assurance of out-of-season supply).

Table K2 (cont)

- e Estimates of assistance to egg production for 1986–87 and 1987–88 were calculated by obtaining a price differential on the domestic market due to domestic marketing arrangements by comparing the domestic wholesale prices in each state with average export prices for New South Wales shell and pulp eggs (New South Wales was the major exporting state). The price distortion and producer transfer were not estimated for 1988–89 due to the difficulty in obtaining appropriate data for New South Wales following the deregulation of the New South Wales egg market and the sale of the New South Wales Egg Corporation's assets. Producer transfers since 1989–90 were estimated for each state by multiplying the difference between the average price received by farmers and the New South Wales deregulated price by the quantity produced in each state. The price distortion is the producer transfer expressed as a proportion of the unassisted value of egg production based on the assumption that, since deregulation in New South Wales, minimal quantities of eggs are exported.
- f It is assumed that, in the absence of the industry's marketing arrangements, only sultanas would be an export-competing commodity. Thus export parity prices were used to measure the price distortions and producer transfers for sultanas, whereas import parity prices were used for currants and raisins. The price distortion for sultanas is based on the difference between the average domestic and comparable export returns to packers. It is assumed that the grower captures all of the benefits of the marketing arrangements.
- g Producer transfers were estimated at 20 to 30 per cent of the total transfer based on respective value-added shares between the growing and canning activities. The price distortion and producer transfer have not been calculated for 1987–88 since price data were not available following the winding up of the Australian Canned Fruits Corporation on 31 December 1988.
- h Estimates have been derived by comparing domestic and export prices for medium- and long-grain rice. As separate domestic and export prices for short- and long-grain rice were not available for 1987–88, it was necessary to estimate these prices from the average price supplied by the NSW Ricegrowers' Co-operative Limited. The price distortion for rice grown in Queensland is based on the difference between the average domestic and comparable export prices for rice grown in New South Wales. The estimates for 1988–89 have been revised on the basis of more appropriate data provided by the Ricegrowers' Co-operative. The estimates since 1989–90 are based on data comparable to that used for the revised 1988–89 estimates.
- i Producer transfers were estimated in accordance with the industry formula used for dividing raw sugar returns between millers and growers. For the years 1986–87 through 1988–89 the price distortion for sugar was calculated by comparing average unit returns from domestic and export sales. The import embargo on sugar was replaced by a specific tariff rate on sugar imports from 1 July 1989. The estimates since 1989–90 are based on a revised methodology. The price distortion was calculated by comparing the average domestic unit returns with a constructed export parity price.
- j The domestic marketing arrangements ceased in June 1989.
- k Includes beans, cabbages, brussel sprouts, carrots, cauliflowers, lettuces, peas and pumpkins.
- l Transfers were derived by applying the price differential between Australian-grown green leaf and the notional import price of non-USA green leaf to the domestic sales of Australian-grown leaf.

Source: Commission estimates

Table K3: Average nominal and effective rates of assistance, by activity, and standard deviations for the agricultural sector, 1986-87 to 1990-91^a
(per cent)

Activity/commodity description	Nominal rate of assistance on outputs ^b					Effective rate of assistance ^c				
	1986-87	1987-88	1988-89	1989-90	1990-91	1986-87	1987-88	1988-89	1989-90	1990-91
Horticulture										
Apples and pears	0.4	1.4	0.2	1.4	0.4	0.9	3.4	0.1	2.3	0.2
Dried vine fruits	17	25	27	19	30	38	57	59	40	70
Wine grapes	16	18	21	16	15	42	39	47	35	33
Citrus	19	10	25	21	19	37	20	51	42	37
Deciduous canning fruits ^d	28	0.9	1.5	0.6	0.4	77	9.2	7.6	8.5	3.6
Bananas	-	0.6	0.7	0.7	0.4	0.5	1.8	2.0	1.8	1.1
Tobacco	16	37	56	43	22	24	68	110	85	36
Potatoes	8.0	3.1	0.2	0.2	0.2	21	6.1	-2.5	-2.6	-3.0
Onions	1.4	3.5	2.2	2.5	1.3	1.2	5.9	3.3	4.0	1.5
Tomatoes	1.4	0.7	-	0.1	-	0.6	0.3	-0.9	-1.0	-1.4
Other vegetables ^e	1.4	2.5	0.9	0.9	0.5	0.9	3.9	1.1	0.9	0.2
<i>Average</i>	7.3	7.4	8.3	6.5	5.6	14	15	17	14	11
Extensive cropping										
Wheat	14	0.7	0.4	1.5	2.1	35	3.5	0.5	3.8	7.3
Barley	-	0.2	0.2	0.2	0.2	2.6	2.3	-0.1	0.5	0.8
Oats	-	0.3	0.3	0.2	0.1	3.5	1.8	-0.6	0.6	1.1
Maize	-	-	0.1	0.2	..	0.1	-0.2	-1.0	1.1	0.9
Sorghum	-	0.2	0.2	0.1	0.2	1.5	1.6	-0.9	1.0	1.3
Oilseeds	-	0.2	0.2	..	0.1	-1.2	3.3	3.4	8.5	0.4
<i>Average</i>	10	0.5	0.3	1.1	1.4	24	3.0	0.4	3.0	4.9

Table K3: Average nominal and effective rates of assistance; by activity, and standard deviations for the agricultural sector, 1986-87 to 1990-91^a
(cont) (per cent)

Activity/commodity description	Nominal rate of assistance on outputs ^b					Effective rate of assistance ^c				
	1986-87	1987-88	1988-89	1989-90	1990-91	1986-87	1987-88	1988-89	1989-90	1990-91
Extensive irrigation and high-rainfall crops										
Sugar ^f	13	13	9.0	6	10	33	32	21	16	27
Cotton ^g	4.5	2.1	1.7	-	-	6.6	6.2	5.5	5.9	-0.1
Rice ^h	19	17	5.0	4.0	5.0	59	50	9.7	8.3	13
<i>Average</i>	10	9.1	5.7	3.5	4.5	20	19	12	10	8.5
Extensive grazing										
Beef	1.3	0.9	1.3	1.6	1.0	7.7	8.5	9.4	5.4	3.3
Wool	1.2	0.7	0.5	0.5	13	4.2	2.8	2.2	1.7	29
Sheepmeat	1.5	0.9	1.7	2.9	4.5	4.3	3.1	4.4	7.0	10.5
<i>Average</i>	1.2	0.8	0.8	1.0	6.6	5.7	4.7	4.7	3.4	14
Intensive livestock										
Pigs	0.1	0.1	0.1	0.1	..	0.7	4.1	-3.2	3.2	2.6
Poultry	-	0.1	0.1	0.1	..	-0.2	6.0	2.5	8.6	1.0
Eggs ⁱ	35	10	na	8.4	18	71	22	na	22	34
Milk production	54	49	22	24	28	213	171	54	60	73
Manufacturing milk ^j	50	45	21	17	21	181	150	50	39	49
Market milk ^k	60	54	24	37	41	>250	205	60	105	124
Honey	1.1	2.5	2.7	5.2	1.4	0.9	6.7	7.9	16	3.2
<i>Average</i>	23	18	11	11	14	71	58	28	32	36

Table K3: Average nominal and effective rates of assistance; by activity, and standard deviations for the agricultural sector, 1986-87 to 1990-91^a
(cont) (per cent)

<i>Activity/commodity description</i>	<i>Nominal rate of assistance on outputs^b</i>					<i>Effective rate of assistance^c</i>				
	1986-87	1987-88	1988-89	1989-90	1990-91	1986-87	1987-88	1988-89	1989-90	1990-91
Total agriculture										
<i>Average</i>	7.5	4.5	3.2	3.4	6.8	18	12	7.9	8.3	15
<i>Standard deviation^d</i>	(13)	(12)	(7)	(7)	(10)	(39)	(30)	(15)	(16)	(22)

na not available.

- nil.

.. Between -0.05 per cent and 0.05 per cent.

a Due to the increasing number of activities in receipt of low levels of assistance, the Commission has reported rates of less than 10 per cent rounded to one decimal point. Estimates of 10 per cent or greater continue to be rounded to whole numbers. The presentation of some estimates to one decimal point should not be interpreted as implying any greater degree of precision than previous estimates. The new form of presentation simply enables the detection of small movements in rates which would otherwise be hidden in estimates presented as whole numbers.

b Average nominal rates on outputs are weighted by the unassisted value of output of each activity.

c Average effective rates are weighted by the unassisted value added of each activity.

d The required price data for estimating the producer transfer were not available for 1987-88 following the winding up of the Australian Canned Fruits Corporation on 31 December 1988. Hence, only export incentives were included in the 1987-88 estimate of the nominal rate of assistance.

e Includes beans, cabbages, brussels sprouts, carrots, cauliflowers, lettuces, peas and pumpkins.

f The embargo on sugar imports ceased in June 1989. The estimates since 1989-90 are based on a revised methodology. The price distortion was calculated by comparing the average domestic unit returns with a constructed export parity price.

g The domestic marketing arrangements for cotton ceased in June 1989.

Table K3 (cont)

- h Estimates have been derived by comparing domestic and export prices for medium and long-grain rice. As separate domestic and export prices for short and long grain rice were not available for 1987–88, it was necessary to estimate these prices from the average prices supplied by the NSW Ricegrowers' Co-operative limited. The price distortion for rice grown in Queensland is based on the difference between average domestic and comparable export prices for rice grown in New South Wales. Estimates since 1988–89 have been based on more appropriate data provided by the Ricegrowers' Co-operative.
- i Assistance to egg production for 1986–87 and 1987–88 was estimated by obtaining a price differential on the domestic market due to domestic marketing arrangements by comparing the domestic wholesale prices in each state with average export prices for New South Wales shell and pulp eggs. New South Wales is the major exporting state. The price distortion and producer transfer were not estimated for 1988–89 due to the difficulty in obtaining appropriate data for New South Wales following the deregulation of the New South Wales egg market and the sale of the NSW Egg Corporation's assets and nominal and effective rates have not been reported for this year. Producer transfers since 1989–90 were estimated for each state by multiplying the difference between the average price received by farmers and the New South Wales deregulated price by the quantity produced in each state. The price distortion is the producer transfer expressed as a proportion of the unassisted value of egg production.
- j The methodology for estimating the producer transfers for butter and cheese have been revised to exclude the levies charged on domestic sales of butter and cheese which were used to fund the supplementary support payments. The domestic price distortion includes the added costs of the levies to consumers and users of butter and cheese.
- k For the years 1985–86 through to 1988–89 the producer transfers were estimated for each state by multiplying the difference between the state market milk price and a notional deregulated price, by market milk sales in the state. For New South Wales, Queensland and South Australia, the deregulated price was assumed to be the Victorian manufacturing milk price plus freight from Victoria to the respective states. For Western Australia and Tasmania, the deregulated price was assumed to be the local manufacturing milk price, plus winter incentive payments. Estimates since 1989–90 are based on a revised methodology. The producer transfer was estimated by multiplying the difference between the market milk price and the local manufacturing milk price plus an allowance of 20 per cent of the average Australian manufacturing milk price to represent the cost of assurance of out-of-season supply.
- l The standard deviation in percentage points measures how far from the average items in a frequency distribution are located, thereby measuring the extent of variation or dispersion in the distribution. The larger the variability amongst individual activities' nominal and effective rates, the larger the standard deviation.

Source: Commission estimates

Assistance to manufacturing

In recent annual reports the Commission has presented preliminary estimates of assistance to manufacturing industries for the current financial year. This year, such estimates are not available. The Commission is in the process of rebasing its manufacturing assistance measurement system to include the effects of recent changes in the structure and composition of industries. The rebasing and concurrent reviews of methodology, procedures and data sources are not expected to be completed before the end of 1992.

With its March 1991 Statement, the Government set out a fixed schedule for reductions in protection that, on completion, will leave most manufacturing industries with little industry-specific assistance. Because the schedule of reductions is known in advance, it is possible to project assistance levels through to the end of the program. An information paper presenting the new base year series of estimates is planned for publication in the first half of 1993. The paper will include assistance estimates from 1989–90 to 1991–92, projections for each year from 1992–93 through to 1996–97 (the end of the program for most manufacturing industries) and revised projections of assistance for 2000–01 (when textile, clothing and footwear and passenger motor vehicle industries phasing will be completed).

This section contains a discussion of recent changes in manufacturing assistance policy and presents a summarised version of the estimates reported in the 1990–91 annual report. Estimates of assistance to manufacturing industry groups for 1989–90, 1990–91 and projections of assistance levels to apply at the end of the March 1991 program are included. The following information on manufacturing industry assistance is presented in tabular form:

- tariff quotas for textiles, clothing and footwear (Table K4, page 275);
- tender sale premiums for textiles, clothing and footwear import quotas, by quota category (Table K5, page 278);
- assistance to manufacturing, by form (Table K6, page 282);
- average nominal rates of assistance on outputs and materials and average effective rates of assistance for manufacturing industry groups (Table K7, page 283);

- standard deviations (a measure of dispersion) for nominal and effective rates of assistance for manufacturing subdivisions (Table K8, page 287); and
- subsidy equivalents, tax on materials and consumer tax equivalents for manufacturing subdivisions (Table K9, page 288).

Trends in measured assistance

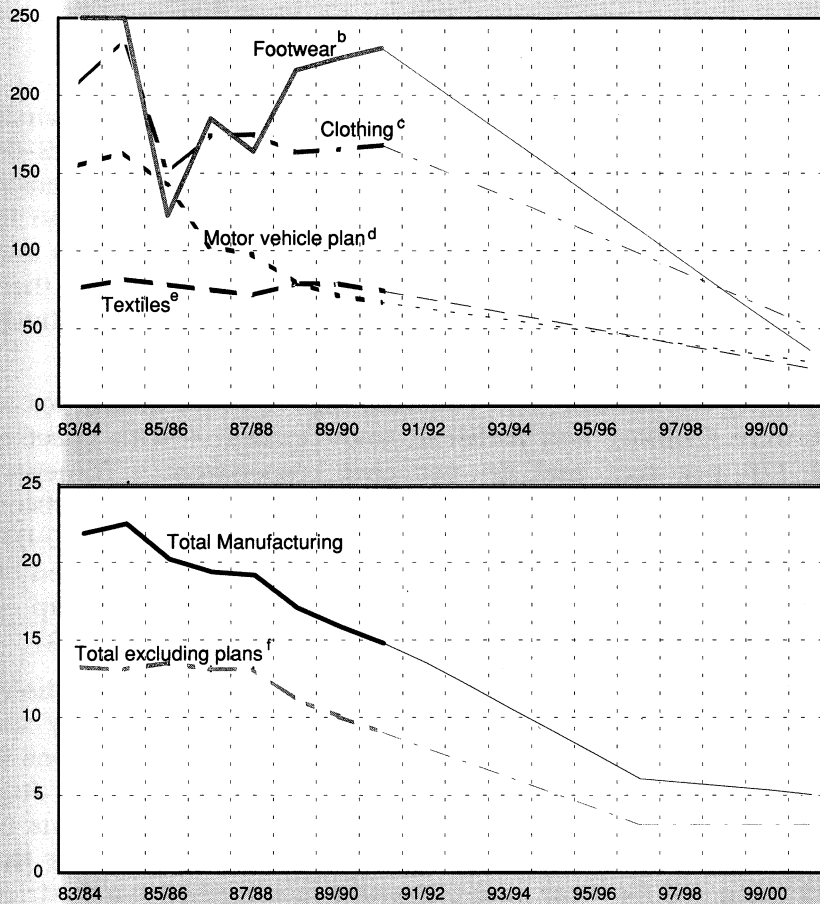
The effective rate of assistance for the manufacturing sector as a whole has declined significantly from its level of 22 per cent in 1983–84 (Figure K3). As detailed in last year's annual report, the average effective rate for the sector declined from 16 per cent in 1989–90 to 15 per cent in 1990–91. The nominal rate of assistance on outputs and the nominal rate on materials for the sector declined slightly from their 1989–90 levels to be just under 9 per cent and 6 per cent respectively in 1990–91 (Table K7).

Those industry subdivisions still receiving high effective assistance in 1990–91 were Clothing and footwear, and Textiles — with effective rates of 176 per cent and 68 per cent respectively. Transport equipment, with a rate of 33 per cent, was the only other subdivision with an average effective rate of more than 20 per cent in 1990–91. Within that subdivision, the effective rate for the industries covered by the motor vehicle plan (motor vehicles and parts industry group — excluding bodies, trailers and caravans) was 67 per cent in 1990–91.

Assistance to the manufacturing sector is set to decline substantially over the 1990s (Figure K3). Under the changes announced by the Government in March 1991, the general program of tariff reductions is continuing — with most tariffs to phase down to 5 per cent by July 1996. Bounties are also being lowered in line with the reductions in tariffs. In addition, protection provided by the sectoral plans for the textile, clothing and footwear, and passenger motor vehicles industries is to be cut substantially by the year 2000.

At the end of the March 1991 program of reductions, the effective rate for the manufacturing sector is projected to fall to 5 per cent. Average effective assistance for the manufacturing sector — excluding 'plan' industries — is projected to be just over 3 per cent, once the changes are fully implemented. The average nominal rates of assistance on outputs and materials are projected to decline to 3 per cent and 2 per cent respectively (Table K7).

Figure K3: Average effective rates of assistance to manufacturing industries, 1983-84 to 1990-91 and on completion of the March 1991 program^a (per cent)



a Assistance has not been calculated for the years between 1990-91 and the end of March 1991 program (2000-01). The data points have been interpolated to provide a trend line.

b ASIC industry group 246. Estimates greater than 250 per cent for 1983-84 and 1984-85, have been set at 250 per cent.

c ASIC industry groups 244 and 245.

d ASIC industry group 323 excluding industry class 3232.

e ASIC industry subdivision 23 excluding industry classes 2341 and 2342.

f Total manufacturing excluding textiles, clothing, footwear and passenger motor vehicle industries as defined in footnotes b to e above.

Source: Commission estimates

The industry subdivisions experiencing the largest absolute reductions in assistance as a result of the March 1991 program are Clothing and footwear, Textiles, and Transport equipment (especially the motor vehicles and parts industry group). Of particular significance is the scheduled termination of textiles, clothing and footwear quotas in March 1993. Out-of-quota penalty duty rates were halved on 1 March 1992, and will be abolished on 1 March 1993. However, even when import quotas are removed, assistance for many textile, clothing and footwear industries will remain high relative to the rest of manufacturing because the tariff rates applying to relevant imports will still be several times the rates for manufacturing generally. At the end of the program, the effective rates of assistance for Textiles (at 22 per cent); Clothing and footwear (50 per cent); and industries covered by the passenger motor vehicle plan (29 per cent) will still be between 7 and 16 times the average effective rate for the manufacturing sector, excluding these industries (Figure K3).

Recent changes in manufacturing assistance policy

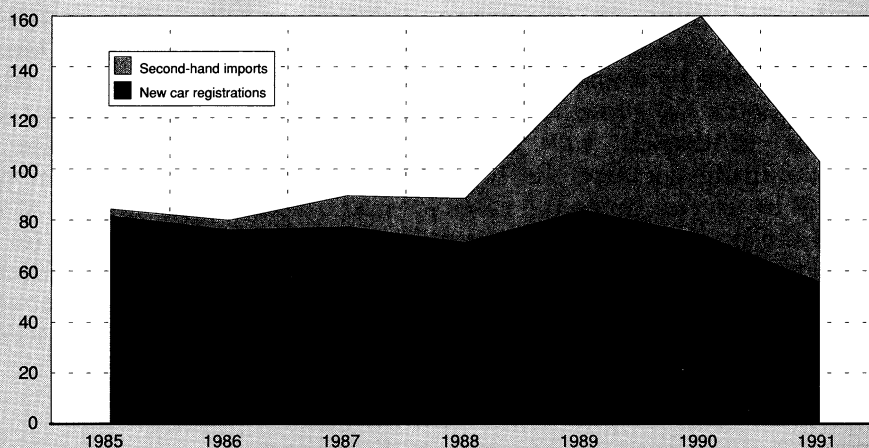
While reductions in protection are generally proceeding according to the schedule set out in the March 1991 Statement, there have been a few recent assistance policy decisions that are noteworthy.

The first of these was the Government's decision to impose a specific tariff of \$12 000 on imports of second-hand cars brought into the country by high-volume importers. This duty is in addition to the *ad valorem* duty for passenger motor vehicles, now 35 per cent. The Government decided to impose the specific tariff after an importer made an application for compliance for a particular model Japanese used car which it intended to import in large numbers. It is likely that these low-mileage vehicles would have been an attractive alternative to the purchase of a new vehicle for some consumers, as well as providing better second-hand vehicles for many others.

The \$12 000 duty on used cars provides additional support to the local production of passenger motor vehicles by maintaining local demand for new cars, from all sources, at higher levels than would prevail in the absence of the duty. It is unclear what effect imports of second-hand cars would have on prices of locally produced and imported new cars.

While there are differences between the two markets, the New Zealand experience with imports of second-hand Japanese vehicles provides some indication of the likely impact of large-volume imports of second-

Figure K4: New Zealand, first-time registrations of motor vehicles, 1985-91
(000 vehicles)



Source: DITAC 1992a

hand vehicles into Australia.⁹ Between 1986 — when second-hand cars were first imported in commercial quantities into New Zealand — and 1990, the demand for motor vehicles increased significantly (Figure K4). Total first-time registrations nearly doubled, with registrations of new vehicles falling by only 2.2 per cent over the period (DITAC 1992a). In 1991, first-time registrations of motor vehicles fell sharply — with registrations of new vehicles declining by 25 per cent. However, this was not as dramatic as the 45 per cent fall in registrations of second-hand imports.

The New Zealand registration data suggest that a substantial proportion of sales of imported second-hand cars have not been at the expense of new car sales. Rather, consumers appear to have purchased these vehicles in preference to other second-hand vehicles, and extra demand has been created as businesses or families have acquired additional vehicles they would not have otherwise bought. Allowing the importation of second-hand cars has rapidly increased and improved the capital stock of vehicles in New Zealand.

⁹ One key difference is in the design rule requirements for these imports in Australia.

The passenger motor vehicle plan is discussed in more detail in Appendix H which covers specific industry arrangements.

The Government remains committed to the textiles, clothing and footwear plan and is continuing with the abolition of quotas and the phasing down of tariffs. There were, however, a number of adjustments made to the plan during the course of 1991-92, largely because of the severity of the recession. More recently, in a major statement on the textile clothing and footwear industries, the Government announced a package of initiatives to assist firms to restructure (Button 1992c). One of these initiatives was the early abolition of the footwear parts quota, and the reduction of tariffs on imported footwear parts, effective from 1 July 1992. The tariff rate was reduced from 32 per cent to 10 per cent, the rate previously scheduled to apply from July 2000. This reduction in the assistance afforded footwear inputs will lead to an increase in the effective rate of assistance for the footwear industry group — which is already the most highly assisted industry group. Another important initiative was the introduction of an Overseas Assembly Provision under which selected companies will be able to import clothing (made from Australian textiles, cut in Australia) at reduced rates of duty. This measure, and other changes in assistance to textile, clothing and footwear industries are discussed in Appendix H.

In July 1992, the Government announced a range of measures which will increase assistance to the food processing industry (Button and Crean 1992). The initiatives included \$12.7 million (to be provided over four years) to encourage development of export markets for fresh and processed food, greater technical efficiencies in food production and more co-operation between food producers, processors and marketers. Concessional tariff arrangements for certain metal packaging materials and certain equipment used in the food processing industry were also introduced.

In another recent change, the Government decided to accelerate the phasing down of tariffs applying to certain steel products. The rationale for the accelerated reduction was concern at the decreased scope for competition resulting from BHP's takeover of NZ Steel. The products in question are certain cold-rolled and clad, plated or coated flat products of non-alloy iron and steel. Effective from 1 July 1992, tariffs on these products were reduced from 10 per cent to 5 per cent for imports from developed countries. With the 5 percentage points preference, imports from developing countries (excluding the four

'tigers' — South Korea, Taiwan, Hong Kong and Singapore for which the tariff rate remains at 5 per cent) are free of duty. As a result of the reduced tariffs, BHP will be exposed to potentially greater import competition, and users of relevant flat-steel products may benefit from lower prices than might otherwise have resulted from the expansion of BHP's dominance of domestic supply.

Table K4: Tariff quotas for textiles, clothing and footwear import quotas, 1992 and 1993^{a,b}

Quota category	Description	Annual level of restriction ^c		Additional duty for out-of-quota imports	
		1992 (⁰⁰⁰)	1993	until 28 February 1993 ^d	from 1 March 1993 ^d
501	Knitted or crocheted coats, jumpers, cardigans, sweaters, and the like, tube tops	21 012.8 garments	no restriction	\$1.13 per garment	na
502	Knitted or crocheted shirts, blouses and other tops	22 737.5 garments	no restriction	\$0.55 per garment	na
503	Woven shirts and blouses	13 703.5 garments	no restriction	\$0.85 per garment	na
504, 505	Woven coats and jackets, sets of mens garments, including suits	2 041.1 garments	no restriction	\$3.75 per garment (504) \$4.98 per garment (505)	na na
506	Leather coats and jackets ^e	68.1 garments	no restriction	17.5% vfd	na
507	Trousers, jeans and overalls	14 255.4 garments	no restriction	\$1.18 per garment	na
508, 509	Shorts and male swimwear, women's, girls' and infants' swimwear	9 679.1 garments	no restriction	\$0.58 per garment (508) \$1.23 per garment (509)	na na
510	Certain children's wear	26 336 garments	no restriction	\$0.28 per garment	na
511, 512	Dresses, dressing gowns, adult nightdresses and nightshirts and the like, men's woven pyjamas, other outer garments and other sleepwear	23 895.1 garments	no restriction	\$1.23 per garment (511) \$0.30 per garment (512a) \$1.05 per garment (512b)	na na na

Table K4: Tariff quotas for textiles, clothing and footwear import quotas, 1992 and 1993^{a,b}
(cont)

<i>Quota</i>		<i>Annual level of restriction^c</i>		<i>Additional duty for out-of-quota imports</i>	
<i>category</i>	<i>Description</i>	<i>1992</i>	<i>1993</i>	<i>until 28 February 1993^d</i>	<i>from 1 March 1993^d</i>
		<i>('000)</i>			
513, 514	Other undergarments for boys and panties for women, girls and infants, other undergarments for women, girls and infants	28 572.3 garments	no restriction	\$0.13 per garment (513) \$0.55 per garment (514)	na na
515, 516	Brassieres, corsets, girdles and the like	5 854.3 garments	no restriction	\$0.40 per garment (515) \$0.53 per garment (516)	na na
517	Garments of plastic materials, of rubber, or the like ^e	\$11 451.7 vfd	no restriction	17.5% vfd	na
518	Tights and pantyhose less than 4.4 tex	30 402.5 pairs	no restriction	\$0.04 per pair	na
519	Socks and the like; tights and pantyhose 4.4 tex or more	21 004.5 pairs	no restriction	\$0.10 per pair	na
520	Footwear with leather uppers	11 560.5 pairs	no restriction	\$2.63 per pair	na
521	Other footwear	22 513.3 pairs	no restriction	\$1.70 per pair	na
522	Parts for footwear ^{e,f}	\$6 352.9 vfd	no restriction	17.5% vfd	na
523	Terry towelling, towels, babies' napkins and the like	8 067.9 sq m	no restriction	\$0.43 per sq m	na

Table K4: Tariff quotas for textiles, clothing and footwear import quotas, 1992 and 1993^{a,b}
(cont)

Quota category	Description	Annual level of restriction ^c		Additional duty for out-of-quota imports	
		1992	1993	until 28 February 1993 ^d	from 1 March 1993 ^d
		('000)			
524	Bed linen, including quilt covers and ruffles ^e	\$32 054.1 vfd	no restriction	12.5% vfd	na
525	Fabrics suitable for use as bed sheeting, or in making up of bed linen	30 974 sq m	no restriction	\$0.25 per sq m	na
526	Woven fabric of man-made fibres	21 887 sq m	no restriction	\$0.28 per sq m	na

na not applicable.

vfd value for duty.

a Quota levels apply for the 12 month period from 1 March to 28 February.

b Imports of footwear and clothing from New Zealand are not subject to quota.

c The annual level of restriction was increased each year under the Textiles, Clothing and Footwear Plan by an expansion factor to take account of anticipated market growth.

d Under the changes to the Textiles, Clothing and Footwear Plan announced in the March 1991 Statement, import quotas terminate on 1 March 1993. The previously programmed out-of-quota penalty duties were halved on 1 March 1992 and will be reduced to zero on 1 March 1993.

e These quotas are defined in value terms. The real value of the quota allocation was maintained by annual adjustments based on anticipated exchange rate movements and changes in the appropriate division of the Australian Bureau of Statistics' import price index. In addition to these adjustments, quota allocations were increased annually for estimated market growth. However, for footwear a \$1.70 a pair priceline determines whether an item is subject to quota. As relatively small changes in the exchange rate can determine whether items are subject to quota, special allocations of quota may be required.

f The quota on footwear parts was abolished and the tariff on these goods was reduced from 32 per cent to 10 per cent effective 1 July 1992.

Sources: Australian Customs Notices (various); Department of Industry, Technology and Commerce, News Releases (various)

Table K5: Tender sale premiums for textiles, clothing and footwear import quotas, 1989-93a,b
(per cent)

<i>Tender categories</i>			<i>Base categories</i>		<i>Tariff rates</i>		<i>Base duty rates^c</i>		<i>Tender sale premiums</i>				
<i>Current (1989 -1993)</i>	<i>Previous (1982 -1989)</i>	<i>Description</i>	<i>Current (1989 -1991)</i>	<i>Previous (1982 -1989)</i>	<i>1992</i>	<i>1993</i>	<i>(1989 -1991)</i>	<i>(1982 -1989)</i>	<i>1989</i>	<i>1990</i>	<i>1991^d</i>	<i>1992^e</i>	<i>1993^a</i>
601	201	Knitted or crocheted coats, jumpers, cardigans, sweaters and the like, tube tops	501	101	51	47	55	50	18	23	4	10	na
602	202	Shirts and blouses and knitted or crocheted tops ^f	502 503	102 103	51	47	55	50	na	na	na	na	na
604	203	Woven coats and jackets; sets of men's garments, including suits	504 505	104 106	51	47	55	50	44	21	0 ^g	7 ^e	na
606	204	Trousers, jeans and overalls	507	107	51	47	55	50	20	33	20	13	na
607	205	Shorts and male swimwear	508	108	51	47	55	50	22	50	20	17	na
605	206	Leather coats and jackets	506	105	51	47	55	50	31	40	8	9	na
608	207	Women's, girls' and infants' swimwear	509	109	51	47	55	50	0 ^g	0 ^g	0 ^g	0 ^g	na
612	208	Brassieres, corsets, girdles and the like ^h	515 516	116 117	51	47	55	50	31	36	29	10	na
610	209	Men's woven pyjamas ^f	512	112	na	47	na	50	na	na	na	na	na
609	210	Certain children's wear	510	111	51	47	55	50	2	15	15	3	na
613	211	Garments of plastic material, of rubber, or the like ⁱ	517	118	51	47	55	50	0 ^g	0 ^g	0 ^g	0 ^g	na

Table K5: Tender sale premiums for textiles, clothing and footwear import quotas, 1989-93a,b
(cont) (per cent)

<i>Tender categories</i>			<i>Base categories</i>		<i>Tariff rates</i>		<i>Base duty rates^c</i>		<i>Tender sale premiums</i>				
<i>Current (1989 -1993)</i>	<i>Previous (1982 -1989)</i>	<i>Description</i>	<i>Current (1989 -1991)</i>	<i>Previous (1982 -1989)</i>	<i>1992</i>	<i>1993</i>	<i>(1989 -1991)</i>	<i>(1982 -1989)</i>	<i>1989</i>	<i>1990</i>	<i>1991^d</i>	<i>1992^e</i>	<i>1993^a</i>
614	212A	Tights and pantyhose less than 4.4 tex	518	119	51	47	55	50	77	0 ^g	0 ^g	0 ^g	na
615	212B	Socks and the like; tights and pantyhose 4.4 tex or more	519	120	51	47	55	50	0 ^g	20	17	8	na
610	213	Dresses, dressing gowns, adult nightdresses and nightshirts; other outer garments and other sleepwear ^f	511 512	110 113	na	47	na	50	na	na	na	na	na
611	214	Other undergarments for men and boys; Other undergarments for women, girls, and infants	513 514	114 115	51	47	55	50	31	35	31	19	na
616	215	Footwear with leather uppers ^j	520	121	41	37	45	40	45	50	23	9	na
617	216	Other footwear ^{j,k}	521	122	41	37	45	40	20	40	36	0 ^e	na
618	217	Parts for footwear ^{l,m}	522	123	10	29	35	40	13	26	15	0 ^g	na
619	218	Terry towelling, towels, babies' napkins and the like	523	124	51	47	55	50	25	29	20	10	na
620	219	Bed linen, including quilt covers and bed ruffles	524	125	51	47	55	40	22	25	20	1	na

Table K5: Tender sale premiums for textiles, clothing and footwear import quotas, 1989-93a,b
(cont) (per cent)

<i>Tender categories</i>			<i>Base categories</i>		<i>Tariff rates</i>		<i>Base duty rates^c</i>		<i>Tender sale premiums</i>				
<i>Current</i> <i>(1989</i> <i>-1993)</i>	<i>Previous</i> <i>(1982</i> <i>-1989)</i>	<i>Description</i>	<i>Current</i> <i>(1989</i> <i>-1991)</i>	<i>Previous</i> <i>(1982</i> <i>-1989)</i>	<i>1992</i>	<i>1993</i>	<i>(1989</i> <i>-1991)</i>	<i>(1982</i> <i>-1989)</i>	<i>1989</i>	<i>1990</i>	<i>1991^d</i>	<i>1992^e</i>	<i>1993^a</i>
621	222	Fabric suitable for use as bed sheeting and the like, or in the making up of bed linen	525	128	37	34	40	0-40 ⁿ	20	18	0 ^g	0 ^e	na
622	223	Woven fabric of man-made fibres	526	129	37	34	40	40	40	40	7	8	na
602	224 ^f	Knitted shirts and blouses	502	102	51	47	55	50	62	80	20	23	na
603	225 ^f	Woven shirts and blouses	503	103	51	47	55	50	70	70	28	15	na
610	226 ^f	Dresses, other outerwear, pyjamas	511	110	51	47	55	50	12	21	9	11	na
			512	112									
			512	113									

na not applicable.

- a Import quotas on all textiles, clothing and footwear end on 28 February 1993. The Minister for Industry, Technology and Commerce has announced that all tender quota security deposits will be returned to quota holders for the 1992 quota period. This action removes the penalty for non-use of quota.
- b Imports of footwear from New Zealand were removed from quota from 1 March 1989. Imports from New Zealand of clothing under categories 601 to 615 were removed from quota from 1 July 1989. Other textile, clothing and footwear imports from New Zealand have been free of quota since 1 March 1990.
- c Base duty rates apply to non-handicraft entries only. Handicraft imports attract a zero base duty rate.
- d 1991 was the last year in which base quota was allocated. In 1992 all quota was subject to tender.
- e These premiums have been revised because the successful tenderers subsequently failed to lodge security deposits with the Australian Customs Service. The premiums in 1992 were reduced for tender category 604 (from 8 to 7 per cent), 617 (from 1 to 0 per cent), and 621 (from 2 to 0 per cent).

Table K5 (cont)

- f From 1 January 1988, tender category 202 (Shirts and blouses) was replaced by two separate categories: 224 (Knitted shirts and blouses) and 225 (Woven shirts and blouses). Also from that date the existing tender categories 209 (Men's woven pyjamas) and 213 (Dresses, dressing gowns, etc) were combined into one category, 226 (Dresses, other outerwear, pyjamas).
- g The first auction of quota entitlements in these categories failed to clear the available tender pool and, as a result, there was no tender premium. When this occurred the residual portion of the quota pool was disposed of by a ballot between successful tenderers with an attached tender premium of zero.
- h Brassiere back replacements of tender category 612, tariff item 6212.90 were removed from quota and have been dutiable under tariff item 6212.90.90 since 1 March 1989.
- i Anti-radiation suits, anti-contamination suits, and similar protective garments of tender category 613, tariff items 3926.20.20, 4015.90.20, 6113.00.90, 6210.40.90 and 6210.50.90 were removed from quota and have been dutiable under tariff items 3926.20.21, 4015.90.21, 6113.00.20, 6210.40.30 and 6210.50.30 since 1 March 1989.
- j The Customs value criteria which determine whether particular footwear products are subject to quota (and the category within which they fall) are adjusted periodically to ensure that the basic character of the product mix covered by each quota category is maintained over time. From 1 March 1989 category 215 incorporates all footwear items with leather uppers having a Customs value of \$1.50 or more per pair. This was increased to \$1.70 on 1 March 1992. From 1 March 1989, category 216 consisted of non-leather footwear items. The description was formerly 'Footwear with leather uppers, or having a Customs value of not less than \$11.00 per pair'. Because of the change in description, from 1 March 1989 the figures are not strictly comparable.
- k Tariff item 6404.11.00 of tender category 617 was split to remove imports of ski-boots and cross-country ski footwear from quota. Such ski footwear has entered duty free since 1 March 1989.
- l Tariff item 6406.99.90 of tender category 618 has been split to remove metal parts of footwear from quota which are now dutiable at 15 per cent, effective from 1 March 1989.
- m The quota on footwear parts was abolished and the tariff on these goods was reduced from 32 per cent to 10 per cent effective 1 July 1992.
- n Under the previous Textiles, Clothing and Footwear Plan base quota category 128 covered three tariff classifications in the Customs Tariff with different base duty rates: 22.5 per cent; 40 per cent or, if lower, \$0.25 per sq. metre; and zero.

Sources: Department of Industry Technology and Commerce, News Releases (various)

Table K6: Assistance to manufacturing, by form, 1989–90, 1990–91 and on completion of the March 1991 program^a
(\$ million)

	1989–90	1990–91	March 1991 program
Assistance to outputs			
Tariffs ^b	10 521	10 245	3 842
Quantitative import restrictions	551	545	–
Bounties ^c	139	143	6
Export incentives ^c	190	171	162
Assistance to materials			
Tariffs ^d	4 429	4 374	1 769
Quantitative import restrictions	131	102	–
Excise taxes	105	104	104

– nil.

a Estimates are in current prices. The March 1991 program estimates are based on 1989–90 prices. The estimates for assistance to outputs and materials are, respectively, the sum of the gross subsidy equivalents and the tax on materials for individual industries, classified according to form of assistance. The summation of these amounts across industries will exceed the actual total for the sector due to some of the outputs of industries being used as intermediate inputs by other industries within the sector.

b Includes relatively minor amounts of assistance from domestic pricing arrangements for certain agricultural commodities.

c The estimates presented in this table do not represent the actual bounty and export incentive payments in each year. The estimates measure the assistance afforded by the current rates of bounty and export incentives in each year using fixed 1983–84 production patterns.

d Includes relatively minor amounts of assistance from domestic pricing arrangements for certain agricultural commodities. Figures are net of the savings from concessional entry of imported materials under certain policy by-laws, commercial tariff concession orders, duty drawback and by-law for exports.

Source: Commission estimates

Table K7: Average nominal and effective rates of assistance for manufacturing industry groups, 1989-90, 1990-91 and on completion of the March 1991 program^a
(per cent)

Industry		Average nominal rate on outputs ^b			Average nominal rate on materials ^c			Average effective rate ^d		
ASIC code	Description	1989-90	1990-91	March 1991 program	1989-90	1990-91	March 1991 program	1989-90	1990-91	March 1991 program
211	Meat products ^e	0.6	0.6	..	0.3	0.3	..	1.8	1.9	1
212	Milk products ^e	11	11	4	17	17	6	-3.7	-3.7	-2
213	Fruit and vegetable products ^e	7.9	7.8	3	8.1	7.8	3	7.6	7.9	4
214	Margarine and oils and fats nec	6.3	6.4	3	3.3	3.2	2	12	13	6
215	Flour mill and cereal food products ^e	3.9	3.7	3	4.6	4.5	3	3.0	2.7	2
216	Bread, cakes and biscuits ^e	2.1	1.7	1	5.1	5.0	2	-0.3	-1.0	..
217	Other food products ^e	7.7	7.6	4	8.2	8.1	5	7.0	6.8	3
218	Beverages and malt ^e	7.2	6.5	3	7.5	7.0	3	6.7	5.7	3
219	Tobacco products ^e	6.7	7.0	4	17	18	4	-3.7	-3.9	5
21	Food, beverages and tobacco^e	5.0	4.8	2	5.8	5.7	3	3.3	3.1	2
234	Textile fibres, yarns and woven fabrics ^e	21	19	6	3.3	3.1	2	86	79	21
235	Other textile products	26	25	10	14	13	4	50	50	23
23	Textiles^e	23	21	7	6.4	5.9	2	72	68	22
244	Knitting mills	58	55	19	8.8	8.5	5	171	164	52
245	Clothing	68	68	20	26	23	7	164	171	52
246	Footwear	68	69	12	17	17	5	224	231	36
24	Clothing and footwear	65	65	19	21	19	6	173	176	50

Table K7: Average nominal and effective rates of assistance for manufacturing industry groups, 1989-90, 1990-91 and on completion of the March 1991 program^a
(cont)
(per cent)

Industry		Average nominal rate on outputs ^b			Average nominal rate on materials ^c			Average effective rate ^d		
ASIC code	Description	1989 -90	1990 -91	March 1991 program	1989 -90	1990 -91	March 1991 program	1989 -90	1990 -91	March 1991 program
253	Wood and wood products	8.1	7.6	3	4.9	4.7	2	11	10	4
254	Furniture and mattresses	18	16	4	13	12	4	23	20	4
25	Wood, wood products and furniture	11	10	4	7.7	7.3	3	15	13	4
263	Paper and paper products	11	9.8	3	5.2	5.1	2	22	18	6
264	Printing and allied industries	4.9	4.1	1	5.4	5.2	2	4.7	3.5	1
26	Paper, paper products, printing and publishing	7.2	6.1	2	5.3	5.2	2	8.8	7.0	2
275	Basic chemicals	6.5	5.9	2	2.7	2.5	1	17	16	5
276	Other chemical products	9.9	9.4	4	6.3	5.7	3	14	13	5
277	Petroleum refining	-	-	-	-	-	-	-	-	-
278	Petroleum and coal products nec	9.4	7.9	4	1.9	1.5	1	33	29	14
27	Chemical, petroleum and coal products	3.4	3.2	1	1.4	1.3	1	11	10	4
285	Glass and glass products	4.3	4.0	2	5.5	5.0	2	3.6	3.4	1
286	Clay products and refractories	3.6	3.3	1	2.0	1.9	1	4.7	4.3	2
287	Cement and concrete products	0.5	0.5	..	0.8	0.8	1	0.1	0.1	..
288	Other non-metallic mineral products	7.6	7.3	3	4.3	4.1	2	11	10	4
28	Non-metallic mineral products	2.5	2.4	1	1.9	1.8	1	3.2	3.0	1

Table K7: Average nominal and effective rates of assistance for manufacturing industry groups, 1989-90, 1990-91 and on completion of the March 1991 program^a
(cont)
(per cent)

Industry		Average nominal rate on outputs ^b			Average nominal rate on materials ^c			Average effective rate ^d		
ASIC code	Description	1989-90	1990-91	March 1991 program	1989-90	1990-91	March 1991 program	1989-90	1990-91	March 1991 program
294	Basic iron and steel	7.4	7.1	4	5.6	5.3	3	11	11	6
295	Basic non-ferrous metals	0.2	0.2	..	1.8	1.6	1	-4.3	-3.8	-3
296	Non-ferrous metal basic products	9.0	8.5	4	0.1	0.1	..	38	35	15
29	Basic metal products	4.7	4.5	2	3.3	3.1	2	8.2	7.9	4
314	Structural metal products	11	10	4	9.7	9.1	4	13	12	4
315	Sheet metal products	14	13	4	9.5	9.1	4	20	19	5
316	Other fabricated metal products	15	14	4	8.9	8.6	4	22	20	5
31	Fabricated metal products	13	12	4	9.4	8.9	4	18	17	5
323	Motor vehicles and parts	27	25	10	17	16	7	65	60	25
324	Other transport equipment	12	11	3	8.4	7.9	3	14	13	3
32	Transport equipment	22	21	8	15	14	6	35	33	12
334	Photographic, professional and scientific equipment	4.2	4.4	2	5.9	5.7	2	2.9	3.5	1
335	Appliances and electrical equipment	16	14	4	9.2	8.7	3	24	21	6
336	Industrial machinery and equipment	11	10	3	10	9.5	4	12	10	3
33	Other machinery and equipment	13	12	4	9.3	8.8	3	17	15	4

Table K7: Average nominal and effective rates of assistance for manufacturing industry groups, 1989–90, 1990–91 and on completion of the March 1991 program^a
(per cent)

<i>Industry</i>		<i>Average nominal rate on outputs^b</i>			<i>Average nominal rate on materials^c</i>			<i>Average effective rate^d</i>		
<i>ASIC code</i>	<i>Description</i>	<i>1989–90</i>	<i>1990–91</i>	<i>March 1991 program</i>	<i>1989–90</i>	<i>1990–91</i>	<i>March 1991 program</i>	<i>1989–90</i>	<i>1990–91</i>	<i>March 1991 program</i>
345	Leather and leather products	8.7	8.6	3	2.0	2.0	1	27	27	9
346	Rubber products	18	16	5	8.4	7.9	3	30	26	7
347	Plastic and related products	15	14	5	12	11	4	18	17	6
348	Other manufacturing	16	14	4	6.3	5.8	2	25	23	7
34	Miscellaneous manufacturing	15	14	4	9.6	8.9	3	22	20	6
21-34	Total manufacturing^f	9.4(7)	8.9(7)	3(3)	6.0(5)	5.7(4)	2(2)	16(9)	15(8)	5(4)

– nil.

.. Between -0.05 per cent and 0.05 per cent for 1989–90 and 1990–91 estimates. Between -0.5 per cent and 0.5 per cent for the March 1991 program projections.

a Assistance provided by tariffs and certain non-tariff measures. With the exception of the projections for the end of the March 1991 program, the Commission has reported rates of less than 10 per cent rounded to one decimal point. Estimates of 10 per cent or greater are rounded to whole numbers. The presentation of some rates to one decimal point should not be interpreted as implying any greater degree of precision than previous estimates; it simply enables the detection of small movements in rates that are hidden when estimates are presented as whole numbers.

b The nominal rate of assistance on outputs of an industry is an average of the nominal rates on products made by that industry, weighted by the unassisted value of output for each product.

c The nominal rate of assistance on materials used by an industry is an average of the nominal rates on materials used by that industry, weighted by the unassisted value of each material used.

d Assistance to an activity, net of the effects of tariffs and certain other forms of government intervention which alter the prices of material inputs used by the industry.

e Estimates for 1990–91 were calculated using 1989–90 price distortions for agricultural commodities. For a discussion of the treatment of agricultural commodities for the March 1991 program estimates see IC (1991e).

f The figures in brackets are the medians of the nominal and effective rates of assistance for 4-digit ASIC industries using the weights specified for the averages to determine the 50th percentile.

Source: Commission estimates

Table K8: Standard deviations of nominal and effective rates of assistance for manufacturing subdivisions, 1989–90, 1990–91 and on completion of March 1991 program (percentage points)

<i>Industry</i>		<i>Nominal rates on outputs</i>			<i>Effective rates of assistance</i>		
<i>ASIC code</i>	<i>Description</i>	<i>1989–90</i>	<i>1990–91</i>	<i>March 1991 program</i>	<i>1989–90</i>	<i>1990–91</i>	<i>March 1991 program</i>
21	Food, beverages and tobacco ^a	5	5	2	7	7	3
23	Textiles ^a	19	18	6	62	57	18
24	Clothing and footwear	14	15	4	59	60	16
25	Wood, wood products and furniture	6	6	1	10	9	2
26	Paper, paper products, printing and publishing	6	5	2	10	8	3
27	Chemical, petroleum and coal products	5	5	2	11	11	4
28	Non-metallic mineral products	4	3	1	5	5	2
29	Basic metal products	4	4	2	13	12	6
31	Fabricated metal products	3	3	1	6	5	1
32	Transport equipment	8	8	4	35	33	13
33	Other machinery and equipment	5	4	1	10	9	2
34	Miscellaneous manufacturing	3	3	1	7	6	2
21–34 Total manufacturing		12	11	4	29	29	9

a Estimates for 1990–91 were calculated using price distortions for agricultural commodities for 1989–90. For a discussion of the treatment of agricultural commodities for the March 1991 program estimates see IC (1991e).

Note: Standard deviations calculated between 4-digit ASIC industries within a subdivision. The standard deviation measures how far from the average the items in a frequency distribution are located, thereby measuring the extent of variation or dispersion in the distribution. The larger the variability in rates of assistance between individual industries, the larger the standard deviation.

Source: Commission estimates

Table K9: Subsidy equivalents, tax on materials and consumer tax equivalents^a for manufacturing subdivisions, 1989–90 and 1990–91
(\$ million)

<i>Industry</i>		<i>Gross subsidy equivalent^b</i>		<i>Tax on materials^c</i>		<i>Net subsidy equivalent^d</i>		<i>Consumer tax equivalent^e</i>	
<i>ASIC code</i>	<i>Description</i>	<i>1989 –90</i>	<i>1990 –91</i>	<i>1989 –90</i>	<i>1990 –91</i>	<i>1989 –90</i>	<i>1990 –91</i>	<i>1989 –90</i>	<i>1990 –91</i>
21	Food, beverages and tobacco ^f	1 323	1 319	1 041	1 054	282	264	1 215	1 143
23	Textiles [†]	750	708	152	141	598	567	308	287
24	Clothing and footwear	1 543	1 599	341	324	1 202	1 275	2 036	2 063
25	Wood, wood products and furniture	550	525	187	185	363	340	279	253
26	Paper, paper products, printing and publishing	521	464	182	185	339	279	61	54
27	Chemical, petroleum and coal products	713	688	235	221	478	467	192	186
28	Non-metallic mineral products	130	128	48	47	83	81	29	27
29	Basic metal products	788	773	380	369	408	404	91	87
31	Fabricated metal products	977	957	386	389	591	567	228	220
32	Transport equipment	2 097	2 029	959	932	1 138	1 097	1 741	1 583
33	Other machinery and equipment	1 235	1 176	475	467	760	709	1 126	946
34	Miscellaneous manufacturing	775	737	280	267	495	470	268	238
21-34	Total manufacturing	11 401	11 103	4 665	4 581	6 736	6 522	7 574	7 086

a These measures represent the income transfers throughout the community from assistance and, consequently, should not be used as measures of the economic (or welfare) costs to the community of assistance. Figures are expressed in current year prices using price indexes of articles produced by manufacturing industries. Figures may not add due to rounding.

Table K9 (cont)

- b The gross subsidy equivalent is the estimated change in producers' gross returns from assistance. It is the notional amount of money necessary to provide an industry with a level of assistance equivalent to the nominal rate of assistance on its output. Gross subsidy equivalents for individual industries have been summed to derive totals for industry groups and the sector as a whole. These totals will exceed the actual group and sector totals due to some of the outputs of industries being used as intermediate inputs by other industries in the same group or sector.
- c The tax on materials is the estimated net change in costs to user industries due to government intervention altering the prices paid for intermediate inputs. Taxes on materials for individual industries have been summed to derive totals for industry groups and the sector as a whole. These totals will exceed the actual group and sector totals due to some of the outputs of industries being used as intermediate inputs by other industries in the same group or sector.
- d The net subsidy equivalent is the estimated change in returns to an activity's value added due to assistance. It is the notional amount of money necessary to provide a level of assistance to an activity's value added equivalent to its effective rate of assistance. It is equal to the gross subsidy equivalent plus assistance to value-adding factors, less the tax on materials.
- e The consumer tax equivalent is the transfer from final consumers paying higher prices due to assistance. The exclusion of intermediate usage differs from some previous calculations which included the transfers from both final consumers and intermediate users due to assistance-induced price increases. Consequently, the estimates in this table which cover only transfers from consumers of final goods, cannot be compared with estimates published before 1984-85. Transfers due to intermediate usage of outputs by other industries were excluded using ABS input-output data for 1986-87.
- f Estimates for 1990-91 were calculated using 1989-90 price distortions for agricultural commodities. For a discussion of the treatment of agricultural commodities for the March 1991 program estimates see IC 1991a.

Source: Commission estimates

Assistance to mining

The Commission's assistance estimates for mining are restricted to the effects of border interventions (tariffs and quotas).¹⁰ Nominal rates of assistance to mining industries' output and inputs, and effective rates of assistance to value-adding factors for 1990-91 are presented in Table K10.¹¹ For comparison, estimates of nominal assistance to inputs, and effective rates of assistance for 1983-84, 1988-89, 1989-90 and 1990-91 are provided in Tables K11 and K12. Projections of levels of assistance that will apply when the March 1991 Statement changes are fully implemented are also reported.

Trends in border assistance

Mining industries do not receive any border assistance on their output, except the small assistance afforded some minerals in the 'Other minerals' category. However, border interventions increase the costs of materials and capital inputs for all mining industries. The estimates for 1990-91 indicate that assistance to inputs used by mining industries continued to decline, reducing the magnitude of the negative effective rate of assistance to mining. Between 1983-84 and 1990-91, the average nominal rate of assistance to mining inputs fell from 2.9 per cent to 2 per cent (Table K11). During that period, the average effective rate of assistance changed from minus 3.5 per cent to minus 2.8 per cent (Table K12). These trends are likely to continue in line with the reductions in assistance announced in the March 1991 Statement.

As indicated in Table K10, border interventions in 1990-91 raised the sector's average cost of material inputs by an estimated 1.8 per cent, and the average cost of capital inputs by 2.5 per cent. The average increase in the combined cost of material and capital inputs is

10 ABS input-output data and supplementary material were used to derive mining industry cost structures. This data allowed the effects of assistance on tradeable capital inputs (that is items of machinery and equipment) as well as material inputs to be estimated. Assistance measures for mining are based on 1980-81 cost structures and 1986-87 industry shares (to reflect changes in the relative importance of individual mining industries). Further details of the methodology are provided in IC (1991c, vol. 2, Appendix H).

11 In the case of the mining sector value adding factors include mineral deposits.

estimated at 2 per cent. With the tariff reductions announced in the March 1991 Statement, this figure is projected to decline to below 1 percent (Table K11, page 294).

The combined effect of negligible assistance to outputs and the taxing effect of assistance to inputs is negative assistance to value adding. Returns to value-adding factors employed in mining industries in 1990-91 were lowered, on average, by 2.8 per cent due to border interventions (Tables K10, page 293 and K12, page 295). This penalty will be reduced when the tariff reduction program is fully implemented. When the program is complete, effective rates for most mining industries will be around minus 1 per cent (Table K12).

Disparities in effective assistance between industries indicate a potential efficiency loss from distortions in resource use. The disparity in assistance levels among mining industries is small compared with the corresponding figures for manufacturing and agriculture. However, whilst variations in assistance within the mining sector are small, efficiency losses are likely from variability in assistance *between* sectors.

Other forms of government intervention

Governments at all levels (Commonwealth, state and local) influence the activities of mining industries. Governments, as owners of mineral resources, exercise direct control over mineral developments. The Commonwealth Government also influences mining activities indirectly through interventions in mineral trade and foreign investment regulation. The effects of these interventions are difficult to measure and are not incorporated into the Commission's assistance estimates.

Recent changes in mining regulation and taxation arrangements

Changes during 1991-92 to the Commonwealth's regulation and taxation arrangements affecting mining included:

- with the exception of uranium, the 50 per cent foreign investment limit on new mining projects was removed;
- controls on iron ore exports were lifted;
- tax deductibility for off-tenement exploration expenditures was adopted;
- the Coal Export Duty was abolished;
- tax deductibility for mine-site rehabilitation was adopted;

- powers to make decisions concerning industry development were removed from the New South Wales Joint Coal Board;
- export controls on mineral sands were shifted from an annual approval process to a system of total volume life-of-mine approval;
- liquefied natural gas exports are to be made subject to price approval only (volume conditions to cease); and
- a National Skills Development Project for mining was established.

Several of these changes are consistent with recommendations of the Commission's report on *Mining and minerals processing in Australia* (IC 1991c).

Table K10: Average nominal and effective rates of assistance, mining industries, 1990-91^a
(per cent)

		Nominal rates				
ASIC codes	Industry	Output	Material and tradeable capital inputs			Effective rates ^b
			Material	Capital	Combined	
	Ferrous metal ores					
1111, 2	Ferrous metal ores	-	2.2	3.7	2.8	-4.3
	Non-ferrous metal ores					
1121	Bauxite	-	2.7	2.3	2.4	-2.8
1122	Copper ores	-	2.8	2.2	2.7	-4.1
1123	Gold ores	-	2.3	2.4	2.4	-3.0
1124	Mineral sands	-	2.6	2.3	2.5	-3.7
1125	Nickel ores	-	1.4	2.1	1.7	-2.6
1126	Silver-lead-zinc ores	-	2.8	2.3	2.6	-3.3
1127	Tin ores	-	2.7	2.2	2.5	-3.6
1128	Uranium ores	-	2.4	2.3	2.4	-3.8
1129	Non-ferrous metal ores nec	-	2.8	2.1	2.4	-3.4
	Coal, oil and gas					
1201	Black coal	-	2.8	2.1	2.5	-2.3
1202	Brown coal	-	1.3	2.2	1.5	-1.3
1300	Crude oil and natural gas	-	0.8	2.2	1.5	-2.2
	Other minerals					
1401-1505	Other minerals	0.7	2.5	3.6	2.9	-2.9
	Services to mining					
1611, 2	Petroleum and mineral exploration (own account)	-	1.6	4.4	1.6	-7.4
1620	Mining and exploration services nec	-	1.0	3.2	1.0	-2.5
	Total mining	-	1.8	2.5	2.0	-2.8

- nil.

a Based on border interventions (eg tariffs).

b Derived using material and tradeable capital inputs combined.

Source: Commission estimates

Table K11: Average nominal rates of border assistance on inputs to mining, 1983–84, 1988–89, 1989–90, 1990–91 and on completion of the March 1991 program^{a,b}
(per cent)

ASIC codes	Industry	1983–84	1988–89	1989–90	1990–91	March 1991 program
Ferrous metal ores						
1111, 2	Ferrous metal ores	4.3	3.3	3.0	2.8	1.0
Non-ferrous metal ores						
1121	Bauxite	3.5	2.8	2.6	2.4	0.9
1122	Copper ores	3.7	3.1	2.8	2.7	1.0
1123	Gold ores	3.3	2.7	2.5	2.4	0.9
1124	Mineral sands	3.6	2.8	2.6	2.5	0.9
1125	Nickel ores	2.4	1.9	1.8	1.7	0.6
1126	Silver-lead-zinc ores	3.6	2.9	2.7	2.6	0.9
1127	Tin ores	3.6	2.8	2.6	2.5	0.9
1128	Uranium ores	3.4	2.7	2.5	2.4	0.8
1129	Non-ferrous metal ores nec	3.5	2.8	2.6	2.4	0.9
Coal, oil and gas						
1201	Black coal	3.6	2.9	2.7	2.5	0.9
1202	Brown coal	2.1	1.7	1.6	1.5	0.6
1300	Crude oil and natural gas	2.1	1.7	1.6	1.5	0.5
Other minerals						
1401–1505	Other minerals	4.2	3.3	3.1	2.9	1.1
Services to mining						
1611, 2	Petroleum and mineral exploration (own account)	2.3	1.9	1.7	1.6	0.7
1620	Mining and exploration services nec	1.5	1.2	1.1	1.0	0.4
Total mining		2.9	2.3	2.2	2.0	0.7

a Based on border interventions (eg tariffs).

b Assistance estimates are derived using material and tradeable capital inputs combined. March 1991 program shows projections for completion of assistance reductions announced by the Government.

Source: Commission estimates

Table K12: Average effective rates of assistance to mining, 1983–84, 1988–89, 1989–90, 1990–91 and on completion of the March 1991 program^{a,b}
(per cent)

ASIC codes	Industry	1983 –84	1988 –89	1989 –90	1990 –91	March 1991 program
Ferrous metal ores						
1111, 2	Ferrous metal ores	-5.4	-4.9	-4.6	-4.3	-1.6
Non-ferrous metal ores						
1121	Bauxite	-1.3	-3.2	-3.0	-2.8	-1.0
1122	Copper ores	-1.7	-4.7	-4.4	-4.1	-1.6
1123	Gold ores	-4.2	-3.5	-3.3	-3.0	-1.1
1124	Mineral sands	-4.9	-4.3	-4.0	-3.7	-1.4
1125	Nickel ores	-3.6	-2.9	-2.7	-2.6	-1.0
1126	Silver-lead-zinc ores	-4.6	-3.8	-3.5	-3.3	-1.2
1127	Tin ores	-3.0	-4.1	-3.8	-3.6	-1.4
1128	Uranium ores	-5.3	-4.4	-4.1	-3.8	-1.4
1129	Non-ferrous metal ores nec	-2.4	-3.9	-3.6	-3.4	-1.3
Coal, oil and gas						
1201	Black coal	-2.4	-2.7	-2.5	-2.3	-0.9
1202	Brown coal	-1.9	-1.5	-1.4	-1.3	-0.5
1300	Crude oil and natural gas	-3.1	-2.5	-2.4	-2.2	-0.8
Other minerals						
1401– 1505	Other minerals	-4.1	-3.7	-3.3	-2.9	-1.0
Services to mining						
1611, 2	Petroleum and mineral exploration (own account)	-10.1	-8.2	-7.8	-7.4	-3.2
1620	Mining and exploration services nec	-3.5	-2.8	-2.6	-2.5	-1.0
Total mining		-3.5	-3.2	-3.0	-2.8	-1.1

a Based on border interventions (eg tariffs).

b Assistance estimates are derived using material and tradeable capital inputs combined.
March 1991 program shows projections for completion of announced assistance reductions

Source: Commission estimates

'One Nation' Statement

A number of the measures announced in the Government's February 1992 'One Nation' statement have implications for industry assistance. These measures fall into three categories — taxation, export assistance programs, and specific industry initiatives.

The taxation changes included: accelerated depreciation provisions for certain income-producing buildings and for most plant and equipment with an effective life of more than 5 years; a reduction in the cost of equity capital to small business through a concessional tax rate for new investment companies which will be known as Pooled Development Funds; the establishment of a reduced tax rate for Offshore Banking Units; a deferral of income tax payments for small companies; and the introduction of a Development Allowance.¹²

Export assistance measures included: a trebling of funding for the Export Access Program, from \$4 million to \$12 million; \$5 million in additional funding for Austrade; and increased funding of \$18 million for the Development Import Finance Facility (which assists Australian exporters of capital goods and services to compete for projects in developing countries).

Industry-specific measures included: additional funding for the Textiles, Clothing and Footwear Development Authority; an additional \$46.8 million in funding (over the next three years) under the Rural Adjustment Scheme, to facilitate the improvement of farm performance and a one-off interest subsidy of 75 per cent for carry-on loans taken out by viable crop farmers; and a \$15 million increase in funding for the Australian Tourist Commission, to assist in international marketing activities.

12 Under the Development Allowance provisions, eligible projects worth \$50 million or more in the traded-goods sector will qualify for a 10 per cent investment allowance. For a project to be eligible, it must satisfy the Development Allowance Authority that work practices reflect world best practice, that prices of intermediate inputs are economic and efficient and that the project will not be in receipt of any substantial industry assistance from the Commonwealth, State or Local Governments in 1996. A project is defined as not receiving substantial assistance if the nominal or effective rate of assistance received from all levels of government is 10 per cent or less.

Corporate review

- L Administrative matters**
- M Inquiry activity and reports of the Commission**
- N Assessment of the impact of Commission reports**
- O Statement by the Treasurer on the Commission**

L ADMINISTRATIVE MATTERS

This appendix outlines various activities of the Commission over the past year and also addresses formal reporting requirements. Topics covered include the role, structure and staffing of the Commission, inquiry and reporting activities, corporate service functions and responsibilities, management issues and external scrutiny.

The Industry Commission is the Commonwealth Government's major review and inquiry body in industry matters. Its expertise is in examining microeconomic policy issues. Its functions are to:

- hold public inquiries and report on matters referred to it by the Government;
- undertake activities incidental to its inquiry function, such as advising on business regulation and publishing information papers to enhance community understanding of industry policy issues; and
- to report annually on the economic performance of industry and the effects of assistance and regulation on industry and the economy.

The operations of the Commission are governed by the *Industry Commission Act 1989*. The Commission operates on three fundamental precepts:

- it is an independent advisor on industry policy matters, free of executive/administrative responsibilities;
- its inquiry procedures are open and public, providing the opportunity for community input to and scrutiny of the advice the Commission provides to Australian governments; and
- it approaches industry policy issues from the perspective of the community as a whole — rather than the interests of any particular industry or group.

A special part of the Commission, the Office of Regulation Review is responsible for examining and advising the Government on proposed

business regulation. It prepares public information papers and submissions on developments in regulation. An overview of the work of this part of the Commission is provided in Appendix G.

Structure of the Commission

The Commission consists of a Chairperson and a number of Commissioners appointed under the Industry Commission Act, supported by an Office consisting of 264 people (as at 30 June 1992) employed under the *Public Service Act 1922*.

Chairperson and Commissioners

Mr W I Scales was appointed as Chairperson of the Commission on 21 May 1992 for a term of 5 years and commenced duty on 22 June 1992. He was previously the Chairman and Chief Executive of the Automotive Industry Authority.

The previous Chairperson, Mr S T Sedgwick, commenced duty with the Commission on 5 August 1991 and left on 20 January 1992 to take up an appointment as Acting Secretary to the Department of Finance. He resigned from the Commission when he was confirmed in that position on 9 February 1992. Mr A C Harris acted as Chairperson from 15 February 1991 to 1 August 1991 and Dr R G Mauldon from 20 January 1992 to 21 June 1992.

The current full-time membership of the Commission and periods of appointments are as follows:

Name	Period of appointment	
	From	To
Mr W I Scales (Chairperson)	21 May 1992	20 May 1997
Dr R G Mauldon	9 March 1990	31 December 1994
Dr M L Parker	9 March 1990	8 March 1995
Mr K J Horton-Stephens	9 March 1990	8 March 1995
Dr T J Hundloe ^a	16 May 1990	9 February 1997
Mr A C Harris ^b	16 May 1990	16 May 1995
Mr G Banks	19 June 1991	18 June 1996

a Dr Hundloe was reappointed for five years from 10 February 1992.

b Mr A C Harris was granted indefinite leave from 7 January 1992 to take up a position as Head of the Office of the Treasurer.

During the year, part-time Associate Commissioners with relevant expertise and experience were appointed for the duration of particular inquiries as shown below.

<i>Name</i>	<i>Inquiry</i>	<i>Duration</i>
Appointments lapsing in 1991-92		
Mr M Easson	Commercial restrictions on exporting (including franchising)	9 May 1991 – 27 April 1992
Mr A R Oxley	Review of overseas export enhancement measures	5 April 1991 – 3 April 1992
Mr G K R Reid	Raw materials pricing for domestic use	9 May 1991 – 1 April 1992
Mr G W Edwards	The Australian sugar industry	20 March 1991 – 6 March 1992
Mr E M W Visbord OBE	Availability of capital	7 January 1991 – 9 December 1991
Mr N J Paterson	Exports of health services	2 January 1991 – 5 December 1991
Mr M S Common	Costs and benefits of reducing greenhouse gas emissions	24 December 1990 – 15 November 1991
Mr D L McBride	Australian dairy industry	1 July 1991 – 30 September 1991
Mr G K R Reid	Rail transport	12 June 1990 – 21 August 1991
Dr B J Chapman	Exports of education services	10 December 1990 – 14 August 1991
Appointments lapsing in 1992-93		
Mrs H A Rolfe	Taxation and financial policy impacts on urban settlement	15 February 1992 – 3 April 1993
Dr R A Piggott	Horticulture industry	18 December 1991 – 17 December 1992
Mr J A Hoggett	Mail, courier and parcel services	30 October 1991 – 29 October 1992
Mrs H A Rolfe	Book production	15 February 1992 – 24 September 1992
Mr K F Wraith	Intrastate aviation	24 September 1991 – 18 July 1992
Mr D R Chapman	Water resources and waste water disposal	18 July 1991 – 18 July 1992

Staffing of the Office of the Industry Commission

As at 30 June 1992 the Commission had 264 staff (including 36 inoperatives). All were employed under the Public Service Act.

Table L1: Staff as at 30 June 1992

<i>Status</i>	<i>Female</i>		<i>Male</i>		<i>Total</i>	
Full-time permanent	105	(98)	146	(140)	251	(238)
Full-time temporary	4	(2)	2	(2)	6	(4)
Part-time permanent	3	(5)	2	(1)	5	(6)
Part-time temporary	2	(3)	0	(0)	2	(3)
Total	114	(108)	150	(143)	264	(251)

Note: Figures in brackets are the corresponding numbers as at 30 June 1991.

Tables L1 through L3 give various breakdowns of staff characteristics as at 30 June 1992, including the Senior Executive Service (SES) component and employment at various levels — in each case figures in brackets report the equivalent numbers a year earlier.

The Commission's structure was reorganised during the year to improve the management of its resources, its research focus and to better integrate the work of the Office of Regulation Review, while preserving an appropriate degree of independence for that part of the Commission. The new structure is shown in Figure L1.

The Commission also has a rotation policy which affords all staff, including SES officers, the opportunity to broaden their knowledge, skills and experience by undertaking a variety of work assignments (eg

Table L2: Senior Executive Service staff as at 30 June 1992

<i>Level</i>	<i>Status</i>	<i>Female</i>		<i>Male</i>		<i>Total</i>	
Band 3	Permanent	0	(0)	1	(1)	1	(1)
Band 2	Permanent	0	(0)	2	(3)	2	(3)
Band 2 (HDA)	Temporary	0	(0)	1	(0)	1	(0)
Band 2 (specialist)	Permanent	0	(0)	1	(1)	1	(1)
Band 2	Inoperative	0	(0)	2	(1)	2	(1)
Band 1	Permanent	2	(1)	11	(12)	13	(13)
Band 1 (HDA)	Temporary	0	(0)	1	(1)	1	(1)
Band 1 (specialist)	Temporary	0	(0)	0	(1)	0	(1)
Band 1	Inoperative	0	(0)	1	(0)	1	(0)
Total		2	(1)	20	(20)	22	(21)

HDA Staff acting in position on Higher Duties Allowance.

Note: All SES staff were employed full-time

Figures in brackets are the corresponding numbers as at 30 June 1991.

Table L3: Staffing profile as at 30 June 1992

<i>Level</i>	<i>Female</i>		<i>Male</i>	
Senior Executive Service Band 3	0	(0)	1	(1)
Senior Executive Service Band 2	0	(0)	5	(4)
Senior Executive Service (Specialist) Band 2	0	(0)	1	(1)
Senior Executive Service Band 1	2	(1)	13	(13)
Senior Executive Service (Specialist) Band 1	0	(0)	0	(1)
Senior Officer Grade A	0	(0)	1	(0)
Senior Officer Grade B	5	(6)	31	(27)
Senior Information Technology Officer Grade B	0	(0)	2	(2)
Senior Officer Grade C	10	(10)	25	(26)
Senior Information Technology Officer Grade C	2	(2)	2	(2)
Senior Professional Officer Grade C	2	(1)	0	(0)
Professional Officer Class 2	2	(3)	0	(0)
Administrative Service Officer Class 6	9	(6)	13	(13)
Administrative Service Officer Class 5	15	(18)	23	(18)
Information Technology Officer Class 2	0	(0)	1	(1)
Information Technology Officer Class 1	0	(0)	0	(1)
Administrative Service Officer Class 4	4	(4)	2	(1)
Research Officer Grade 2	4	(1)	13	(11)
Administrative Service Officer Class 3	28	(20)	2	(3)
Research Officer Grade 1	0	(2)	0	(0)
Graduate Administrative Assistant	7	(5)	8	(12)
Administrative Service Officer Class 2	19	(22)	4	(2)
Administrative Service Officer Class 1	4	(5)	3	(3)
General Service Officer Grade 3	0	(0)	0	(1)
General Service Officer Grade 2	1	(2)	0	(0)
Total	114	(108)	150	(143)

Notes Levels are those at which staff were being paid as at 30 June 1992 (ie includes staff on higher duties).

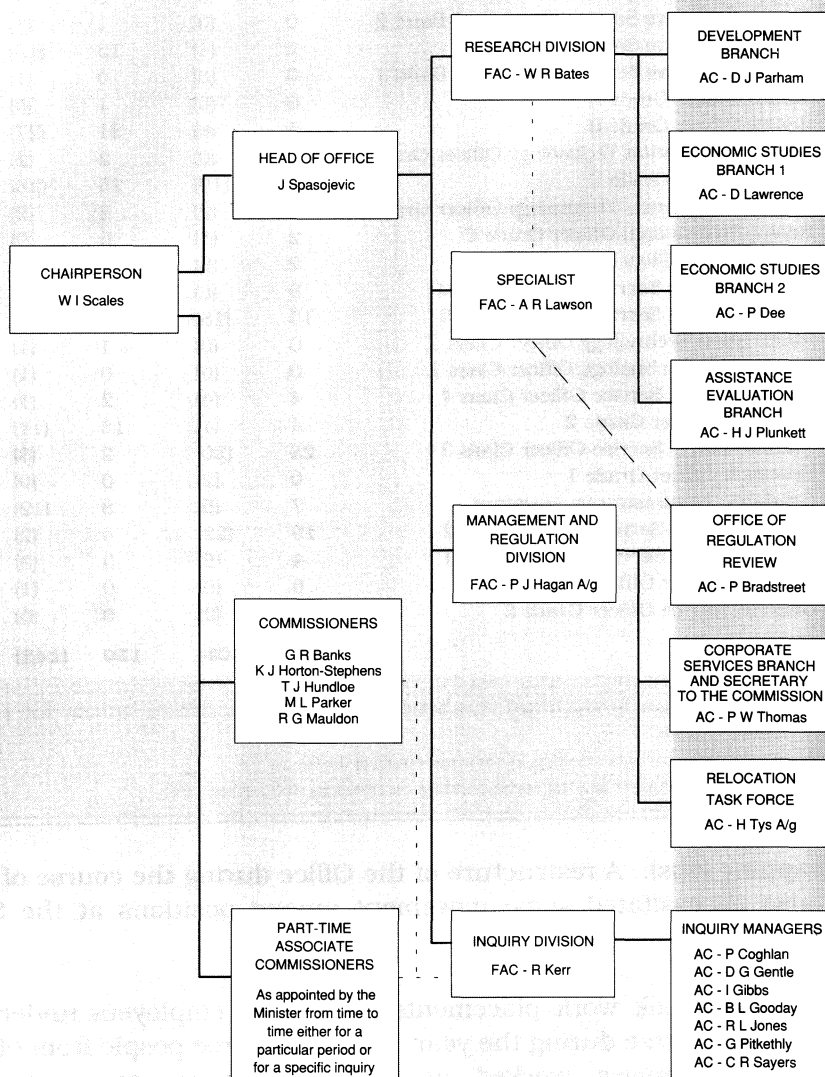
Inoperative staff are counted at their substantive levels.

Figures in brackets are the corresponding numbers as at 30 June 1991.

by swapping jobs). A restructure of the Office during the course of the year also necessitated some movement among positions at the SES level.

No staff undertook work placements with other employers under an interchange scheme during the year. However, three people from other government agencies worked at the Commission on particular assignments during 1991-92.

Figure L1: Organisation structure as at 30 June 1992



FAC - First Assistant Commissioner
 AC - Assistant Commissioner
 A/g - Acting in the position

Table L4: Classification and method of separation of staff, 1991–92

	<i>Method of separation</i>				
	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Retirement</i>	<i>Other</i>
Senior Executive Service	0 (0)	1 (0)	0 (2)	0 (0)	0 (0)
Senior Officer Grade B	0 (1)	1 (1)	1 (0)	0 (0)	0 (1)
Senior Officer Grade C	0 (0)	0 (2)	1 (1)	0 (0)	1 (0)
Senior Information Technology Officer Grade C	0 (1)	1 (0)	0 (0)	0 (0)	0 (0)
Professional Officer Class 2	0 (1)	0 (0)	0 (0)	0 (0)	0 (0)
Information Technology Officer Class 2	0 (1)	0 (0)	0 (0)	0 (0)	0 (0)
Administrative Service Officer Class 6	1 (1)	3 (1)	0 (3)	0 (0)	0 (1)
Administrative Service Officer Class 5	4 (1)	3 (3)	0 (1)	0 (0)	1 (0)
Research Officer Grade 2	0 (1)	0 (0)	0 (0)	0 (0)	0 (0)
Administrative Service Officer Class 3	1 (1)	3 (2)	0 (1)	1 (0)	0 (0)
Graduate Administrative Assistant	0 (0)	0 (0)	0 (1)	0 (0)	0 (0)
Administrative Service Officer Class 2	0 (1)	0 (1)	0 (3)	0 (2)	0 (0)
Administrative Service Officer Class 1	0 (2)	1 (2)	0 (1)	0 (1)	0 (1)
Cadet	0 (0)	0 (0)	0 (1)	0 (0)	0 (0)
Total	6 (11)	13 (12)	2 (14)	1 (3)	2 (3)

Note: Figures in brackets are the corresponding numbers for 1990–91.

Recruitment and separations

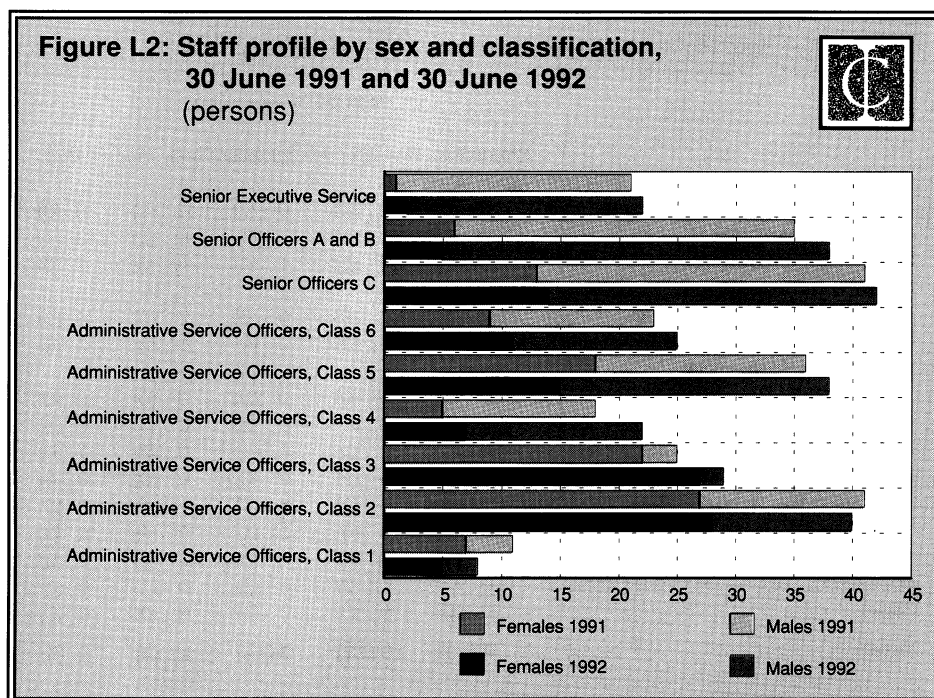
The Commission recruited 14 males and 13 females as full-time permanent staff during 1991–92, of whom 13 were graduates. Five full-time temporary staff were engaged during the financial year, including one male.

Table L4 shows the level and method of separation of staff who left the Commission during 1991–92 (figures in brackets give comparative information for the previous financial year).

There were no applications from departing officers under Chapter 13 of the *Guidelines on Official Conduct of Commonwealth Public Servants (1987)* relating to the acceptance of business appointments on retirement or resignation.

Equal employment opportunity in appointments

The National Agenda for Women and the National Agenda for a Multicultural Australia call for an increase in the number of



appointments of members of Equal Employment Opportunity (EEO) target groups to statutory and non-statutory bodies. Table L5 shows the distribution of Commission staff among these groups. Of the 17 permanent appointments made during the year, 6 were female and 4 from non-English speaking backgrounds (second generation). Three did not volunteer information to enable them to be classified. No Aboriginals or Torres Strait Islanders were employed by the Commission as at 30 June 1992.

The division of the Commission's staff between the sexes has remained unchanged in aggregate over the last year. Females continue to occupy 43 per cent of all positions. As can be seen from Figure L2, there have been some changes at various levels — females now occupy a higher proportion of positions in the SES, at ASO6, ASO4, ASO3 and ASO2 positions. However, their share of positions at the SOB and ASO5 level fell. The most important result for the year, however, was the successful recruitment of new female graduates. Seven of the 15 successful applicants were females. (Of the 15, one was already an employee of the Commission and another has not taken up the appointment.)

Table L5: Equal Employment Opportunity target groups as at 30 June 92
(persons)

	<i>Above \$66 387</i>	<i>\$46 537- \$55 350</i>	<i>\$41 929- \$45 546</i>	<i>\$35 424- \$40 693</i>	<i>\$32 800- \$34 778</i>	<i>\$29 407- \$31 929</i>	<i>\$26 384- \$28 475</i>	<i>\$23 165- \$25 687</i>	<i>Below \$22 622</i>	Total
	<i>(includes SES)</i>	<i>(includes SOA & SOB)</i>	<i>(includes SOC)</i>	<i>(includes ASO6)</i>	<i>(includes ASO5)</i>	<i>(includes ASO4)</i>	<i>(includes ASO3)</i>	<i>(includes ASO2)</i>	<i>(includes ASO1)</i>	
Sex										
Female	2	5	14	11	15	7	27	28	5	114
Male	20	33	28	14	23	15	2	12	3	150
Total	22	38	42	25	38	22	29	40	8	264
Aboriginal or Torres Strait Islanders										
Yes	0	0	0	0	0	0	0	0	0	0
No	10	25	24	10	29	18	23	30	2	171
No data	12	13	18	15	9	4	6	10	6	93
People with disabilities										
Yes	0	2	2	0	0	0	3	0	1	8
No	10	23	22	10	29	18	20	30	1	163
No data	12	13	18	15	9	4	6	10	6	93
Non-English speaking background										
1st generation	2	3	5	2	4	4	0	4	0	24
2nd generation	0	0	1	0	4	4	1	7	0	17
English speaking background										
Yes	8	22	19	9	27	12	23	25	2	147
No	2	3	5	1	2	6	0	5	0	24
No data	12	13	18	15	9	4	6	10	6	93

Notes: Based on actual occupancy including inoperatives and temporary staff, not including Holders of Public Office and staff not employed under the Public Service Act.

Inquiry activities

Inquiry and research reports

The Commission exists to promote constructive change in Australian economic life. The principal way it seeks to do this is through its inquiry and annual reports which turn on how well it has done its homework and how persuasively it presents its findings. This is reflected in the organisation's mission statement:

Our mission is to improve the well-being of Australians by informing the community and providing independent, public advice to Australian governments on ways to improve overall economic performance.

In the context of inquiry reports, the Commission strives to prepare high-quality assessments of the way the economy operates and a compelling case for improving its performance through structural change. It succeeds when it brings about worthwhile reform. Often that success is only achieved after a period in which a consensus for reform emerges. While the Commission helps in the ongoing process of building a consensus for reform, it measures its performance by:

- the extent to which it presents its findings clearly, consistently and persuasively — and in a timely fashion;
- how it assesses and weighs the arguments of those who advocate alternative approaches;
- its ability to identify, and where possible quantify, the effects of impediments to achieving higher community living standards;
- its effectiveness in identifying ways to remove or reduce impediments, while taking into account social impacts, adjustment costs and environmental consequences; and
- its effectiveness in monitoring and reporting on the performance of Australian industry.

The Government asked the Commission to undertake eight new inquiries during the year. Table L6 provides information on inquiry-related activities over the past three years.

Table L6: Inquiry activity, 1989-90 to 1991-92^a

	1989-90	1990-91	1991-92
References received	12	10	8
Issues/background papers released	9	10	8
Public hearings (sitting days)	74	134	94
Participants ^b	663	2029 ^c	999
Draft reports completed	4	10	11
Reports completed ^d	9	9	13
References on hand (as at 30 June)	10	11	7

a Includes the inquiry activity of the Industries Assistance Commission in 1989-90.

b Number of participants in inquiries for which reports were completed in the year.

c Includes 795 participants in the inquiry on aids and appliances for people with disabilities.

d Includes interim reports, reports on parts of references and reports covering more than one reference. Draft reports are listed separately.

In its inquiry process the Commission seeks to increase community understanding of the way industry policies and regulations work. It is difficult to measure performance against this objective in the short term. The Commission aims to stimulate debate by involving the public in the inquiry process, by releasing information, discussion, working and issues papers, and by generating media coverage of its recommendations for change.

Commission inquiries into aspects of the Australian economy generate considerable community interest and debate. For example, during the year:

- the Commission released 13 757 copies of its final reports and 10 748 copies of its draft reports — a total of 24 505 reports;
- in addition, approximately 1500 copies of information papers, and 600 copies of working papers were sent to interested parties;
- public inquiries involving a total of 94 sitting days were held; and
- seminars and other workshops relating to its inquiries or other reporting obligations were conducted.

Media reaction to reports and other publications is monitored and reported to monthly meetings of Commissioners.

Further information on inquiry activity and reports can be found in Appendix M. That appendix shows the stages of completion of

inquiries and summarises the Government's response to Commission reports where this has occurred.

Table L7 summarises the Commission's 1991-92 inquiry expenditure on such items as travel and printing. As inquiries often span financial years, the figures do not represent total expenditure. The major costs — salaries and the general running costs of the Commission — are not included. The Commission is beginning to attribute approximate salary costs of Commissioners and staff to individual inquiries. For the four inquiries for which this has been attempted the costs were:

<i>Inquiry</i>	<i>Approximate salary costs</i>	<i>Other costs</i>	<i>Estimated total cost</i>
	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
The Australian sugar industry	250 000	65 465	315 465
Review of overseas export enhancement measures	356 877	93 367	450 244
Raw material pricing for domestic use	299 250	24 416	323 666
Commercial restrictions on exporting (including franchising)	118 000	6 744	124 744

In addition to inquiry work, Commission staff were involved in various research activities. Details of the publications of the Commission in 1991-92 are shown in Attachment L2.

Consultancy services

The Commission engages consultants when the required specialist knowledge or expertise is not available within the Commission. Sixty-one consultants were engaged during 1991-92 at a total cost to the Commission of \$316 177. Table L8 sets out summary details on the number of consultants engaged and their overall cost, by category. Table L9 provides further detail, including the purpose and cost in the case of consultancies exceeding \$2000. Full details of consultancies can be obtained from the Commission on request.

Table L7: Inquiry expenditure, 1991-92

<i>Inquiry</i>	<i>Term of inquiry</i>	<i>Travel</i>	<i>Reports</i>	<i>Adver- tising</i>	<i>Trans- cripts</i>	<i>Venue Hire</i>	<i>Incidental</i>	<i>Consult- ants</i>	<i>Total 91-92</i>	<i>Total exp all years</i>
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Rail transport	05/90-08/91	1 802	11 266	1 114	0	0	1 129	0	15 311	82 126
Mining and minerals processing in Australia	10/89-02/91	1 281	-80	0	0	0	0	0	1 201	290 075
Cost recovery for managing fisheries	12/90-01/92	11 095	8 456	3 596	11 925	1 217	1 254	0	37 543	87 001
Availability of capital	12/90-12/91	7 326	8 803	736	5 506	314	475	21 749	44 909	67 917
Exports of health services	12/90-12/91	9 216	3 931	1 273	1 057	104	246	0	15 827	44 517
Australian dairy industry	12/90-09/91	4 671	-176	0	2 668	353	556	12 000	20 072	35 927
Costs and benefits of reducing greenhouse gas emissions	12/90-11/91	17 714	13 285	2 105	7 075	2 146	16 416	0	58 741	90 396
Exports of education services	12/90-08/91	15 914	5 971	661	13 779	710	68	0	37 103	47 883
The Australian sugar industry	03/91-03/92	33 839	7 019	1 871	5 202	2 664	948	3 238	54 781	65 465
Review of overseas export enhancement measures	04/91-04/92	70 174	6 285	1 520	2 668	0	3 947	0	84 594	93 367
Raw material pricing for domestic use	05/91-04/92	12 044	3 916	1 294	3 640	92	136	0	21 122	24 416
Commercial restrictions on exporting (including franchising)	05/91-04/92	2 826	1 900	570	0	0	330	0	5 626	6 744
Water resources and waste water disposal	07/91-07/92	62 781	0	6 352	37 682	5 264	1 360	29 000	142 439	
Intrastate aviation	07/91-07/92	36 173	0	3 754	14 762	1 151	3 757	0	59 597	
Taxation and financial policy impacts on urban settlement	11/91-04/93	46 138	0	1 170	15 940	3 255	1 882	250	68 635	
Mail, courier and parcel services	10/91-10/92	38 832	0	3 058	8 173	141	1 486	0	51 690	
National procurement development program	10/91-03/92	8 716	4 600	411	3 698	60	161	0	17 646	

Table L7: Inquiry expenditure, 1991-92
(cont)

<i>Inquiry</i>	<i>Term of inquiry</i>	<i>Travel</i>	<i>Reports</i>	<i>Adver- tising</i>	<i>Trans- cripts</i>	<i>Venue Hire</i>	<i>Inci- dentals</i>	<i>Consult- ants</i>	<i>Total 91-92</i>	<i>Total exp all years</i>
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Horticulture industry (Australian Horticultural Corporation 12/91-06/92)	12/91-12/92	37 385	0	2 783	13 036	2 377	503	500	56 584	
Port authority services	03/92-03/93	22 121	0	2 712	0	0	0	0	24 833	
Book production	03/92-09/92	13 561	0	1 131	0	0	69	0	14 761	
Public transport		224	0	0	0	0	0	0	224	
General inquiry preparation and marketing		2 289	962	0	0	0	3 691	0	6 942	
Total		456 122	76 138	36 111	146 811	19 848	38 414	66 737	840 181	

Notes: Total cost (the last column of the table) is shown for completed inquiries only.

The Commission has begun to attribute approximate salary costs of Commissioners and staff time to inquiries — see page 310.

Table L8: Consultancy services, by category, 1991-92
(number and dollars)

<i>Object of Consultancy</i>	<i>Consultancies</i>	<i>Cost</i>
	(no.)	(\$)
Seminar presentations/lectures	13	7 874
Inquiry-related consultancies	12	66 737
Corporate-support consultancies	27	132 125
Multi-country, multi-commodity general equilibrium model of the world economy for the Department of Foreign Affairs and Trade (SALTER Project)	9	109 441

Corporate activities

Financial statement

A summary of the Commission's financial position for 1991-92 is presented in Table L10. The Commission's formal financial statement for 1991-92 is at Attachment L1.

Fraud control

The Commission's fraud-control strategy covers the design, development and maintenance of financial, administrative and operational systems and methods which include appropriate internal controls and audit trails. It places particular emphasis on prevention and ethical behaviour. The Commission assesses its level of risk to be minimal. Nevertheless, the Commission plans to review its risk assessment and fraud-control procedures to ensure that fraud-control practices are promoted at a more conspicuous level.

All aspects of the Commission's activities are accessible to the Australian National Audit Office for independent examination and report to Parliament. Each instance of loss to the Commission is assessed as to the possibility of fraud before write-off action is recommended. No instances of fraud were identified during 1991-92.

Table L9: Major consultancy services, 1991-92
(dollars)

<i>Consultants</i>	<i>Cost</i>	<i>Purpose</i>
	(\$)	
Corporate support consultancies		
Australian Bureau of Statistics	13 040	Staff opinion survey
Australian Construction Services	3 750	Study of accommodation requirements
Burson-Marsteller Pty Ltd	2 823	Media skills training
Burson-Marsteller Pty Ltd	3 523	Marketing a new report
Burson-Marsteller Pty Ltd	12 772	Communication strategy
Centre for International Economics	2 027	Presentation by Dr A. Stoeckel at SES planning seminar
Coopers & Lybrand	12 842	Coordination and facilitation of middle management residential
Coopers & Lybrand	2 835	Co-ordination of Research Division workshop
Coopers & Lybrand	7 285	Co-ordination of SES planning seminar
Coverdale & Associates	3 000	Performance management & organisational culture evaluation
Datamatic	3 480	Investigation of installation requirements for LAN upgrade
Deloitte Ross Tohmatsu	13 500	Evaluation of LAN upgrade options
Employee Assistance Service ACT Ltd	7 800	Employee assistance program
Employee Assistance Service ACT Ltd	2 200	Harassment contact officer training
Harris Van Meegan	19 000	Corporate services review
John Townsend & Associates	2 789	Stress management course
Paul Jones & Associates	8 400	Senior officer performance appraisal training
Roger Fry & Co Pty Ltd	2 000	Project management skills workshop
Roger Fry & Co Pty Ltd	4 660	Negotiation skills workshop
Inquiry-related consultancies		
London Economics Water Disposal	16 000	Report on the international experience of the private provision in water, sewage and drainage services (Water resources and waste water disposal)
Tasman Economic Research	13 000	Report on the distributional effects of cost based pricing (Water resources and waste water disposal)
Professor I Harper	5 000	Research the relative roles of superannuation funds and banks (Availability of capital)

Table L9: Major consultancy services, 1991-92
(cont) (dollars)

<i>Consultants</i>	<i>Cost</i>	<i>Purpose</i>
	(\$)	
Unisearch	14 266	Economic research into the access to foreign capital of Australian financial markets (Availability of capital)
University of Melbourne (IAESR)	12 000	Study of the effect of the removal of government assistance to dairy farming (Australian dairy industry)
Multi-country, multi-commodity general equilibrium model of the world economy for the Department of Foreign Affairs and Trade (SALTER Project)		
Professor R Wigle/Laurier Institute	28 050	Develop recommendations for improving the economic structure of the SALTER model
Reuters	10 000	Supply of trade data for Europe
Professor P Warr	20 000	Supply of input-output data table for China
Professor P Warr	5 000	Supply of input-output data table for Thailand and the Philippines
Purdue Research Foundation	28 475	Developing a prototype treatment of imperfect competition for SALTER
Purdue University	5 927	Supply of freight margins data
Dr C Ryan	9 795	Construction of European databases

Table L10: Financial summary, 1991-92
(dollars)

	<i>Appropriation</i>	<i>Actuals</i>
	<i>(\$)</i>	<i>(\$)</i>
Expenditure items		
Running costs		
<i>Salaries and allowances</i>		
Other than SES salaries ^a	8 677 000	8 528 567
SES salaries	1 400 000	1 394 814
<i>Administrative expenses</i>	4 604 261	4 368 517
Total running costs	14 681 261	14 291 898
Property operating expenses		
Current	2 265 000	2 175 464
Capital	31 000	7 975
IMPACT Project	203 000	203 000
Economy Wide Modelling Project	200 000	100 000
Total expenditure	17 380 261	16 778 337
Receipt items		
Section 35 receipts account	(413 600)	(449 685)
Miscellaneous receipts account	(63 000)	(48 669)
Total receipts	(476 600)	(498 354)
Trust fund		
Services for other governments and non-departmental bodies		
Cash balance at 1 July 1991		0
Receipts		(9 806)
Expenditure		8 021
Cash balance at 30 June 1992		(1 785)

a Includes Holders of Public Office

Note: Figures in brackets represent receipts.

Purchasing

Each month the Commission gazettes all invitations to tender/purchase arrangements valued at \$2000 or more. On no occasion has the Commission failed to gazette such invitations within three months.

Information technology purchasing arrangements

The Commission adheres to the purchasing policy for information technology as outlined in the *Commonwealth Procurement Policy Framework, 1989* and detailed in the *Information Technology Buyer's Handbook, 1991*. Significant information technology acquisitions during 1991-92 involved:

- upgrading personal computing facilities;
- reducing the size of mainframe facilities; and
- upgrading the Commission's local area network.

In keeping with the Government's information-technology purchasing policy regarding migration to supplier-independent 'open' systems based on international standards, the Commission pursues the purchase of GOSIP standard-compliant systems wherever possible.

Payment of accounts

The Commission received a total of 2304 accounts during the 1991-92 financial year, not including direct purchases made using Australian Government Corporate Credit Cards. Its payment record was as follows:

• Paid prior to due date:	215
• Paid on or about due date:	1 858
• Paid 1-30 days after due date:	167
• Paid 30+ days after due date:	21
• Claims not paid as of 30 June 1992:	43

Payments made in accordance with contractual agreements (or to achieve worthwhile discounts) have been taken as paid on the due date.

Claims and losses

There were no claims or losses resulting in a net cost of \$10 000 or more during the financial year.

Property

The Commission occupies premises, including a hearing room, in the Benjamin Office complex in Belconnen, Canberra and maintains a

hearing room in the World Trade Centre, Melbourne. The rental arrangements are summarised below:

<i>Location</i>	<i>Description</i>	<i>Area</i>	<i>Cost</i>
Canberra			
(a) Office space:	Total office space	5874 sq m	\$1 738 992 ^a
	Average office space for each occupant	22 sq m	
(b) Non-office space ^b	Hearing room	312 sq m	\$76 391
	Storage	420 sq m	\$29 400
	Benjamin Offices cafeteria	135 sq m	\$33 075
	22 Car park bays		\$22 000
Melbourne	Hearing room	550 sq m	\$172 305

a Equivalent to rent and outgoings of \$296 per square metre.
b Rent only

Management issues

Review of corporate services function

An evaluation of the Commission's corporate services functions was undertaken by Harris van Meegeen Consultants during February-March 1992. The terms of the review required the consultants to address the functions currently provided (including their resource usage, effectiveness and efficiency); the options to carry out any of the current functions under different arrangements; and any organisational, responsibility or resource changes required to enable performance of corporate services functions to best meet the Commission's purposes.

Overall the consultants found a high degree of commitment to the delivery of efficient and effective services, and that appropriate areas of devolution had progressed satisfactorily. They also found that the Commission had already achieved significant savings in relation to the delivery of its corporate services functions. Accordingly, current staffing resources were considered generally appropriate to the Commission's needs and, in the consultant's opinion, there was limited scope for further reductions.

Management decided to accept nearly all the recommendations of the review. However, the process of consultation with staff and unions on

implementation of the review's recommendations was overtaken by the announcement on 13 May 1992 that the Commission is to relocate to Melbourne. This announcement necessitated a reconsideration of staffing-related recommendations in the review. Consultations with unions and staff on implementation of the review are continuing.

Information services

Library support

The library was included in the review of corporate services functions. The consultants found a high level of support for the library throughout the Commission and recommended a change in reporting arrangements for the Librarian-in-Charge, and the reclassification of the library's clerical positions — to enable the library to continue to provide a high level of service to its clients.

The provision of bibliographic databases on CD-ROM was investigated and a trial of ECONLIT (a database covering economics journal literature) was conducted. The service proved very popular as it enabled Commission staff to perform their own literature searches and identify relevant citations. The Commission is now subscribing to ECONLIT and making it available through its local area network.

An upgraded version of the library's automated system was installed late in the year and is providing some useful enhancements, particularly in circulation and serials control.

Computing support

ADP Section was also included in the review of corporate services functions. The major outcome of this most recent review will be a restructure of the section, expected to take place in 1992–93.

During 1991–92, ADP introduced a system of cost attribution and cost accountability for information-technology services. This will allow users to assess the cost of these services.

ADP also carried out extensive research and evaluation of user requirements — which has resulted in decisions to upgrade the Commission's local area network and to replace its mainframe computer.

Information technology operational plan 1992–93

Under this plan, the Commission intends to:

- restructure the ADP Section to improve service delivery;
- continue to upgrade the local area network;
- implement the mainframe replacement, including decommissioning of the present system;
- provide appropriate training for local area network, UNIX system and Windows software applications;
- survey the Commission's information-technology users to assess whether communication with, or service to, users can be further improved;
- improve evaluation and advice on information-technology purchasing;
- promote a preventive maintenance approach to personal computer servicing;
- promote the upgrading of personal computer hardware and software to a uniform Commission-wide standard;
- evaluate the possible establishment of a 'help desk' facility; and
- review information-technology security.

Melbourne move

On 13 May 1992, when the Treasurer announced the appointment of the Commission's new Chairperson and a redefined role for the organisation, he also announced the relocation of the Commission to Melbourne.

The move is planned to take place gradually over the next three years, but several inquiry teams are scheduled to be in place in Melbourne by the end of this calendar year.

Full consultation between management, staff and unions will be a continuing feature of the move.

Staff opinion survey

In March 1992, the Commission asked the Australian Bureau of Statistics to follow-up their 1990 survey of staff attitudes. Again 80 per cent of staff responded to the questionnaire about their jobs, job

prospects and general views of the Commission and Public Service. Box L1 summarises some of the results. Preliminary information from this survey was provided for discussion at a special management seminar held for Commissioners and SES officers. New management initiatives agreed to at that seminar reflect the consideration given to the survey's results. The results of the survey will also assist the Commission to plan directions for staff development and training.

Senior officer remuneration package

A Department of Industrial Relations directive issued during November 1991 outlined a package for senior officer remuneration recognising the special circumstances applying to such staff. This comprised performance-based pay, provision of work-related expenses and a senior officer allowance. Following that directive, the Commission developed internal operating procedures for the provision of work-related expenses effective from 1 January 1992.

Performance appraisal and pay

During the year, the Commission's existing performance appraisal booklet was revised and endorsement by the Public Service Commission has been sought. Guidelines on performance pay were also developed to reflect its proposed introduction. Both publications were developed in consultation with staff and with union input.

The Commission hired a consultant to conduct performance appraisal training sessions for senior officers. The training, additional to that conducted in 1991, focussed on details of the scheme and included the drawing up of performance agreements, and the giving and receiving of feedback.

Further performance appraisal training will be provided for Commissioners and SES officers. Other general courses, such as conflict resolution and career options, will also be offered.

Training

The Commission's payroll (including Holders of Public Office) was some \$9.9 million which generated a minimum training requirement of the order of \$100 000 (1 per cent). The actual eligible training expenditure of \$650 240 was considerably more than the minimum requirement —

Box L1 Staff opinion in the Industry Commission

The Commission has now surveyed staff opinions on two occasions, in 1990 and again in March 1992. Some of the major findings and changes between the two surveys are summarised below:

- Practically all staff groups rated the Commission a better place to work in 1992 than in 1990.
- Most staff were satisfied with all aspects of their job, assessing them as making good use of their knowledge, skills and abilities. On five of the six criteria measuring job satisfaction there has been an improvement since 1990. However, senior staff were becoming more concerned about their job involving too much pressure and leaving too little time for personal and family life.
- Overall, staff were motivated by doing a 'fair day's work for a fair day's pay', but also by rewarding working relationships and their contribution to the success of the Commission. In addition, personal loyalty to supervisors was a significant motivating factor, particularly for non-SES staff.
- Most staff thought their prospects for promotion within the Commission could be better, although most were positive about their ability to get a satisfying job in the private sector (especially SES staff). Staff believe that promotions within the Commission are based on technical competency, efficiency and effectiveness.
- There has been quite a marked improvement in staff perception of the communication and management skills of senior management. In 1992, staff responded more positively to every statement regarding their immediate supervisor, although they still felt that there was more scope for supervisors to discuss with them how they could do their job better and help in career planning.
- There has been a growing awareness of Public Service programs such as Industrial Democracy and Access and Equity. Male staff generally did not want to know more about these issues, whereas female staff did.
- Performance appraisal has generally been considered a success. Most found the evaluation of their own performance useful and overwhelmingly that appraising someone else's performance was a useful exercise.

and reflected the Commission's continued strong commitment to staff training and development.

The total number of operative staff in the Commission at the end of the financial year was 239 (including Holders of Public Office). The total number of person-days spent on participation by staff in eligible training programs during the year was 1264 and the total number of staff who participated in eligible training activities during the year was 220. Of that number 88 were women, 44 were from non-English speaking backgrounds and 7 were people with disabilities. Categories of eligible training included performance management, skills development, professional and technical development (for example Studybank), marketing, middle-management development, and people management.

Major training activities during the year included:

- Middle-management development — Forty-six staff at the Administrative Service Officer Grade 5 to Senior Officer Grade A levels attended a five-day residential training program designed to enhance middle-management skills;
- Senior executive management program — Two Senior Executive Service Officers attended a two-week senior executive management program at Batemans Bay;
- Executive development management modules — Two officers at the Senior Officer Grade B level attended the Public Service Commission's co-ordinated management modules for feeder groups to the Senior Executive Service;
- Planning seminar — The Acting Chairperson and twenty-four Senior Executive Service Officers and Commissioners attended a three-day planning seminar at Batemans Bay; and
- Post Graduate Study Award — One Senior Officer Grade C commenced an Award at the University of New England.

Thirty staff were approved for part-time study under the Commission's Studybank Scheme. Of that number, eight were studying for their first degree and the remainder are studying for their second degrees or certificates.

Major influences on the direction for training for 1992-93 will be the Commission's staff opinion survey, a statement by the Chairperson on SES training and the future move of the Commission to Melbourne. Training will centre on further development of the SES, middle-

management development, professional/technical training, people management and marketing of Commission reports.

Industrial democracy

The formal mechanism of industrial democracy in the Commission is the Consultative Council. The Council met four times during 1991-92 to consult on a wide number of issues including:

- a review of Council membership;
- occupational health and safety;
- performance appraisal/pay;
- equal employment opportunity;
- industrial democracy;
- accommodation;
- the Corporate Services Review; and
- the relocation of the Commission to Melbourne.

The Industrial Democracy Plan was further amended following discussions with the Public Sector Union.

Because of the small size of the Commission much consultation is through informal mechanisms. An example of the informal consultative process at work during the year involved the meeting of Senior Officers and equivalents and Senior Executive Staff to discuss the introduction of performance-based pay.

Equal employment opportunity

The major priorities during 1991-92 were:

- further development of the Commission's EEO policy and plan;
- selection and training of discrimination/harassment officers;
- development of a discrimination/harassment policy;
- continued development of the EEO database through an EEO staff survey; and
- a review of position documentation to delete unnecessary qualifications for selection, and inclusion of EEO responsibilities in duty statements.

No EEO-related grievances were lodged during the year.

Equal employment issues are co-ordinated by a Senior Officer Grade C who reports to the Head of Office. In addition, part of the duties of an Administrative Service Officer Class 5 involve the implementation and co-ordination of the program and related EEO issues. There was no variation of resources from the previous year and there is no planned variation of resources for the next financial year.

The Commission's Consultative Council provided a forum for discussion of EEO issues raised by management and staff, including agreement in principle to the Commission's EEO policy and plan.

The Commission's major EEO objectives for 1992-93 include distribution of the discrimination/harassment policy, finalisation of EEO policy and plan, and random checking of performance agreements to ensure care is being taken in establishing performance criteria and in arriving at assessments.

Data on EEO target groups within the Commission are presented in Table L5 on page 307.

Occupational health and safety

During 1991-92, the Commission's policy statement and agreement on occupational health and safety was forwarded to the Public Sector Union for endorsement. Establishment of an Occupational Health and Safety Committee has been delayed until finalisation of the policy and agreement.

Specific initiatives implemented during 1991-92 included consultation with the Public Sector Union regarding the number of Designated Work Groups, selection of health and safety representatives, development of a first-aid policy, and the introduction of an Employee Assistance Program.

No investigations were conducted during the year. No notices and directions relating to Clauses 30, 45, 46 and 47 of the *Occupational Health and Safety (Commonwealth Employment) Act 1990* were given to the Commission during the year.

Activities planned for 1992-93 include adoption of the Commission's agreement and policy, establishment of an occupational health and safety committee, selection of health and safety representatives, occupational health and safety training, and adoption of a first-aid policy.

Social justice (including access and equity)

The Commission's commitment to social justice is reflected in its mission statement. The Commission supports the principles of access and equity, a government initiative to help all Australians, including Aboriginals, immigrants, and second generation Australians who may face barriers of race, culture, or language.

The Commission's statement on access and equity has been incorporated into the Department of the Treasury's portfolio program which underwent revision during the year. The principles of equity, access and/or participation are also embodied in the Commission's equal employment opportunity policy and plan, the industrial democracy plan and the staff selection guidelines.

Employee assistance program

The Commission introduced an employee assistance program for all staff in September 1991. The program provides independent, confidential counselling to all staff and their immediate families with work-related problems or personal problems.

Status of women

As the Commission is a small organisation, it does not have a Women's Unit. However, mechanisms to promote the status of women are outlined in the Commission's equal employment opportunity policy and plan, staff selection guidelines and industrial democracy plan.

Of Commission staff, 43 per cent (including two Senior Executive Service Officers) are women. Women occupy 14 per cent of Senior Officer Grade B (and equivalent positions) and 33 per cent of Senior Officer Grade C (and equivalent positions).

Devolution

As part of the devolution process, a personnel manual was developed. The manual was designed as a reference for personnel management policies and procedures applicable throughout the Commission. It includes information on personnel delegations, salaries and allowances, leave, staff selection, recruitment, establishments, probation, permanent part-time employment, Studybank, postgraduate study, compensation, official conduct, staff counselling,

grievances, disciplinary proceedings, inefficiency, leaving the Commission, exit procedures, and staff rotation.

A staff induction and information package and a staff suggestion scheme were also developed during the year.

External scrutiny

Reports by the Auditor-General

Audit Report No. 23 1991-92 — Aggregate and Departmental Financial Statements 1990-91, tabled on 24 March 1992, was the only audit report which referred to the operation of the Commission. The report noted that the audit report of the Commission's Financial Statements for 1990-91 was unqualified and that the result of the audit of the Commission's accounts and records was satisfactory.

The audit report also noted that an Australian National Audit Office (ANAO) evaluation of the adequacy of the Commission's records to produce reliable supplementary statement information revealed deficiencies in asset recording and inherent weaknesses in asset system software.

The Commission is implementing the ANAO's recommendations concerning the recording of assets and is in the process of replacing its existing local area network with a new system which is expected to overcome most of the software-related limitations noted in the ANAO evaluation.

Freedom of information

The Commission did not receive any requests for information under the *Freedom of Information Act 1982* during 1991-92. The Freedom of Information Statement, as required under section 8 of the Act, is at Attachment L3.

The Privacy Act

The Commission acts in accordance with the requirements of the *Privacy Act 1988* in respect of the collection, use and disclosure of personal information. Privacy contact officers have attended information sessions on changes to the Act.

The Commission was not investigated by the Privacy Commissioner for any reason during 1991–92.

Comments by the Ombudsman

There were no reports to the Commission made by the Ombudsman under the *Ombudsman Act 1976* during the year.

Impact monitoring

Business regulations

No regulations under the Industry Commission Act were made during the year. The Commission had no cause to exercise its power to compel participants in inquiries to provide evidence.

Environmental/conservation matters

Electricity charges at Benjamin Offices are apportioned according to the space occupied by each tenant. The Commission believes this method of billing leads to smaller departments subsidising the larger departments in this complex. Subsequently, the Commission has had separate metering installed at a cost shared with the building owner. The Commission expects that this should ensure that the Commission pays only for the energy it consumes.

Another project undertaken at the Commission's request was a 'walk through' energy audit of the Commission's Benjamin Offices by ACTEW (the local electricity authority). The audit revealed a number of areas where the Commission could reduce its energy consumption. The Commission has commenced implementing a number of ACTEW's suggestions including:

- reducing the after-hours lighting time-delay period;
- turning off personal computers when not in use (eg at weekends); and
- turning off unnecessary lighting such as in foyers.

The Commission is also investigating the possibility of reducing its daily lighting consumption by turning off unnecessary office lights and

is negotiating with the Estate Manager to see if more efficient light tubes can be used.

Annual reporting requirements and aids to access

Information contained in this annual report on the Commission's operations is provided in accordance with subsections 25(6) and 25(7) of the *Public Service Act 1922*, section 74 of the *Occupational Health and Safety (Commonwealth Employment) Act 1990*, section 50AA of the *Audit Act 1901*, section 8 of the *Freedom of Information Act 1982*, and the *Privacy Act 1988*.

The entire report is provided in accordance with section 45 of the *Industry Commission Act 1989*.

The contact officer for inquiries or comments concerning this report is:

Assistant Commissioner
Corporate Services Branch
Industry Commission
PO Box 80
Belconnen ACT 2616
Telephone: (06) 264 3356

Inquiries about any Commission publication, including the corporate plan and the inquiry procedures, Office of Regulation Review procedures and the graduate recruitment booklets can be made to:

Publications Officer
Industry Commission
PO Box 80
Belconnen ACT 2616
Telephone: (06) 264 3263
Facsimile: (06) 253 1999

L1 FINANCIAL STATEMENTS 1991–92



AUSTRALIAN NATIONAL AUDIT OFFICE

Medibank House
Bowes Street
Woden ACT 2606

our ref;

INDUSTRY COMMISSION**INDEPENDENT AUDIT REPORT****Scope**

In accordance with sub-section 50(1) of the Audit Act 1901, the Chairperson of the Industry Commission has submitted for audit the financial statement of the Industry Commission for the year ended 30 June 1992.

The statement comprises:

- Aggregate Statement of Transactions by Fund
- Detailed Statement of Transactions by Fund
- Program Summary
- Program Statement
- Statement of Supplementary Financial Information
- Notes to the Financial Statements, and
- Certificate by the Chairperson and Head of Office.

During the year the Minister for Finance determined under sub-section 51(2) of the Act that the financial statement for the year ended 30 June 1992 would be subject to full audit examination for the first time. As a result, certain comparative figures for the previous year have not been subject to audit and these are identified in the statement.

The Commission's Chairperson and Head of Office are responsible for the preparation and presentation of the financial statement and the information it contains. I have conducted an independent audit of the financial statement in order to express an opinion on it.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statement is free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the accounts, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statement is in agreement with the accounts and records of the Commission and has been presented in accordance with the guidelines made by the Minister for Finance so as to present a view of the Commission which is consistent with my understanding of its financial position and the results of its operations.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In accordance with sub-section 51(1) of the Audit Act, I now report that the financial statement is, in my opinion:

- in agreement with the accounts and records kept in accordance with section 40 of the Act, and
- in accordance with the financial statements guidelines made by the Minister for Finance.



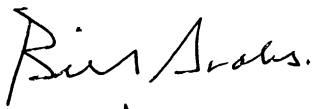
D. S. Lennie
Executive Director
Canberra


28 August 1992.

**Statement by the Departmental Secretary
and
Principal Accounting Officer**

Certification

We certify that the attached financial statements for the year ended 30 June 1992 are in agreement with the Commission's accounts and records and, in our opinion, the statements have been prepared in accordance with the Financial Statements Guidelines for Departmental Secretaries issued in February 1992.

Signed 
Dated 25/8/92.

Signed 
Dated 19.8.92

Chairperson

Head of Office

Industry Commission

Aggregate statement of transactions by fund for the year ended 30 June 1992

This statement shows aggregate cash transactions, for which the Commission is responsible, for the Commonwealth Public Account (CPA). The Commission was not responsible for any transactions of the Loan Fund.

<i>1990-91 actual</i>		<i>1991-92 budget</i>	<i>1991-92 actual</i>
<i>(\$)</i>		<i>(\$)</i>	<i>(\$)</i>
Consolidated Revenue Fund (CRF)			
225 748	Receipts	464 000	498 345
nil	Expenditure from special appropriations	nil	nil
15 562 453	Expenditure from annual appropriations	17 188 000	16 778 337
15 562 453	Expenditure	17 188 000	16 778 337
Trust Fund			
nil	Notional balance 1 July 1991		nil
2 963	Receipts		9 806
2 963	Expenditure		8 021
nil	Notional balance 30 June 1992		1 785
nil	Investments		nil

Industry Commission

Detailed statement of transactions by fund for the year ended 30 June 1992

This statement shows details of cash transactions, for which the Commission is responsible, for the Consolidated Revenue Fund and the Trust Fund. The Commission was not responsible for any transactions of the Loan Fund.

CONSOLIDATED REVENUE FUND (CRF)

Receipts to CRF

The CRF is the main working fund of the Commonwealth and consists of all current moneys received by the Commonwealth (excluding loan raisings and moneys received by the Trust Fund).

The Commission is responsible for the following receipt items.

<i>1990-91 actual</i>		<i>program</i>	<i>1991-92 budget</i>	<i>1991-92 actual</i>
<i>(\$)</i>			<i>(\$)</i>	<i>(\$)</i>
42 688	Miscellaneous ^a	7	63 000	48 669
183 060	Section 35 of Audit Act 1901- To be credited to running costs- Division 675 ^{a b} (see Note 6)	7	401 000	449 685
225 748	Total receipts to CRF		464 000	498 354

a Receipts offset within outlays.
b 1991-92 receipts include an amount of \$4424 which was not deemed to be appropriated to running costs.

Expenditure from CRF

The Constitution requires that an appropriation of moneys by the Parliament is required before any expenditure can be made from the CRF. The Commission is responsible for the following expenditure items.

<i>1990-91 actual</i>		<i>1991-92 appropriation</i>	<i>1991-92 actual</i>
<i>(\$)</i>		<i>(\$)</i>	<i>(\$)</i>
Annual appropriations			
15 562 453	{ Appropriation Act No 1 Appropriation Act No 3	17 032 261 148 000 }	16 678 337
nil	Appropriation Act No 2	200 000	100 000
15 562 453	Total expenditure from annual appropriations	17 380 261	16 778 337
15 562 453	Total expenditure from CRF		16 778 337
Details of expenditure from annual appropriations			
<i>1990-91 actual</i>		<i>1991-92 program appropriation</i>	<i>1991-92 actual</i>
<i>(\$)</i>		<i>(\$)</i>	<i>(\$)</i>
Appropriation Acts Nos 1 and 3 Division 675 Industry Commission			
13 642 475	1. Running costs (Annotated appropriation - see note 6)	7 14 681 261	14 291 898
1 772 979	2. Property operating expenses	7 2 296 000	2 183 439
	3. Other Services		
147 000	01. Contribution towards the further development of the IMPACT project	7 203 000	203 000
15 562 453		17 180 261	16 678 337

Details of expenditure from annual appropriations
 (cont)

1990-91 actual		1991-92 program appropriation	1991-92 actual
(\$)		(\$)	(\$)
Appropriation Act No 2			
Division 981 Industry Commission			
1. Other Services			
01. Contribution towards the development of			
nil	economy-wide modelling at Monash University 7	200 000	100 000
nil		200 000	100 000

TRUST FUND

This section discloses details of each Head of the Trust Fund and Trust Account for which the Commission is responsible. It provides a breakdown of the information relating to the Trust Fund contained in the Aggregate Statement of Transactions by Fund.

Transactions under the Head of Trust relate to incapacity payments to current employees in accordance with determinations made, and funds issued, by COMCARE.

1990-91 actual		1991-92 actual
(\$)		(\$)
Services for other governments and non-departmental bodies		
Legal authority - Audit Act 1901		
Purpose - Payment of costs in connection with services performed on behalf of other governments and non-departmental bodies		
Receipts and expenditure-		
nil	Cash balance at 1 July 1991	nil
2 963	Receipts	9 806
2 963		9 806
2 963	Expenditure	8 021
nil	Cash balance at 30 June 1992	1 785
Investments -NIL		

Industry Commission
Program summary
for the year ended 30 June 1992

This Statement shows the outlays for each program for which the Commission is responsible, and reconciles the Commission's total outlays to total expenditure from appropriations. 'Expenditure' refers to the actual amount of resources consumed by a program whereas 'outlays' refers to the 'net' amount of resources consumed, after offsetting associated receipt and other items.

The Statement also reconciles the total receipts classified as revenue (ie receipts not offset within outlays or classified as financing transactions) for each program, with 'Receipts to CRF'.

The comparative figures for 1990-91 have not been subject to audit.

<i>1990-91 actual</i>		<i>1991-92 budget</i>	<i>1991-92 actual</i>
<i>(\$ 000)</i>		<i>(\$ 000)</i>	<i>(\$ 000)</i>
Expenditure			
Outlays			
15 337	7. Industry Commission	16 724	16 280
Plus receipts offset within outlays			
226	7. Industry Commission	464	498
15 563	Total expenditure from appropriations	17 188	16 778
Receipts			
226	Receipts offset within outlays	464	498
226	Total receipts to CRF	464	498

Industry Commission
Program statement
for the year ended 30 June 1992

From 1989-90 approval was given for the former Industries Assistance Commission to adopt a single program reporting structure within the Treasury Portfolio Program Statements. A similar structure was adopted for the Industry Commission following its establishment on 9 March 1990.

This Statement therefore shows details of expenditure from annual appropriations at the program level. Each 'annual' appropriation item is identified by its description followed by its appropriation code in brackets. Where 'expenditure from appropriations' and 'outlays' differ, the Statement discloses information reconciling the amounts concerned. The Statement also shows details of revenue (where applicable). Detailed explanation of the Commission's program is provided in appendixes to the Commission's Annual Report. The comparative figures for 1990-91 have not been subject to audit.

1990-91 actual		1991-92 budget	1991-92 actual
(\$ 000)		(\$ 000)	(\$ 000)
7. Industry Commission			
	Running costs (675.1)		
9 610	Salaries and payments in the nature of salary	10 077	9 923
4 033	Administrative expenses	4 560	4 369
	Property operating expenses (675.2)		
1 773	Current	2 197	2 175
nil	Capital	nil	8
147	Contribution towards the further development of the IMPACT project (675.3.01)	154	203
nil	Contribution towards the development of economy-wide modelling at Monash University (981.1.01)	200	100
15 562	Expenditure from appropriations	17 188	16 778
	Less receipts offset within outlays		
43	Miscellaneous	63	49
nil	Balance of Section 35 receipts not credited to running costs (see Note 6)	nil	4
43		63	53
183	Section 35 receipts credited to running costs (see note 6)	401	445
226		464	498
15 337	Outlays	16 724	16 280

Industry Commission
Statement of supplementary financial information
as at 30 June 1992

This Statement shows details of assets and liabilities controlled by the Commission.

The comparative figures for 1990-91 have not been subject to audit.

1990-91	Notes	1991-92
(\$ 000)		(\$ 000)
ASSETS		
Current assets		
9 Cash	2	17
9 Receivables	3	33
Non-current assets		
3 520 Property, Plant & Equipment	4	3 580
LIABILITIES		
Current liabilities		
67 Trade Creditors	5	61
nil Other Creditors	5	4

Industry Commission**Notes to the financial statements
for the year ended 30 June 1992**

Note 1**Statement of Significant Accounting Policies**

(a) The financial statements have been prepared in accordance with the 'Financial Statements Guidelines for Departmental Secretaries' issued by the Minister for Finance.

(b) The financial statements have been prepared:

- on a cash basis, with the exception of the Statement of Supplementary Financial Information which includes certain accrual-type information; and
- in accordance with the historical cost convention. They do not take account of changing money values or, except where stated, current values of non-current assets.

(c) Amounts shown in the Aggregate Statement of Transactions by Fund and the Detailed Statement of Transactions by Fund (and related notes) have been rounded to the next lower, or next higher, dollar. Amounts in the other Statements have been rounded to the nearest thousand dollars in accordance with the following principles:

- amounts have been rounded up if the three end-digits are greater than 500, or down if less than 500;
- if the three end digits equal 500, the amount has been rounded to an even figure, for example:
 - \$17 484 500 = \$17 484 (even, therefore stays even)
 - \$17 483 500 = \$17 484 (odd, therefore has been rounded up to even);
- all totals are the rounded additions of *unrounded* figures.

(d) Items subject to an operating lease, computer software and other intangible assets such as patents and copyrights have not been accounted for in the Statement of Supplementary Information. Minor

assets — other than receivables, advances and investments — having a unit value less than \$2 000 have also been excluded.

(e) Administrative expenses shown in the Program Statement include minor capital expenditure items as they are considered part of ordinary annual services for the purposes of the Appropriation Acts. 'Minor capital expenditure' includes items of capital expenditure costing less than \$250 000.

(f) Liabilities relating to salaries, wages, annual leave, long service leave and superannuation with respect to officers or employees of the Commission have not been accounted for in the Statement of Supplementary Financial Information.

(g) Foreign currency transactions occurring during the year have been converted at the rate of exchange prevailing at the date of each transaction.

Note 2 (The comparative figures for 1990–91 have not been subject to audit.)

Cash

The Commission held the following cash balances as at 30 June 1992:

Cash Advances (Petty Cash, Travelling Allowance)	\$15 700
Collections of Public Moneys (CPM)	nil
Trust Fund — Services for other governments and non-departmental bodies	\$1 785
	\$17 485

The cash balances are represented by:

1990-91		1991-92		
		Cash Advances	CPM	Trust Fund
(\$)		(\$)	(\$)	(\$)
9 190	Cash on Hand	15 700	nil	nil
nil	Cash at Bank	nil	nil	nil
	Cash held by Trust Accounts			
	— Within the Commonwealth Public			
nil	Account	nil	nil	1 785

As at 30 June 1992 an amount of \$62 367 was held at the Reserve Bank to facilitate the settlement of the Commission's Australian Government Credit Card account with the Westpac Banking Corporation.

Note 3 (The comparative figures for 1990-91 have not been subject to audit.)

Receivables

As at 30 June 1992 amounts in the following classes were due to be received by the Commission for payment to the Commonwealth Public Account:

Industry Commission staff	\$517
Other departments	\$31 333
Other debtors	\$730
	\$32 580

Of the total amount of \$32 580 outstanding as at 30 June 1992, the following amounts were *overdue* for the periods shown below:

1990-91		1991-92		
		IC staff	Other depts	Other debtors
(\$)		(\$)	(\$)	(\$)
1 144	Less than 30 days	440	30 735	nil
1 035	30-60 days	nil	233	nil
4 668	More than 60 days	77	266	730
6 847		517	31 234	730

All the receivables are expected to be fully recovered.

Note 4

Property, Plant and Equipment

As at 30 June 1992 the total asset value of classes of items valued at \$2 000 or more was:

Plant	\$93 000
Computer and office equipment	\$3 264 720
Other	\$222 426
	\$3 580 146

Asset values have been determined in accordance with the cost of acquisition recorded in the Commission's Assets Register.

A reconciliation of opening and closing balances for 1991–92 is shown below:

	<i>Plant</i>	<i>Computer and office equipment</i>	<i>Other</i>
	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Opening value (1 July 1991)	93 000	2 424 216	222 426
Additions	nil	896 367	nil
Disposals and write-offs	nil	55 863	nil
Revaluations	nil	nil	nil
Closing value (30 June 1992)	93 000	3 264 720	222 426

The opening values for 1 July 1991 as shown above differ from the amounts reported as being held at 30 June 1991 in the Commission's Financial Statements for 1990–91.

The difference in the Computer and Office Equipment class results from items placed with AUSSALES for disposal not being removed from the Commission's Assets Register at 30 June 1991. There was also a transcription error in the recording of items in the Other class. The 1990–91 figures were not subject to audit.

Note 5

Liabilities

As at 30 June 1992 the Commission owed an amount of \$64 605 to its creditors.

There were no amounts *overdue* for payment.

Note 6**Running Costs (Annotated Appropriation 675.1.00)**

This appropriation was annotated pursuant to Section 35 of the Audit Act 1901 to allow the crediting of certain receipts to Running Costs.

The arrangement allowed for the crediting to Running Costs of receipts which were generated by the sale of surplus or underperforming personal property assets and user chargings in relation to the use of economic models and other cost recoveries, and consultancy fees for work undertaken on behalf of the Department of Foreign Affairs and Trade.

Total Section 35 receipts for the year amounted to \$452 045. Of this amount \$4 424 was not deemed to be appropriated to Running Costs. This amount represented receipts in excess of the one-half percent of Running Costs limit.

The annotated appropriation operated as follows:

<i>Annotated Appropriation</i>	<i>Receipts</i>	<i>Refunds</i>	<i>Appropriation</i>	<i>Expenditure</i>
<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(1) + (2) - (3)</i>	
\$14 236 000	\$447 621 ^a	\$2 360	\$14 681 261	\$14 291 898

a The Department of Finance issued Funds Allocation Authority for \$276 000.

Note 7 (The comparative figures for 1990–91 have not been subject to audit.)

Forward Obligations

The Commission has entered into the following forward obligations (as defined for the purposes of the Government's general obligations system) as at 30 June 1992:

1990–91		<i>Due for Payment</i>			<i>Total</i>
		<i>Not later than 1 year</i>	<i>1–2 years</i>	<i>Later than 2 years</i>	
<i>(\$ 000)</i>		<i>(\$ 000)</i>	<i>(\$ 000)</i>	<i>(\$ 000)</i>	<i>(\$ 000)</i>
nil	Contribution to the IMPACT project	123	nil	nil	123
nil	Contribution to economy-wide modelling at Monash University	206	206	103	515
6 591	Property Operating Expenses	2 239	2 239	2 239	6 717

Note 8

Act of Grace Payments

No payments were made during the financial year 1991–92 pursuant to authorisations given under Section 34A(1) of the Audit Act 1901.

Note 9

Waiver of Rights to Payment of Moneys

During the 1991–92 financial year approval was given for the waiver of one (1) amount under Sub-section 70C(2) of the Audit Act 1901. The amount waived was \$289.80 and related to the recovery of overpaid first aid allowance.

Note 10**Amounts Written Off**

The following details are furnished in relation to amounts written off during the financial year 1991-92 under Sub-section 70C(1) of the Audit Act 1901.

	<i>Up to \$1000</i>		<i>Over \$1000</i>	
	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>
		<i>(\$)</i>		<i>(\$)</i>
(i) Losses or deficiencies of public moneys	nil	nil	nil	nil
(ii) Irrecoverable amounts of revenue	nil	nil	nil	nil
(iii) Irrecoverable debts and overpayments	2	470	nil	nil
(iv) Amounts of revenue, or debts or overpayments, the recovery of which would, in the opinion of the Minister, be uneconomical	nil	nil	nil	nil
(v) Lost, deficient, condemned, unserviceable or obsolete stores	9	628	nil	nil

Note 11**Losses and Deficiencies etc in Public Moneys and Other Property**

No action was taken during the financial year 1991-92 under Part X11A of the Audit Act 1901.

Note 12**Audit Fees**

Audit fees payable to the Australian National Audit Office (ANAO) for the audit of the Commission's Financial Statements for 1991-92 are expected to be \$31,000. This service was previously provided free of charge. The estimated cost of auditing the 1990-91 statements was \$30 000.

Note 13

Resources Received Free Of Charge

During the 1991–92 financial year a number of Commonwealth departments and agencies provided services to the Commission without charge and for which it is not practicable to estimate a cost. Expenditures for those services were met from appropriations to the department or agency concerned. The major services received include the following:

Department of Finance

- Accounting and budgetary services in the form of the computerised Finance ledger and payroll services.

Attorney-General's Department

- The provision of legal services not able to be provided within the Commission.

Australian Archives

- The provision of on-going archival services.

L2 REPORTS AND PAPERS RELEASED BY THE COMMISSION IN 1991–92

Reports

- 12 *Exports of education services*, 14 August 1991.
- 13 *Rail transport*, 21 August 1991.
- 14 *Australian dairy industry*, 26 September 1991.
- 15 *Costs and benefits of reducing greenhouse emissions*, 15 November 1991.
- 16 *Exports of health services*, 5 November 1991.
- 17 *Cost recovery for managing fisheries*, 3 January 1992.
- 18 *Availability of capital*, 9 December 1991.
- 19 *The Australian sugar industry*, 6 March 1992.
- 20 *National Procurement Development Program*, 31 March 1992.
- 21 *Raw material pricing for domestic use*, 1 April 1992.
- 22 *Review of overseas export enhancement measures*, 3 April 1992.
- 23 *Commercial restrictions on exporting (including franchising)*, 27 April 1992.
- 24 *The Australian Horticultural Corporation: effectiveness in increasing international competitiveness*, 30 June 1992.

Information/discussion papers

Changes to manufacturing industry assistance March 1991, July 1991.

Comments on a draft national waste minimisation and recycling strategy, August 1991.

Response to ANZEC's draft report on waste lubricating oil and used tyres, Office of Regulation Review, December 1991.

Working papers

- 2 J. Hagan, *The steel plan 1984 - 1988: A model for intervention?*, July 1991.
- 3 R. McLachlan, R. Valdes and D. Ironfield, *Assistance to the wool industry*, December 1991.

Staff issues papers

- 4 G. Pitkethly, *Electricity: Some efficiency and environmental considerations*.
- 5 J. Rose, *Is the waiver of regional television licence fees assistance?*
- 6 P. Dee and P. Jomini, *Stabilising carbon dioxide emissions*.

Research Unit papers

- 1 S. Temple-Heald, *The importance of asset valuation and implications for performance monitoring of GTEs*, November 1991.

L3 FREEDOM OF INFORMATION STATEMENT

The following information is provided as required under section 8 of the Freedom of Information Act.

The Commission

The Industry Commission was created under the *Industry Commission Act 1989*, with effect from 9 March 1990.

It consists of a Chairperson and full-time Commissioners appointed by the Governor-General, and Associate Commissioners appointed by the Minister, in accordance with the Act. Appointment is for a term not exceeding five years, or until the inquiry and report on a particular matter is completed.

Staff assisting the Commission are employed under the *Public Service Act 1922*.

The Commission maintains its office in Canberra and public hearing rooms in Canberra and Melbourne.

The Commission is required under its Act to conduct public inquiries on the industry matters referred to it by the Government. The Commission may inspect and copy relevant documents and summons persons to give evidence in the course of its inquiries, and such witnesses are protected under the Act from being subject to prejudicial treatment as a result of their giving evidence.

Categories of documents

The Commission releases draft reports for most inquiries, giving interested parties the opportunity to examine and comment on their content before reports are finalised and forwarded to the Government.

Documents for circulation within the Commission include the monthly inquiry program (activities and information), office circulars relating to staff matters, the corporate plan, an inquiry procedures booklet, Office of Regulation Review procedures and a graduate recruitment booklet.

The Commission holds working documents relating to:

- administrative information on financial allocations and expenditure, staffing, internal audit, official travel, office accommodation, assets and stores;
- ministerial and general correspondence;
- records of meetings, discussions, interviews; and
- inquiry correspondence and public hearing material.

Current information circulars, issues papers and inquiry guidelines are sent to interested parties and inquiry participants as well as being made available to the public free of charge, on request.

Access to the Commission's Register of Personal Information (as required by the Privacy Act) can be requested from the FOI contact officer.

Documents available for purchase at Commonwealth Government Bookshops are:

- the Commission's annual report to Parliament;
- reports on matters referred to the Industry Commission by the Minister; and
- reports on matters researched by the Commission.

Copies of submissions made to inquiries, excluding confidential material, can be purchased through the Xerox Copy Centre, PO Box 1154, Fyshwick, Canberra, ACT, 2609.

Transcripts of public hearings can be purchased from Spark and Cannon Pty Ltd, who have offices in Melbourne, Adelaide, Sydney, Brisbane and Perth.

Transcripts and submissions are available for perusal in the Commission's library.

Facilities for access

The Commission's documents may be inspected in the Commission's offices in Canberra between 9.00 am and 4.30 pm, Monday to Friday (excepting public holidays).

Information and written requests for access to Commission documents under the Freedom of Information Act can be made through:

The Director
Finance and Services Section
Industry Commission
PO Box 80
Belconnen ACT 2616
Telephone: (06) 264 3357

Decisions regarding requests for access to documents under section 23 of the Freedom of Information Act should be made at division or branch head level. An applicant who is not satisfied with a decision relating to the provision of access, or relating to the liability to pay a charge, may seek a review of the decision by applying to the Chairperson of the Commission within 28 days of receiving notice of the decision.

L4 REPORTING REQUIREMENTS

Index of reporting in compliance with the requirements for the preparation of annual reports

Ref.	Topic	page	Ref.	Topic	page
01-07	Annual reporting requirements and aids to access	329	Other resources		
			46	Financial statement	313, 330
Corporate and portfolio overview			47-49	Fraud control	313
08-09	Objectives of the Industry Commission and social justice overview	299	50-51	Claims and losses	317
10-11	The Commission's structure	300	52	Purchasing	316
12-17	Portfolio legislation and statutory authorities	na	53	Information technology purchasing arrangements	317
18-21	Non-statutory bodies	na	54	Payment of accounts	317
22-24	Government companies	na	55-60	Consultancies	310
25	EEO in appointments	305	61	Capital works management	na
26	Major documents (see also Appendix M)	351	62	Property usage	317
			63	Market surveys	na
Program reporting			External scrutiny		
27-28	Activities	308	64-67	Reports by the Auditor-General	327
29-30	Social justice (including access and equity)	326	68-70	Inquiries by parliamentary committees	na
			71-73	Comments by the Ombudsman	328
Human resources			74-76	Decisions of courts and administrative tribunals	na
31-33	Staffing overview	301	77	Freedom of information	327, 353
34-35	Performance pay	321	78-83	Privacy	327
36-39	Training	321	84-85	Client comments	na
40	Interchange scheme	303	Impact monitoring		
41	Equal employment opportunity	305, 324	86-87	Business regulations	328
42	Industrial democracy	324	88	Status of women	326
43-44	Occupational health and safety	325	89-94	Environmental matters	328
45	Post-separation employment	305			
			na	not applicable	

M INQUIRY ACTIVITY AND REPORTS OF THE COMMISSION

The Commission's work has addressed an increasingly broad range of reform and industry issues in recent years. This appendix continues the record kept in previous annual reports, allowing the progress of references sent to the Commission to be traced from their receipt through to signing and government responses that have been forthcoming.

The *Industry Commission Act 1989* defines the primary function of the Commission as being "to hold inquiries and to make reports to the Minister in respect of such matters relating to industry as are referred to it by the Minister." The Commission is required in its inquiries to hold public hearings and usually a draft report is made available to the public during the inquiry.

On receipt of a final report from the Commission, the Minister is required to table the report in Parliament within twenty-five sitting days.

Table M1 lists the progress of references to the Commission active during 1991-92 and earlier inquiries where some or all recommendations are yet to be dealt with by the Government. The three sections which follow describe the terms of reference, recommendations and responses to each inquiry where not previously included in the Commission's Annual Reports. Within these sections, the references are presented in the same order as they occur in Table M1.

Table M1: Stage of completion of references and government response to Commission reports

<i>Date received</i>	<i>Title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>For recommendations see</i>	<i>Government response^a</i>
18.9.89	Aids and appliances for people with disabilities	AR 89/90	Report No. 3 signed 18.7.90	AR 89/90	AR 90/91 and page 395
18.10.89	Recycling	AR 89/90	Report No. 6 signed 22.2.91	AR 90/91	page 395
18.10.89	Construction costs of major projects	AR 89/90	Report No. 8 signed 11.3.91	AR 90/91	No response
18.10.89	Mining and minerals processing in Australia	AR 89/90	Report No. 7 signed 25.2.91	AR 90/91	page 396
28.12.89	Pulp and paper: bleaching and the environment	AR 89/90	Report No. 1 signed 21.5.90	AR 89/90	No response
21.5.90	Interim report on paper recycling	AR 89/90	Report No. 2 signed 21.5.90	AR 89/90	page 395
19.2.90	The commercial tariff concession and by-law system	AR 89/90	Report No. 9 signed 8.3.91	AR 90/91	page 398
20.5.90	Statutory marketing arrangements for primary products	AR 89/90	Report No. 10 signed 26.3.91	AR 90/91	No response
20.5.90	Rail transport	AR 89/90	Report No. 13 signed 21.8.91	page 361	page 364
6.12.90	Electricity generation and distribution	AR 89/90	Report No. 11 signed 17.5.91	AR 90/91	page 400
6.12.90	Australian dairy industry	AR 90/91	Report No. 14 signed 26.9.91	page 364	page 366
6.12.90	Costs and benefits of reducing greenhouse gas emissions	AR 90/91	Report No. 15 signed 15.11.91	page 366	page 369

Table M1: Stage of completion of references and government response to Commission reports
(cont)

<i>Date received</i>	<i>Title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>For recommendations see</i>	<i>Government response^a</i>
6.12.90	Availability of capital	AR 90/91	Report No. 18 signed 9.12.91	page 369	page 372
6.12.90	Cost recovery for managing fisheries	AR 90/91	Report No. 17 signed 3.1.92	page 372	page 374
6.12.90	Exports of health services	AR 90/91	Report No. 16 signed 5.12.91	page 374	No response
10.12.90	Exports of education services	AR 90/91	Report No. 12 signed 14.8.91	page 375	page 378
20.3.91	Australian sugar industry	AR 90/91	Report No. 19 signed 6.3.92	page 380	page 384
8.4.91	Review of overseas export enhancement measures	AR 90/91	Report No. 22 signed 3.4.92	page 384	No response
9.5.91	Raw material pricing for domestic use	AR 90/91	Report No. 21 signed 1.4.92	page 386	No response
9.5.91	Commercial restrictions on exporting (including franchising)	AR 90/91	Report No. 23 signed 27.4.92	page 387	No response
18.7.91	Water resources and waste water disposal	AR 90/91	Report No. 26 signed 17.7.92	Report not yet released	na
18.7.91	Regulation of intrastate aviation	AR 90/91	Report No. 25 signed 17.7.92	Report not yet released	na
30.10.91	Mail, courier and parcel services	page 391	Draft report 21.7.92	na	na
31.10.91	National procurement development program	page 388	Report No. 20 signed 31.3.92	page 388	No response

Table M1: Stage of completion of references and government response to Commission reports
(cont)

<i>Date received</i>	<i>Title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>For recommendations see</i>	<i>Government response^a</i>
21.11.91	Taxation and financial policy impacts				
	on urban settlement	page 391	Inquiry in progress	na	na
18.12.91	Horticulture	page 393	Inquiry in progress ^b	na	na
19.3.92	Port authority services and activities	page 393	Inquiry in progress	na	na
25.3.92	Book production	page 394	Draft report 21.7.92	na	na

na not applicable.

a as at 7 August 1992.

b Report no 24, *The Australian Horticultural Corporation.: Effectiveness in increasing international competitiveness* dealing with a single term of reference was signed 30 June 1992 but is not released yet.

AR Industry Commission Annual Report.

Reports released during 1991-92

Rail transport

Report No. 13 released 23 October 1991.

The Commission recommended:

- that railways be, within three years, fully commercialised through their being corporatised, including incorporation under the corporations law;
- that if governments require railways to provide community services, the conditions of provision should be set out in contracts, the details of which are made public, and which should include the pre-determined fees to be paid to the railways;
- that community service contracts between governments and railways should be as specific as possible, identifying exactly what particular market segments or lines are to be explicitly funded as community services. These contracts should also include criteria for evaluation of the performance of the rail authority in meeting each particular community service;
- that payments made to the railways under any community service contracts should be charged against the appropriate government expenditure category, and be subject to budgetary review;
- the introduction of road user charges which reflect more accurately the amount of road use and pavement damage caused by all classes of vehicles;
- that State and Territory laws be amended to provide local governments, for all roads under their control, with effective capacity to impose specific pavement damage and externality charges on heavy vehicles. Such changes should be levied on the principals for whom the road haulage is provided;
- that, in the consideration of new railway lines and services, negotiations be undertaken with the relevant local government authorities with the aim of obtaining contributions towards capital and operating costs. Similar negotiations should be undertaken if the withdrawal of services is under consideration;
- that railways should receive a rebate of diesel fuel excise for diesel used in rail freight services;

- that the Commonwealth Grants Commission be asked to report on the case for excluding all public transport activities from its assessments;
- the removal of all restrictions on the contracting of tasks so that railways can take every opportunity to attain maximum efficiency;
- that all rail authorities strive for more efficient use of their most costly input, labour;
- that a national accreditation scheme be established for the recognition of rail skills;
- that rail authorities establish incentives for productive performance including the abolition of seniority based promotion and the introduction of merit based promotion for all employees; and the introduction of salary structures that allow some scope for recruitment or promotion of employees to different levels within a salary range, depending on an individual's skills, qualifications and experience;
- that, with respect to their management of labour resources, railways not be subject to government policy constraints that are more restrictive than those applying to private sector enterprises;
- that rail authorities immediately implement policies to reduce the cost of operating their urban rail services, with the objective of achieving international best practice within five years;
- that urban rail welfare concessions should generally be available only in off-peak periods;
- that over the next five years rail authorities increase urban fares so that fare revenue plus government payments for community services (including contributions from non-user beneficiaries) cover the operating and new capital costs of urban rail services;
- that the revenue earned on non-urban passenger services, including reimbursement for non-commercial fares, should at least cover the operating costs of those services, with a return sufficient to finance the replacement of rolling stock. If this is not achieved the service should be phased out;
- that governments should significantly reduce the number of welfare concessions available for non-urban passengers. If, however, governments choose to subsidise concessional travel, vouchers for any mode of non-urban travel should be provided to a limited value per annum per entitled person;

- that State governments eliminate all regulation of traffics to rail, with the possible exception of dangerous goods, at the same time as appropriate road user charging mechanisms for pavement damage and externalities are introduced;
- that super-normal profits, whether described as 'royalties' or otherwise, should not be obtained via rail freight rates;
- that governments, within three years, eliminate all their subsidies to bulk rail freight, in the first instance by not restraining their rail authorities from reducing costs to international best practice. During the transition period, authorities should refrain from increasing average bulk freight rates (in dollar terms);
- that individual freight services, in particular LCL [less than container load], should be retained only if they at least cover short-run marginal costs (including all applicable taxes and financial imposts) and in the longer term will make a contribution to fixed costs;
- that there should be no restrictions on private ownership and operation of freight terminals, including common-user loading/unloading facilities;
- that owners of railway tracks (whether they be governments, rail authorities or private owners) be required to allow access by other organisations (whether public or private) to operate on their tracks, subject only to capacity being available and negotiation of a commercial agreement which sets the prices and conditions for access. The Commonwealth Government should require open access on lines controlled by Australian National and the National Rail Corporation and, if necessary, should contemplate using its powers to achieve open access elsewhere;
- that each rail authority be required to operate its infrastructure network as a separate business centre, and to publish separate accounts concerning it; and
- that Commonwealth and State legislation be changed so that the coverage of the Trade Practices Act extends to railway authorities, whether incorporated under the corporations law or not. The Act should also provide the power to facilitate the settlement of disputes concerning monopoly pricing and anti-competitive behaviour (including access to track).

Government response

The Government announced in its 'One Nation' statement of 26 February 1992 the allocation of funds for the expansion and upgrading of railways infrastructure conditional on firm commitments from State governments to accelerate the process of reform in their rail systems, including the early adoption of relevant recommendations from the Commission's report. Further discussion is contained in Appendix H.

Australian dairy industry

Report No. 14 released 7 November 1991.

In respect of State arrangements for market milk, the Commission recommended that:

- State governments should retain responsibility for ensuring the public health and safety of market milk; and
- State controls over supply and pricing of market milk should be removed and, to minimise disruption costs:
 - legislative and regulatory restrictions to interstate trade in market milk as soon as possible and no later than 1 July 1993;
 - controls over supply and pricing of market milk beyond the farm gate as soon as possible and no later than 1 July 1996; and
 - supply quotas and administratively set farm gate prices as soon as possible and no later than 1 July 1999.

In the area of Commonwealth marketing arrangements, the Commission recommended that:

- assistance continue to be provided to the Australian dairy industry by means of a levy on all milk to fund market support payments on dairy product exports;
- the maximum level of market support payments as at 1 July 1992 be set at 20 per cent of average export prices;
- the level of assistance provided each year thereafter should be phased down in equal annual amounts until 1996 when it should be set at 5 per cent;
- subsequent general reductions in tariffs should apply to the level of assistance of the market support payments; and

- the market support levy revocation clause (the so called 'comfort clause') remain operative.

On the future of the Australian Dairy Corporation, the Commission recommended that:

- legislation be introduced to continue the Australian Dairy Corporation after 30 June 1992;
- the industry loan service of the Corporation be discontinued;
- the Corporation sell its interest in Austdairy;
- the dairy industry fund be wound-up;
- the Government make a policy statement clarifying ownership of the assets of the Australian Dairy Corporation and Austdairy;
- the promotion levy be repealed;
- the Corporation be given powers to:
 - administer market support and underwriting arrangements;
 - undertake generic promotional activities on the domestic and export markets at the request of the dairy industry;
 - control exports into quota and the Japanese markets;
 - provide dairy industry information services; and
- the legislation establishing the Corporation be repealed if, ultimately, the market support arrangements are terminated.

On the question of tariffs in the industry, the Commission recommended that:

- the current cheese tariff be retained, but that it be reduced in accordance with any general tariff reductions after 1 July 1996; and
- the cheese tariff quota not be renewed when it ceases on 30 June 1992.

In respect of underwriting, the Commission recommended that:

- underwriting of export returns continue to apply at 85 per cent of the long-term trend of export prices until 1 July 1999, at which time underwriting should cease. The Commonwealth's liability in any one year should, however, be limited to the amount of underwriting payments for exports in 1990-91.

Government response

The Minister for Primary Industries and Energy (Crean 1992b) announced the Government's new dairy plan on 30 April 1992 to be introduced on 1 July 1992. The plan addressed all of the Commission's recommendations and rejected a number of them.

In respect of market support payments, the new plan proposes:

- a moratorium on reductions in market support assistance for an additional twelve months;
- reduction in market support payment beginning in 1993–94 in equal steps to 10 per cent above export parity by the year 2000; and
- no further legislated support to the dairy industry beyond the year 2000.

Other measures included:

- maintenance of the existing tariff quota on cheese imports;
- previous minimum pricing arrangements against world price fluctuations in the dairy market to cease on 30 June 1992;
- an increase in the ceiling for the industry's promotion levy from 5.5 cents to 8 cents per kilogram butterfat;
- a review of the industry's statutory marketing and research activities;
- the expansion of the uses of the Dairy Industry Fund to include market related initiatives, subject to Ministerial approval; and
- removal of the legislative right of any State to suspend the market support arrangements in the event of interstate trade in milk (the 'comfort clause').

Costs and benefits of reducing greenhouse gas emissions

Report No. 15 released 28 January 1992.

At an international meeting in Toronto in 1988, a target emerged to reduce greenhouse gas emissions by the year 2005 to a level 20 per cent lower than in 1988. Australia adopted this as an interim planning target. In formulating policy towards greenhouse gas emission targets the government had undertaken not to take unilateral action involving net costs to Australia. The Commission supported this approach.

The Commission concluded that too little is known about an enhanced greenhouse effect to assess whether climatic benefits to Australia of global abatement action would exceed the costs imposed on Australian industry.

The Commission considered areas vulnerable to climate change but found there to be little knowledge about effects in practice. In general, the extent of possible global warming is uncertain and predictions are imprecise.

There remains uncertainty about what impacts any global warming would have on living conditions on earth, particularly at a regional level. Changed rainfall patterns and other climatic impacts could indeed be beneficial in parts of Australia.

Even if exact characteristics were known, assigning monetary values to costs and benefits of bio-physical impacts would be extremely difficult. Some impacts would be reflected in market prices, but others, such as those on natural habitats, would not.

The Commission found that the estimation of the costs of an international consensus for emissions abatement is also a very difficult task, depending on:

- how emissions would otherwise have grown;
- the type of policy instruments used to achieve reductions;
- the ability of the economy to reallocate resources out of greenhouse intensive — activities or to adopt greenhouse gas-saving technologies; and
- how other countries' actions affect trade.

The Commission's simulations indicated that a global cut in carbon dioxide emissions broadly comparable to the Toronto target would result in a 1.5 per cent decline in Australia's national product.

Although this is a 'ball park' figure, subject to simplifying assumptions in the report, the Commission concluded in relation to costs that:

- they would rise sharply with deeper cuts in emissions;
- regulatory controls to reduce emissions would entail higher costs than market-based controls such as taxes and tradeable emission permits;
- adjustment costs are likely to be important and would be concentrated in particular industries (notably coal) and regions;

- reducing carbon dioxide emissions would be cheaper than reducing methane emissions; and
- technological changes such as the development of cost effective renewable energy sources would lessen costs.

The available evidence on costs, and lack of it on benefits, did not permit any reliable assessment of their relative magnitudes. A decision about whether global action to abate greenhouse gas emissions is needed — let alone the optimal amount — could not be made on a technical basis.

Instead, governments need to make subjective decisions about what action is appropriate, on the basis of such information as is available and their attitudes, on behalf of their populations, to risk and uncertainty. A balance needs to be struck between incurring costs early for unknown benefit and delaying action until more is known, but with the possibility of higher adjustment costs.

The Australian Government's general approach to environmental policy includes 'dealing cautiously with risk and irreversibility'. Applied to greenhouse, it is reflected in the interim planning target. But it is also clear that in this case, Australia cannot reduce risk merely through its own abatement actions, as its contribution to global emissions is negligible.

In its report, the Commission focused on the question of Australian participation in an international consensus including the major greenhouse gas producing countries. The emerging reality, however, is that such a consensus is unlikely in the foreseeable future.

Therefore the Commission also examined the benefits and costs to Australia of some alternatives: joining a subgroup of countries in making emissions reductions; and taking unilateral action. It found that relative to a global consensus, any potential benefits from such actions would be limited, but Australia would still incur significant costs.

Given the many different forms that an international consensus could take, and the potential for greatly different outcomes for this country, Australia should continue its active participation in international negotiations.

Most sectors of the economy would be adversely affected by emissions reductions, but gains could arise for individual activities. For example, there would be a range of new opportunities for industry in

the areas of energy efficiency and alternative technologies in energy and farming, as well as in the provision of greenhouse 'sinks'.

The Commission emphasised that the best economic environment for the minimisation of adjustment costs and maximisation of opportunities resulting from an international consensus is one of structural flexibility. This underlines the importance of promoting microeconomic reform.

The Commission identified a number of areas requiring further, coordinated, research. These include: further quantitative modelling of particular forms of international consensus, including agreements among subgroups of countries; more detailed investigation of how carbon taxation and tradeable emission permits would operate in practice, both globally and in Australia; the extent of any non-greenhouse environmental benefits, taking into account existing policy measures; and further research into possible structural and regional problems and policies to address them. Finally, the Commission emphasised that Australia should continue to support and participate in the international scientific research program, especially to improve understanding of potential bio-physical impacts in our region.

Government response

Although there has been no direct government response to the report, it formed an input to the National Greenhouse Strategy.

Availability of capital

Report No. 18 released 30 January 1992.

The Commission considered that perceived problems about the availability of capital in recent years to be attributable in large part to general economic conditions. Deregulation of capital markets through the 1980s, the Commission found, has improved their competitiveness and the general availability of capital, although there have been significant adjustment problems, most obviously in banking. The Commission found a number of areas, however, in which the efficiency and responsiveness of capital markets could be improved.

While there appears to have been a rise in the ratio of debt to equity held by Australian business in the 1980s, no long term trend is evident and recent reforms to the tax system have largely eliminated previous biases in favour of debt finance over equity.

The Commission saw some merit in banks being permitted to provide limited amounts of equity. It recommended that the Treasurer ask the Reserve Bank to consider whether the current prudential requirements could be eased to allow banks additional freedom to provide equity finance.

Banks typically charge higher rates of interest on loans to small business than on loans to large corporations, but it was not evident that these differences were excessive when the higher costs of such lending were taken into account. Public understanding of this would be helped by banks providing information on the costs of lending to different categories of borrowers.

The Commission supported adoption of the Australian Bankers' Association's disclosure standards to improve transparency and considered that initiatives to compute 'effective' interest rates should facilitate comparisons of different banks' lending costs by small business.

The Commission accepted that the increased costs associated with the new prospectus requirements of the Corporations Law will be alleviated in time (and have already declined) but believes that standards such as 'due diligence' should not be more onerous than is reasonable to facilitate informed decisions by investors. In the case of rights issues, implementation of a statutory continuous disclosure regime appeared to obviate the need for a prospectus.

The Commission was sympathetic to arguments for providing tax treatment of losses which is more neutral across firms. It recognised, however, that there may be revenue and avoidance considerations which require careful attention in the design of such provisions by the authorities and so made no specific recommendation about their form.

The Commission considered that the costs of providing a simple rollover exemption for capital gains taxation would exceed the benefits in terms of increased mobility of capital, noting in particular the greater possibility of tax avoidance.

The Commission reported on some of the implications of the Government's superannuation policy for the availability of capital, especially to smaller enterprises. It observed that while the net effect on aggregate saving (domestic capital) remains unclear, the share of saving going to superannuation funds will continue to rise.

Superannuation funds, like banks, are inherently conservative institutions, but are much less involved in financing small business. The Commission saw the impact of the diversion of saving on small business being mitigated in part by flows of funds back through the banking system, although noting the potential for the cost of bank funds to rise. This would be reduced, however, were the banks permitted to provide superannuation saving accounts, which the Commission considers would promote greater choice and competition within the industry.

The Commission noted the lack of information about investment opportunities and sources of capital outside the ambit of the Australian Stock Exchange. It supported updating and upgrading the Department of Industry, Technology and Commerce's Venture Capital Directory but sees little benefit in a Government data bank of business opportunities.

The Commission considered that uniform legislation relating to limited liability partnerships should be introduced in all States and Territories.

The Commission supported the arrangements made by State Governments which give the Reserve Bank more formal powers of supervision over State banks, and believes the Commonwealth Government should invite the relevant State governments to make their banks subject to Commonwealth banking legislation.

The Commission recommended that government guarantees over the obligations of government-owned intermediaries be removed, or a guarantee fee charged.

The Commission supported continuation of moves to privatise government financial institutions and considers that the development of Australia's financial markets is now such that there is no general need for government provision of financial services.

The Commission examined a range of other potential sources of inefficiency in capital markets, finding that:

- remaining restrictions on foreign banks should be removed;
- there would be benefits to capital availability for business and to the economy generally in bringing the tax treatment of owner-occupied housing into line with that for other assets, but that from taxing capital gains alone would bring relatively little net gain;

- the present capital adequacy rules for banks do not appear to be distorting the allocation of finance;
- the decline in underwriting activity in recent years, especially for smaller companies, reflects cyclical influences and investors' risk preferences, rather than institutional or market failures; and
- a perceived short term emphasis in equity markets can be attributed primarily to high interest rates, inflation and policy uncertainty.

Government response

In the 'One Nation' statement of 26 February 1992, the Government announced its decision to permit the issue of banking authorities to foreign owned banks where the Reserve Bank is satisfied that the bank and its home supervisor are of sufficient standing, and where the bank agrees to comply with prudential supervision and arrangements. Foreign banks are to be restricted, however to wholesale banking, while retail banking by a foreign bank can be conducted only by a subsidiary.

In the same statement, the government indicated its intention to respond in due course to other recommendations of the Commission's report.

The Treasurer in a speech to the Australian Bankers Association in June (Dawkins 1992) indicated the Government's support for increased competition in the superannuation industry and its consideration in that context of the role of bank account superannuation and superannuation savings accounts.

Cost recovery for managing fisheries

Report No. 17 released 6 February 1992.

The Commission found a lack of coordinated policy in fisheries management attributable both to the interjurisdictional character of fisheries and the multitude of organisations playing a role at State and Commonwealth levels. The Commission therefore recommended major changes to institutional and funding arrangements to improve the efficiency and cost effectiveness of Commonwealth fisheries management as well as the establishment of an Australian Fishing Zone Authority (AFZA) to coordinate the broader objectives and functions of resource management in the Australian fishing zone.

The AFZA is envisaged as a small body responsible to a Ministerial Council representing environmental and fisheries matters but with no responsibility for operational management of particular activities such as commercial fishing. Operational fisheries management would remain the responsibility of the Australian Fisheries Management Authority (AFMA) and State fisheries agencies.

The Commission also recommended that the respective fisheries management functions and roles of various Commonwealth bodies be clarified and made explicit within the coordinating framework of the AFZA.

In light of the overlap and possible diseconomies associated with the work of the Commonwealth and State fisheries research agencies, the Commission recommended their rationalisation and a commensurate adjustment in their appropriations.

Since fisheries management overlaps with several social functions of government, AFMA (and other relevant bodies) have a role in research and policy formation involving broader objectives. In accordance with these objectives, AFMA will determine the level of exploitation in each fishery; allocate rights of access to commercial and recreational fisherman; and formulate fishery-specific plans of management.

To improve the efficiency of the fishing industry, the Commission recommended that, within the constraints of fisheries management plans, fishermen be encouraged to take greater responsibility for the management of their industry including in the areas of rationalisation, product promotion and marketing, catch coordination, and occupational health and safety.

The Commission concluded that the public should pay for management which benefits the public now or in the future. Fishermen, both commercial and recreational, should pay for management which adds to the profitability of commercial fishermen and recreational anglers' catches. Specifically, the Commission's recommendations envisage fishermen paying 100 per cent of recurrent management costs associated with implementing a fishery Plan of Management, including administration and licensing, surveillance and monitoring of the catch. Under current arrangements, commercial fishermen pay 90 per cent of most of these costs. The Commission proposed that management plans for each fishery include an assessment of research requirements and costs, along with an explicit statement of how research should be funded. Recreational anglers

would contribute through a new national annual licence fee of \$20 for all fishermen over 18 years of age, with the funds to be distributed among the States and the Commonwealth.

The Commission recommended the continuation of the present policy of recovering from licensed foreign fishing boats the full cost of management and the charging of access fees.

Government response

The government has not yet responded to the main recommendations of the report. However, in February 1992, the Government announced that it had no intention of introducing a \$20 licence fee for recreational anglers, and that any decision relating to recreational fishing will be made jointly by the Commonwealth and States after receiving a report on the matter that was presently being prepared for the Australian Fisheries Council (Crean 1992a).

Exports of health services

Report No. 16 released 13 February 1992.

The Commission recommended that:

- regulations setting out the criteria on which all medical visas are to be granted be rewritten to reflect the current practice for granting medical visas to foreign patients who intend to receive treatment in private hospitals. Specifically, medical visas would be granted to applicants who:
 - do not have a condition which could be a threat to public health in Australia;
 - have made substantiated arrangements with a hospital or doctor for treatment and payment;
 - have made substantiated arrangements, if the treatment involves an organ transplant, to obtain the organ in a manner which does not compromise the access of an Australian to such an organ transplant; and
 - satisfy other relevant immigration criteria such as those related to national security and the prohibition on entry of criminals;
- State Governments set fees for foreign patients treated in public hospitals that at least match the cost of the services provided;

- public hospitals obtain assurance of payment from all foreign patients before major treatment is provided. Where no assurance of payment is forthcoming, patients be informed that they will receive only that medical care necessary to stabilise their condition;
- foreign students continue to be required to take out health insurance cover before a visa is granted;
- foreign students be permitted to purchase that insurance cover from approved domestic or foreign insurers, subject to the following conditions:
 - at a minimum, the insurance provide cover against major medical expenses and hospital care in public hospitals at fees which represent the full cost of the services provided;
 - where cover is obtained from a foreign insurer, the insurer provide the student with a letter stating that the cover at least meets the minimum outlined above;
 - the list of approved insurers include all those which establish that they have suitable facilities for paying benefits to students and/or the providers of medical and hospital services; and
 - the administering department have the power to remove from the list of approved insurers those organisations which are a source of bad debts; and
- If the Commonwealth Government continues to meet the health insurance costs of subsidised foreign students, the department(s) responsible for funding the students make a payment to the Health or Insurance Commission equivalent to the expected cost of providing Medicare benefits to those students, and this payment be published.

Exports of education services

Report No. 12 released 26 September 1991.

In connection with immigration controls, the Commission recommended that:

- persons with visitor visas no longer be required to prearrange courses before they arrive in Australia and be able to undertake a course, subject to the conditions and validity period of their entry permits and to a health check (if that is warranted);

- the Department of Immigration, Local Government and Ethnic Affairs (DILGEA) review the current restrictions on minimum course length, but not grant work rights to any new group of very short-term students;
- DILGEA upgrade its collection and processing of statistics on overseas students and in particular on the pattern of overstay and the characteristics of overstayers, and that the results be regularly published;
- prepayment of course fees, and the requirement for English Language Intensive Courses for Overseas Students (ELICOS) students from the People's Republic of China to lodge living expenses, no longer form part of the visa issue requirements. Prepayment should be a matter for determination between the institution and the student;
- DILGEA make use of bonds for those marginal applicants who would otherwise have been rejected but who would be likely to comply with visa requirements under a bond arrangement. There should be a nominated period of trial and monitoring by DILGEA's central office in one of the more difficult markets, such as the People's Republic of China;
- there should be more rigorous attendance checking and other compliance-enforcement techniques to help reduce infringements of visa conditions. This should be DILGEA's responsibility. DILGEA should have the power to enter premises, check attendance and impose other requirements reasonably necessary to carry out immigration policy;
- on the expiry of the Education Services for Overseas Students (Registration of Providers and Financial Regulation) Act 1991, DILGEA should maintain a register of institutions offering courses to overseas students, to assist with bona fides testing. But accreditation should not be a prerequisite for registration. Deregistration processes based on immigration criteria should be developed;
- departments, and in particular DILGEA, make greater efforts to consult with those likely to be affected by any proposed policy change. Attention should be paid to providing reasonable advance notice to those who will be affected when changes are to be made (for example, by taking account of the marketing requirements of institutions);

- rationalisation of the respective roles of the Department of Employment, Education and Training (DEET) and DILGEA should be undertaken, with emphasis on minimising the scope for overlap by allowing DILGEA responsibility for administering immigration functions;
- consideration be given to an administratively feasible scheme which would allow students who do not wish to obtain Overseas Student Health Cover through Medibank Private to be permitted to use health cover under an alternative insurer acceptable to government; and
- spouses and dependants of students entering Australia under Category A visas be permitted to work full time.

On registering and accrediting courses, the Commission recommended that:

- from 1 January 1994, governments not be involved in accreditation of courses for overseas students and that accreditation not be compulsory. Non-accredited institutions on the immigration register should be permitted to seek to enrol overseas students;
- as soon as possible, DILGEA provide student visa applicants with explanatory material prepared by DEET, in conjunction with relevant bodies, which sets out the details of the accreditation process. This should include a description of what the presence or absence of accreditation or fiduciary arrangements means, and the names and addresses of accrediting agencies and industry organisations. It should emphasise the need for care in choosing where to study. Information on students' rights under Australian consumer protection law should also be included. Similar material should be available for use by Australian Education Centres (AECs), Australian diplomatic missions and overseas agents. Such information would continue to be provided after 1993 under a voluntary accreditation scheme; and
- ELICOS institutions be permitted to tender to provide Australian Migrant English Program (AMEP) services and that AMEP providers with unused capacity should be allowed to take full fee paying overseas English language students.

The Commission recommended in respect of the universities that:

- institutions no longer be required to set minimum fees for overseas students;

- universities be encouraged to change their policies so as not to exclude acceptable overseas students for whom they have capacity;
- the Government accept the need to alter current arrangements so that qualified domestic students are not precluded from a place in public universities;
- a reference be sent to the Industry Commission on appropriate means to meet that need and to rectify the current system; and
- in the absence of such a reference, one of the discussed options which overcomes the serious problem that qualified Australian students who do not currently have a funded place are prohibited from public university study should be implemented immediately.

In the area of technical and further education, the Commission recommended that:

- DILGEA review the criteria by which the current Category A and B classes are defined. This will mean the collection or compilation of more detailed data on visa infringements, with a view to defining more precisely Category B courses or institutions on the basis of the risk that students will infringe visa requirements. Such data should be made publicly available.

The Commission also drew attention to the following other matters:

- it is important that screening and other immigration processes (including charges) relate as closely as feasible to the assessed risks of different groups; and
- there is merit in the current review of the AECs by the International Development Program of Australian Universities and Colleges (IDP) and subscribing institutions being given time to be worked through. However, if the review fails to meet the valid concerns of institutions, the Government will need to reconsider fully the mandate of the AECs, before the expiry of IDP's contract.

Government response

In June 1992 the Government announced changes to Australia's international education arrangements, in response to the Commission's report and an interdepartmental review of pre-visa assessment for overseas students (Hand 1992). The Government accepted the majority of the Commission's recommendations. The changes are to be introduced by the end of 1992.

In line with the report's recommendations, prepayment of course fees (and of living expenses for ELICOS students from the People's Republic of China) no longer forms part of the visa issue requirements. DILGEA will facilitate flexible application of the 6 month minimum course policy, and will upgrade the collection and processing of statistics on overseas students. Persons with visitor visas are no longer required to prearrange courses before they arrive in Australia. However, a bond system for marginal applicants was rejected on the grounds that it would be administratively costly and impractical for students and the Government.

There will be more rigorous attendance checking and other compliance enforcement techniques to help reduce infringements of visa conditions. In consultation with industry, DILGEA will examine possible additional powers to permit verification of information that a person had breached visa or entry permit conditions. DEET will liaise with the States and Territories to ensure that institutions maintain adequate attendance checking.

The recommendation to allow spouses and dependents of students entering Australia under Category A visas to work full-time was accepted for post-graduate students only. The provision of overseas student health cover through insurers other than Medibank Private was approved in principle, but current arrangements will continue pending a review in 12 months.

DILGEA will also review the criteria by which current category A and B classes are defined, but implementation must await the availability of necessary statistics. The Government accepted that screening and other immigration processes (including charges) should relate as closely as feasible to the assessed risks of different groups.

The Government rejected alternative registration and accreditation procedures on the grounds that the workings of the current legislation are being reviewed by the Senate and by DEET, and that it would be inappropriate to prejudge the outcome of these reviews or to predict what should happen in 1994 after the 'sunset' clause in the legislation takes effect. But work to improve the information available to students will continue.

The Government accepted the need for a rationalisation of the roles of DEET and DILGEA, and for better consultation with those likely to be affected by any proposed policy change. It will also reconsider the

mandate of the Australian Education Centres if the review fails to meet the valid concerns of institutions.

Also accepted, but subject to completion of the current AMEP tendering review, was a recommendation that ELICOS institutions be permitted to tender to provide AMEP services and that AMEP providers be allowed to take full-fee paying overseas English language students.

However, the Government rejected a recommendation for removing the minimum fees requirement on institutions, arguing that they ensure there is no cross-subsidisation of international students from resources provided for Australian students. It also rejected a recommendation that universities be encouraged not to exclude suitable overseas students for whom they have capacity, on grounds that this is a matter for autonomous universities.

Where the Commission identified a need to alter current arrangements which preclude some qualified domestic students from places in public universities, the Government decided that current Government initiatives are the most which can reasonably be afforded in providing an equitable university sector. However it will consider the question of an Industry Commission inquiry later in 1992.

Australian sugar industry

Report No. 19 released 29 March 1992.

The major factor reducing the efficiency of the Australian sugar industry subject to influence by governments in Australia is the regulatory controls applying to the production and marketing of raw sugar in Queensland. Any detrimental effect on the Australian industry caused by the effect of assistance policies in other countries on the international marketing environment is of less importance and is not subject to Australian Government control.

To raise overall economic efficiency, the Commission recommended that the Commonwealth Government approach the Queensland Government with a view to:

- (i) amending the Sugar Industry Act 1991 such that:
 - no raw sugar manufactured in Queensland, other than that required until the end of the 1997 season to satisfy long term contracts as specified in point (iii) below, be vested in the Queensland Sugar Corporation; and

- immediately following the 1995 season, the assignment system be abolished so that no constraints are placed on land that maybe used for growing sugar cane or the mill to which cane is delivered, and mills are no longer required to accept sugarcane.
- (ii) as soon as possible, modifying the existing arrangements applying to bulk sugar terminals in Queensland such that:
- bulk sugar terminals are privately owned and operated on a commercial basis;
 - each bulk terminal is incorporated as a separate company;
 - each terminal provides non-discriminatory access to all parties;
 - equity in each company initially recognises all contributions made to infrastructure by growers and millers. Equity allocations could be determined by a committee composed of representatives of major stakeholders; and
 - equity holders be allocated freely tradeable shares in each of the seven companies.
- (iii) introducing transitional arrangements to apply from 1993 until implementation of the changes proposed in (i) above such that:
- the total area of assigned land be expanded at a minimum annual rate of 5 per cent;
 - 50 per cent of new assignment be allocated to new growers and all new assignment be freely transferable;
 - access to mills and the price paid for cane grown on new assignment be subject to negotiation between growers and mills. The outcome of such negotiations not prejudice the terms and conditions afforded existing growers;
 - assignment existing prior to the 1993 season be freely transferable within a mill area and not be subject to approval by local boards. Transfer of assignment existing prior to the 1993 season between mill areas be subject only to the successful negotiation of mill access conditions with the receiving mill;
 - compulsory acquisition by the Queensland Sugar Corporation be restricted to only that quantity of raw sugar required to satisfy long term contracts with overseas buyers existing at the time at which the transitional arrangements are

introduced. Such sugar be deemed to be acquired from all mills in Queensland in proportion to their raw sugar production; and

- the Queensland Sugar Corporation's pooling arrangements be modified to remove any differential payments to producers which are unrelated to the actual returns received and the actual costs of marketing such sugar.

The Commission recommended that the specific tariffs on imports of raw and refined sugar be terminated, and that a single transitional payment be made to producers of raw sugar in lieu of tariff assistance. The payment would apply to the period from the cessation of compulsory acquisition (other than that required to fulfil long term contracts existing when the transitional arrangements are introduced) to 30 June 1998. The transitional payment would be determined as follows:

- an eligible tonnage be determined for Queensland and New South Wales on the basis of each state's average annual production of raw sugar sold for domestic consumption in 1989-90, 1990-91 and 1991-92;
- the rate of payment *per tonne* be:
 - based upon the assistance which would otherwise have been provided against raw sugar imported from developing countries by a general rate of tariff which progressively reduces from \$55 *per tonne* at 1 July 1992 to Free by 30 June 1998 in accordance with the schedule below;
 - reduced by an amount equivalent to the average proportion that the annual export rebates paid by the Queensland Sugar Board/Corporation was of the assistance available against imports in 1989-90, 1990-91 and 1991-92; and
 - discounted to reflect the present value of tariff assistance that would otherwise have been afforded in future years;
- the payment, which would be based on the eligible tonnage and the rate as determined above, be made in the first instance to the Queensland Sugar Corporation and to the New South Wales Milling Co-operative for distribution to mills and eligible growers as follows:
 - distributed to mills in Queensland and New South Wales according to each mill area's share of registered assignments

and registered production area entitlements as at 6 March 1992;

- distributed between the mill and growers in each mill area in accordance with their respective shares of revenue from all sales of raw sugar produced in the 1989-90, 1990-91 and 1991-92 seasons; and
- distributed between individual growers in each mill area in Queensland and New South Wales according to each grower's share of registered assignments and registered production area entitlements as at 6 March 1992.

When compulsory acquisition ceases, all tariff assistance for raw and refined sugar would be removed. Until compulsory acquisition ceases, tariff assistance to raw and refined sugar would continue, but would be reduced annually in accordance with the schedule below (Table M2).

The Commission considers that the principal social consequences of implementing its recommendations would be an expansion of economic activity in cane growing areas of Queensland, particularly in the Burdekin, Herbert River, Proserpine and Tully regions. Greater responsibilities would be placed on individual mills and growers, and on groups of growers, to manage their own production and marketing arrangements. The Commission considers that the Rural Adjustment Scheme and the Income Equalisation Deposits Scheme are appropriate government policies to deal with problems encountered by any individuals disadvantaged by these changes.

Table M2: General tariff rate to apply to imports of raw and refined sugar, 1992-93 to 1998-99
(\$ per tonne)

<i>Year</i>	<i>General rate</i>
1992-93	55
1993-94	45
1994-95	35
1995-96	25
1996-97	15
1997-98	5
1998-99	0

The Commission considers that the implementation of its recommendations would reduce the rates of use of non-land inputs (eg irrigation water, fertilisers and pesticides) relative to the use of land, and this would have some favourable environmental consequences.

Although there could be some environmental implications associated with the expansion of the industry, the Commission has not identified any significant adverse environmental consequences that may be associated with implementing its recommendations.

Government response

Although the Government has not announced its decision on the Commission's report, the Government has established a Sugar Industry Task Force (Crean 1992d) to further consider options for the industry.

Review of overseas export enhancement measures

Report No. 22 released 21 May 1992.

The Commission found that measures to support exporters are a small and declining feature of world trade, the major exception being international trade in agricultural, where direct support features prominently. The other most popular method used by OECD countries is to subsidise credit for some exports, but this was found to apply only to between 2 and 3 per cent of their exports.

The Commission also found a clear trend among the faster growing economies in the Asia-Pacific region to reduce tariffs and other import barriers, as well as to cut export subsidies. On the whole, global markets for manufactures are relatively open — although pockets of high protection remain in some sectors, notably garments and footwear. Overall, import protection is higher among developing countries than in OECD countries, but the trend is to open markets.

Federal and State Governments should continue to remove impediments to economic efficiency throughout the economy — particularly import protection — as a surer way to increase trade and national prosperity than to selectively assist exports. The Commission made a number of recommendations aimed at increasing the benefits to Australia from trade:

- The Australian tax system should not reduce export competitiveness more than is absolutely necessary. Taxes on inputs used in exports should be minimised.
- The tax burden on industry should be made as low as possible to enhance international competitiveness. To the extent that there is scope to lower taxes (including for exporters), the Commission believes that taxes should be lowered across-the-board, rather than for particular sectors.
- A stronger export culture should be fostered throughout the Australian community to reinforce the need to become globally competitive.
- The Australian Government's activities in international forums should be directed to the following ends:
 - extension of international prohibitions on the use of export subsidies to boost trade in agricultural products;
 - adoption by developing countries of the same obligations as industrialised countries not to use export enhancement measures;
 - tighter restrictions among all (particularly OECD) countries on the use of subsidised credit to finance exports; and
 - proscription in international agreements of arrangements to subsidise imports, such as the Government of Japan is now employing.

The Commission drew attention to its comments on:

- using the GATT to encourage countries to calculate the gains from domestic trade reforms;
- the scope for greater private sector involvement in export finance in Australia, especially short-term credit insurance; and
- the need to examine whether differences in the taxation of income from overseas sources compared with income from domestic sources under the Australian taxation system unintentionally discriminates against exports.

Raw material pricing for domestic use

Report No. 21 released 7 May 1992.

The Commission found that, on the evidence available, the pricing policies of raw material producers are generally consistent with promoting an efficient use of resources.

Where inefficient practices were identified, potential losses to the economy overall were estimated to be very small.

Governments can best promote appropriate pricing by encouraging effective industry competition. They should not attempt to keep domestic prices artificially low in order to encourage further processing in Australia.

The Federal and State Governments should continue reforms of statutory marketing arrangements. (Attention is drawn to the Commission's report on the Australian sugar industry.)

The Federal Government should continue its tariff reduction program and ensure that the anti-dumping process is not used as a substitute for assistance to import-competing industry.

The Federal Government should consider the relevance of section 49 of the Trade Practices Act by examining how efficiency objectives and competition policy generally can best be reconciled.

If forestry authorities remain as government business enterprises, they should be placed on an appropriate commercial footing and made subject to the Trade Practices Act.

The Federal Government should consider discontinuing the surveillance of prices of feedstock for steel pipe and tube by the Prices Surveillance Authority.

The Federal and State Governments should press ahead with reforms to Australia's internal transport system, ports, and coastal and overseas shipping.

The Commission drew attention to its comments on:

- the pricing of pulpwood — current practices and principles; and
- the Petroleum Resource Rent Tax for Bass Strait.

Commercial restrictions on exporting (including franchising)

Report No. 23 released 27 June 1992.

The Commission found that government intervention aimed specifically at avoiding commercial restrictions on exporting is not justified.

The transfer of technology plays an important role in achieving and maintaining competitiveness. Businesses accept some restrictions on exporting because they need access to the technology. The facts are that firms enter into these agreements for commercial reasons and the conditions are normally negotiable.

In Australia, earlier debate on this matter has been clouded by assumptions that:

- firms are somehow forced into these agreements;
- licensing agreements have overall negative impacts; and
- export levels would rise significantly if these restrictions are removed.

The debate has centred upon the restrictions themselves, instead of the causes of uncompetitiveness. The advantages accruing from the underlying arrangements have been ignored or discounted. These advantages more than offset any disadvantages.

In Australia, governments have a role in facilitating free and fair competition. Current microeconomic reforms and legislation such as trade practices law are manifestations of this role. Any attempt to go beyond this by proscribing restrictions could be counter-productive since it is likely to depress economic growth and overall welfare. It would compromise access to technology, investment capital and global networking, factors which are all essential to the achievement of international competitiveness.

These findings accord with the position in OECD countries where the restrictions under inquiry are not an area of policy concern.

National Procurement Development Program

Report No. 20 released 20 May 1992.

Terms of reference

The National Procurement Development Program (NPDP) was referred to the Commission for inquiry and report by 31 March 1992.

Without limiting the scope of the reference, the Commission was required to:

- assess the effectiveness and efficiency of the NPDP against its stated objectives of improving the efficiency and international competitiveness of Australian industry by:
 - providing financial support for research and development, trialling and demonstration within government departments and agencies of new internationally competitive Australian goods, services or systems (including prototypes) which meet government purchasing requirements, for the purpose of evaluation and endorsement;
 - influencing the attitudes of government purchasing agencies towards positive consideration of Australian products and services for forward procurement requirements; and
 - raising the credibility of Australian products and services in the eyes of potential users;
- analyse the intended and unintended impacts of NPDP; and
- examine the contribution of the NPDP in relation to other schemes directed at research and development and the purchasing policies of governments.

The Commission was requested to recommend any changes to the NPDP which may improve its effectiveness and efficiency should the government wish to extend funding for the scheme beyond 30 June 1992.

Recommendations

The Commission found that the National Procurement Development Program benefits grant recipients, but does not target community-wide benefits which could justify public subsidies. Consequently the Commission recommended that the program not be extended beyond 30 June 1992.

Should the Government wish to continue with a scheme along similar lines to the National Procurement Development Program, the first priority should be to clarify the objectives. Depending on the objective to be targeted, the Government should pursue one of two options described below.

- If the aim is to address remaining government procurement problems, they are best addressed by maintaining pressures for reforms of government budgeting and procurement policies generally, rather than by a scheme like Option A.
- If the aim is to selectively assist innovation, a scheme like Option B would maximise the chances of net benefits. Even so, the Commission doubts that such a scheme could do so in practice.

No new scheme to assist innovation should proceed in advance of a wider review of schemes which currently provide assistance to research and development.

The Commission drew attention to its comments on the dearth of information needed to trace the full extent and effects of government support for individual firms and projects.

Option A: A national procurement development scheme

A procurement-based scheme, if justified, would be primarily driven by government procurement requirements. It would involve public sector investment in increasing its own efficiency through innovative solutions to demonstrated needs. That is, the focus of the scheme would be on the interdependence between government (as purchaser) and local industry.

The scheme would need to be consistent with other purchasing policies and visibly operate within them. The main impact would be through demonstration — its success would be measured by how effectively it reduces its own reason for existence.

Eligibility should be restricted to meeting the procurement requirements of government. Accordingly:

- establishing a case for assistance should lie with the government partner;
- wherever possible, assistance should be by way of loan (to the government agency — repayable if the project succeeds) or in return for a share in the rights to any intellectual property generated by the project;

- the program should aim to be self funding (in the sense that successes compensate for losses); and
- project funding should be arranged through the government partner who should bear responsibility for discharging payments for the project.

Such a program should rest with the Department of Administrative Services. This would strengthen links with government procurement and ensure that the scheme is demand (rather than supplier) driven.

However, the Commission is not convinced that this option would confer a net benefit on the community.

Option B: A government innovation program

This scheme would be aimed at assisting the development of internationally competitive innovative Australian products for which government procurement is incidental.

In such a scheme, an agency like the Industry Research and Development Board should be responsible for the selection of projects. The scheme would target projects where it can be demonstrated that there is a divergence between national and private benefits such that they would not proceed without assistance. Further:

- where assistance is sought to accelerate or enhance a project, only the cost of the acceleration or enhancement should be subsidised — not, for example, the cost of the entire demonstration and trialling phase;
- the agency should maintain the current emphasis on the capacities of the partners to complete the project and exploit the results;
- the agency should be represented on project management committees, except where it is clear that the agency's reasons for giving assistance and the government partner's interests coincide;
- the process of verifying project expenditure and effecting payments to the recipient should be handled by the agency delegate (or the government partner) as appropriate;
- the role and responsibilities of the government partner should be clarified and compensated for as appropriate — some projects would entail the 'purchase' of services from the government partner; and

- ideally, the subsidy should be just sufficient to induce the desired activity.

However, no new scheme to assist innovation should proceed in advance of a wider review of schemes which currently provide assistance to R&D.

Terms of reference for inquiries in progress

Mail, courier and parcel services

Public and private mail, courier and parcel services (including electronic services) were referred to the Commission for inquiry and report by 30 October 1992.

The Commission is to identify institutional, regulatory or other arrangements subject to influence by governments in Australia that inhibit efficient resource use, and advise on courses of action that could remove such inhibitions and facilitate improved efficiency.

Without limiting the scope of the inquiry, the Commission is requested to give priority to areas where the greatest efficiency gains are in prospect and areas where early action is practicable, having regard to:

- the obligation on Australia Post to provide a letter service as specified in Section 27 of the *Australian Postal Corporation Act 1989*, and the present and likely future costs of providing a reasonable service as efficiently as practicable;
- the scope for, and extent of, competition in the various segments of the mail, courier and parcel industry; and
- whether there are places or groups that do not receive adequate access to mail, courier and parcel services, and options for servicing their needs.

The Commission is also to have regard to the established economic, social and environmental objectives of governments and to avoid duplication of any recent substantive studies undertaken elsewhere.

Taxation and financial policy impacts on urban settlement

The taxation and financial policies of governments, including pricing and charging policies, which lead to inefficient patterns of urban

settlement in Australia were referred to the Commission for inquiry and report by 3 April 1993.

The Commission is to identify and assess the impacts of those taxation and financial policies of State, Territory and local governments and of the Commonwealth Government, which directly or indirectly reduce the efficiency of land use in urban areas, including use for housing.

The Commission is to make recommendations on courses of action available to governments to ensure that financial and taxation policies promote more efficient patterns of urban land use in Australia, including, where appropriate, containment of the outward growth of cities.

The Commission is to take account of economic, social and environmental objectives of governments affecting urban planning and development and also take account of recent substantive studies undertaken elsewhere.

Particular consideration is to be given to the options for revision of pricing and charging policies to reflect the full capital and recurrent cost of new and replacement infrastructure including the following factors and their inter-relationships:

- costs of providing physical infrastructure;
- costs of providing social services infrastructure; and
- costs which fall on third parties (eg increased pollution, congestion and private transport costs).

In reporting on these measures, the Commission is expected to identify and assess the impact of differences in current pricing and charging policies and rates of cost recovery, including implications for the provision of infrastructure in particular States/Territories and capitals, and issues relating to subsidies which have been provided by the Commonwealth.

The Commission is also to report on:

- options to change pricing and charging policies to improve efficient utilisation of existing infrastructure;
- the implications of the tax and financial policies of governments on the private provision of infrastructure at household level; and
- an assessment of the direct and indirect negative equity impacts of current and proposed pricing and charging policies, particularly on housing affordability.

The Commission is requested to provide options for consideration by governments to address such identifiable equity impacts.

Horticulture

The Australian horticultural industry was referred to the Commission for inquiry and report by 18 December 1992.

The Commission is to examine the production and cost structure of the Australian horticultural industry, assess the methods used by selected other countries to support horticultural exports, and identify structural and other issues which, in comparison with overseas producers, affect the competitiveness of Australian producers in overseas markets.

The Commission is to report on institutional or regulatory factors subject to influence by Governments in Australia which are impeding the development of an internationally competitive horticultural industry and horticultural exports, and advise on courses of action which will raise overall economic efficiency.

Without limiting the scope of the reference, the Commission is requested to assess the effectiveness of the Australian Horticultural Corporation in increasing the international competitiveness of the Australian horticultural industry, and report on this matter by 30 June 1992.

The Commission is to avoid duplication of recent substantive studies.

Port authority services and activities

The operation and activities of port authority services was referred to the Commission for inquiry and report by 19 March 1993.

The Commission is to report on the institutional, regulatory and other arrangements subject to influence of governments in Australia that lead to inefficient resource use or inhibit the efficiency of port users, and advise on courses of action to reduce or remove such inefficiencies and impediments.

Without limiting the scope of the reference, the Commission is requested to give priority to areas where greatest efficiency gains are in prospect, and areas where early action is practicable, having regard to:

- the importance of port authority services and activities to the international competitiveness of Australian industry;
- the scope for improving the efficiency of port authority services and activities including through changed management and work practices, pricing, the removal of structural impediments, and investment in new technology;
- the importance of adopting international best practice for the provision of port authority services including, but not limited to, areas of work coverage, training, skills development and industrial/human resource relations;
- implications for port authority services and activities of regulations, charges and arrangements affecting various modes of transport; and
- the effects on users and non-users of improved efficiency of port authority services and activities.

The Commission is to avoid duplication of recent and current substantive studies undertaken elsewhere and, in particular, have regard to the report by the Australian Transport Advisory Council on waterfront reform and the inquiry into land transport interfaces with sea ports being conducted by the House of Representatives Standing Committee on Transport, Communications and Infrastructure.

Book production

The Commission was requested to inquire, and report by 25 September 1992, into whether, after 31 December 1993, assistance should be accorded the production of books in Australia and, if so, the nature, extent and duration of such assistance.

The Commission is to identify and report on significant factors relating to the efficiency and competitiveness of the industry and identify and evaluate options available to the Government.

In addition, the Commission is to identify any improvements that could be made to the administration of any assistance arrangements, particularly in relation to providing clear unambiguous definitions of eligible books and eligible recipients.

The reference specifies that, in conducting its inquiry and presenting its report, the Commission should have regard to:

- the administrative implications of the options identified;

- the implications for access to assistance by large and small business of improvements to assistance arrangements; and
- the desire of the Government not to impede by tariffs or quota restriction the importation into Australia of those goods covered by the United Nations Educational, Scientific and Cultural Organisation (UNESCO) Agreement on the Importation of Educational, Scientific and Cultural Materials and the Nairobi Protocol to the Agreement.

Government responses to reports from previous years

Aids and appliances for people with disabilities

Report No. 3 released 31 August 1990.

In response to the Commission's recommendation that the Commonwealth cease production of artificial limbs and associated products and services and dispose of the assets of the Repatriation Artificial Limb and Appliance Centres (RALACs), the Government has agreed to negotiations commencing with the States and Territories to transfer the RALACs and the Artificial Limbs Scheme to them.

The Government has deferred a decision on the Commission's recommendation that the Central Development Unit be abolished.

The remaining recommendations concerned with artificial limb production will be considered when the above arrangements for the RALACs and the Artificial Limbs Scheme are finalised.

The Government did not accept the Commission's recommendations to change the tariff description of orthopaedic appliances and to extend sales tax exemptions under Item 123A to include computer equipment. There has been no response to the recommendation that the Commonwealth fund the Independent Living Centre database.

Recycling

Report No. 6 released 23 April 1991.

On 25 June 1992, the Government announced (Dawkins and Kelly 1992) its intention to narrow the Sales tax exemption applying to paper products made wholly from recycled paper restoring sales tax on paper bags, toilet and facial tissues and exercise books made from

recycled materials at the rate applicable to similar goods of paper from other sources. The Government has made no further response to the Commission's report.

The National Waste Minimisation Strategy (CEPA 1992) revisits the subject matter of the Commission's report. The Strategy arrives at conclusions at odds with the principles of the Commission's approach. Appendix G contains discussion of the general failings of this and other environmental strategies released during the year.

Mining and minerals processing in Australia

Report No. 7 released 18 April 1991.

Over half of the recommendations of the report require action by the States and Territories or joint action with the Commonwealth if they are to be implemented. The Commonwealth Government announced during 1991 the implementation of taxation measures which broaden the definition of exploration expenditure for the purpose of tax deductibility and to enable the depreciation of the cost of environmental impact studies over the life of successful projects.

The Government's 'sectoral' policy for the coal industry was announced on 2 December 1991. The statement addressed coal-specific recommendations of the report and implemented many of them. Those implemented include:

- abolishing the coal export duty to take effect from 1 July 1992;
- establishing new industry research and development arrangements in which the industry will assume responsibility from the Government for its own research effort;
- transferring responsibility for coal miners' long service leave from the Government to employers; and
- introducing various industry workplace reforms (Crean et al 1991).

The Government's policy statement of 26 February 1992 (the 'One Nation' statement) announced decisions to implement various recommendations of the report including:

- that proposals establishing new national or marine parks and reserves will be subject to a prior assessment of the proposed area's economic values and potential;

- deleting export controls over iron ore and the replacement of the current controls over mineral sands exports with total volume controls; and
- foreign investment regulations applying to mining to be brought into line with those applying to industry in general.

The Commission recommended the streamlining of approvals processes. This is largely a State government area for reform. However, the statement of 26 February 1992 foreshadowed a range of measures to improve approvals processes:

- the Prime Minister was to write to State and Territory leaders aiming for a joint review of requirements facing major projects;
- a small unit to guide project proposals through the Commonwealth project approvals process;
- offering to project proponents an integrated Commonwealth/State assessment process;
- the intergovernmental agreement on the environment (IGAE) to be signed as soon as possible; and
- Government to seek intergovernmental agreement to streamline the assessment of Aboriginal heritage concerns.

Many other environmental implications of the report are currently under assessment through the IGAE and Ecologically Sustainable Development processes.

The Government has rejected at this stage recommendations proposing extension of uranium mining.

No response to the following issues arising from recommendations had been announced as at 7 August 1992:

- the balance between Aboriginal land rights and mining in the Northern Territory;
- the detail of government imposed mechanisms for resolving land use conflicts where market based solutions are infeasible;
- the renaming or clarification of intent of the Register of National Estate Places;
- certain taxation issues;
- the abolition of the uranium export duty; and
- responsibility for the Alligator River region and Kakadu National Park to be rationalised.

The commercial tariff concession and by-law systems

Report No. 9 released 1 May 1991.

After consideration of the Commission's report the Government announced (Button 1991a) that it had decided to accept the Commission's recommendation to retain the Commercial Tariff Concession (CTCS) and By-laws systems with some significant changes. While accepting a number of key proposals, some significant ones were rejected.

Commercial Tariff Concession Orders

The Commission recommended that the 'goods serving similar functions' criterion for proving concessions be retained, but not be defined in terms of identity or 'cross elasticity of demand' but that a non-exhaustive list of considerations be used. The Government decided to retain this criterion when considering an application but to interpret it in terms of whether the imported goods are substitutes directly competing in a market. The Commission also recommended that the 'substantially adverse effect' criterion be removed, however it has been retained.

The Commission recommended that an application for a Commercial Tariff Concession Order (CTCO) should not be refused merely because a local company is prepared to accept an order for goods. The 'capability to produce in the normal course of business' test has been replaced so that if one of several conditions are met and Australian industry is prepared to accept an order, a CTCO will not be granted.

The Commission recommended that the existing local content and 'substantial process' rules be retained without change. 'Substantial process' has been redefined as "a process sufficient to give a good its 'essential character'" and 'non-substantial' has been redefined to exclude four processes.

The excluded goods schedule is to be retained and the Department of Industry Technology and Commerce, in consultation with the Australian Customs Service, will advise on requests to remove, exempt or add goods to the schedule. Each of these changes had been recommended by the Commission.

The Government accepted the Commission's recommendations of legislated time limits and deeming provisions to apply to CTCO applications. As recommended by the Commission, Customs' internal review mechanism is to be retained. Time limits for decision making

and 'deeming provisions' have been introduced for reviews. Applicants are to have the right of appeal to the Administrative Appeals Tribunal (AAT).

Applicants are to be able to amend CTCO applications. However, if the application is widened, a new application will have to be made and new time limits will apply. The Commission recommended that applications could be reworded so long as the range of goods covered did not expand.

The Commission recommended that notice of receipt of an application and completion of intermediate stages, as well as Customs' final decision, be notified in the gazette. It also recommended that Customs information relevant to CTCOs be published in a consolidated form in the same order as the harmonised tariff for ready reference. The Government has decided that Customs' decisions on an application are to be notified in the gazette. Where applications are refused, the reasons and the identities of local manufacturers of goods serving similar functions are also to be notified in the gazette.

The Government did not respond to the Commission's recommendations that:

- the 'national interest' criterion should be removed from the CTCS; and
- 'end-use' provisions should not be included on the CTCS.

By-laws

The Government decided to introduce a requirement that information on the operation of each policy item be published in the working tariff. Also it will no longer be necessary for an Industry Commission report before Policy Items can be changed or introduced.

The Government did not respond to the Commission's recommendations that:

- the Government's 'general guidelines and principles to apply to policy by-laws' be rewritten according to certain principles, confined to the making of items, and be publicly available;
- existing policy items be revised to state the Government's objective for them;
- the jurisdiction of the AAT should be extended to cover appeals made against administrative decisions relating to by-laws and determinations made under policy items; and

- import concessions should be removed from the supplementary provisions of the 'Working Tariff' and were they to be retained they should be transferred to Schedule 4 and subjected to the same discipline as Industry policy items.

Electricity generation and distribution

Report No. 11 released 27 June 1991.

Developments in the establishment of a national electricity grid, announced at the July 1991 Special Premiers' Conference, were discussed in the Commission's 1990-91 Annual Report.

In its 'One Nation' statement of 26 February 1992, the Government proposed to seek agreement from the relevant States to establish a National Grid Corporation (NGC) to operate a national grid separate from existing generation and distribution interests. Subject to agreement on a timetable for the development of the NGC and the separation of transmission assets to form part of the Corporation, the Government also offered funding towards upgrading of the existing transmission link between New South Wales, Victoria and South Australia. Details of the specific arrangements applying to the industry are contained in Appendix H of this report.

N ASSESSING THE IMPACT OF COMMISSION REPORTS

The Commission committed itself in its 1991 corporate plan to prepare an assessment of the impact on the reform process of selected reports. In addition to its own monitoring, the Commission arranged a consultancy to canvass a cross-section of policy advisors and opinion leaders for their views on the effectiveness of those reports. The survey provided feedback but highlighted the difficulties of assessing the Commission's performance when views on its work are so diverse.

Assessing the Commission's performance

The Commission strives to prepare high-quality and compelling assessments of ways to improve overall economic performance through structural reform. It has always monitored reaction to its reports with a view to improving its performance.

As an advisory body to government, the Commission has no direct performance measures to evaluate. Its performance is best judged on the quality of its reports and the effectiveness of its analysis and recommendations in bringing about worthwhile reform.

There is, however, no straightforward way to obtain an overall assessment of the quality and effectiveness of Commission reports.

The Commission's inquiry processes and reports are public so that Parliament and taxpayers — and indeed, anyone in the community — can form opinions as to the worth of the Commission's work.

The Commission obtains feedback on its reports in various ways. Consultations with relevant government bodies, industry, union and community groups during the course of an inquiry, and written submissions and participation at public hearings on its draft reports,

provide information on which the Commission assesses its performance while inquiries are in progress. In addition, inquiry teams monitor public and media reaction to issues papers, workshop and conference papers, and the Commission's draft reports. So even before its reports are formally submitted to government, the Commission has usually had the benefit of extensive feedback on the quality of its analysis and the soundness of its recommendations. Reaction to the release of final reports is also monitored.

The views of inquiry participants and the media on a particular report can vary widely. Not surprisingly, some groups which see themselves bearing the brunt of Commission recommendations will seek to find fault with the analytical framework, policy analysis and recommendations in reports. Those in favour of the changes proposed by the Commission will support and use its report.

The Commission also monitors, as best it can, government and parliamentary responses to its reports. The use of a report in framing policies or the ready acceptance and implementation of recommendations made by the Commission may suggest a report has been effective. But it is not always clear how significant a Commission report has been in decision-making processes, even when policy changes correlate closely with Commission recommendations. The difficulties of attributing policy action to Commission reports are greater now that it is reporting on structural reform issues that can involve governments at the Commonwealth, State, Territory and/or local levels.

Judging the Commission's effectiveness is also difficult when governments reject, substantially modify or have not reacted to Commission proposals. This may indicate that the Commission's analysis and policy advice have not provided governments with a sufficiently compelling case to initiate reform. But a report which is not acted upon immediately may still have an influence in the longer term. For example, the Industries Assistance Commission's 1982 report on *Approaches to general reductions in protection* was not seen to influence policy action until the decision on the 1988 tariff reduction program. The aviation reform package recommended in its 1989 report on travel and tourism remained largely unaddressed until the 'One Nation' Statement of February 1992. Of course, it may not always be appropriate to attribute structural reforms to the Commission where they occur several years after a Commission report

— other sources of advice and analysis may have been more influential.

The Government rarely provides details for the community as to where and why its decisions on reports have departed from Commission recommendations. (The announcement of the decision on the Commission's report on the export of education services was a recent exception.) A lack of response from government increases the difficulties in assessing possible reasons for ineffective reports and the scope for remedial action to ensure better Commission performance in future inquiries.

Assessing the impact of particular reports

Notwithstanding the difficulties in evaluating the effectiveness of its reports, the Commission committed itself in its 1991 corporate plan to prepare an assessment of the impact of selected reports on the reform process. The four reports selected — *Aids and appliances for people with disabilities*, *Product liability*, *Recycling*, and *Mining and minerals processing in Australia* — were publicly released in the period July 1990 to February 1991.

The Commission already had systems in place to monitor:

- statements made by Ministers and actions taken by governments in response to (or consistent with approaches recommended by) the reports;
- reactions by participants in the inquiries (and other affected parties) as reported in the media;
- reactions by peak industry organisations, unions, members of parliament, and community groups; and
- the extent of in-depth media analysis and comment on the reports.

In addition, the Commission arranged a consultancy with Coopers & Lybrand to survey the views of policy makers and opinion leaders selected from groups with a known interest in — but not necessarily in agreement with — the reports. While not a random selection, the Commission wanted to canvass a cross-section of views on:

- the quality of reasoning in the reports;
- the factual content and quality of research undertaken;

- the relevance and practicability of recommendations; and
- the readability and quality of presentation.

People in the survey included: Commonwealth, State and local government employees; industry, service providers and business association representatives; representatives from consumer, environment and other community groups; and journalists. The union representative approached declined to participate in the evaluation.

The executive summary of the consultant's report is included in this appendix (Attachment N1) and copies of the full report are available on request to the Commission's Publications Officer. The report will be considered in the context of the Commission's ongoing processes of monitoring and seeking ways to improve its performance.

Overview comments on Commission reports

People participating in the survey had a wide range of opinion about the Commission's reports in general and the specific reports chosen for in-depth review. While there was general acceptance that the Commission was independent and its reports were well-written and readable, views on many other aspects of its reports were polarised. Much of this could be linked to support for or criticism of the analytic framework used by the Commission — referred to by most of the critics as 'economic rationalism'. The consultant found that organisations with a commercial focus were most likely to support the Commission's economic approach.

There was a spectrum of views on the Commission's success in providing advice on ways to improve Australia's overall economic performance:

Part of the problem is that the Industry Commission has a history of having a particular economic perspective, and its reports have been coloured by that. I do not agree with their economic perspective on all the subjects that they deal with. If you follow their particular line of economic rationalism in public policy, then they probably have been successful. I do not, and I believe you need different approaches for different subject matters (Public servant).

The Commission has been an interesting tool of government, and would have been a much better tool than it has been if it were better balanced and did not have such of an orthodox, economic bent. If they really want to go with social issues, they are going to have to balance

themselves. Efficiency is an important, but not the only or most important outcome (Community group representative).

They have been successful, the advice is independent, and in general terms, and in the long run, it is improving the economic performance. What is not asked is to what extent has it met expectations or needs on the part of the government for a particular kind of advice. Where governments have found the advice not particularly helpful is in terms of specific recommendations that may have a short to medium term impact. While the Commission is good at long term advice, it is less helpful in the short and medium term (Public servant).

The great thing about the Industry Commission is that they really do redraw the boundaries for policy consideration. The Commission has been able to force people to look at issues that they perhaps would rather not address. I believe they have been a very valuable institution, and I hope they [Government] do not muck it up (Industry representative).

... for years the Commission has consistently identified impediments to improving Australia's economic performance and therefore forced the debate on issues which might not otherwise have occurred (Commonwealth public servant).

Its work is very useful. ... If you look at what it has done in relation to the major issues of micro-economic reform over the last few years, it has been a major source of serious analysis as it applies to government. It is very well regarded in the world, and if you talk to anyone who is in the trade policy area throughout the world, they know about the Commission and often argue for a similar institution in their own countries (Journalist).

The diversity of views on the Commission's performance and the quality and usefulness of particular reports highlight the difficulties in using such methods to assess overall performance. The survey provided some useful information on how the Commission's inquiry procedures are perceived and the constraints that different groups face in participating in inquiries and responding quickly to reports. Boxes N1 to N4 provide brief details of the four reports individually.

The Commission is unlikely to ever gain universal endorsement for the economy-wide approach it adopts in analysing policy issues and for its recommendations for structural reform. Nevertheless, the results of the survey confirm the need to continue to work at:

- explaining how its policy proposals will remove or reduce impediments to achieving a higher community standard of living while taking into account social impacts, adjustment costs and environmental outcomes;

- communicating with those who advocate alternative approaches; and
- presenting its findings clearly, consistently, persuasively, and in a timely fashion.

Box N1: Aids and appliances for people with disabilities
(Report No. 3, released 31 August 1990)

The Government implemented the majority of the Commission's sales tax recommendations in the 1991-92 budget; abolished tariffs on aids rather than phased them down; rejected the Commission's main recommendation to remove the monopoly of the National Acoustic Laboratories over the supply of hearing aids to people qualified for disability assistance, at least until 1997; and has decided, in principle, that the production of artificial limbs should be undertaken by the states and territories.

Survey results

The four people surveyed on this report — two Commonwealth public servants, and representatives from an industry association and service provider — largely agreed with the Commission's approach, the thoroughness of the policy analysis and the suitability of recommendations for policy consideration. However, there was less agreement on the adequacy of the factual basis for arguments, implementation aspects of Commission recommendations and the contribution the report had made to immediate, and would make to ongoing, policy debates. One public servant thought one of the recommendations 'deficient' because the Commission's intent was unclear and the industry association representative thought implementation aspects "just needed a couple of extra weeks work to put it together." However, all respondents rated highly the report overall. "They did an excellent job, recognised where expertise was available in the field and did a good and very responsible job to seek the opinions of those experts" (Service provider representative).

Box N2: Product liability

(Report No. 4, released 20 September 1990)

The Commission recommended the Government not adopt the product liability proposals of the Australian Law Reform Commission; other reforms could overcome problems with current laws. In its March 1991 Economic Statement the Government announced it accepted the recommendation and would introduce a new regime based on the Economic Community Directive on product liability. However, it became evident that significant changes to onus of proof arrangements were contemplated and these were being linked mistakenly to the Commission's report. After correspondence on the matter, the Minister invited the Commission to contribute further to the policy debate. The Commission, and particularly the Office of Regulation Review within it, was subsequently involved in conferences and extensive discussions with business and government to promote an outcome that more closely reflected the Commission's position. In November 1991 the Government announced it would modify its proposals. Draft legislation was tabled in December and a new legislative regime for product liability took effect from 9 July 1992.

Survey results

Six people were surveyed on this report: two Commonwealth public servants; a journalist; a legal representative; a consumer group representative; and a business association representative. Respondents agreed that the Commission had adequately addressed the views of interested parties and produced a readable report. There was disagreement, often strongly by the community group representative, on the Commission's analytical approach, coverage of relevant issues, factual content, quality of content, and overall usefulness of the report. Community group representative: "We did not think their [the Commission's] conclusion could be drawn from the report." A public servant said the report was useful but did not make a significant contribution whereas an industry representative saw it being "critical in turning around the debate" and a journalist saw it being a source document for serious debate on the product liability issue. Some criticism stemmed from a view that the Commission had not gone beyond evaluating the economic effects of the Australian Law Reform Commission proposals (its brief) and should have examined the implications of other options in more detail.

Box N3: Recycling**(Report No. 6, released 23 April 1991)**

The Government has yet to announce its response to this report, and to two related reports completed urgently beforehand — *Pulp and paper: bleaching and the environment* and an *Interim report on paper recycling*. In June 1991 the Department of Arts, Sport, Environment, Tourism and Territories released a discussion paper on a draft national waste minimisation and recycling strategy. While the document used some of the Commission's data, its policy approach differed substantially. The Commission publicly provided comments on the paper drew significant media attention. In May 1992 the Department made a selective release of a consultant's report which was critical of the Commission's work. The Government, through its new Commonwealth Environment Protection Authority, recently released a final version of a waste and recycling strategy which largely diverges from the Commission's approach.

Survey results

Ten people were surveyed on this report: three from industry associations; one from industry; three Commonwealth public servants; one local government representative; a community group representative; and a journalist. There was no consensus on the Commission's approach, quality of content or usefulness of the report. The journalist found the report "exceptionally useful ... because it was an economic analysis of an issue that my readers all have an involvement in." According to one industry association representative, the report was well received in the business community: "Many thought it was the best government document on recycling that had been produced." Another from industry found the report's "usefulness has been dissipated by the government inaction." One Commonwealth officer likened the report to a "piece of blancmange", a "very general report that was no great shakes." The community group spoke of "basic factual errors", of the Commission seeing industry as the experts and them as "Mickey Mouse add-ons" and thought the report "so unnecessarily pessimistic, focussing on the problems and limitations, that it actually knocked the stuffing out of some very good initiatives." An industry representative saw the report as having a big philosophical impact "although not so big a practical impact."

Box N4: Mining and minerals processing in Australia
(Report No. 7, released 18 April 1991)

Some of the Commission's recommendations relating to taxation deductions, export controls and duties, foreign investment regulations, further general tariff reductions, establishing new national parks and streamlining environmental approval processes were addressed in the industry policy statement of March 1991, the 1991-92 budget, the coal industry sectoral policy of December 1991 and the 'One Nation' statement. Many of the other recommended policy reforms involve Commonwealth and/or State and Territory action and are being progressed through various working parties convened by the Australian and New Zealand Minerals and Energy Council. Recommendations yet to be responded to include: aboriginal land rights; resolution of public land-use conflicts; allocation of mineral rights; royalties; and the mining and processing of uranium.

Survey results

Fourteen participants were surveyed on this report: four Commonwealth public servants; four State public servants; two industry representatives; two industry association representatives; a community group representative; and a journalist. There were disparate, often polarised, views on the Commission's approach, and the quality and usefulness of the report. The community group and one public servant strongly disagreed with most aspects of the Commission's approach. Their concerns related particularly to the "narrow economic focus" in analysing environmental issues. Some respondents looked for a greater depth of analysis on particular issues and more specific detail on how reforms should be implemented. An industry representative thought there was "a good balance of the detail, commentary and analysis." Other comments included that the Commission did "not come down far enough to help the individual States, and perhaps they should not anyway" (state public servant); the report "had a negative effect" but contained useful data "almost despite themselves" (community group representative); "the report said quite reasonable and sensible things" at a critical time for the industry (industry representative); the report is "the single most useful reference on the mining industry in Australia" (journalist); and "The basic principles have a long standing, so it [the report] has a life beyond just the changes that were made, and they have raised things which were not necessarily acted on then but which will feed into policy considerations later on" (Commonwealth public servant).

N1 EXECUTIVE SUMMARY

Assessment of the Impact of Industry Commission Reports, Coopers & Lybrand Consultants, August 1992

1. The Industry Commission (Commission), under its Corporate Plan, is assessing the impact of selected reports on the reform process as a measure of its effectiveness.
2. The reports of four inquiries have been selected by the Commission for consideration in the assessment: Aids and Appliances for People With Disabilities; Product Liability; Recycling; and Mining and Minerals Processing in Australia. These reports were publicly released during the period July, 1990 to February, 1991.
3. Coopers & Lybrand Consultants were appointed by the Commission to assess the four reports based on the views of a group of opinion leaders selected from the audience for the reports.
4. The Commission provided a list of opinion leaders from within government, industry, community groups and a union organisation for interview during the assessment. While the list was drawn to reflect a breadth of likely opinions, it was not random. In consequence, the findings of the assessment do not enjoy the statistical robustness that a random sample would have provided.
5. In all, twenty eight people were interviewed, twenty four face to face and four by telephone. These participants provided thirty two responses to individual reports.
6. To provide a set of questions covering standard topics for consideration by respondents, a questionnaire was used and was completed during interviews. The questionnaire addressed issues grouped under the following headings in relation to each report: approach; quality of content; usefulness; and readability. Each participant was encouraged to support or explain their response to each question by making specific comments. They were also asked to comment on the reports, or the Commission and its processes more generally if they wished.

7. The survey group seemed well qualified to give informed comment on the Commission's work and the specific reports identified for assessment. While a small proportion were not familiar with the Commission's work in general, in some cases only being familiar with the report they had been invited to comment on, most others were able to demonstrate a broader experience with the Commission's work, often extending over many years. Over one quarter specifically stated they read the Commission's Annual Reports. Each seemed sufficiently well informed about the specific reports to be able to comment meaningfully during the interviews.

8. The interviews revealed a wide range of opinion about the Commission's reports in general, and about the specific reports involved in this assessment.

9. There was agreement that the Commission is, and is seen to be, an independent body providing public advice. It was also generally accepted that the Commission's role should continue in this regard. However, there was no consensus on the acceptability of the Commission's approach to analysing and reporting on the subjects of its inquiries.

10. For each report examined, there was strong evidence of a continuum of views on the suitability of its approach, but with significant support for the views toward each end of the continuum. This gave the impression that views were often polarised, leading many of the respondents to be either strongly in favour of the Commission and its work, or strongly critical.

11. The basis of the polarity, when it occurred, seemed to be linked to the analytic framework used by the Commission in its reports. That framework, referred to by most as economic rationalism, was considered by some to be a correct one, and by others to be completely inappropriate. There were others, forming the more central section of the continuum, who accepted a need for a strong economic focus, but appreciated and accepted the view that the Commission should consider more extensively, values and approaches outside that of economic rationalism.

12. Based on the participant responses in this assessment, those that support the Commission's economic approach, in general, were organisations with a commercial focus. The group also seemed to include some public servants, and those with an economics background.

13. Community groups and organisations with a predominant environment and conservation focus were strong advocates of the Commission broadening and deepening its approach. This group also included some public servants.

14. Both the Commission's supporters and its critics were not always accepting or always condemning of its recommendations. Both groups found fault or agreed with some individual recommendations arrived at by the Commission.

15. It was apparent from the discussions that the Commission has attempted to broaden its approach, but has not achieved the satisfaction of all. A number of respondents felt it was likely the Commission will be required more and more to address issues such as Product Liability and Recycling which take it away from what has been its mainstream. The service sector was also considered likely to continue yielding subjects for Commission inquiries, perhaps in areas such as education or health.

16. If this is the case, and while not specifically stated by participants in this assessment, it is clear the Commission will need to reconsider its model and its personnel skills and experience if it is to win over the support of its current critics. In doing so, it may run the risk of losing some existing support, for it is probable a universally acceptable model does not exist.

17. When discussing the usefulness of reports, many participants commented that the Commission took no account of existing Government policy. There were those that felt to do so would increase the realism of the Commission's output, while others felt that it would simply complicate matters to the detriment of final policy formulation and implementation. No consensus was evident that the Commission should incorporate policy issues into its recommendations.

18. Similarly, when addressing report quality and how well the Commission specified how its recommendations could be implemented, a number of comments were made. This was an area of greater dissatisfaction for respondents than other issues raised about the reports. Although there was a general feeling the Commission was weak in this area, there was no strong indication given that participants were looking to the Commission to place greater emphasis on implementation strategies. Part of the reason for this was thought to be the inability and inappropriateness of the Commission to determine strategies for application in State jurisdictions.

19. The Commission's inquiry process was considered satisfactory by respondents, although there were some suggestions made to facilitate both the interchange of information between the various players, and the quality of information in the reports.

20. The breadth of views across the individual reports reflected the polarisation discussed above. There was no single report within the four examined on which all respondents totally agreed with the approach, quality, usefulness, or readability.

21. Further, opinion was sufficiently varied that there was not one of those characteristics with which all respondents agreed. Readability was closest, and was rated highly, with unanimous agreement that each of the four reports was written in plain English, and general acceptance of the structure, although there was some concern with that aspect.

22. Of the eleven statements in the questionnaire that sought level of agreement on each report specifically, eight in the Aids and Appliances, and only two in each of the Public Liability, Recycling, and the Mining and Minerals Processing reports reflected no disagreement. Of these, almost half related to the statements on readability.

23. It was apparent that while the majority of respondents were in support of the individual reports overall, the nature of the sample leads to the conclusion that there was no consensus in any single report on the adequacy of the approach, the quality, nor the usefulness, although it can be concluded that there was agreement on their readability.

24. There was general agreement, however, judging by the comments received, that the reports contained valuable sources of reference information.



STATEMENT BY THE TREASURER ON THE COMMISSION

On 13 May 1992 the Treasurer released the following statement on the Industry Commission:

Today I am announcing a new chapter in economic reform in Australia with the announcement of an important new development of the role of the Industry Commission.

New Chairperson

I am particularly pleased to announce that Mr Bill Scales, currently Chairperson and Chief Executive of the Automotive Industry Authority will be recommended to the Governor-General for appointment to the position of Chairperson of the Industry Commission.

Mr Scales has distinguished himself at the Automotive Industry Authority by a rare combination of skills which are particularly appropriate to the Industry Commission in its new role.

Mr Scales trained as a fitter, machinist and toolmaker with ANI Corporation going on to fill a number of management positions in that firm. In 1974 he became General Manager of Reom Industries, a manufacturer of components for the Automotive industry. Between 1974 and 1984 Reom went from employing 30 people to employing 140 people with output rising by well over 500%. Export growth was an important part of that strategy. During this time Mr Scales also completed an economics degree at Monash University.

Since 1984 Mr Scales has been Chief Executive and, since 1988, Chairperson of the Automotive Industry Authority (AIA). In 1990 Mr Scales was appointed as an Associate Commissioner to the Industry Commission for its inquiry into the Automotive Industry. The report was one of a number of innovative IC reports which recommended new forms of outwardly oriented transitional assistance to accompany significant reductions in tariff assistance.

A New Role for the Commission

The Industry Commission has been a unique and immensely valuable institution with a proud history in Australian public policy and administration reaching back to the days of the Tariff Board and the Industries Assistance Commission.

The Commission and its predecessors have made a major contribution to Australia by identifying aspects of our economy which have impeded economic growth. They have played a major role in analysing and exposing the domestic costs which protection, regulation, disruptive,

restrictive and monopolistic practices in all their various forms have imposed on the Australian economy and so on the level of employment and the living standards of Australians.

The Commission will continue this important work as its major focus. The Government will continue to send the Commission references similar to those which we have sent it in previous years inviting the Commission to apply its 'economy wide' perspective to various activities in the Australian economy.

The Government will also develop a new form of reference which will allow the Commission to extend its vision in such a way that it can make a positive contribution to industry development in a low tariff environment. I will ask Mr Scales to consult with industry on how this broad approach can best be implemented and will look to industry to play a more active role in assisting the Commission in its investigations.

Following Mr Scales advice, the Government will provide the Commission with a series of "Industry Development References" which will require the Commission to investigate opportunities for growth in specified industries where, *prima facie*, Australia ought to have comparative advantages.

One of the central concerns of these references will be to expose and quantify impediments to the growth of those industries.

The Commission will be asked to investigate industry strengths and weaknesses and to identify ways by which a specified industry can improve its prospects.

Where much of the Commission's work has been focussed upon ensuring that assistance be reduced for specially favoured industries so that resources can be freed for more productive purposes, Industry Development References will generally focus on finding ways of optimising the circumstances and prospects of specific industries which already do, or soon will, receive low levels of assistance.

In this way the Commission will be able to play a more active part in ensuring that resources released — including labour — by contracting industries are speedily taken up in more dynamic sectors of the economy.

In these circumstances, it is important that the Commission and industries into which it inquires participate in these inquiries in a spirit of mutual co-operation and problem solving.

Importantly, this co-operation would be enhanced if the Chairperson of the Commission were able to identify persons associated with, and knowledgeable about, industry, who could participate as Associate Commissioners in the relevant Industry Development Inquiries.

The Government will be writing to industry organisations setting out this new development of the Commission's role and welcoming suggestions from business and the community more widely for future Industry Development References. The first of those references will be sent as the appropriate industry consultations have been completed.

This new role for the Industry Commission will complement and enhance its existing role. More particularly this will speed the all important process of expanding job growth in dynamic new sectors of the economy, and of assisting the sustainability of job growth across the whole economy by facilitating sufficient export growth to improve our external position.

The Commission has a proud record of resisting and exposing the special pleading of sectional interests and it is imperative that this role be protected and nurtured. The co-operative approach which the Commission is being encouraged to take will not be at the expense of its independence.

In this regard it is particularly fortunate that Mr Scales has agreed to accept nomination as new Chairperson. As a member of the AIA and as an Associate Commissioner of the IC, Mr Scales developed a reputation as someone capable of working in a close, productive and co-operative relationship with industry, whilst at the same time being a tough and independent critic of protectionism and of those seeking special favours.

The Government will also seek to explore ways to achieve greater involvement by the States and Territories including through:

- a greater role for them in proposing and developing references to the Commission;
- explicitly requesting the Commission to address the practical issues of implementing its recommendations, such as phasing and sequencing, the desirability and level of adjustment assistance, the role of different levels of government and the appropriate agencies to both drive and coordinate change; and
- establishing agreed processes for consideration and where appropriate joint consideration of Commission reports by the Commonwealth and the State and Territory Governments and seeking an undertaking from them to publicly announce responses within a reasonable time frame.

As an important adjunct to these measures, the government has decided to relocate the Commission to Melbourne over a period of time. This will enhance the extent to which the Commission is able to be in touch with industry. I will ask Mr Scales to consult with the Commission's staff about the timing and management of the move. It is envisaged that the IC will continue to have a significant presence in Canberra for some time.

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