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COMPANION PUBLICATIONS

The Commission is also releasing the following publications as part of the annual report suite.

Regulation and its Review: 1994–95

This publication discusses issues and developments in regulation. It also covers developments in regulatory review policies and practices and the operations of the Office of Regulation Review.

The Performance of Australian Industry: 1994–95

This publication examines the recent performance of Australian industry and factors affecting that performance.

Compendium of Reports: 1994–95

This publication provides extracts from the Commission's work in 1994–95 on inquiries and independent research studies, general reporting, performance monitoring, and regulation review.

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ABBREVIATIONS

ABARE	Australian Bureau of Agricultural and Resource Economics
ACCC	Australian Competition and Consumer Commission
ACDO	Australian Cultural Development Office
ADA	Anti-Dumping Authority
AHC	Australian Horticultural Corporation
AMLC	Australian Meat and Livestock Corporation
ANAO	Australian National Audit Office
ANZSIC	Australian and New Zealand Standard Industrial Classification
APEC	Asia Pacific Economic Cooperation (Forum)
AQIS	Australian Quarantine Inspection Service
AWC	Australian Wool Corporation
AWEX	Australian Wool Exchange
AWRAP	Australian Wool Research and Promotion (Organisation)
AWRC	Australian Wool Realisation Commission
BIE	Bureau of Industry Economics
CAA	Civil Aviation Authority
CAD	Current account deficit
CASA	Civil Aviation Safety Authority
CCS	Civil Construction Services
CEO	Chief Executive Officer
CER	Closer Economic Relations Agreement (with New Zealand)
CLRC	Copyright Law Review Committee
COAG	Council of Australian Governments
CPC	Central Product Classification
CRC	Cooperative Research Centre
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CSO	Community service obligation
CSWO	Community social welfare organisation
DFAT	Department of Foreign Affairs and Trade
DIFF	Development Import Finance Facility
DIST	Department of Industry, Science and Technology
EDA	Enterprise development agreement
EEO	Equal employment opportunity
EFIC	Export Finance and Insurance Corporation
EIA	Environmental impact assessment
EMDG	Export Market Development Grants

EPAC	Economic Planning Advisory Commission
EU	European Union
FBT	Fringe benefits tax
FTA	Fixed Term Arrangement
GAA	Graduate Administrative Assistant
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GBE	Government business enterprise (includes government trading and government financial enterprises)
GDP	Gross domestic product
GP	Gross product
GTE	Government trading enterprise
HOAP	Home Ownership Assistance Plan
HWC	Hunter Water Corporation
IAC	Industries Assistance Commission
IC	Industry Commission
ICS	Import credits scheme
IIS	Information Industries Strategy
IT	Information technology
IT&T	Information technology and telecommunications
IWS	International Wool Secretariat
MFN	Most favoured nation
MSB	Maritime Services Board
NCC	National Competition Council
NRS	National Registration Scheme
OAP	Overseas Assembly Provisions
ODA	Overseas development assistance
OECD	Organisation for Economic Co-operation and Development
OHS	Occupational health and safety
ORR	Office of Regulation Review
PBS	Pharmaceutical Benefits Scheme
PfD	Partnerships for Development
PMV	Passenger motor vehicles
PSA	Prices Surveillance Authority
PVC	Polyvinyl chloride
R&D	Research and development
RAS	Rural Adjustment Scheme
SCGTE	Steering Committee on National Performance Monitoring of Government Trading Enterprises
SECV	State Electricity Commission of Victoria
SES	Senior executive service

SRA	State Rail Authority
TCF	Textiles, clothing and footwear
TCFDA	Textiles, Clothing and Footwear Development Authority
TCO	Tariff Concession Order
TCS	Tariff Concession System
TEXCO	Tariff Export Concession Order
TPC	Trade Practices Commission
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States (of America)
WI	Wool International
WIL	Wool International Limited
WIRC	Wool Industry Review Committee
WTO	World Trade Organization

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The Commission wishes to thank its staff for their continued efforts, dedication and support during the past year.

Sustaining growth

Improving the performance of the Australian economy requires continuing effort on a number of fronts. Individual reforms may not always seem significant in isolation, but collectively they offer the prospect of a substantial boost to productivity and higher economic growth. Increased productivity is essential to underpin high living standards.

WHY GROWTH IS IMPORTANT

Australia, like all nations, faces a major challenge to achieve high levels of sustainable economic growth. Growth alone will not solve all of Australia's problems. It is, however, the foundation stone for improving living standards, reducing the unacceptably high economic and social costs of unemployment and providing the wherewithal to address other social needs.

Over the last 20 years, annual growth in real GDP in Australia averaged 2.9 per cent, while that in per capita GDP was 1.6 per cent. The growth of national income available to Australians was lower when allowance is made for the increase in Australia's net income payable abroad and adverse movements in the terms of trade. Even if these factors are left out of account, a continuation of this growth rate would mean that Australia's real income per capita would take almost half a century to double.

Sound macroeconomic management can enhance growth and employment prospects, particularly by providing a more certain environment for private decision-making and avoiding resource misallocation associated with high inflation. There is increasing recognition, however, that further progress in removing structural rigidities in the economy

generally, and especially in labour markets, will do most to increase Australia's growth potential. As such progress is made, productivity will improve and aggregate demand growth will be sustainable at a higher level. This faster growth is the principal way in which new entrants to the labour market can be absorbed and significant reductions in unemployment made. The Committee on Employment Opportunities (1993) estimated that an annual growth rate in real GDP of around 4¾ per cent is required to reduce unemployment to 5 per cent by 2000–01.

Sustaining higher growth requires the use of more labour, capital and natural resources or increases in their productivity. The importance of increasing productivity is that it is the major source of higher real income per head of population. The Commission has estimated that productivity improvements have accounted for more than half of the growth in output of the market sector of the Australian economy over the last 20 years (IC 1995m). Productivity can be increased in a variety of ways — through investments in technological advance, by innovating to meet market demand, by finding smarter ways of working and by allocating capital, human and other resources to uses where they make the greatest contribution.

Improvements in productivity can involve job losses, reduced demand for some types of labour, and require workers and managers to attain new skills. In the process, inefficient activities (with less scope to sustain employment) typically shrink, while those with greater potential for use of labour and capital over the longer run tend to expand. Continual improvements in productivity enable firms, be they private or public, to reduce prices, develop new products and services, and expand sales in new markets. This means they can maintain or increase employment. Other firms benefit from those productivity improvements by obtaining cheaper or better quality inputs. With the resulting gains in competitiveness, they too can expand their sales and employment.

As part of the process of lifting productivity, many government business enterprises (GBEs) have reduced staffing. As GBE monitoring shows, however, this has allowed them to increase returns to owner governments and overall to decrease real prices to consumers and user industries. The ultimate goal is the expansion of incomes and employment in the wider economy.

HOW MICROECONOMIC REFORM CAN HELP

While there are limits to what governments can do to sustain higher growth in the economy, they still have an important role to play, especially in establishing institutional, regulatory and policy frameworks conducive to the competition, entrepreneurship and investment which sustain growth.

All of the Commission's work on microeconomic reform has been aimed at identifying how Australian governments can perform these functions better.

Over the years the Commission has examined ways in which the performance of Australia's economic infrastructure can be made more efficient in areas such as electricity, water, gas, and railways. Many of these areas have been characterised by government ownership of service providers and regulation limiting private sector participation. Improving performance has involved a mixture of reforms designed to: increase competition; remove barriers to trade across State borders; improve accountability; implement pricing practices which encourage more efficient consumption and investment; and address issues of ownership, monopoly power and access to networks.

Commission inquiries have shown how the achievement of higher workplace productivity can be assisted by more appropriate labour market regulation and institutional arrangements. For example, some existing workplace regulations and practices were found to be inhibiting the growth of individual industries such as meat processing and impeding regional growth and adjustment in Australia.

Across a diverse range of past inquiries — including recycling, greenhouse gases, and fisheries — the Commission has had to assess whether market failure existed and, if so, how government incentives and regulation could improve on market outcomes. Market failure is prevalent in research and development (R&D). In its recently completed inquiry on R&D the Commission concluded that, though government support for private and public research is central to Australia's productivity performance, changes are needed so that public research is better directed and less discriminatory arrangements apply to government support for private R&D.

Several recent inquiries have looked at how governments purchase goods and services. This work is showing how government purchasing can be

made more efficient and, in particular, has identified the need to lift administrative competence in tendering and contracting processes.

An important element of the Commission's work stems from the desire of Australian governments to bring about improvements in the delivery of welfare services, in the management of health and safety in workplaces and in systems to compensate and rehabilitate injured workers. This work is generating widespread community discussion about how Australia can both improve efficiency and meet social needs better. In Chapter 3 the Commission reports insights from its work which can guide policy formulation as governments and community groups grapple with complex issues in these areas.

Overall, the Commission's work is showing that implementation of a range of microeconomic reforms across the economy can, over time, boost productivity throughout Australia. While individually some reforms may seem to make only a small contribution, their collective effect can make a real difference to living standards. An indication of the magnitude of what is at stake in proceeding with broad-based reform is provided by the Commission's estimate that the implementation of national competition policy and related reforms has the potential, in the longer term, to produce a level of GDP 5.5 per cent higher than would otherwise be the case. This is equivalent to adding around \$23 billion in real terms permanently to Australia's GDP. Importantly, this work showed that, by boosting productivity, it would be possible for Australia to increase output and generate more jobs without pressing up against resource constraints.

The international dimension is also important. Australia has been an active player in the Uruguay Round in helping to reduce restrictions on international trade. This should lift domestic productivity by further integrating Australian industry into the world economy. Through APEC, the Government is seeking to support and extend trade liberalisation. World trade in goods and services has grown at a rate about 70 per cent faster than world output over the last 20 years and thereby provided market opportunities essential to the continued expansion of many Australian businesses and opportunities for supplying consumer demands more efficiently. Australia could further reduce international trade restrictions by reducing impediments to imports of goods and services and encouraging other nations to do likewise.

If Australia is to benefit to the maximum extent from the competitive opportunities and challenges that stem from trade liberalisation, it must

act quickly to remove remaining impediments in the domestic economy that are restraining resource mobility and holding back the productivity of our own industries. Irrespective of whether other countries reciprocate, there are gains from unilateral reductions of trade barriers because of the burden they impose on efficient Australian industries and on consumers.

Worldwide, competition between firms is intense, not only for market share but for a share of the world's investment funds. Australia has traditionally relied on foreign capital to supplement domestic saving and thereby raise living standards. As a consequence, Australia has run current account deficits for most, if not all, of its history. There has been debate over whether the recent level of the current account deficit as a proportion of GDP is a constraint to growth. If action is required, the appropriate response for government lies principally in macroeconomic policy settings to ensure that Australia generates more of its own savings to finance increases in investment. There have been some recent policy decisions aimed at increasing domestic savings — partly by lowering the Commonwealth budget deficit and partly through mandated requirements for superannuation contributions.

Microeconomic reform will reduce Australia's current account deficit only to the extent that it lifts private and public savings in Australia relative to total investment. Policies which subsidise exports or seek to reduce imports (such as slowing down Australia's tariff reduction program or imposing a surcharge on imports) are likely to be futile in bringing about a sustained reduction in Australia's current account deficit. Such policies would divert capital into less productive uses and, over time, reduce real income growth (Appendix A).

If Australia is to sustain growth and expand employment, it must be an attractive place for residents and foreigners to invest, without selective inducements, and available saving must be used wisely. The important message in this report is that Australia has the capacity to make changes on numerous fronts to achieve the objective of a more productive, faster growing economy.

The landmark agreement by all Australian governments in April 1995 to implement national competition policy reform will expose previously sheltered segments of the economy to the productivity enhancing effects of competition. As noted in Chapter 2, however, this is the beginning rather than the end of the process. There is a need to resolve quickly some fundamental issues in establishing access regimes for essential facilities, as well as to formulate effective approaches to prices oversight. A

significant task lies ahead for governments in implementing these and other elements of the agreement. The task of reform is made harder when trade and industry policy decisions are inconsistent with the thrust of these competition policy reforms.

Chapter 3 identifies a substantial agenda arising out of the work of the Commission which, if implemented, would increase productivity and enable Australia to sustain higher levels of economic growth and living standards.

Making competition work

Competition has a vital role to play in improving Australia's productivity performance. Reductions in industry protection have gone a long way towards opening the Australian economy to international competition. This year there have been historic developments to extend the compass of competition policy within the domestic economy. This chapter reviews achievements in these areas and examines what can be done to harness properly the benefits of competition, whether from domestic or international sources. Australia's trade policies and domestic competition policies are two sides of the same coin and there is scope to achieve greater consistency between them.

Competition provides a powerful stimulus for private firms and public enterprises to operate efficiently. It also provides strong incentives for producers to respond to changes in market conditions, to innovate to keep costs down and to develop new and better products and services. Competition is the most certain means of ensuring that the benefits of improved productivity are passed to consumers.

Increasing the exposure of industries to competitive pressures has been the mainstay of a range of microeconomic reforms initiated by Australian governments to improve efficiency, promote growth and assist in overall job creation. Past reform efforts — particularly in improving the commercial orientation of government business enterprises and in enhancing the competitive environment faced by our infrastructure industries — are continuing to yield benefits (Box 2.1).

The Commission has again compiled a list of reforms undertaken by Commonwealth, State and Territory Governments (Appendix H). It is evident that reform is progressing further and faster in some sectors and jurisdictions than in others. Notable achievements in the past year, which have the potential to bring about

Box Error! AutoText entry not defined..1: Gains from microeconomic reform

- The Steering Committee on National Performance Monitoring of Government Trading Enterprises reported on the performance of 59 Australian GBEs in the electricity, gas, water, transport and communication industries (SCGTE 1995). Between 1989–90 and 1993–94 real prices fell on average by over 3 per cent, operating sales margins improved from 19 to 23 per cent, payments to governments increased from \$1.5 billion to more than \$3.5 billion, real average debt levels fell by 2 per cent, and real labour productivity increased by almost 70 per cent. Railway freight prices have fallen by 11 per cent in real terms since 1989–90, and real electricity prices by 5 per cent. Other examples of improved performance include:
 - Australia Post has cut the real price of postage and frozen the basic postage rate at least until the beginning of 1997. Payments (excluding capital repayments) to government have increased by 120 per cent since 1990–91.
 - Between 1989–90 and 1993–94, the Maritime Services Board of NSW reduced charges by 43 per cent.
- The number of airline passengers on the 21 principal interstate routes increased 77 per cent between the September quarter 1990, the last quarter prior to deregulation, and the December quarter 1994. While some of the growth reflects the pick-up in economic activity, the Prices Surveillance Authority has calculated that average air fares have declined 24 per cent in real terms since deregulation.
- The 16 per cent fall in real prices of telecommunications between 1989–90 and 1993–94 can be attributed to increased competition and technological improvements. In 1993–94 Telstra reduced revenue-weighted prices by 3.7 per cent, a benefit to customers of approximately \$315 million. Price reductions were greater in the most competitive markets — STD, IDD and mobile services. The Bureau of Industry Economics found that Telstra has improved total factor productivity more strongly since the introduction of competition, but that it is still operating below world's best practice.
- Most water users in Sydney now pay for water according to the amount they use rather than by reference to the value of their property. The user-pays pricing system introduced by the Sydney Water Corporation has reduced the cross-subsidisation of residential consumers by non-residential users by 46 per cent since 1992–93. As a result of changes announced in July 1995, water charges will fall for 85 per cent of non-residential users and increase slightly for about half of the residential sector. About a third of non-residential users' bills will decrease by 20 per cent or more. Significant progress has also been made toward higher levels of cost recovery for irrigation water in some States. This should reduce overutilisation of scarce water resources, with resultant environmental benefits.

far-reaching gains in the provision of economic infrastructure, include the creation of a more competitive electricity supply industry.

There has been a trend in all jurisdictions towards greater competition and private sector involvement in areas traditionally characterised by public sector provision. This is being achieved through contracting and competitive tendering, facilitating private sector access to electricity and rail networks, and the privatisation or partial sale of government businesses in areas such as banking and aviation. In telecommunications, the Commonwealth Government has recently announced its decision to end current entry restrictions in July 1997 and to open the telecommunications market to full competition. In the important area of labour market reform, the continued spread of enterprise bargains is evident, particularly in the public sector. The need for labour market arrangements that provide flexibility for firms and employees to adjust to rapidly changing circumstances was a central theme of the Commission's previous annual report.

IMPLEMENTING NATIONAL COMPETITION POLICY

A major step in extending the reach of competition policy to previously sheltered sectors of the economy was the commissioning in late 1992 of the report of the Independent Committee of Inquiry into a National Competition Policy (Hilmer 1993). Governments were seeking a national competition policy framework which would be consistent with developing an open, integrated domestic market for goods and services by removing unnecessary barriers to trade and competition.

At the meeting of the Council of Australian Governments (COAG) in April 1995, Heads of Government signed agreements to implement the National Competition Policy Reform package. The package extends the competitive disciplines of the Trade Practices Act to State GBEs, statutory marketing arrangements and unincorporated enterprises. It also sets out a process for the review and reform of regulation and other interventions which impede competition throughout the economy (Box 2.2). A new institutional framework has been created for advancing competition reforms. The Australian Competition and Consumer Commission (ACCC) will absorb the functions of the Trade Practices Commission and the Prices Surveillance Authority (PSA). The ACCC will also enforce the provisions of the Conduct Code Agreement and make determinations under the new access regime (see below). The

National Competition Council (NCC) will

Box Error! AutoText entry not defined..2: COAG agreement on competition policy reforms

At its April 1995 meeting, COAG agreed to a national competition policy reform package and signed three intergovernmental agreements to implement the reforms:

- The *Conduct Code Agreement* sets out the basis for extending the competitive conduct rules of the Trade Practices Act to the unincorporated sector and to State government business activities. It also establishes consultative processes on modifications to the competition law and appointments to the ACCC.
- The *Competition Principles Agreement* establishes agreed principles on the structural reform of public monopolies, competitive neutrality between public and private sector businesses, prices oversight of government businesses with significant monopoly power, a regime to provide access to the services of essential infrastructure facilities and a program of review of legislation restricting competition. Reviews of regulation restricting competition are to clarify the objectives of such legislation, identify the nature of the restriction on competition, analyse the likely effects of the restriction on competition and on the economy generally, assess and balance the costs and benefits of the restriction, and consider alternative means of achieving the objective of the regulation. The Agreement also deals with consultative processes on appointments to the NCC.
- The *Agreement to Implement the National Competition Policy and Related Reforms* provides that the Commonwealth will maintain a real per capita guarantee of financial assistance grants to the States and local government on a rolling three-year basis and will provide further financial assistance to the States in the form of competition payments. Both elements are conditional on the States meeting agreed reform objectives as assessed by the NCC. The competition payments are to be provided in three stages, the first of which is \$200 million per annum to commence in 1997–98. From 2001–02 competition payments will amount to \$600 million per annum (in 1994–95 prices).

COAG agreed to the following timetable for implementation:

- Amendments to the competitive conduct rules, operative from July 1995.
- The new institutional arrangements and the access regime are to commence in the second half of 1995 or shortly afterwards.
- Policy statements on competitive neutrality and the application of the Competition Principles Agreement to local government are to be published by each government by June 1996.
- By June 1996 governments are to develop a timetable for the review and, where appropriate, reform by 2000 of all existing legislation which restricts competition, unless it can be clearly demonstrated to be in the public interest.

advise on access declarations and on prices oversight of State or Territory Government businesses and undertake reviews under the Competition Principles Agreement.

The important challenge now for governments is to realise the potential of the package of reforms agreed by COAG. The agreements are just the start. Governments individually have to work at implementing them. For example, Australian governments are to set priorities for review of anti-competitive regulations by June 1996 and, where appropriate, reform them by 2000. Each jurisdiction is free to determine its own agenda for the reform of public monopolies.

An early scheduling for review of the areas where prospective gains are the largest would be an important first step in the process of regulation review and the structural reform of public monopolies. The agreements specify the principles to be followed by governments in conducting reviews before they introduce competition to a sector traditionally supplied by a government monopoly and in undertaking reviews of regulation restricting competition. Governments have the option of involving the NCC. Whether these reviews are conducted by the NCC or some other independent body, there would be considerable benefits in conducting them in the open and transparent manner recommended by the Independent Committee of Inquiry.

For its part, the Commonwealth has enacted the Competition Policy Reform Act (Box 2.3). The Act is ambitious in its coverage and its implementation requires many complex issues to be resolved, such as how regimes for access to essential facilities and prices regulation will operate. The

Box Error! AutoText entry not defined..3: The Competition Policy Reform Act

The Commonwealth's *Competition Policy Reform Act 1995* is a key element of the competition policy package and has:

- amended the competitive conduct rules of Part IV of the Trade Practices Act and the provisions that exempt specific forms of conduct from these rules;
- extended the coverage of the competitive conduct rules to the unincorporated sector and to State Government businesses;
- established a new national regime for access to services provided by 'nationally significant' infrastructure facilities;

- amended the Prices Surveillance Act to extend prices oversight to State and Territory-owned enterprises; and
- established the NCC and the ACCC.

Commission will examine these issues in detail in a forthcoming publication, drawing on its experience in reporting on major infrastructure industries such as railways, postal services, electricity and gas. The way these issues are resolved will be critical to ensuring that competition policy makes the most effective contribution to raising Australia's productivity.

ACCESS TO ESSENTIAL FACILITIES

Effective competition in some markets requires competitors to have access to the services of certain 'essential facilities' that cannot be duplicated economically. For example, the creation of a competitive electricity supply market requires that generators have access to the electricity transmission grid. Granting access to such facilities can improve economic efficiency by increasing competition in downstream and upstream markets. Access regimes also impose potential costs, particularly where they involve uncertainty for future investment in areas that do not warrant regulation as essential facilities. Care needs to be exercised, therefore, in the regulation of access arrangements. Potentially, the medium to long-term costs of an overly permissive allowance of access are likely to exceed the benefits.

The Competition Policy Reform Act requires the NCC to consider applications from any person for a right of access to be declared to the services of certain essential facilities of national significance. The Act, in conjunction with the Competition Principles Agreement, also makes provision for the endorsement of State and Territory access regimes. A third way in which access arrangements can be established is that the ACCC can accept 'undertakings' from providers of access services on the terms and conditions under which they will provide access to third parties.

The Act sets out six criteria to be met before the NCC can recommend that a right of access be declared (Box 2.4). The Commission considers it important that the criteria are interpreted in ways which ensure that rights of access are declared only where the efficiency benefits to the community exceed the costs. For example, the first criterion requires that access to a service 'promote' competition. If economic efficiency is to be

improved, this criterion should be interpreted as requiring that an access declaration is essential to bring about a substantial, not trivial, improvement in the nature of competition in a downstream or upstream market. Likewise, interpreting the ‘public interest’ criterion to mean the achievement of concrete efficiency gains would reduce unnecessary uncertainty for facility owners about situations in which access rights might be declared.

Box Error! AutoText entry not defined..4: Criteria for declaring a right of access

The Competition Policy Reform Act requires six criteria all to be met before the NCC can recommend to the designated Minister that a right of access be declared:

- access (or increased access) to the service would promote competition in at least one market (whether or not in Australia), other than the market for the service;
- it would be uneconomical for anyone to develop another facility to provide the service;
- the facility is of national significance, having regard to: the size of the facility; or the importance of the facility to constitutional trade or commerce; or the importance of the facility to the national economy;
- access to the service can be provided without undue risk to human health or safety;
- access is not already the subject of an effective access regime; and
- access (or increased access) to the service would not be contrary to the public interest.

When introducing the Commonwealth’s legislation, the Minister indicated that the underlying notion was that access regimes would apply to facilities with natural monopoly characteristics. A natural monopoly technology is one where total costs are the lowest possible when there is only one service provider. The Competition Principles Agreement also refers to situations in which facilities cannot be ‘duplicated’ economically. The Act is couched broadly, with the second criterion for declaration referring to situations where it would be uneconomical for anyone to develop ‘another’ facility to provide the service. In practice, deciding what constitutes a natural monopoly is a complex analytical task and one where the answer may change as new technologies develop. If the boundaries are blurred beyond natural monopoly to include situations in which there are two or more facilities serving a market, the size and

difficulty of the regulatory task and its potential cost may increase substantially without the prospect of further significant efficiency gains.

Declarations of access should be limited to facilities with natural monopoly characteristics which are of national significance and where third party access is required for effective competition.

Once an access right has been declared by the NCC, the terms and conditions of access are to be negotiated commercially between the third party and the facility owner. Compulsory arbitration is to be used if agreement cannot be reached. The intention is that parties should reach agreement through negotiation rather than have terms and conditions set by regulation. Commercial negotiation respects property rights and gives the parties the potential flexibility to tailor terms and conditions to suit their needs. Negotiation between the parties may not, however, diminish market power where competition in the final goods market is weak. In these circumstances, there may be an incentive for the facility owner and parties seeking access to engage in collusive behaviour and share monopoly profits — denying final consumers benefits from access arrangements. Recourse to the regulation of output prices or access prices may be required to guard against overpricing.

That said, price regulation imposes its own costs — both on government and business — such as in compliance, in collecting and evaluating information, in resolving disputes and in uncertainty. It is not easy for regulators to determine efficient access prices and, where they fail to do so, regulation can distort production and investment decisions. For example, setting access prices too low would, by reducing profitability, weaken incentives for further investment in the facility by the owner.

Given the inherent difficulties in the regulatory task, the process by which access decisions are made is particularly important. A process which is transparent and exposes reasoning to public scrutiny prior to final determination stands the best chance of achieving robust outcomes which will improve economic efficiency.

Access undertakings to the ACCC, if accepted, provide an avenue for facility operators to avoid the uncertainties associated with the NCC declaration process. In evaluating proposed undertakings, the ACCC has to have regard to its own set of criteria including the legitimate business interests of the service provider, the public interest, the interests of all those who might want access to the service and any other matters the ACCC thinks relevant. The ACCC is required to publish proposed

undertakings, invite submissions from the public and maintain a public register of all accepted access undertakings.

The ACCC may almost immediately have to deal with applications for undertakings for a wide range of facilities. As the ACCC's early judgements will be influential as precedents for future decisions, its reasonings should be exposed to as much public scrutiny as possible. The institutionalisation of arrangements by the ACCC only in areas where they are clearly warranted, and which would likely be declared as essential facilities by the NCC, would maximise the benefits from greater competition while minimising the economic costs of regulation.

This raises the important issue of achieving consistency between the NCC and ACCC and the need for common guidelines and understanding. The requirement to achieve greater consistency will also extend to State regulatory bodies in regard to declaration processes and decision-making criteria for both access rights and prices oversight. While access regimes have the potential to increase competition and productivity, differing regulatory approaches by different jurisdictions could undermine these potential gains.

PRICES OVERSIGHT

Legislated monopolies, firms operating in markets with natural monopoly characteristics and firms in poorly contested markets have significant potential to engage in monopolistic pricing. Where governments expose previously sheltered industries to increased competition, this will encourage greater efficiency in the supply of goods and services and minimise the need for price regulation. However, effective competition may not be achievable in all markets or may take some time to occur. Prices oversight may continue to be appropriate in these circumstances.

Under the new competition policy agreements, prices surveillance processes will be streamlined, with less obstructive prices monitoring formally introduced, and prices oversight extended to State and Territory GBEs. Responsibility for prices oversight of declared private enterprises and major Commonwealth enterprises will lie with the ACCC. Prices oversight of State or Territory owned enterprises by the ACCC will be possible where the owner government has agreed or where the NCC has, on request of another government, recommended declaration of an enterprise for prices oversight. Some States have established independent bodies to oversight prices and other States and Territories have agreed to consider doing so.

A critical issue for governments to address is the development of declaration processes and criteria which confine prices oversight to natural monopolies and other activities where competition is very weak. There are unlikely to be net benefits from prices oversight when firms which do not have effective market power are declared for oversight. Recent Commission inquiries have found that unwarranted price surveillance is detrimental to consumer choice, adds to business costs and adversely affects production and investment plans without a commensurate pay-off to the community. In a submission to the PSA, the Commission developed criteria to guide judgements about which industries should be subject to prices oversight (Box 2.5). The resources of the new ACCC and other regulatory bodies should not be dissipated in prices oversight where there may be little or no potential gain for the community.

The contribution which prices oversight can make to improving efficiency and controlling abuses of monopoly power would also be strengthened by requiring price regulators to focus on competition and efficiency concerns. At present, independent price regulators are required by governments to have regard not only to competition and efficiency, but also to other considerations such as investment and employment, dividend payments to governments, protection of the environment, protection of consumers, social welfare and equity considerations and community service obligations. Many of these broader objectives of government can be pursued more effectively through the use of other instruments or dealt with by other regulatory bodies.

Governments have provided little guidance to existing tribunals on the priorities to be attached to the different objectives set for prices oversight. Consequently, various trade-offs have been constructed between conflicting

Box Error! AutoText entry not defined..5: Refocusing prices surveillance activities

The Commission argued in its submission to the PSA's general review of goods and services subject to surveillance that, where competition is effective, prices surveillance adds to costs and reduces incentives to innovate and invest without bringing a compensating price advantage to consumers (IC 1994f). Costs would be reduced if prices surveillance was used more sparingly and refocused. The Commission considered that the balance between the costs and benefits of prices surveillance are such that it should be limited to circumstances where a single firm:

- has a greater than two-thirds market share; *and*
- has no major rival; *and*
- faces sporadic or trivial imports (import penetration persistently below 10 per cent of the market); *and*
- is sheltered by substantial barriers to entry (and expansion by rivals).

Surveillance of prices can improve economic efficiency where pro-competitive reforms would be ineffective. While the Commission has supported prices surveillance in a number of inquiries involving public utilities and natural monopolies, it considered much of the PSA's then existing surveillance activity difficult to justify. To date the Government has removed some goods from surveillance and decided on less onerous price monitoring for other goods, but has not accepted that competitive markets provide sufficient discipline on the pricing of cigarettes and beer.

objectives. For example, in setting prices for GBE-supplied goods and services, tribunals have been involved in making trade-offs between the interests of consumers in lower prices and those of the government as shareholder in securing adequate dividend payments.

The Competition Principles Agreement specifies that State-based agencies are to take efficient resource allocation as their primary objective. However, no such specification is made for the national institutions established under the Agreement. The NCC and the ACCC should also be required to give priority to efficiency in resource allocation in their deliberations. This could be implemented by governments agreeing to common criteria to guide the work of these institutions which incorporate efficient resource use as the primary criterion.

Governments have undertaken to work cooperatively to examine issues associated with prices oversight of GBEs and may seek the assistance of the NCC in this regard. A priority for the work program of the NCC should be to develop a consistent approach to prices oversight for

consideration by governments. While some differences in approach to price regulation may provide useful experimentation, they may also induce artificial price differentials for similar goods and services provided by different suppliers which do not reflect the costs of supply. This would distort the competitiveness of users in different locations and distort future investment decisions. Problems of overlap between the Commonwealth, State and Territory pricing regulators will need to be resolved in relation to prices oversight of enterprises supplying services on interstate networks.

CONSISTENCY IN POLICIES

The direction now set by the competition policy agreements should drive reforms elsewhere in the economy. Other areas should not be sheltered from the same sort of competition principles. For example, Australia needs to continue to make labour markets more productive and flexible so as to receive the full benefits of competitive pressures on enterprises.

There is a need for greater consistency between the application of competition policy domestically and internationally. The reversal of the Government's *One Nation* commitment to the creation of a single aviation market with New Zealand runs counter to the direction of competition policy. Similarly, coastal shipping policy continues to restrict the entry of foreign vessels to Australia's coastal trades.

The retention of restrictions on parallel imports would also seem contrary to the general direction of competition policy. Restrictions on parallel importing prevent, amongst other things, legitimate copies of copyrighted material from being imported commercially except through authorised distribution channels. This reduces competition and has implications for the prices paid by, and choices available to, consumers of a range of products and services embodying intellectual property. The most notable are books, computer software and music recordings (Appendix B).

REDUCING BARRIERS TO INTERNATIONAL COMPETITION

Australia has made considerable progress since the late 1980s in opening the economy to greater international competition by reducing its tariff protection for industry. This has directly advantaged Australian consumers by providing access to cheaper goods and services. Tariff

reductions have also reduced the burden previously imposed on the growth prospects of exporters and industry generally. Australia has reduced its protection unilaterally and there are strong reasons to continue to proceed in this way because of the domestic benefits it brings (Box 2.6).

Australia has also played an active role in the Uruguay Round and has been at the forefront of developments in the Asia Pacific Economic Cooperation (APEC) forum. In the Bogor Declaration of November 1994, APEC members signalled a commitment to achieving free and open trade and investment in the region by 2020 (with industrialised countries to implement the agreement fully by 2010). Taken together with the conclusion of the Uruguay Round, Australia has made a substantial commitment to freer trade.

Assistance to the Australian manufacturing sector continues to decline under the program of reductions set in place by the Commonwealth Government in 1991. The average (production-weighted) nominal rate of assistance to manufacturing fell to 3 per cent in 1994–95 from 4 per cent the previous year. Measured assistance fell in effective rate terms to 9 per cent from 10 per cent in the same period (Appendix F). Nevertheless, tariff assistance to industry imposed costs on Australian consumers of around \$6 billion in 1994–95.

Box Error! AutoText entry not defined..6: Should tariff reductions depend on other reforms?

Australia benefits from reducing its industry protection whether or not other countries reciprocate. The Commission has estimated that Australia's decision in March 1991 to reduce protection would result ultimately in a permanent increase in GDP in the order of 0.4 per cent, or some \$1.7 billion.

Action by other countries to reduce their trade barriers can add to these gains and international commitments can help to lock in domestic reforms. However, this is not a reason for Australia to move away from the unilateral approach it has adopted to assistance reductions. Deferral of assistance reductions to some industries until progress is made on reducing assistance in other countries would continue to impose costs on Australian consumers and on more efficient Australian industries as they attempt to adjust to an increasingly competitive international marketplace.

Some argue that in proceeding unilaterally Australia nevertheless squanders negotiating coin that it could use in bargaining with other countries to reduce their trade barriers. It is conceivable that negotiated outcomes can produce a better result, but in Australia's case the evidence strongly supports not waiting for other countries to act. The fact is that Australia has been granted concessions in

multilateral negotiations for lowering its trade barriers unilaterally. Moreover, the experience has been that small and medium-sized trading nations possess limited bargaining power. Unilateral action by Australia can, however, have a demonstration effect on other countries. It has been observed that Australia's trade policies over the past few years have contributed significantly to preserving the integrity of the multilateral trading system and have set an example for others to follow (GATT 1994d, p. 5).

Another argument is that assistance reductions for domestic industries should be deferred pending faster progress on other elements of microeconomic reform in Australia. The Commission's work shows that the benefits of tackling a number of elements together can be mutually reinforcing and can help to ease adjustment difficulties. Each domestic reform, however, has its own pay-off. Moreover, reform in one area can drive reforms in other areas. Tariff reductions have been a particularly important driver of productivity improvements in Australia as previously protected industries have sought to have their input and other costs reduced. If every sector of the economy were to succeed in having reform in its area conditional on reform elsewhere, the whole process of harnessing competition to raise national productivity could stall.

At the end of the general tariff reduction program in July 1996, nearly all industries will have tariff rates no higher than 5 per cent. The major exceptions will remain the passenger motor vehicle (PMV) and textile, clothing and footwear (TCF) industries, which are scheduled to have tariffs of 15 per cent and up to 25 per cent, respectively, in 2000–01. Tariff protection for the manufacturing sector will cost consumers \$4 billion in that year. Reviews of the TCF and PMV sectors are scheduled to take place in 1996. An early decision to refer these reviews to the Commission would signal the maintenance of the Government's commitment to having independent and transparent reviews that will have regard to the economy-wide implications of assistance arrangements — including the costs for consumers.

The average nominal rate of assistance to agriculture was 4 per cent in 1993–94, the same as the previous year. Market milk, tobacco and sugar received increases in assistance but these were largely offset by reductions for wool, wheat, dried vine fruits and wine grapes. The average effective rate of assistance to the sector rose from 10 per cent in 1992–93 to 12 per cent in 1993–94, partly reflecting reductions in the tariff penalties on agricultural inputs. While not captured in the 1993–94 estimates, there have been significant changes in the assistance arrangements for the tobacco industry. From the beginning of 1995, tariff protection for tobacco leaf and tobacco products was removed and local content arrangements protecting growers were terminated. Local

manufacturers and State Governments have provided subsidies to ease the adjustment of some growers out of the industry (Appendix F).

OTHER INDUSTRY SUPPORT MEASURES

While tariffs have fallen substantially, support continues to be provided to industry in other forms, much of which is not captured by the assistance estimates reported above. It is necessary to ensure that such support measures do not detract from progress in opening the Australian economy to international competition and are provided only where they contribute to improved productivity and efficiency in resource use.

Budgetary outlays and export measures

Commonwealth budgetary outlays supporting industry increased by more than 10 per cent in 1994–95 to over \$2.1 billion, the highest level in real terms since 1991–92. The manufacturing and agricultural sectors account for nearly three-quarters of the total. Trends in outlays by industry sector and forms of support are detailed in Appendix D. Only about one-third of these outlays are taken into account in the Commission's assistance estimates for manufacturing and agriculture.

Budgetary outlays cover a range of measures with different rationales and justifications. For example, R&D support seeks to correct for market failures. The Commission's review of R&D found much to commend in the current arrangements but made proposals to enhance their contribution to Australia's productivity (IC 1995f). On the other hand, production bounties assist industry against import competition. Rates of bounty assistance to industry are falling and bounties are subject to periodic review. The largest outlays are for the computer bounty which the Commission has reviewed and recommended be allowed to lapse in December 1995 (IC 1995h). The Commission is currently reviewing another major source of budgetary outlays — support for the pharmaceutical industry.

Some budgetary outlays also support exports. In addition, exports benefit from a range of programs which involve the Commonwealth forgoing revenue. In total, the level of support for exports, as measured by the more readily quantifiable Commonwealth export measures, is estimated at over \$1.5 billion in 1994–95 (Appendix C).

While this represents less than 2 per cent of the value of goods and services exported, the distribution of support between industries and

sectors is uneven. The manufacturing sector receives a disproportionately large share — some three quarters of total export support. In part, this reflects the provision of specific export programs for certain manufacturing industries. Almost one-third of total export support stems from the PMV and TCF export programs. Duty forgone under the PMV export facilitation scheme increased by 9 per cent to \$316 million in 1994–95. Under the TCF import credits scheme, duty forgone rose by 25 per cent to \$132 million in 1994–95. These increases are the result of higher exports under the schemes. The rate of assistance to PMV exports is declining in line with the Government's tariff reduction program for that industry. The rate of assistance to TCF exports is to decline from 1996 as prescribed under the import credits scheme. These schemes would be expected to be reviewed as part of the scheduled reviews of assistance arrangements for the PMV and TCF industries.

Government procurement

Government procurement policies (both at the Commonwealth and State level) can have industry assistance effects which add to costs and detract from the efficiency of new investment. A trend detected in some Commission inquiries is the use of access to major government contracts as a lever to secure industry development commitments. Some States are increasingly using the leverage of large contracts to influence the location of major investments (Appendix B). The Commission argued in its inquiry on computers that such practices carry the risk that firms and activities within these industries will become fragmented. In order to avoid the potentially high costs associated with such fragmentation, the Commission recommended that the Commonwealth, State and Territory Governments, through COAG, recommit to a national approach in the use of government purchasing for industry development.

There are difficult trade-offs to be considered where governments attempt to combine industry development objectives with value-for-money in government procurement. In its inquiry into defence procurement, the Commission noted that the assembly in Australia of 75 F/A–18 fighter aircraft during the 1980s incurred a premium estimated by the Department of Defence at around \$700 million, or some 17 per cent of the total project cost. Although there were some general benefits in enhancing skills and upgrading industry capabilities, the principal objective of maintaining industry's capability over the operational life of the aircraft has proved difficult to sustain because maintenance is carried out by the RAAF.

Anti-dumping measures

Australia's anti-dumping system has the objective of discouraging what are perceived to be unfair trading practices by exporters to Australia. Anti-dumping measures are permitted under international trade agreements when imported goods are sold for less than their 'normal value' in their country of origin and the dumping is found to have caused or threatened material injury to an Australian industry.

There are tensions, however, between providing protection to domestic producers against the pricing practices of foreign suppliers and the economic interests of other Australians. Dumping duties, price undertakings given by foreign firms as a result of dumping actions, and even the threat of initiating anti-dumping action can reduce competition and adversely affect downstream users or consumers and the economy generally. As an indication of the penalty to users, dumping margins on some packaging materials for which action is in place have been up to 50 per cent.

The competition policy principles agreed to by COAG discourage predatory activity which would limit competition, but recognise the benefits to the domestic economy from price competition generally. Australia's anti-dumping arrangements limit import competition even where there is no predatory intent.

Only six anti-dumping actions were initiated in 1994–95, considerably down on the 51 cases initiated in 1993–94. This drop is consistent with observed trends during previous upturns in the economy. Nevertheless, under the five year sunset provisions, the number of cases subject to existing measures (92 cases) is at its second highest level since 1987–88 (Appendix E). At June 1994, Australia had the third highest number of anti-dumping measures in place behind the United States and the European Community.

Restrictions on trade in services

Exposing Australia's services industries to the disciplines of international competition plays an important part in ensuring that services are provided efficiently. The expansion of world trade in services provides opportunities for efficient Australian suppliers. Trade in services is extending well beyond cross-border flows (such as in tourism) to include other modes of delivering services through foreign direct investment and the temporary movement of people. Regulations which hamper these

modes of delivery can impose substantial costs and therefore need to be scrutinised closely.

The Uruguay Round incorporated services trade for the first time into the rules that govern the multilateral trading system. Effective from 1 January 1995, the General Agreement on Trade in Services (GATS) covers all modes of supply, and so is potentially very broad in coverage. The Commission has examined the Agreement and its implications for Australia (Appendix G).

The GATS is a landmark achievement in itself and provides some restraints on new measures restricting trade. It is important to recognise, however, that the Agreement does not require a roll-back of existing restrictions on services trade. Moreover, the GATS has a sector-by-sector focus which has enabled countries to avoid making commitments not to impose further restrictions in many sectors.

In total, Australia's 'bound' sectoral commitments against introducing new restrictive measures cover an estimated one-fifth of its services production. These include mainly business services, high value-added telecommunications, sporting services and wholesale trade. A quarter of services production, including coastal shipping, railways and almost all telecommunications, was excluded outright from specific GATS commitments by the Government. Further, for those sectors covered by specific commitments, the bound commitments are skewed away from the services within those sectors which are produced in Australia. These include construction, retailing, banking, insurance and road transportation, in which no obligations were made to provide market access or national treatment — existing restrictions can be maintained and/or new ones introduced.

Australia has made progress in opening previously sheltered sectors of the economy to both domestic and international competition in areas such as banking and finance, and telecommunications. While the GATS does not oblige Australia to go further, it has served to focus attention on barriers to trade in services both in Australia and in other countries. Given the importance of services to the Australian economy and the continuing possibilities for growth in services trade, Australia has much to gain by reviewing the appropriateness of its protection against trade in services.

THE TASK IS NOT COMPLETE

Reductions in industry protection have gone a long way towards opening the Australian economy to competition from abroad. The reform task, however, is by no means complete. Australia should continue down the path of reducing barriers to trade in both goods and services on a unilateral basis. Reducing domestic protection further would bring about a more efficient allocation of resources, lower costs for user industries and consumers and strengthen Australia's credibility as it works to ensure greater openness in the world trading system.

The Commission's contribution

The Commission's work is aimed at assisting governments to determine where and how they can sustain and build on past efforts to improve the performance of the Australian economy. The Commission also seeks to enhance industry and community understanding of the benefits and costs of the changes Australia needs to make to increase growth and living standards.

Higher productivity is necessary to underpin Australia's future economic prosperity and can contribute to better social and environmental outcomes. This is the unambiguous message that flows from each of the Commission's five core activities: inquiries; independent studies for other agencies; performance monitoring of government business enterprises and service providers; general reporting and research; and business regulation and review.

INQUIRIES

The Commission's principal function is to inquire publicly into and report on matters referred to it by the Commonwealth Government. Increasingly, State and Territory Governments are contributing to the development of the Commission's inquiry program and are consulted on terms of reference for particular inquiries. For a number of years now, much of the Commission's inquiry program has encompassed areas where the States and Territories have prime responsibility for service delivery.

The Commission operates on the following fundamental principles in conducting its inquiries:

- it provides independent advice;
- its inquiries are open and public, providing opportunities for a wide range of people to participate in the inquiry process and scrutinise the process of policy development; and

Box 3.1: Industry Commission inquiry program— past, present and future

Examples of past Commission inquiries

Energy	Public housing
Rail	Workers' compensation
Water	Product liability
Postal services	Health and education exports
Urban transport	Urban settlement
Motor vehicles	Regional industry adjustment
Mining	Recycling
Statutory marketing authorities	Greenhouse gases
Meat processing	Environmental waste industries
Tobacco	Fisheries

Commission inquiries in 1994–95

Charitable organisations	Defence procurement
Work, health and safety	Competitive tendering and contracting
Research and development	Computer hardware and software
Petroleum products	Packaging and labelling
Vehicle repair and insurance	Tourism accommodation and training
New and advanced materials	Pharmaceutical industry

The Commission's forward inquiry program

The Commonwealth Government has announced a forward inquiry program to give the Commission and interested parties opportunity for planning and preparation.

Implications of firms locating offshore*	Ecologically sustainable land management
Medical and scientific equipment	Biotechnology
State, Territory and Local Government assistance to industry	Strategies for improving Australian business management
Progress in rail reform	Ecotourism
Spectrum management reforms	Uniquely Australian products
Communications convergence	Transformation of metals
Telecommunications equipment, supplying systems and services	Impediments to local industry goods and services to the resources industry

* received 31 August 1995

- its advice seeks to enhance the well-being of the community as a whole rather than the interests of any particular industry or group.

In recent years the Commission's inquiry program has been broad-ranging. Inquiries have covered almost all major components of economic infrastructure, several key areas of social infrastructure, and dealt with issues of regulation, industry assistance, the operation of capital and labour markets, Commonwealth-State relations, and the environment. From these investigations the Commission has made major recommendations to government to bring about better performance. The forward inquiry program continues to identify issues of interest to government, business and the community generally (Box 3.1).

In 1994–95 the inquiry program had a particular focus on improving efficiency in areas which directly influence people's lives — notably in its inquiries into charities and workplace safety. The Commission also carried out a major investigation of how Australia's R&D effort can be improved. Issues relating to government purchasing and industry assistance featured across a number of inquiries.

Much inquiry work has involved examination of areas of economic and social policy where governments clearly have a major role in improving on market outcomes. A recurring theme is that governments can achieve better outcomes by policies which:

- more clearly define specific roles for government, as well as for individual and collective responsibility;
- build better regulatory and market-based incentives to shape private sector activity; and
- improve the efficiency and accountability of government-funded programs and institutions.

The focus of the inquiry into *charitable organisations* was on reforms which would assist community groups and governments in allocating resources to better help people in need. The sector spent more than \$4.8 billion in 1993–94 providing services such as care, accommodation, support and counselling to children, families, people with a disability, older people, the unemployed, those suffering addictions, the homeless and refugees. Of this, governments directly funded more than \$2.7 billion.

Even though non-profit organisations are not driven by market values, the inquiry found that market-based mechanisms can be blended with the

values of community social welfare organisations to improve efficiency and deliver quality services to the most vulnerable in Australian society and in other countries. For example, governments are increasingly contracting these organisations to provide services on their behalf to the community. Costs can be reduced and the quality of service to clients enhanced if the selection of service providers is made more contestable, transparent, open and accountable and is reviewed periodically. The adoption of quality management systems provides a means of improving services and can substantially reduce the need for intrusive government monitoring which the sector finds inefficient and prone to stifle initiative and inventiveness.

The Commission's inquiry on *occupational health and safety* (OHS) found that clearer and better incentives for employers and employees are essential to make Australian workplaces safer and reduce the personal, business and community costs associated with workplace injury, disease and death. Each year occupational injury and disease kill up to 2700 people and cost the Australian community at least \$20 billion. Governments can make regulation work better.

OHS regulations need to be streamlined so that employers and employees have the flexibility to adopt efficient risk management unimpeded by requirements not relevant to their workplaces. This needs to be accompanied by a strengthening of enforcement and greater emphasis on deterrence in enforcement activity. It would involve prosecuting breaches of key legal responsibilities and raising penalties. The Commission found that attention to Commonwealth-State arrangements is necessary in order to increase the effectiveness and efficiency of the development and implementation process and thus result in better OHS outcomes nationally.

Thus, while the focus of much of the microeconomic reform agenda is on increasing national income by improving the efficiency of resource use, Commission inquiries are showing that many policy changes of an economic nature can have favourable social consequences as well. Some ways in which reforms can benefit particular disadvantaged groups are illustrated in Box 3.2.

The proposals in the Commission's report on *research and development* are directed at enhancing the contribution that R&D makes to Australia's productivity and quality of life. They involve more clearly defining the role of governments, improving funding processes and making research more responsive to users' and community needs. R&D is a major source

of innovation and an important driver of economic growth. While some

Box 3.2: Reforms can improve efficiency and social outcomes

- In its report on occupational health and safety (OHS), the Commission recommended reforms intended to improve the effectiveness and efficiency of institutional and regulatory arrangements related to workplace safety. Employers have a weak financial incentive to reduce workplace injury and disease, as they incur only about 40 per cent of the average cost of workplace injury and disease. The Commission also found that the average expected penalty for a breach of OHS legislation nationally was less than \$33. Forcing employers to bear a greater proportion of the costs of workplace accidents would reduce the cost to the injured worker, and to the community. Workplace injury and disease are significant sources of social disadvantage. For example, many permanently incapacitated workers subsist on incomes at or below the poverty line. Reform of OHS regulation is likely to be of the most benefit to those workers who are already socially or economically disadvantaged, such as those with limited work skills, those that face language, literacy, or cultural barriers, or workers with a disability. People from non-English speaking backgrounds will particularly benefit because these workers currently have a significantly higher risk of workplace fatality.
- In its report on *Urban Transport*, the Commission found that taxi licence regulation disadvantages the poorest in the community. People with the lowest earnings spend the highest proportion of their income on taxis. This means that people with lower incomes are being priced out of the taxi market and bear a disproportionate amount of the burden of high licence values. The removal of entry restrictions would result in lower fares, up to \$2 per trip on average. This would particularly benefit people with disabilities who have limited access to alternative means of transport.
- In its report on *Workers' Compensation in Australia*, the Commission found that too many of the costs of work-related injury and illness are being borne by affected individuals and taxpayers. The Commission's recommendations for a nationally available workers' compensation scheme were designed to focus competition on reducing overall costs by improved prevention and rehabilitation strategies rather than on reducing benefits to injured workers. In some jurisdictions, premiums for business may rise. With the appropriate incentives for employers and employees in place, however, the incidence and severity of work-related injury can be reduced and injured workers rehabilitated more quickly and effectively.
- The Commission's report on *Impediments to Regional Industry Adjustment* found that greater wage flexibility would improve the employment prospects of unemployed people, especially those with a low level of skills. For these people, employment experience and on-the-job training provide opportunities to move up the 'jobs escalator' into higher paying employment. A more flexible wage system would have its greatest effect on employment in country regions where unemployment is high, and award minimum wages are binding.

caution is necessary in interpreting results, the Commission estimated that the net rate of return to Australia's R&D was high — ranging from 25 to 90 per cent.

It has long been recognised that not enough R&D will be performed unless governments intervene in the operation of markets by creating property rights, creating and strengthening markets and/or assisting financially. This is because individuals aiming to create new knowledge are not always able to capture enough of the benefits to justify the effort. Governments need to underpin and supplement individual effort if these wider benefits are to be realised.

The main message from the inquiry is that changes in the ways in which governments currently organise public sector research and support private firms doing R&D can enhance the returns from Australia's R&D effort. In relation to public sector research, increasing the contestability of funding among research providers can make the research effort more cost-effective and oriented to community priorities. For the university and medical research sector, this involves building on existing processes where competition for grants is already a feature of funding research projects and programs. The Commission saw similar merit in increasing the contestability of the \$460 million of Commonwealth funding for its largest research agency, CSIRO. It has proposed steps in this direction through bringing greater external influence to bear on priority-setting, rectifying the current lack of information necessary to judge CSIRO's performance and instituting independent monitoring and public reporting on CSIRO's performance against agreed priorities and performance indicators.

Government support as a proportion of business expenditure on R&D is higher in Australia than in most other countries — probably second only to Canada in non-defence funding. The Commonwealth Government directly or indirectly subsidises around 20 per cent of business expenditure on R&D. The effectiveness of assistance arrangements, however, can be improved by reducing inconsistencies in the way different firms and industries are treated. For example, the Commission recommended more widespread support for (typically smaller) tax-loss companies unable to use the 150 per cent R&D tax concession — under current arrangements, relatively high levels of support are targeted to less than 10 per cent of potential recipients.

Commission inquiries into quite diverse topics are all pointing to the need for enhanced competence within government administrations in dealing

with service providers — whether for defence purchases, computers, R&D or not-for-profit community social welfare organisations. In its charities inquiry the Commission found that the success of open contestable tendering in reducing costs, and increasing choice and quality of service, demands that government departments employ staff with skills in tender specification, selection techniques, contract negotiation, performance monitoring and dispute resolution as well as develop the organisational structures to train and support them. The Commission's defence procurement inquiry was provided with evidence that the tendering process was costly to firms and the Defence Department, although procedures have improved in recent years. The Defence Department is implementing a Commission recommendation that it use multi-stage tendering involving more rapid shortlisting and less documentation than previously. An opportunity to look more broadly at government tendering processes is provided by the Commission's current inquiry into competitive tendering and contracting.

INDEPENDENT STUDIES FOR OTHER AGENCIES

During the year the Commission was contracted by government and government agencies to undertake independent research into a range of public policy issues drawing upon its inquiry, analytical and modelling expertise.

The Commission contributed to understanding of the economic benefits of implementing a national competition policy by conducting a major study on the growth and revenue implications of Hilmer and related reforms (IC 1995d). At the August 1994 COAG meeting, Heads of Government had reached in-principle agreement on the adoption of a national approach to competition policy. However, there were concerns among governments about how they would share in the gains from reform. The Commission was asked to quantify the impact of implementing Hilmer and related reforms on government revenues and on the economy generally.

The Commission did not choose which reforms to model. These were specified in its terms of reference to cover all of the reforms recommended by the Hilmer Review. They included extending the application of the Trade Practices Act to all exempt sectors, reviewing anti-competitive legislation and establishing appropriate structures for public monopolies before exposing them to competition. The terms of reference also specifically covered reforms in electricity, gas, water, road

transport, ports, mutual recognition, and occupations registered in some States but not in others. The Commission was not asked to estimate the adjustment costs which are inevitably associated with reform.

The research task was demanding in its scale, timing and technical complexity. No single number can accurately capture the full benefits of the reforms. Some of the reforms required to be modelled were broad strategies rather than specific policy changes. It is often difficult to identify what would have happened in the absence of reform, including disentangling the benefits of reform from productivity improvements stemming from technological change. The Commission acknowledged these and other limitations. It clearly set out key assumptions and included sensitivity analysis to test the robustness of the results. The nine participating governments provided constructive comment and assistance on a draft of the report. Their agreement to make the final report public aided community understanding of the benefits of reform.

Four key messages emerged from this research:

- Implementation of competition reforms is important for Australia's economic future. Consumers should gain from greater competition, firms can expect lower costs and government revenues will be enhanced by faster economic growth. The long-term benefits of reform come essentially from improvements in productivity which are passed on throughout the economy in the form of lower prices (Box 3.3).
- There are significant strategic advantages for government in continuing to push reform on a broad front. The small impacts of individual reforms add up to widespread, substantial gains. The modelling showed that very few industries are expected to lose from reform. With a broad base of reforms, the losses from some reforms tend to be outweighed by the gains from others.
- Concern about the revenue consequences for government should not be an impediment to competition policy reform. The Commission's modelling showed that the States, Territories and the Commonwealth Government will all gain revenue. What governments lose in one revenue instrument (for example, dividends from their business enterprises) they are estimated to more than make up through another instrument (for example, payroll tax increases generated by greater economic activity).

Box 3.3: Hilmer and related reforms— key growth results

Real GDP	5.5 per cent increase (\$23 billion)
Real consumption	\$9 billion increase (\$1500 per household)
Real wages	3 per cent increase
Employment	30 000 more jobs

- Contributions from all levels of government are required to bring about a more competitive economy. Of the reforms the Commission was asked to model, those at the State, Territory and local government level are estimated to contribute \$19 billion (or 4.5 per cent of real GDP) and reforms by the Commonwealth are estimated to contribute \$4 billion (or 1 per cent of real GDP).

A better understanding of the growth and revenue implications of reform was influential in the process by which governments reached agreement at the April 1995 COAG meeting to proceed to a national competition policy framework.

The Commission's inquiry and research expertise was also drawn on in investigating the wine and gas industries and electricity generation in New South Wales (Box 3.4). Each of these studies pointed to reforms that can enhance national productivity and efficiency.

**Box Error! AutoText entry not defined..4: Research studies
— wine, gas and electricity**

Winegrape and wine industry inquiry

The Chairperson of the Commission was appointed to chair the three member Committee of Inquiry and the Commission provided secretariat support. The inquiry found that the industry has a number of competitive advantages on which to build but that its prospects for growth can be enhanced. Transferable water rights would permit irrigation water to be diverted from low yielding pastoral activities to higher value added grapegrowing. Changes are needed to ensure that regulations are limited to health and food standards rather than imposing any particular view on the commercial development of individual winemakers. The Committee agreed that the structure of sales tax arrangements on wine should change but differed on the level of the tax. The majority view was that the average level of the tax be maintained. The Commission's Chairperson viewed wine as a part of the alcoholic beverages industry. He considered that there was a high degree of substitution between wine and more highly taxed alcoholic beverages and that there would be gains in economic efficiency by increasing the sales tax on wine.

Australian gas industry and markets study

This study was requested by the Trade Practices Commission to assist its review of joint marketing arrangements by Cooper Basin producers. The study focused on the implications of developments in the Australian gas industry for competition in the production, distribution and use of natural gas. It concluded that the prospect of greater competition in the industry will be improved by action to implement access regimes to enable competition in transmission and distribution networks, reforms to the structure and operations of gas and electricity utilities, and realising COAG's commitment to free and fair trade in gas, within and between jurisdictions, by July 1996. If increasing competition amongst buyers utilising access regimes is not balanced by increased competition amongst producers, the full potential of third party access regimes for gas transmission and distribution systems will not be realised. Indeed, if producer competition is not vigorous and governments scale down their involvement in ensuring acceptable prices to consumers, economic efficiency could suffer.

NSW electricity generation study

At the request of the NSW Government, the Commission was asked by the Commonwealth Assistant Treasurer to undertake a review of the electricity generation industry in NSW to determine the implications for competition of the market power that could be exercised by Pacific Power operating as a single entity. The Commission found that, if maintained as a single entity, Pacific Power is likely to have significant market power for some years to come. Its market power could result in electricity prices being well above the levels expected if there were effective competition in generation. This would involve substantial costs. It would be necessary to disaggregate Pacific Power into at least three independent generation businesses of comparable strength in order to adequately reduce its market power.

PERFORMANCE MONITORING

The Commission continues to play a key role in two performance monitoring programs on behalf of COAG. They involve monitoring the performance of government business enterprises and developing performance indicators for service providers.

GOVERNMENT BUSINESS ENTERPRISES

In July 1991 the Special Premiers' Conference established the Steering Committee on National Performance Monitoring of Government Trading Enterprises. The Committee consists of representatives from each State and Territory and the Commonwealth. It is assisted by a number of specialist industry sub-committees and working groups. The Commission provides the secretariat and a research capability for the project and its Chairperson heads the Steering Committee.

Performance monitoring is important. GBEs dominate the provision of infrastructure services to businesses and households, and have been subject to few competitive disciplines. Improvements in the efficiency of GBE production, pricing and investment will have potentially large pay-offs. Government trading enterprises account for about 10 per cent of Australia's GDP, 14 per cent of gross fixed capital expenditure and employ over 3 per cent of Australia's workforce. The collection and publication of performance indicators can help to ensure that management and boards of these enterprises are held accountable for their performance. These indicators can also permit comparisons of performance across sectors and jurisdictions and, by identifying best practice, help other enterprises to raise their standards of performance. They also contain broad messages for government and their reform processes.

The work of the Steering Committee has helped to build the momentum for reform of GBEs and to publicise the benefits. The third report of the Committee, covering the performance of 59 State and Commonwealth government trading enterprises in the five years to 1993–94, was released in May 1995. It confirms that GBEs continue to improve their performance. Households and businesses are benefiting from falls in real prices. The burden on taxpayers has been lightened by increased payments from GBEs to governments and falls in real average debt levels.

While real labour productivity surged by nearly 70 per cent over the period, further work is needed to measure more accurately the extent of the improvement in total factor productivity. These improvements have been associated with a variety of administrative and competitive reforms over a number of years — changes to improve accountability and oversight, industry restructuring, corporatisation, pricing reform and, in some cases, privatisation.

There is scope for GBE performance to be improved further. The monitoring shows that GBEs in some sectors and jurisdictions are doing better than others. For example, GBEs in the electricity supply industry improved their performance markedly whilst those in the urban transport sector lagged behind the average as patronage continued to fall.

GOVERNMENT SERVICE PROVIDERS

In July 1993 COAG agreed to establish a Review of Commonwealth and State Government service provision. The initiative reflected the desire to monitor and improve the efficiency and effectiveness of services delivered by governments in Australia. The Review potentially spans all areas of government service provision. The Steering Committee for the Review is chaired by the Chairperson of the Commission and the Commission provides the secretariat and a research capability.

Governments make significant resource commitments to service provision and outcomes are important for Australia's social and economic well-being. Achieving better results in these areas is no less important than for other sectors of the economy. Performance measures will assist each government to reformulate its policy objectives and priorities.

The Steering Committee is to assemble and publish performance indicator data which will enable comparisons of performance across Australia in a range of key services. It will also publish information and analysis on major government reforms to improve service delivery. Working Groups have been established for each area of service provision and are responsible for the development of agreed performance measures. Working Groups comprise senior staff of relevant departments in each jurisdiction.

The Steering Committee has agreed to a set of indicators against which performance data will be collected. It is anticipated that the Steering Committee will complete a first report for publication in December 1995. The first report will provide preliminary data on eight areas: schools;

vocational training; hospitals; courts; police; corrective services; public housing; and certain community services activities such as aged care.

GENERAL REPORTING AND RESEARCH

The Commission is required under its Act to report annually on the performance of Australian industry, and on developments in industry assistance and regulation and their effect on economic performance. This year the Commission released separate reports on the performance of Australian industry and on regulation and its review. The main messages from the Commission's review of developments in trade and assistance (Appendices B to G) were discussed in Chapter 2. Other aspects of the Commission's general reporting work are discussed below.

PERFORMANCE OF AUSTRALIAN INDUSTRY

The Commission's latest report on the performance of Australian industry (IC 1995m) examines performance over the past 20 years, with a particular focus on the four years of the current economic up-swing. The report details the contribution of labour and capital inputs and improvements in productivity to Australia's economic growth. Most of the growth since the mid-1970s appears to have come from the latter two influences, although the situation varies across industries.

The report shows that growth in multi-factor productivity has been strong in the years following the last recession, especially in the transport, storage and communications and the manufacturing sectors. Although this growth is encouraging, a similar pattern was evident coming out of the recession of the early 1980s. As an economy emerges from recession, it is common to record high productivity growth because excess production capacity in industry and underutilised labour are available to expand output rapidly. Once firms reach capacity, further productivity growth depends on more fundamental changes in the ways capital and labour are used. The main message of the report is that if economic growth is to strengthen over the long term, improvements in productivity growth must continue.

The Commission reports on a number of influences — such as education and training, R&D, international trade, the characteristics of the labour force and the institutional and regulatory framework in the labour market — all of which have an important bearing on the future course of productivity growth in Australia.

TRADE AND ASSISTANCE REVIEW

Reporting on government assistance to industries and its effects is a central element of the Commission's statutory charter. Over many years, information on relative levels of assistance and the costs that assistance to one industry imposes on other industries, taxpayers or consumers has facilitated public understanding of the economy-wide effects of industry assistance.

With general reductions in tariff assistance, the Commission's assistance measurement function is of diminishing significance and resources devoted to the function have been reduced. The Commission continues to monitor non-tariff measures as part of its annual reporting function.

During the year the Commission (1995c) released a publication, *Assistance to Agricultural and Manufacturing Industries*, which brought together a time series of assistance estimates (for manufacturing from 1968–69 to 2000–01 and agriculture from 1970–71 to 1992–93). The paper also discussed the key factors influencing assistance levels over time and presented a guide to some of the theoretical and practical aspects of measuring assistance. Recent changes to assistance measures for manufacturing and an update of estimates for agriculture from 1990–91 to 1993–94 are reported in Appendix F.

The Commission is providing input to the OECD's Indicators of Government Assistance project which is seeking to establish a comprehensive and standardised data base on government assistance to manufacturing industry in OECD countries. The Commission regularly provides data to the OECD for use in its monitoring of the progress of agricultural policy reform in member countries. It also helped with a survey of trade impediments among APEC member countries. These initiatives increase the transparency of government assistance internationally, as a complement to the reductions in trade barriers being brought about through the WTO process and, potentially, through APEC.

Monitoring trade developments and analysing trade data complement the Commission's assistance evaluation function. This year the Commission published an information paper which brought together consistent manufacturing industry and international trade data and assistance estimates for the 25 year period to 1992–93 (IC 1995a). This will aid researchers analysing the performance of Australian manufacturing industry.

REVIEW OF BUSINESS REGULATION

The Office of Regulation Review (ORR), within the Commission, administers the Commonwealth Government's regulatory review policy. The ORR reviews the formulation of regulation and provides advice to the Structural Adjustment and Trade Committee of Cabinet, monitors progress and participates in programs of reform of existing regulation and provides public information on regulatory matters. These functions complement the statutory obligation of the Commission to have regard to the Commonwealth Government's desire to reduce regulation of industry (including regulation by the States and Territories) where this is consistent with the social and economic goals of the Commonwealth Government.

The Commission report on developments in regulation and its review canvasses better ways in which regulatory standards can be designed and enforced and ways in which the costs of regulatory agencies should be covered (IC 1995j).

The report notes that governments worldwide are confronting common problems in juggling legitimate demands for regulation to improve economic, social and environmental outcomes while minimising regulatory costs. Many countries are seeking to improve the quality of regulatory decision-making. To encourage member countries to review their political and administrative processes for developing, implementing and revising regulations, the OECD has compiled the first international standard on regulatory quality (OECD 1995b). A crucial part is a checklist of ten questions reflecting principles of sound regulatory decision-making. Cost-benefit analysis of proposed regulation is an important element of the recommended approach.

The report also details the contribution made by the ORR in the past year to improving regulatory review processes both at the Commonwealth and intergovernmental levels and its collaborative efforts with State regulatory review bodies. Several key developments during the year have meant the ORR will have an expanded role:

- to oversee newly agreed COAG principles and guidelines for the setting of national standards — the ORR will examine draft regulatory impact statements and provide advice to Ministerial Councils on whether the assessment processes are operating as intended;
- to advise and guide Commonwealth agencies in meeting their responsibilities under the new Legislative Instruments Act; and

- to provide the secretariat for the newly established Council on Business Regulation which is to advise the Structural Adjustment and Trade Committee of Cabinet on the priorities for review of regulation. The Commission's Chairperson heads the Council.

The expanded role given to the ORR reflects a desire of governments to strengthen the regulatory review process, particularly the process by which regulatory proposals are evaluated before enactment. Once enacted, governments have found it difficult to reduce regulation — the review of regulation can meet with resistance both from parties benefiting from regulation and those within regulatory bodies. New roles for the ORR seek to ensure that all the benefits and costs of alternative regulations are taken into account at the earliest stage in the decision-making process.

There is scope for governments to achieve their social and economic objectives more efficiently and to reduce the adverse impacts that regulatory barriers can have on business and national productivity. Box 3.5 illustrates this with examples drawn from papers and submissions published by the ORR in the past year.

Box 3.5: Regulatory reform

Australia's visa system for visitors

The ORR (1994) made a submission to the inquiry of the Joint Standing Committee on Migration into Australia's visa system. The submission argued that the costs of the current universal visa system are likely to outweigh its benefits and the costs would increase rapidly as the number of visitors increases. In addition to the direct administrative costs of the system, the visa requirement can deter bona fide business and other visitors with consequent losses in export earnings. Visa refusals for some countries are very low, implying the visa requirement has little impact. Many other countries are able to meet their security requirements through means other than a universal visa system. Australia's system also imposes costs on Australians travelling to countries like the United States which would reciprocate if we waived visa requirements. A selective visa system, based on either the country of origin or visitor type, would serve Australia better.

Bank fees and charges

The ORR (1995) released a paper on competition and retail banking which argued that calls for government to regulate the fees charged by financial institutions, especially on low balance accounts, should be rejected on both equity and efficiency grounds. The introduction of fees by banks has been in response to competitive pressures to reduce cross-subsidies which favoured low balance accounts and which did not reflect the costs of transaction activity. Regulation of current fee structures could therefore impose costs on a variety of customers through higher interest rate margins. Subject to conditions, banks already voluntarily exempt from fees and charges most potentially disadvantaged groups in the community, such as social security beneficiaries and some students. If changed circumstances warranted government intervention on equity grounds in the future, it should do so via a government-funded community service obligation which would not impose direct costs on bank customers.

Operations of the Commission

This chapter reports on the management and performance of the Commission. It includes:

- an overview of the organisational structure and a number of key aspects of corporate management;*
- performance in core activities; and*
- financial performance.*

Further information is contained in Appendices I (staffing and management), J (inquiry and related activities and reports of the Commission) and K (financial statements).

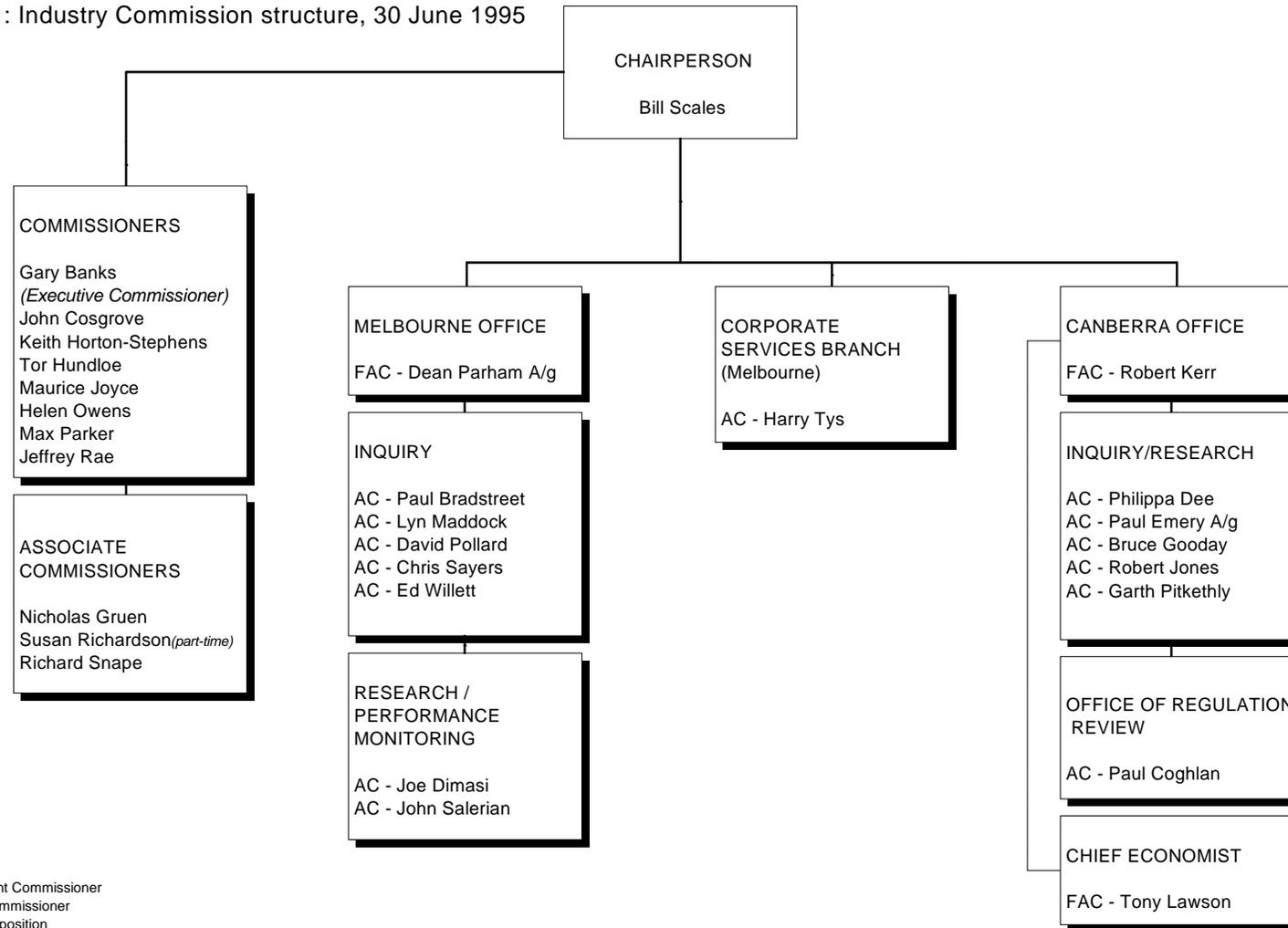
CORPORATE OVERVIEW

ROLE, FUNCTIONS AND CORE ACTIVITIES

The Industry Commission is the major independent review and advisory body on industry policy for Australian governments. Its principal role is to be a catalyst for structural reform in the Australian economy. The ambit of Commission investigations is wide — encompassing agriculture, mining, manufacturing and services — and covers broad issues that affect many industries, labour and community groups, and the environment.

The Commission's functions derive from the *Industry Commission Act 1989*. They are to conduct public inquiries and provide reports on matters referred by the Commonwealth Government, and to undertake other work incidental to that function. The Commission is required to report annually on the performance of Australian industry and on developments in industry assistance and regulation.

Figure 4.1: Industry Commission structure, 30 June 1995



The Commission engages in five core activities in fulfilling its functions. These activities, discussed in more detail in Chapter 3, are: inquiries; independent studies for other agencies; performance monitoring; general reporting and research; and review of business regulation.

ORGANISATIONAL STRUCTURE AND MEMBERSHIP

The Commission consists of a Chairperson and up to eight full-time Commissioners. The Minister may also appoint Associate Commissioners as considered appropriate from time to time. The Commission is supported by staff employed under the *Public Service Act 1922*.

Figure 4.1 shows the structure of the organisation and the names of Commissioners and senior staff. There was no change to the Commission's structure during 1994–95.

The year saw the appointment of two new Commissioners, Mr Maurice Joyce and Mr John Cosgrove, and the retirement of Dr Roger Mauldon. Dr Max Parker retired as a Commissioner on 31 August 1995.

During 1994–95, Dr Susan Richardson and Professor Richard Snape were appointed as Associate Commissioners for fixed terms while four part-time Associate Commissioners were appointed to work on particular inquiries.

The number of operative staff at 30 June fell from 236 in 1994 to 223 in 1995. The fall reflects the reduction in duplicate staffing following the effective completion of the relocation of the Commission's head office from Canberra to Melbourne.

Further details of the Commission's personnel are contained in Appendix I.

ORGANISATIONAL DEVELOPMENTS IN 1994–95

The Commission continued to build on achievements of the previous year, particularly in regard to the relocation to Melbourne, corporate planning, training and development of staff, and continuous improvement in its internal operations. Key achievements during the year, some of which are covered further in later sections, include the following:

- The relocation of the Commission's head office from Canberra to Melbourne was effectively completed. The three-year program followed the Government's announcement in May 1992 of the

relocation. The Melbourne head office comprises about two-thirds of the Commission's staff; the Canberra office comprises one-third.

- In April 1995 the Canberra office moved to smaller accommodation in Nature Conservation House, Belconnen. The new office consolidates Canberra Commissioners and staff in modern and efficient office space.
- As a preliminary to the Commission's corporate planning process, a study was undertaken to ascertain internal and external views of issues facing the organisation. A revised corporate plan is expected to be produced in 1995–96.
- A consultancy was undertaken into the Commission's compliance with the Government's access and equity guidelines. The recommendations of the consultancy are currently being implemented.
- Steps towards reaching an agency agreement were taken during the year. The parties are aiming to reach an agreement in the first half of 1995–96 for certification by the Australian Industrial Relations Commission.
- A study aimed at benchmarking the Commission's principal function — the public inquiry process — began during the year.
- The benchmarking of personnel and information technology processes was completed.

SOCIAL JUSTICE AND EQUITY

The Commission's processes contribute to the Government's social justice and equity objectives in a number of ways.

First, the statutory requirement that the Commission approach industry policy issues from the perspective of the community as a whole, rather than from any particular industry or group, is intended to promote fairer outcomes.

Second, the transparency of its operations through open and public inquiry processes provides the opportunity for anyone with an interest in a Commission inquiry to make their views known and to have these considered.

Third, the Commission actively seeks out those who are likely to have an interest in an inquiry so that a range of views and circumstances can be considered. An example of addressing particular circumstances, drawn from the charitable organisations inquiry, is outlined in Box 4.1.

During the year, the Commission initiated a consultancy to assess its compliance with the Commonwealth Government's access and equity objectives. The study found that, while the Commission targeted groups relevant to particular inquiries, it could improve its performance in terms of access provided to people from non-English speaking backgrounds.

Box Error! AutoText entry not defined..1: The charitable organisations inquiry — involvement of particular groups

This inquiry had a very high level of participation and interest. Many of the groups involved had particular needs in regard to access to the inquiry and the material produced. For example:

- ***The visually impaired.*** The issues paper and the draft report overview were produced in alternative formats (large print, braille and audio tape) and their availability in these formats was publicised through the key charities serving this group.
- ***Rural and remote communities.*** The Commission visited communities in remote centres such as Port Hedland, Mt Isa, Wyndham and Kununurra and talked to representatives of remote communities on visits to Darwin, Cairns, Townsville and Lismore.
- ***Aboriginal peoples.*** A number of Aboriginal organisations talked to the Commission and visits were made to some Aboriginal organisations in the north of Western Australia, Perth and Melbourne. These groups asked the Commission to consider and recommend policy solutions which would address some of their particular concerns. They did say, however, that special processes would be required for effective consultation with charitable organisations working with Aboriginal communities.
- ***People from ethnic backgrounds.*** The Commission sought and received comment on the provision of services to ethnic communities from both the community and social welfare organisations which attempted to serve all members of the community and from the users and providers of services targeted specifically to ethnic communities.

The consultant's report recommended that the Commission formalise, to a greater extent, its application and reporting of access and equity matters, and that it take steps to enable interest groups themselves to identify the relevance of Commission inquiries. The report's recommendations are currently being implemented under the guidance of a steering committee which includes a representative from the Commonwealth Office of Multicultural Affairs.

A study into the Internet was also commenced, with the aim of making Commission information more readily accessible to the public as well as improving Commission access to external sources of information.

INTERNAL AND EXTERNAL SCRUTINY

As part of a rolling review of its various activities, a benchmarking study of the public inquiry process was commenced during the year. The study will involve a close examination of the Commission's internal processes as well as discussions with other organisations to determine 'best practice' approaches.

There were no adverse comments about the Commission's operations in any reports of the Australian National Audit Office (ANAO) or Parliamentary Committees. The Commission participated in ANAO studies into Australian Public Service inoperatives and the Studybank scheme.

The Commission's work is subject to external scrutiny as a result of its public inquiry process, its practice of releasing draft reports for comment before finalising reports on individual inquiries, and the public release of its inquiry and research reports.

TRAINING AND DEVELOPMENT, AND PERFORMANCE PAY

The continued influx of new staff to the recently established Melbourne office required a continuing emphasis on staff training and development. In 1994-95 expenditure on training and development amounted to just over \$235 000, representing 2.3 per cent of annual salaries. This does not include the salary costs of staff while undertaking training, or the considerable on-the-job training undertaken within the Commission.

A significant component of training expenditure was for professional development, in recognition of the need for the Commission to be at the forefront of industry policy debate. In view of the large number of new staff, another major component was skills assessment and development.

The Commission continued its graduate recruitment program, employing nine new graduates in 1994-95. All graduates undergo an extensive 12 month program which combines formal and on-the-job training and development with practical experience.

A process to place training and development needs on a more strategic basis was commenced during the year. The process, which includes a training needs analysis, will link the human resource development plan to the Commission's corporate plan.

Bi-annual performance appraisals at all levels remained a significant avenue for discussing performance between managers and their staff, and for identifying training and development needs. Associated with the appraisals are performance pay schemes for Senior Executive Service (SES) and Senior Officer staff. The amount of performance pay distributed for 1994–95 was of the same order as in the preceding year.

MELBOURNE RELOCATION

With most aspects of the relocation of the Commission's head office from Canberra to Melbourne now complete, it is appropriate to summarise the Commission's experience with the relocation.

Over the period since the announcement of the relocation on 13 May 1992, expenditure on the move and estimated outstanding obligations amount to \$15.3 million. An amount of \$16.8 million had been set aside by the Government for the relocation. The most significant items of expenditure were salaries and related costs for the duplication of staff over the three-year transition period (25 per cent of total expenditure), office fit-out costs (23 per cent), redundancy pay-outs (13 per cent) and furniture and equipment, staff relocation costs and property rent (each about 9 per cent). The direct costs of the task force handling the relocation amounted to 5 per cent of expenditure.

Over the period of the relocation, the Commission suffered significant losses of staff. The losses were tempered by the then Treasurer's announcement in April 1993 that the Commission would retain a presence in Canberra, involving about a third of its staff.

Of the 185 staff not able to be placed in a Canberra position, a little over 50 per cent left to take up positions elsewhere, 23 per cent took voluntary redundancy packages, while 18 per cent relocated to Melbourne. A small number are still to relocate, be redeployed or retrenched. The low numbers relocating necessitated a major recruitment campaign for the Melbourne office, and a substantial training and development program. A relatively small percentage of staff who relocated to Melbourne were experienced SES or Senior Officer staff.

The relocation had significant implications for staff and the ongoing work of the Commission. Minimising the disruption and maintaining the Commission's output represented a major challenge both for management and staff.

In a practical sense the Commission operates largely as one office in two locations, rather than as two stand-alone offices. It considers this essential if maximum benefit is to be derived from the resources in the Melbourne and Canberra offices. This approach has significant attendant costs, mainly associated with communications between the two offices and management coordination.

Against the various costs outlined above, a number of benefits are apparent. One is the more ready access of Melbourne office personnel to Melbourne-based inquiry participants and others with whom the Commission is involved. Another is the larger pool from which the Commission is able to recruit staff in Melbourne.

It is too early to tell whether the costs incurred in relocating the Commission to Melbourne will be outweighed by the benefits. Ultimately, this will need to be judged by the impact of the move on the quality of the Commission's advice to governments about improving the performance of the Australian economy.

OTHER MANAGEMENT MATTERS

In respect of its inquiry activities, the Commission operates to a forward inquiry program. This is intended to allow better resource planning and preparatory work for inquiries. It should also enable better coordination of the activities of various government agencies advising on industry matters, and assist participants in the Commission's inquiries to plan and prepare accordingly.

There were significant modifications to the Commission's expected program in 1994–95. New demands emerged in the form of a major study for the Council of Australian Governments (COAG) into the growth and revenue implications of reforms to increase competition, a study for the Trade Practices Commission into the Australian gas industry and markets, and a research project for the New South Wales Government into structural options for electricity generation.

On the other hand, expected references on private sector involvement in infrastructure and sustainable land management did not arrive. The considerable preparatory work undertaken in the lead-up to the expected

arrival of these inquiries detracted from the efficient use of the Commission's resources and is not reflected in the Commission's outputs.

The early signs in 1995–96 are that the forwarding of references continues to be subject to delay. Should this eventuate, the Commission proposes to implement a number of research projects which to date have not been commenced because of resource pressures. In addition, it will be exploring ways of minimising the unpredictability of its workflow.

Following a consultancy to review the effectiveness of the Commission's external communications, steps were taken during 1994–95 to implement the recommendations. This included progress in developing a strategy aimed at better communication of the results of Commission inquiries and research work to interested parties and the community in general.

The Commission's Consultative Council met four times during the year. A wide range of topics benefited from discussion between management, the Community and Public Sector Union and staff representatives. The Council will have an enhanced role in the implementation of the Commission's agency bargaining agreement.

Occupational health and safety continued to be a major focus during the year. A number of initiatives were aimed at raising general awareness of health and safety, as well as dealing with specific issues such as the safe use of laptop computers, manual handling techniques, and reducing sunglare in the office environment. The Commission's insurance premium for workers' compensation was 1.15 per cent of salaries expenditure, which compares with the average of 1.7 per cent for Commonwealth employees (excluding government business enterprises).

The Commission's current Equal Employment Opportunity (EEO) Plan remains in force until 1996. Gender relativities remain about the same as in the preceding year, with female representation in the Commission's workforce slightly below that for the Australian Public Service as a whole.

There was one request during the year for information under Freedom of Information legislation.

PROGRAM PERFORMANCE

The Commission is funded on a single program basis. The Budget statements record the objective of that program as being to improve Australia's overall economic performance by providing independent,

public advice to Australian governments on industry matters and microeconomic policy issues and, through public hearings and publication of reports, involve and inform the community on relevant issues.

A summary of the financial and staffing resources for the Commission's activities is shown in Table 4.1.

For the first time, the Commission has extended its reporting to cover performance against each of the five core activities described in Chapter 3, as well as on corporate services. Various indicators are listed, with performance indicated to the extent currently possible. The Commission expects to be able to report more fully against relevant indicators in future years.

The performance reporting includes a statement of objectives, the resources devoted to each activity, performance indicators and, where possible, an outline of performance against the various indicators. Resources are expressed in 'staff years' (which includes Commissioners as appropriate) and 'expenditure' (which includes salaries, administrative expenses and corporate overheads excluding property operating expenses and corporate services branch costs).

Table Error! AutoText entry not defined..1: Staff and financial resources summary

	<i>1993–94</i>	<i>1994–95</i>
Commissioners and staffing^a (number)		
Commissioners (including Chairperson)	8	9
Associate Commissioners	8	7 ^b
Operative staff ^c	236	223
Expenditure (\$m)		
Salaries and allowances		
Holders of Public Office ^d	1.0	1.2
Staff	9.8	9.0
Administrative expenses		
Inquiry (non-salary) expenditure	1.7	2.2
Non-inquiry expenditure ^e	2.7	3.6
Property operating expenditure	1.7	1.7
Melbourne relocation costs	7.5	5.0
Funding external economic modelling	0.6	0.4
Total expenditure	24.9	23.1

a At 30 June 1995.

b Includes three fixed-term and four inquiry -specific appointments.

c Those not absent from duty for 12 or more weeks.

d Commissioners and Associate Commissioners.

e Includes corporate expenditure and non-salary expenditure for activities other than inquiries.

INQUIRIES

Objective

- To provide industry policy advice through the conduct of public inquiries into matters referred by the Government.

Resources

- Staff years — 97 (43 per cent of the total)
- Expenditure — \$8.6 million (53 per cent of the total)

Performance indicators

The Commission aims to provide public inquiry reports which respond fully to the terms of reference received; are well informed, with clear analysis and recommendations; which provide appropriate opportunity for participation by interested members of the community; and which are timely and conducted economically.

Information on these performance indicators is derived as follows:

- quality of response
 - feedback from Commonwealth and State Governments (Ministers and departments)
 - contribution to public debate through the media and conferences
 - feedback from inquiry participants
 - consultants' reviews of stakeholders
- public participation
 - feedback from participants and others
 - submissions received
 - visits conducted
 - public hearing days
- timeliness and cost
 - report signing dates
 - budget reports for individual inquiries
 - results of evaluations such as by benchmarking.

Performance

During 1994–95 the Commission completed seven inquiries covering a wide range of industry and social infrastructure issues, including:

- industry assistance and government procurement (defence procurement, computer hardware and software);
- competition and regulation (petroleum, vehicle repair and insurance);
- research and innovation (research and development, new and advanced materials); and
- community welfare (charitable organisations).

The Commission received terms of reference for five further inquiries during the year, and the major inquiry into work, health and safety spanned the year. The Commission's inquiry program is summarised in Figure 4.2.

The Commission received regular feedback from participants during inquiries, and its reports featured widely in policy debate.

Three inquiries in particular — those into charitable organisations, work health and safety, and research and development — were characterised by the complexity of their issues and/or enhanced public participation.

Trends in inquiry activity and participation are shown in Table 4.2.

Figure Error! AutoText entry not defined..2: Industry Commission inquiry program

(Shaded area indicates inquiry duration in the period shown)

	1993-94					1994-95					1995-96														
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	J	A	S	O	N	D
Petroleum products																									
Defence procurement																									
Research and development																									
Charitable organisations																									
Vehicle repair and insurance																									
New and advanced materials																									
Work, health and safety																									
Computer hardware and software																									
Competitive tendering and contracting																									
Packaging and labelling																									
Tourism accommodation and training																									
Pharmaceutical industry																									

Table Error! AutoText entry not defined..2: Inquiry activity, 1992-93 to 1994-95

	1992-93	1993-94	1994-95
Inquiries completed	7	8	7 ^a
Inquiries commenced	8	7	5
Submissions received	890	1 495	2 082

^a Excludes completion of the Independent Committee of Inquiry into the Winegrape and Wine Industry. The Chairperson of the Commission chaired the Committee, which was supported by Commission staff.

Four of the 1994–95 inquiry reports were completed within the originally specified time. Three were completed within short extensions for the following reasons:

- The charitable organisations inquiry was extended by three months at the request of the sector to give participants, particularly many small organisations with limited administrative support, sufficient time to respond to the draft report.
- The inquiry on research and development was extended by two months to cater for the greater than expected demand for consultation with business, universities and research organisations.
- The petroleum products inquiry was extended by two months at the initiative of a major inquiry participant to enable consideration of research commissioned by the participant.

A benchmarking process for inquiries has commenced, which is intended to explore further opportunities for pursuing best practice.

Further detail on the inquiry process, and inquiry performance and issues, is provided in Appendix J.

INDEPENDENT STUDIES FOR OTHER AGENCIES

Objective

- To contribute to the development of public policy issues by undertaking, for other agencies, studies which utilise the Commission's inquiry, analytical and modelling expertise, within the framework of independence, transparency and an economy-wide perspective.

Resources

- Staff years — 13 (6 per cent of the total)
- Expenditure — \$1.2 million (7 per cent of the total)

Performance indicators

Work undertaken within this activity is judged by how well it meets the terms of reference, timeliness, quality and, where appropriate, cost.

Performance

The tasks performed in 1994–95 under this activity were a major study for COAG on the growth and revenue implications of Hilmer and related reforms (IC 1995d), a study for the Trade Practices Commission (TPC)

on the Australian gas industry and markets (IC 1995b), and a study for the NSW Government into NSW electricity generation (IC 1995i). Also included is secretariat support to the Committee of Inquiry into the Winegrape and Wine Industry.

The study for COAG was completed six weeks after the initial reporting date, an extension having been agreed by governments in view of the magnitude of the task and postponement of the COAG meeting. The study has been put to substantial use by COAG.

The gas study took place over six months, which was three months longer than had been originally agreed. The longer duration was acceptable to the TPC to allow several industry participants sufficient time to prepare submissions, and to allow the release of a draft report. According to the TPC, the Industry Commission report made a valuable contribution not only to the purpose for which it was commissioned, but also in raising awareness of significant issues among policy makers.

The NSW electricity generation study was a 45 day project which was completed on time. The Commission's principal recommendation that Pacific Power — the state-owned electricity generation business — be disaggregated was consistent with the recommendations of a broader review reporting to the NSW Government.

The Committee of Inquiry into the Winegrape and Wine Industry was conducted along the lines of an Industry Commission inquiry. The Chairperson of the Commission chaired the Committee, while Commission staff provided administrative and analytical support. The 12 month inquiry was completed on time. The Government is yet to announce its decision on the Committee's recommendations.

PERFORMANCE MONITORING

Objective

- To provide secretariat and research services to steering committees established by COAG in respect of monitoring the performance of government trading enterprises and developing performance indicators for government service providers.

Resources

- Staff years — 13 (6 per cent of the total)

- Expenditure — \$0.8 million (5 per cent of the total)

Performance indicators

The two secretariats work under the guidance of the respective steering committees and their performance can be judged by how well the needs of the committees are met in respect of timeliness, quality and ultimately the usefulness of the work to the enterprises, governments and others.

Performance

In respect of performance monitoring for government trading enterprises, agreed targets for research and publication of reports were achieved or bettered — publication of the main report in 1994–95 was achieved in April compared with June in the previous year. This year's reports incorporated a number of improvements over earlier reports and the Steering Committee, which includes representatives of the Commonwealth, State and Territory Governments, expressed satisfaction with the quality of the work. There is evidence of growing usage of the Steering Committee's publications by the enterprises themselves, governments and their agencies, as well as by the private sector.

In terms of government service provision, a work program has been developed, and good progress made. The first publication of this Steering Committee is planned for December 1995.

GENERAL REPORTING AND RESEARCH

Objectives

- To provide objective reports on the performance of Australian industry and developments in assistance and regulation (as required under the *Industry Commission Act 1989*).
- To develop frameworks of analysis and elicit information on policy issues relevant to the Commission's charter.

Resources

- Staff years — 41 (18 per cent of the total)
- Expenditure — \$2.4 million (15 per cent of the total)

Performance indicators

The Commission aims to provide quality and timely information, analysis and commentary in its general reporting and research that will have influence on policy debate and community understanding.

Feedback on performance is gathered in a range of ways:

- output – number of reports/projects undertaken and completed
- quality and relevance/influence – feedback from Commonwealth and State Governments through regular contact
- feedback from stakeholders through periodic surveys, monitoring of media reports, exposure through seminars, conferences, and workshops
- review and assessment by technical experts
- timeliness – meeting external targets (for example, tabling deadlines)
- meeting internal targets.

Performance

In addition to providing research for inquiries, the Commission undertook and reported on a number of key projects during 1994–95, including:

- developments in industry performance, assistance, regulation and industry policy more generally in the *Annual Report 1993–94*;
- a separate report on the *Performance of Australian Industry*;
- an information paper on *Assistance to Agricultural and Manufacturing Industries*; and
- an information paper on *Australian Manufacturing Industry and International Trade Data 1968–69 to 1992–93*.

The Commission was called on to participate in the OECD project on indicators of government assistance.

The major part of the Commission's research effort was directed towards Commission inquiries, performance monitoring and independent studies for other agencies. The output of this work is covered elsewhere.

Feedback on the quality and relevance of the Commission's general reporting work was generally favourable. External deadlines for submitting material were met.

REVIEW OF BUSINESS REGULATION

Regulation matters are dealt with principally by the Office of Regulation Review (ORR) which operates within the Commission.

Objectives

- To improve the quality of regulations developed and administered by Commonwealth departments and regulatory agencies.

Resources

- Staff years — 10 (4 per cent of the total)
- Expenditure — \$0.6 million (4 per cent of the total)

Performance indicators

A range of indicators is used to gauge performance in this activity:

- the influence and role of the ORR in developing national regulatory review strategies
- the extent to which regulatory and regulatory review agencies are guided and assisted by the ORR
- the extent to which the business sector judges the ORR to be meeting a need
- the number and scope of published reports on regulatory issues
- the extent of public presentations on the work of the ORR and on sound principles for regulation making
- the influence of the ORR on international efforts to improve the quality of regulation making.

Performance

The operations of the ORR are covered in a separate publication *Regulation and its Review: 1994–95* and are summarised below.

The influence and impact of the ORR's regulation review activity is difficult to assess. Given the strategy of entering the policy debate at an early stage, it is not clear to what extent results can be attributed solely to the work of the ORR. That said, the Government has announced a reduced surveillance role for the Prices Surveillance Authority as suggested in a submission, *What Future for Price Surveillance?*; the Australian Law Reform Commission has made proposals similar to those

put forward in the ORR's submission *The Use of Cost Litigation Rules to Improve the Efficiency of the Legal System*; and the Commission received feedback that the submission on *Competition and Retail Banking* made a useful contribution to the Prices Surveillance Authority's inquiry into bank fees and charges.

Performance in this activity can also be gauged by the extent of public presentations on regulatory issues, and other forms of liaison with relevant groups. Staff made public presentations at conferences on six different occasions during the year. There were meetings with a wide range of private sector organisations (on average one group each week) interested in regulatory issues. Formal and informal meetings and communications continued with State regulation review units.

During 1994–95 extensive research was undertaken on a wide range of regulatory issues, and allied written reports were made publicly available. In addition to the reports mentioned above, these included:

- *Country of Origin Labelling of Food*;
- *Competitive Safeguards in Telecommunications*;
- *The Analysis and Regulation of Safety Risk — a Survey of the Practices of National and Commonwealth Regulatory Agencies*;
- *Pre-merger Notification and the Trade Practices Act 1974*; and
- *Review of the Licensing Regime for Securities Advisers*.

Details of these and other papers prepared on regulatory issues are provided in *Regulation and its Review: 1994–95*, available on request.

The ORR is contributing to an international project, under the auspices of the OECD, to develop indicators of regulatory activity aimed at improving the quality of regulations and the processes by which they are developed.

CORPORATE SERVICES

Objectives

- To manage and develop the Commission's corporate resources.
- To provide effective and efficient support services in pursuit of the Commission's core activities.

Resources

- Staff years — 46 (20 per cent of the total)
- Expenditure — \$2.3 million (14 per cent of the total)

Performance indicators

Key performance indicators are:

- contribution to core functions;
- quality of services;
- client satisfaction; and
- efficiency.

Performance

The provision of basic services such as payroll, accounts processing, library, information technology and communications contributes to the performance of the Commission's core activities. Less routine achievements during the year, which contribute to the efficiency and effectiveness of the Commission more generally, included involvement in human resource development planning, a communications strategy, corporate planning and enhanced expenditure accounting.

Quality of services has several dimensions including the level, timeliness and manner in which services are provided. Work has begun on developing service contracts and a number of user groups have been established which allow for regular interaction between service areas and clients.

Apart from the quality aspect, client satisfaction relates to the range of services provided and the extent to which the services are valued. Reduced resources require continual evaluation of priorities. The year saw less emphasis on some services (for example, library and recruitment) but also increases in others (for example, information technology and communications).

Efforts to improve the efficiency of corporate services were continued during the year. The benchmarking of personnel and information technology processes helped refocus priorities and achieved significant net savings for the Commission. Opportunities for delivering services more effectively and efficiently are continually being assessed — the contracting out of the library's press clipping service and external printing of draft reports being two examples.

A study was undertaken of the Commission's records management processes and systems. The Commission's work is information intensive and the progressive move from paper to electronic records poses new challenges. The Commission will be refining its records management systems during 1995-96, to ensure best outcomes for public access, operational requirements and compliance with the requirements of Australian Archives.

FINANCIAL PERFORMANCE

The audited financial statements for the Commission are contained in Appendix K. The statements have been prepared on an accrual accounting basis.

Appendices

A

The current account deficit and microeconomic reform

This appendix examines the contribution that microeconomic reform can make to reducing Australia's current account deficit (CAD). It also examines the effect on the CAD of other policies which directly restrict imports or promote exports. While microeconomic reform is an important source of higher productivity and national income, it cannot be expected to reduce the CAD except to the extent that it reduces the longstanding imbalance between domestic saving and investment in Australia. Reduction of the CAD requires fundamental adjustments to these macroeconomic aggregates. If Australia is to have strong investment growth to underpin growth in output, policies to redress the CAD would require a substantial lift in public and private saving. Tariffs, subsidies or other policy interventions which divert resources into export and import-competing activities would at best have only an ephemeral influence on the CAD. They would detract in a lasting way, however, from the achievement of higher productivity and increased living standards.

For most, if not all, of its history, Australia has been a net borrower from abroad. Net capital inflow has been used to finance deficits in the current account of the balance of payments. During the 1960s and 1970s the CAD averaged 2.4 per cent of GDP and Australia's external debt was stable relative to GDP. Since the early 1980s, the CAD has been higher, running at an average of about 4.4 per cent of GDP. It has moved in a cyclical pattern, trending upwards during times of strong domestic economic growth and downwards during periods of weaker activity or recession. Following strong growth in domestic expenditure, Australia recorded a CAD of \$26.8 billion or 5.9 per cent of GDP in 1994–95 (Figure A1). This was very similar to the peak of 6 per cent recorded in 1985–86.

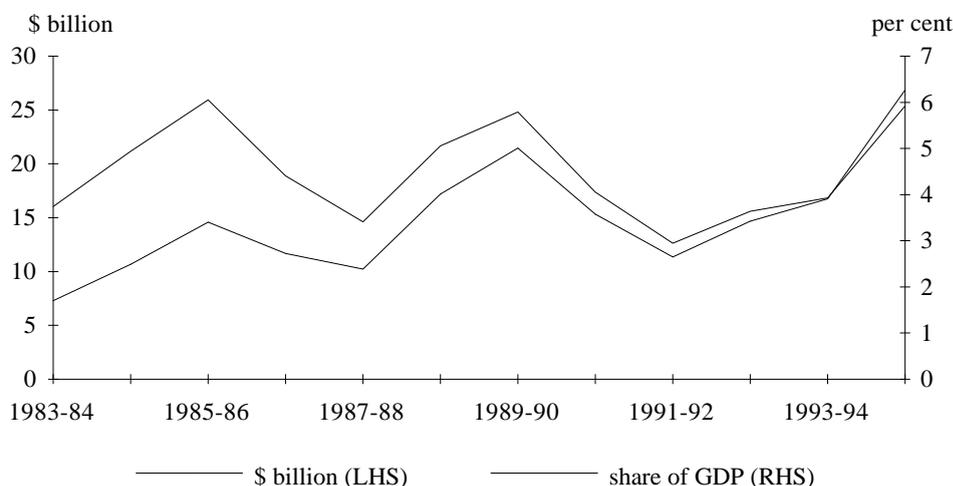
There has been a continuing debate in Australia about whether governments should introduce policies specifically targeted at reducing the CAD. One view is that there may be distortions in the economy which contribute to an excessive CAD, but that government policy should

address

these

distortions

Figure A1: Australia's current account deficit, 1983–84 to 1994–95



Source: ABS Cat. nos 5206.0, 5204.0 and 5302.0

at source rather than targeting the CAD directly (Pitchford 1989a,b and 1992). Others have argued that, particularly at levels of around 6 per cent of GDP, Australia's CAD (together with the much increased level of net external debt) represents a constraint to growth which warrants policy attention (Arndt 1989). Those on each side of this debate agree that current account deficits are not inherently bad. Where a country has profitable investment projects which it cannot finance from domestic saving, inflows of equity and loan capital from abroad typically occur. This shows up as a surplus on the capital account of the balance of payments, which is used to finance the importation of more goods and services than are exported (and, in an accounting sense, to pay interest and dividends to foreign investors). In this way, a CAD can be essential to achievement of faster growth in domestic production and incomes than would otherwise be possible. The debate is essentially about the nation's capacity to service the increased level of external debt, which stems largely from the higher level of the CAD since the early 1980s.

This appendix assesses the effectiveness of certain policies in reducing Australia's CAD, should such a course of action be deemed desirable. In particular, it examines what contribution microeconomic reform could make to reducing the CAD and the efficacy of specific industry policies which seek directly to reduce imports or increase exports. In order to analyse the effect of such policies on the CAD, it is useful to review

briefly the macroeconomic fundamentals that lie behind a current account deficit.

PRODUCTION, EXPENDITURE AND THE CAD

Current account deficits reflect the aggregate decisions of households, firms and all levels of government in Australia to spend more than they produce or, put another way, to invest more than they save. In national accounting terms, it can be shown that the CAD is equal to the difference between domestic expenditure and domestic production. The CAD is also equivalent to the public sector borrowing requirement plus the gap between private saving and investment — that is, it is equal to the gap between gross domestic saving and gross domestic investment (Box A1).

Policies aimed at reducing the CAD will be effective only where they increase national production relative to national expenditure (or, in other words, increase the proportion of national investment that is financed from domestic saving). Policies which increase gross domestic product but allow gross national expenditure to increase by the same amount will not generate a surplus in production to enable an increase in net exports of goods and services. They would therefore not reduce the CAD.

If Australia is to sustain the higher growth necessary to underpin rising living standards, it needs higher productivity and quite probably an increase in the trend level of investment relative to output. Thus, a reduction in the CAD requires an increase in aggregate saving performance of the private and public sectors. In 1994–95 gross national saving was sufficient to fund less than four-fifths of Australia's investment requirements.¹

The essential way in which changes in the level of domestic saving relative to domestic investment will lead to reductions in the CAD has been spelt out by Forsyth (1990a,b) among others.² As a result of the increasing integration of world capital markets, domestic interest rates are closely related to world interest rates and are therefore less effective than hitherto as a price mechanism serving to bring the domestic saving-investment gap into balance. In these circumstances, the key adjustment

¹ The role of saving and investment in sustaining economic growth and their influence on Australia's CAD are analysed in Budget Paper No. 1 (Willis and Beazley 1995a, pp. 2.33–2.56).

² A useful review of the features of alternative models of the determination of current account balance is provided by Makin (1994).

mechanism expounded by Forsyth involves changes in the real exchange rate which induce

Box A1: Saving, investment and the CAD in a national accounting framework

Equation (1) is the simple income identity, where gross domestic product Y , is the sum of private consumption C , private investment I , government expenditure on goods and services (including consumption and investment expenditure) G , and net exports ($X - M$). Alternatively, gross domestic product Y , can be expressed as being equal to the sum of private consumption C , private saving S , net taxes (taxes less transfers) T , and servicing of (net) debt and foreign equity and net foreign transfers F .

$$(1) Y = C + I + G + X - M$$

$$(2) Y = C + S + T + F$$

Thus it can be shown:

$$(3) I + G + (X - M) = S + F + T$$

or

$$(4) (I - S) + (G - T) = (M + F) - X$$

This shows that the current account deficit $(M + F) - X$ is equal to the public sector balance $(G - T)$ plus the private saving-investment gap $(I - S)$.

Alternatively, it can be shown:

$$(5) CAD = C + I + G + F - Y$$

Equation (5) shows the CAD is equal to the difference between national expenditure (including servicing of foreign-owned capital) and national production.

adjustments in exports and imports to mirror changes in the saving-investment gap.³

In this framework, increases in the national saving rate relative to investment will cause consumption and thus also the quantity of imports to decline. The fall in domestic consumption will mean that some additional productive capacity will be available to increase exports. Both of these effects act directly to reduce the CAD. The downturn in domestic

³ The real exchange rate is equal to the nominal exchange rate multiplied by the domestic price level divided by the foreign price level.

demand will also cause domestic prices to decline relative to foreign prices and increased saving will reduce Australia's foreign borrowing. These effects will combine to lower the real exchange rate below what it otherwise would be, which will cause further decreases in imports and increases in exports, and an overall reduction in the CAD. Thus the change in the real exchange rate will result in a lower CAD in harmony with a smaller saving-investment gap.

The central conclusion of this analysis is that changes in the gap between domestic saving and investment will result in a restructuring of industry and an increase in exports relative to imports. But what is important from a policy perspective is that the change in the foreign trade balance comes about because of changes in saving and investment behaviour — not the other way round. This is the key to understanding what contribution microeconomic reform can make to redressing Australia's CAD. Policies targeted on exports and imports themselves will have unpredictable effects on the balance between total domestic saving and investment, and are likely to reduce the productivity of the nation's resources by encouraging resources to move away from more efficient areas of use.

MICROECONOMIC REFORM AND THE CAD

Microeconomic reform is aimed at increasing the productivity of the Australian economy. Raising productivity and national income is the essential means of securing higher living standards and sustained reductions in unemployment. Over a number of years Australian governments have introduced a wide variety of changes to make markets work better. These have included opening up previously sheltered sectors of the economy to competition through reductions in tariff protection, increasing the commercial focus of government business enterprises and altering some industrial relations regulations so as to bring about increased flexibility and productivity in the workplace.

Changes which increase productivity reduce costs for many Australian firms, thereby helping to increase the attractiveness of Australian-produced goods and services on both the domestic and export markets. This is the basis on which improvements in productivity which increase exports or reduce imports are often thought to lead to a decrease in the CAD. However, in examining whether microeconomic reform can make a contribution to reducing Australia's CAD, it is necessary to take account not just of such initial effects but other flow-on effects as well.

Microeconomic reforms which raise productivity will increase the output of the Australian economy. As national production rises, though, so does aggregate income and demand. It is very likely that as income increases so will spending. Unless there is a lasting change in the balance between production and expenditure (or, alternatively, saving and investment), there will be no lasting change in exports relative to imports and no reduction in the CAD as a proportion of GDP.

It is important, then, to consider how increases in productivity might alter saving and investment behaviour in both the private and public sectors. Increases in productivity are likely to increase real incomes for many groups in the economy. For example, households can gain through lower prices, increased wages and employment; firms and government business enterprises through increased profits. How much is actually saved (relative to a given level of investment) will depend upon the nature of individual microeconomic reforms and the way in which their gains are distributed throughout the economy. It is a fair assumption that, as a whole, those in the private sector who gain will save some — but not all — of the gain. There is no obvious reason why changes in productivity would change their incentive to save. A small increase in national income is unlikely to change the rate of private saving as a proportion of GDP. People may increase their rate of saving if they think the increase in their incomes is temporary or if incomes are rising rapidly. But in most instances the gains from microeconomic reform accrue over time and thus are not likely to induce significant increases in the rate of saving.⁴ Consumption can be expected to adjust eventually to the higher level of income growth.

It would be possible for government to raise taxes and its own saving in response to the increase in private incomes stemming from higher productivity. If the CAD were to be reduced substantially by the increase in income, governments would need to tax away most of that increase and reduce their budget deficits (or increase surpluses) accordingly. The realism of such an outcome is open to question.

There are other avenues which offer the potential for an increase in government saving. For example, reforms that reduce unemployment can lessen government outlays on labour market programs and unemployment benefits and increase government revenue through higher income and payroll tax receipts. Similarly, improved performance by government

⁴ It is worth noting that EPAC (1988) did not identify microeconomic reform as a means of improving domestic saving.

business enterprises has seen increased dividend payments to governments. Improved productivity can mean reductions in government expenditure in other areas. The gains available from competitive tendering and contracting of public services are a case in point.

In all of these cases, though, the net effect on public sector saving depends on whether governments resist using such gains to reduce taxes or increase expenditure to satisfy other demands for community services. Even if public sector saving does increase substantially, the net effect on national saving depends on the response of private sector saving. The latter may tend to decline in expectation, for example, of subsequent tax reductions. In short, the net outcome is unclear.

The reduction of disincentives to private saving directly could improve the CAD. Efforts to improve the efficiency of the taxation system where it discriminates against saving — such as the introduction of dividend imputation which removed the double taxation of company income — would work to increase the proportion of income saved. Reducing Australia's reliance on income taxation by moving towards a broad-based consumption tax (with reductions in income and other taxes) would also be likely to have a positive effect on aggregate saving. There has, however, been considerable debate about the magnitude of any such effect. Freebairn (1991), for instance, reasoned that there would be a small positive effect on total saving, but more important effects on the composition of saving and investment. A study by Pender and Ross (1994) for EPAC found that there were a number of remaining distortions in the tax system and other regulations which biased saving and investment decisions towards assets such as owner-occupied housing. In its inquiry into the availability of capital, the Commission (1991b) found that household saving is discouraged by publicly funded pensions, social security, health and education services. For example, the provision of publicly funded pensions can reduce the incentive for individuals to build a retirement 'nest egg'.

Microeconomic reform may also affect the CAD by altering investment (relative to a given level of saving), but the direction and extent of any difference is difficult to determine. It could increase the incentive to invest (leading ultimately to faster economic growth) or it could sustain or increase the rate of economic growth with a lower level of investment. The outcome depends upon the nature of individual reforms and on industry circumstances.

Much of the drive to improve Australia's economic performance has involved measures to raise capital productivity by ensuring that Australia's investment capital is used efficiently. Any measure which increases capital productivity can potentially contribute to reductions in Australia's CAD, though, as stated before, only if it reduces the gap between expenditure and production.

The introduction of more efficient pricing practices can raise capital productivity. One of the benefits of improved pricing practices in the water sector, for example, is that users are faced with the true cost of supply. This restricts wastage and can reduce or delay the requirement to invest in new dams. Greater labour market flexibility is increasing capital utilisation where it allows an increase in the number of shifts worked. Similarly, reforms which have the effect of increasing output in industries where there is already excess production capacity can contribute to economic growth without a matching increase in investment expenditure.

While some improvements in productivity can be made by increasing capital productivity, many reforms also directly call forth greater investment and can therefore, at least in the investment phase, increase the CAD. For example, opening of Australia's telecommunication sector to competition has seen the entry of one major new player, Optus, as well as other players in areas such as mobile phones. In association with technological developments, there has been a significant increase in investment in the sector.

Moreover, improvements in capital productivity in one sector may well bring forth increased investment expenditure in other sectors which benefit by buying intermediate inputs more cheaply (or it may induce higher consumption elsewhere where prices are lowered or wages increased). Increased labour market flexibility may, for instance, induce new investment in industries which require imports of capital goods, thereby raising the CAD. In examining the effect on the CAD, it is the overall impact on total investment, saving and consumption which is crucial.

The net effect of these counterbalancing forces on Australia's CAD is very difficult to determine. A simple calculation of the effect on saving would suggest that if microeconomic reform increased GDP by about 5 per cent, and Australians continued to save at a rate of 20 per cent, then national saving would increase by 1 per cent of GDP. With a current account deficit of 5 per cent of GDP, this increase in saving would by itself reduce Australia's CAD by about one fifth. However, this does not

take into account what might happen to investment. If microeconomic reform increased gross investment, this would at least partially offset the reduction in the CAD due to increased saving. Simulations using the ORANI model of the Australian economy — which attempt to quantify the impact of these opposing forces — indicate that a selective range of microeconomic reforms would substantially boost Australia's national output but would make only a small contribution to decreasing the CAD.

Overall, microeconomic reform is not likely to have a significant effect on the CAD. Insofar as it makes the economy more productive and better able to adjust to changing economic circumstances, it may on balance be helpful in accommodating external imbalances.

ARE EXPORT INCREASES THE ANSWER?

Increases in the productivity and performance of Australia's export and import-replacement activities are important to the wealth generation process. For example, export growth raises Australia's national income and allows higher levels of imports to sustain rising standards of living.

The point of the analysis above, however, is that what may seem obvious — that increased exports would help to reduce the CAD — is not at all obvious when account is taken of the wider effects of such an increase.

The only way in which increased exports can reduce the CAD is if Australian expenditure increases by less than the increase in GDP. Some of the increase in national income will be saved, but there is no reason to suspect that those who receive higher incomes as a result of increased export activity would be likely to save a higher proportion of the increase than they would normally. They will spend a large proportion of the increase in their income, and this will include maintaining much the same proportion of income spent on imports. If export expansion necessitated higher investment, this could actually widen the saving-investment gap, at least in the short term. Of course, over time, there would be an expectation that new investment would generate earnings more than sufficient to cover debt servicing and repayment of borrowings. But the initial increase in investment would draw more imports into Australia — especially intermediate inputs and plant and equipment necessary for increased national production.

Unless increases in exports result in an increase in national production relative to national expenditure, the real exchange rate will adjust in a way which leaves the CAD unchanged as a proportion of GDP. The

central point is that, without an increase in production relative to spending, improvements in productivity which improve the competitiveness of individual export firms and industries will do so only at the expense of the competitiveness of other firms and industries.

Given that higher exports are unlikely to reduce the CAD, it would be futile to pursue export assistance schemes for that purpose. While such schemes have little effect on the CAD, they are likely to distort resource allocation within the economy, leaving the more efficient sectors short of resources. This is not to deny that some forms of government support to exports may be justified. For example, export marketing assistance may arguably be warranted on efficiency grounds to address a tendency for individual exporters to underinvest in promotional and marketing activities (IC 1992).

ARE TARIFFS OR REVENUE DUTIES THE ANSWER?

Recently there have been suggestions that Australia should slow down its program of tariff reductions or increase tariff protection as a means of reducing the CAD. Such policies may seem attractive because they would directly reduce imports. However, such thinking again neglects the wider effects that these policies would have on other Australian industries. As one commentator remarked:

Many countries resort to tariff increases when they face external deficits. As Engel and Kletzer (1986) correctly put it, this is due to a partial equilibrium view that considers just the reduction in imports, ignoring other adjustments throughout the economy (Roldos 1991, p. 175).

Tariff increases are likely to have a direct effect on the prices of imported products, depending on levels of stock holdings and demand and supply conditions in individual markets. After some lag, this may well bring about a reduction in imports, allow local producers to raise their prices and stimulate activity in Australian industries which compete against imports. This may stimulate demand for imported capital or intermediate goods necessary to increase output in protected industries which would increase the CAD. For a while, though, it may appear that increased protection is having a positive effect on the CAD. Eventually, however, there will be a tendency for this protection to lead to price and wage increases. This will penalise exporters and import-competing activities, particularly those which use protected products as intermediate inputs. This, combined with the initial reduction in imports, will cause an appreciation of the real exchange rate unless capital inflow increases

(which seems unlikely). The higher real exchange rate will cause the CAD to return to its original level.

Tariff increases may change the composition of exports and imports and decrease the share of trade in Australia's GDP, but changes in imports or exports will not change the CAD except to the extent that they affect saving relative to investment. It is not clear how tariff increases would change the incentive to invest or save; and even if saving and investment behaviour was altered, the net effect on the saving-investment gap and hence on the CAD is far from predictable.

Increases in tariffs are likely to contribute to government revenue (although this depends on the responsiveness of import demand and domestic supply). Currently, tariff revenue contributes about 3 per cent of total Commonwealth Government revenue. If tariff revenue increased, the Government could use this as an opportunity to increase either its net saving or its own spending.

Increased tariffs would reduce the efficiency with which Australia's resources are allocated. With lower national productivity and national income, the level of saving would fall, though the rate of saving as a proportion of GDP may not change. In time, increases in protection would encourage a diversion of Australia's investment funds into less efficient uses. It is arguable that because this would lead to reductions in national productivity and the rate of return on capital, Australia could be a relatively less attractive place to invest and net investment would fall. This would narrow the saving-investment gap and of itself contribute to a lower CAD — but only at the cost of a lower standard of living.

What is most likely is that tariff increases, while reducing imports, would also worsen Australia's export performance. Any tax on imports becomes a tax on exports. For a given capital inflow, the change in exports will equal the change in imports.

Indeed, growth in imports in Australia has been broadly associated with an expansion in exports over many decades. During the last decade export growth has exceeded import growth. Over that period the share of imports of goods and services in gross national expenditure grew in volume terms from 15 per cent to 20 per cent, while the share of exports of goods and services in volume terms increased from 14 per cent to 22 per cent of GDP.

Revenue duty

From time to time, there have been suggestions that Australia should reintroduce a revenue duty as a means of reducing the CAD. Proponents envisage that such a duty would be set at a low rate on all imports so as to discourage imports and increase government revenue. They argue that such a proposal would not be protective.

There are, however, several deficiencies with such proposals. Any duty, no matter how small, adds to the costs of intermediate inputs. This will reduce export profitability and sales, as well as the capacity of user industries to compete against imports. A revenue duty would impose an unnecessary burden on efficient Australian producers and could be expected, subject to the state of the economy, to raise the level of domestic consumer prices.

Australia abandoned a 2 per cent revenue duty following Government consideration of a report by the Commission (IAC 1987). The Commission found that the incidence of the revenue duty fell heavily on intermediate goods. Most participants in the inquiry argued that the duty was an inappropriate form of taxation which imposed unnecessary cost on industry and requested that it be removed.

Overall, a revenue duty would be distortionary as it would only tax imports. Domestic producers would not pay the duty even though they would be able to increase their prices, albeit to a limited extent. If it was decided that additional revenue is required to increase public saving, a less distortionary revenue-raising mechanism, such as a consumption tax, would be preferable to a revenue duty because it would be borne in part by domestic producers and imports alike.

In substance, there is no difference between a revenue duty and tariff protection. In general, neither would be effective in addressing Australia's CAD.

Furthermore, reconsideration of a revenue duty would also have to take into account Australia's international obligations under the World Trade Organization (WTO) and bilateral trade agreements such as the Closer Economic Relations Agreement with New Zealand (CER). Under these international agreements, Australia has undertaken not to increase tariffs above specified levels in return for similar commitments from its trading partners.⁵ These obligations are such that they would require either

⁵ Approximately 96 per cent of Australia's tariff lines are bound under the GATT. Of these, approximately 20 per cent are bound free of duty while around another 25 per

exemption of a large proportion of imports from a revenue duty, or a request by Australia for a release from its international commitments if such a revenue duty was to be broadly applied. The latter course would be by no means assured of success. It would involve either a complicated renegotiation of many of Australia's tariff commitments, or the seeking of a temporary release from these commitments on balance of payments grounds. Application of a revenue duty on balance of payments grounds would require the approval of the International Monetary Fund and examination and monitoring by the WTO Balance of Payments Committee.

cent are bound at or within 2 percentage points of the applied rate. Approximately 7 per cent of Australia's present imports are duty free under CER and other free trade agreements.

Trade and assistance review

- B Specific developments
- C Export measures
- D Commonwealth budgetary outlays on industry
- E Anti-dumping activity
- F Assistance to agriculture and manufacturing
- G International trade in services

Specific developments

The Commission continues to monitor and analyse developments in industry-specific arrangements and selective measures which provide support to particular activities. This year it has looked at the unwinding of the complex assistance arrangements which have applied to the wool industry; recent developments in government procurement which may be compromising the value-for-money objective and leading to industry fragmentation; the constraints on 'parallel importing' which reduce import competition and raise the prices of computer software, books and recorded music; and initiatives directed at cultural objectives in the Government's Creative Nation statement which may also have assistance implications for Australia's multimedia producers.

As part of its annual reporting on industry performance and assistance, the Commission reviews developments in specific industries or selective measures which provide support to particular activities. Last year the Commission focused on developments in the major infrastructure industries (IC 1994e, Appendix E). Recent developments relevant to these industries are reported in the Commission's annual review of microeconomic reforms (Appendix H).

This year the Commission has selected developments in four areas related to industry assistance for more detailed reporting. This appendix covers developments in:

- The wool industry — the complex assistance arrangements which have applied to the industry in the recent past are gradually unwinding and assistance is returning to lower levels.
- Government procurement — recent Commission inquiries have shown that government procurement policies, both at the Commonwealth and State levels, are again having industry assistance effects.
- Parallel imports — constraints on imports of legitimate copies of copyrighted material, other than by the locally-licensed distributor, have been the subject of several reviews in the past few years. Recently, restrictions on parallel imports of computer software were reviewed in

the Commission's computer inquiry while the Government announced its decision to continue to restrict parallel imports of recorded music.

- Cultural activities — initiatives directed at cultural objectives in the Government's *Creative Nation* statement also have assistance implications for Australia's multimedia service providers.

THE WOOL INDUSTRY

Australia is the world's largest producer and exporter of raw wool, accounting for approximately one-third of world supply. In 1994–95 Australia exported 6.3 million bales, valued at \$4 billion, or 21 per cent of total rural exports.

Except during the period of drought and depressed prices in the late 1960s, the wool industry received relatively low levels of assistance. This changed dramatically in early 1990 with the imminent collapse of the wool marketing arrangements following a large fall in world prices. At that time the Government moved to provide support to wool growers and subsequently, in February 1991, the reserve price scheme was suspended. Details of the Government's measures are given in Box B1 and of Commonwealth outlays in Table B1.

The previous wool marketing arrangements had operated with legislative support since the early 1970s. Under those arrangements, buffer stocks were held to support minimum reserve prices for growers. At times of low prices, the Australian Wool Corporation (AWC) purchased wool that failed to reach the pre-announced minimum reserve price. The wool was stored until prices improved and then re-offered to the market. The stocks were financed by a tax on wool sales.

Between 1987 and 1989 high world prices induced the minimum reserve price for wool to be raised by 70 per cent. This large increase in the minimum reserve price coincided with administrative changes giving wool growers more power in setting the reserve price.¹ However, during 1989–90 world prices began to fall. The AWC initially maintained the high reserve price through increased purchases of wool. As a result, the wool industry's stockpile rose sharply — from 188 thousand bales in June 1989 to 4.6 million bales in June 1991 (Figure B1).

¹ Between 1974 and 1987 the minimum reserve price was set by the Minister following departmental and wool industry advice.

Box B1: Major developments in the wool industry, May 1990 to June 1992

Between May 1990 and June 1992, the Government made a number of policy changes in response to the increasing level of wool stocks and the deteriorating financial position of the AWC (IC 1993a, pp. 281–8). These included:

- In May 1990 a government guarantee on borrowings to finance the wool stockpile was introduced.
- The wool tax was initially increased from 8 per cent to 25 per cent of sale value over the period from July 1990 to October 1990 to finance the continuing operation of the reserve price scheme. The tax was subsequently reduced to 12 per cent in July 1991 in recognition of the financial difficulties facing farmers, and was further reduced to 8.5 per cent in June 1992 following the better than expected sales — with a provision that the tax be increased to 12 per cent if required. The 8.5 per cent wool tax had three components — a 4.5 per cent stockpile levy, 3.5 per cent for wool promotion and 0.5 per cent for research and development.
- A \$400 million credit facility was provided for exports to the USSR. This credit was backed by an Australian Government credit guarantee provided through national interest provisions of the Export Finance and Insurance Corporation. Credit provided to the USSR for the purchase of wool totalled \$271 million.
- The reserve price scheme was suspended in February 1991 on the recommendation of the AWC which had suspended wool auctions. Following the recommendations of the Wool Review Committee, the reserve price scheme was abolished in July 1991.
- A supplementary payment of \$300 million was provided to offset price falls which followed the suspension of the reserve price scheme. This covered the period February 1991 to the end of June 1991.
- The Australian Wool Realisation Commission (AWRC), was established with responsibility for the management of the industry's \$2.8 billion debt and stockpile of wool.
- A seven-year cumulative debt reduction schedule was established, terminating in 1997–98.
- Two \$22.5 million grants were provided to the AWRC in 1991–92 and 1992–93 to facilitate asset sales.
- Three instalments totalling \$75 million were provided towards wool promotion over the period 1991–92 to 1993–94.

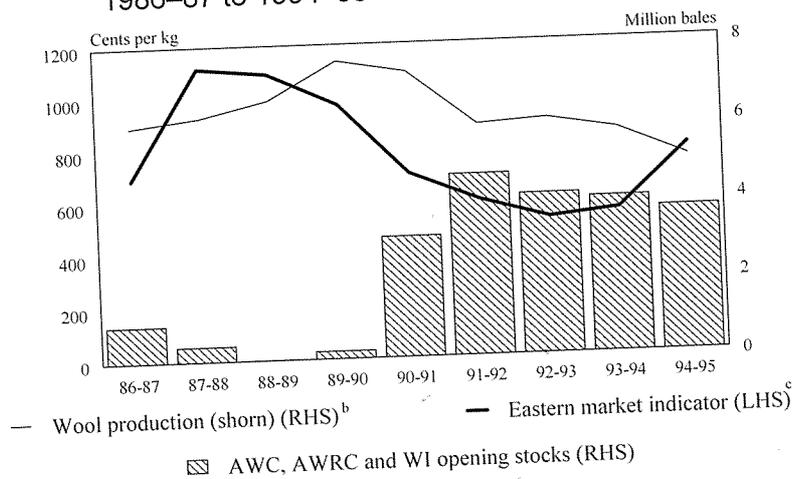
Table B1: Industry-specific assistance to wool (\$ million)

	1987 -88	1988 -89	1989 -90	1990 -91	1991 -92	1992 -93	1993 -94
Wool promotion	35.4	25.0	25.0	22.9	32.1	25.0	20.0
Government guarantee	-	-	2.2	49.1	92.8	82.2	68.7
Credit facility	-	-	-	2.5	-	-	-
Wool supplementary support payments	-	-	-	300.0	-	-	-
Grants to AWRC	-	-	-	-	22.5	22.5	-

- Nil.

Source: Commission estimates

Figure B1: Australian wool production, stock and market indicator,^a 1986-87 to 1994-95



a 1994-95 is a preliminary forecast by ABARE.

b Conversion factor: 1 bale = 136.2 kg.

c The Eastern market indicator was introduced in July 1994. Previous data were recalculated using ABARE conversion factors.

Source: ABARE (1994a,b)

The Minister for Primary Industries and Energy directed the AWC to reduce the minimum reserve price of wool from 870 cents to 700 cents per kilogram on 31 May 1990. This action was in response to the AWC's failure to reduce the minimum reserve price, despite the large volume of purchases made to support it and the potential exhaustion of the Corporation's available sources of credit.

RECENT DEVELOPMENTS

Recent developments in the marketing of wool are dominated by the adoption of policies and measures set in place by the Government following the receipt of a report on the industry's structural and operational arrangements from Professor Garnaut in 1993. A summary of the policies and measures adopted is given in Box B2.

Australian Wool Exchange

The Australian Wool Exchange (AWEX) was formed on 31 August 1993 and started operations on 1 February 1994. AWEX was set up as a commercial business to enable the wool industry to take over management of the auction selling system.

AWEX is a joint privately-funded venture; its members include growers, brokers, exporters, processors and private treaty merchants. Its budget is raised through a trading fee, membership subscription and service fees. The operating budget for 1994-95 was about \$2.3 million (Smith 1995).

On 1 February 1994 the industry gave AWEX responsibility for managing the nation-wide auction system. It is currently looking to implement new services and has received funding under the Agribusiness Program of the Department of Primary Industries and Energy.

Stockpile disposal and Wool International

Sale of wool from the stockpile has proceeded according to the fixed quantity schedule, and has been aided by drought-induced shortfalls in supply. The schedule set a sales rate of 542 thousand bales in the 1994-95 season and 748 thousand bales in each of the following two seasons (WI 1994). In order to satisfy large contracts, Wool International has at times over-sold the stockpile, thus forcing it to buy wool to replenish stocks. Wool International announced that from 1 January 1995 it would operate within a sales range of 182 thousand to 192 thousand bales per quarter.

Wool International projects that in July 1997 it will have wool stocks of 1.6 million bales. This would represent about one-third of a full year's production in 1996-97. By then its debt is projected to have fallen to about \$150 million, implying a net worth of over \$1.6 billion. On the basis of these forecasts, when it is privatised, Wool International would become Australia's largest agricultural company and would probably rank in the top 60 industrial stocks (AFJ 1994).

Box B2: The Garnaut report

On 28 April 1993 a Wool Industry Review Committee, chaired by Professor Ross Garnaut, was established to review the industry's structure and operational arrangements (WIRC 1993). The Government's response on 8 September 1993 involved the introduction of a number of measures largely in accord with the Committee's wide-ranging recommendations. These included:

- The AWRC was replaced with a commercially oriented statutory authority called Wool International on 1 December 1994. Wool International is predominantly a selling organisation, responsible for the commercial sale of the stockpile based on a fixed disposal schedule. Wool International has limited power to buy wool, only to meet its disposal schedule, and has no special commercial or trading advantages over other organisations. While it is not involved in price support purchases, the organisation is responsible for developing mechanisms that spread risk and allow processors to secure future delivery of wool at hedged prices. The intention is to privatise Wool International on 1 July 1997 with rights to shares being allocated initially to wool growers in proportion to their levy contributions up to that time. The government guarantee on stockpile debt will cease at the time of privatisation.
- Wool International was to start a fixed schedule of selling on 1 July 1994 — 28 thousand bales per month for six months up to and including December 1994 and 187 thousand bales per quarter from January 1995 until privatisation.
- The stockpile levy (tax on wool sales) was to continue at 4.5 per cent until June 1997.
- The Australian Wool Exchange was established.
- The AWC and the Wool Research and Development Corporation were merged into a single statutory authority known as the Wool Research and Promotion Organisation, with its functions limited to research, development and generic promotion.
- The 'Australian Trade and Investment Package', a program of assistance and overseas development aid, was introduced. This package focuses primarily on China and is aimed at increasing the demand for wool by encouraging the development of industries that use wool and reducing trade barriers in developing countries. A task force will investigate ways of developing closer commercial linkages between the Australian and Chinese wool and wool textile industries.

The Government has restated its intention that Wool International be privatised on or before 30 June 1997, with growers being given equity in the company in proportion to their levy payments. Wool International is to become a public company, Wool International Limited (WIL), listed on the Australian Stock Exchange. The 4.5 per cent stockpile levy is to cease and wool growers will have the option to sell their shares in WIL immediately on listing.

Within these guidelines, the industry is currently making proposals for arrangements to apply after 1997. For example, the Wool Council of Australia has indicated a preference for the partial liquidation of Wool International after June 1997. This would involve the return to growers of a proportion of the equity. The balance would be used to set up a private company with growers as shareholders. In April 1995 the NSW Farmers' Association released an options paper to promote discussion concerning Wool International. The paper recommended that:

- Wool International be privatised as soon as practicable after 1 July 1997;
- wool growers be given the flexibility of cashing out their equity in Wool International, retaining shares in the privatised company, WIL, or both; and
- all equity be tradeable on the Australian Stock Exchange.

International Wool Secretariat

The International Wool Secretariat (IWS) is the international marketing organisation for wool from Australia, New Zealand, South Africa and Uruguay. It established and manages a textiles industry symbol referred to as Woolmark.

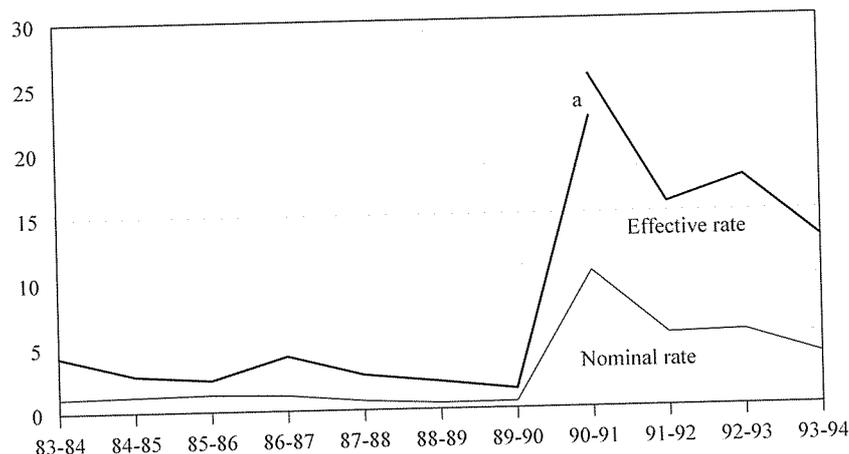
The IWS merged with the Australian Wool Research and Promotion Organisation (AWRAP) over the twelve months following August 1994 (AWRAP 1994). As a result, IWS is now the only organisation conducting and administering wool marketing and research activities, both in Australia and overseas. Although AWRAP will remain as a legal entity, it will conduct its activities under the IWS trading name.

ASSISTANCE IMPLICATIONS

Estimates of the nominal and effective rates of assistance to the wool industry remained relatively constant between 1983-84 and 1989-90 (Figure B2). The Government's recovery packages for the industry had only a minor impact on the 1989-90 estimates, as the government guarantee on industry borrowings provided assistance for only one month of that fiscal year.

As shown in Figure B2, assistance increased sharply in 1990-91 with the nominal rate rising from 1 per cent in 1989-90 to 10 per cent and the effective rate from 1 per cent to 25 per cent. In 1990-91 some of this additional assistance was provided by a credit facility for exports to the

Figure B2: Average nominal and effective rates of assistance to wool, 1983–84 to 1993–94 (per cent)



a The break in the series reflects a rebasing of the estimates.

Source: Commission estimates

USSR and by the government guarantee on wool borrowings (Table B1). However, the primary cause of the increase was the \$300 million wool supplementary support payment. If the Government had not provided this supplementary support, the nominal rate would have been approximately 2 per cent and the effective rate 5 per cent in 1990–91. The net subsidy equivalent of assistance jumped from \$44 million in 1989–90 to \$394 million in 1990–91.

In 1991–92 the nominal and effective rates of assistance declined to 6 and 15 per cent, respectively. This was principally due to the one-off nature of the 1990–91 season's supplementary support payment. Nevertheless, a higher average cost of the guarantee and a \$22.5 million government grant to the Australian Wool Realisation Commission tempered this decline. Assistance was fairly steady in 1992–93 but fell marginally in 1993–94, the final year of direct government assistance for wool promotion.

The cost to Australian taxpayers of the assistance provided to the wool industry from 1990–91 to 1993–94 was considerable. Over this period, the assistance amounted to a gross subsidy equivalent of \$741 million or approximately \$185 million per year.

In 1993–94 the nominal and effective rates of assistance were 4 and 13 per cent, respectively. In 1994–95 the only industry-specific assistance to wool

was the government guarantee on Wool International loans. This assistance will remain until 1997 when Wool International is expected to be privatised and the government loan guarantee removed. The assistance level for 1993-94 — a nominal rate of 3 per cent and effective rate of 11 per cent, excluding government funding for wool promotion — therefore provides some indication of the levels of assistance that will continue through to 1996-97.

STATE OF PLAY

It is now more than five years since Australia's wool marketing arrangements based on the maintenance of a minimum reserve price for growers collapsed. The legacy of the stockpile built up at that time and its disposal, and the assistance provided by government to support growers, dominated policy in the industry in the early 1990s. The level of assistance provided at that time is moderating and arrangements are now being discussed to reduce further government involvement in the industry.

GOVERNMENT PROCUREMENT

Government procurement policies can be significant for industry because governments are major buyers of goods and services. Commonwealth Government purchases total around \$8 billion to \$12 billion annually (House of Representatives 1994, p. 1). In the information technology area, Commonwealth purchases represent 11 per cent of demand. Inclusion of State and local government and government business enterprise (GBE) purchases would increase this share to at least 40 per cent (IC 1995h, p. 7).

Government procurement policies are again having industry assistance implications, both at the Commonwealth and State levels. Recent policy changes are compromising the value-for-money objective in government purchasing and State and Territory Governments are increasingly using the leverage of large contracts to secure industry development commitments and influence the location of major investments.

Defence procurement accounts for around half of total government purchases. The *Strategic Review 1993* (Defence 1993) considered that some defence projects may be of sufficient strategic priority to warrant a higher price for Australian production. However, the Commission's recent inquiry into *Defence Procurement* (IC 1994d) noted that there have been problems with the approach adopted and recommended that the Department of

Defence focus on those capabilities in Australian industry it considers essential to, or desirable in, a project and its through-life support.

In its recently completed inquiry into *Computer Hardware, Software and Related Service Industries* (IC 1995h), the Commission examined the difficult trade-offs to be considered when governments attempt to link industry development objectives with value-for-money objectives. It concluded that industry development undertakings should not be pursued through individual information technology contracts. The Commission also considered that the use by State Governments of access to major contracts as a lever to secure industry development commitments carries the risk that firms and activities within these industries will become fragmented.

This section reports on the changes to Commonwealth Government purchasing policy that have flowed from a House of Representatives inquiry in 1994. It also looks at a recent review of the policy by the Bureau of Industry Economics (BIE) and reports the main findings on government procurement from the Commission's inquiries on defence procurement and computers.

CHANGES TO PURCHASING POLICY

In August 1992 the Minister for Administrative Services requested the Industry, Science and Technology Committee of the House of Representatives to inquire into the efficiency and effectiveness of Commonwealth Government procurement policies. The report of the committee, *Australian Government Purchasing Policies: Buying Our Future*, was completed in March 1994 (House of Representatives 1994). The Committee recommended 45 changes to government purchasing practices. These recommendations reflected a view that redirecting government demand to Australian suppliers would have beneficial employment consequences.

The Government's acceptance of some of the Committee's recommendations was set out in its *Working Nation* statement (Keating 1994a, pp. 76-8). Funding of \$40 million over four years was allocated to implement the measures, with additional funding to be made available to implement electronic purchasing. The Government decided on the following changes:

- Higher priority was to be given to industry development in procurement decisions.

- An Endorsed Supplier Arrangement was adopted for day-to-day purchases of information technology. The Commonwealth considered that an endorsed supplier approach would be useful in encouraging world best practice and securing a commitment from firms to long-term value-adding activity in Australia. It also considered that government endorsement of Australian suppliers may secure additional business for local manufacturers when tendering for contracts overseas.
- A requirement for an industry impact statement to be prepared by the Commonwealth for purchases over \$10 million was introduced. However, the Department of Defence was exempted (Keating 1994a, p. 206).
- It adopted a two-envelope approach for purchases over \$10 million. The first envelope specifies how the tender meets product specifications, contract terms and gives the firm's offer price. The second envelope details how acceptance of the tender will contribute to Australian and New Zealand industry development and contains contractual industry development undertakings.
- An Australian Suppliers' Information Program with funding of \$9.6 million over four years was introduced in order to identify local suppliers of goods and services.
- The establishment of a National Procurement Board was foreshadowed.

The National Procurement Board was formed in December 1994. The Board's role is to advise the Government on purchasing policy, the collection and analysis of government purchasing statistics, and the development and implementation of electronic purchasing (Cook and Walker 1994a).

The Government's reform of purchasing arrangements 'moves away from the existing system, where price is the dominant factor, and introduces a new approach emphasising closer links between government purchasing and industry development' (Cook and Walker 1994b). Before the changes announced in 1994, the principal objectives of government purchasing policy, in order of importance, were: obtaining value for money, the openness of the procurement process and effective competition.

REVIEW OF INFORMATION TECHNOLOGY PROCUREMENT

A recent BIE review endorsed the continuation of the Partnerships for Development (PfD) and Fixed-Term Arrangement (FTA) programs

administered by the Department of Industry, Science and Technology (BIE 1994). Together, the two schemes form the core of the Government's Information Industries Strategy (IIS). The IIS was established in 1987 to strengthen what the Government believed to be underdeveloped local information technology and telecommunications (IT&T) industries. The schemes replaced the Government's offsets arrangements for the industries.²

The PfD program was introduced in 1987. Modifications to the program and the introduction of the FTA program were announced in the Government's March 1991 Statement. The PfD program applies to international firms with annual information technology sales to the Government of over \$40 million. It requires international firms to sign a seven-year PfD contract with the Government to achieve:

- expenditure on research and development (R&D) equivalent to 5 per cent of annual Australian turnover;
- exports equivalent to 50 per cent of annual Australian imports;³ and
- an average of 70 per cent local value added across all exports.

Firms with annual sales to the Government of equipment, software and services of between \$10 million and \$40 million are subject to the FTA program. The introduction of the Endorsed Supplier Arrangement in 1994 effectively removed the \$10 million threshold. FTA partners commit to a four-year program of industry development activities. Quantitative R&D and export targets do not apply, but industry development activities are required to have a value of 15 per cent of the projected level of total government business.

While the agreements are not directly linked to Commonwealth contracts, they are used as a proxy for a firm's commitment to industry development when the Government considers major contracts (House of Representatives 1994, p. 33). International firms participating in the two schemes spent an estimated \$280 million on R&D and exported \$1 billion in goods and services in 1993 (Cook 1994b). The performance of companies under the PfD scheme is subject to annual review by the Government. In addition,

² In an earlier report on the aerospace industry, the BIE found evidence that offsets commitments increased government contract prices by up to 14 per cent (BIE 1986, p. 311).

³ For software companies the export-import ratio is replaced by a commitment to achieve exports equivalent to 20 per cent of the companies' Australian turnover.

companies are subject to an independent audit after the first year of operation, followed by audits at least biennially.

According to the BIE, the direct cost of the schemes to the Commonwealth was around \$800 000 in 1993–94 (BIE 1994, p. 64). However, the BIE also estimated that the total administrative costs to firms of participating in the schemes was \$4 million, although a proportion of this was considered to be normal business costs by firms. In addition, the increase in IT&T prices was estimated to have cost users between \$8 million and \$21 million (BIE 1994, p. 146). Overall, the BIE concluded that the gains from ‘spillover’ effects associated with the R&D slightly exceeded total costs and that the schemes attained their objectives by:

- encouraging 47 international companies to participate in the programs;
- potentially stimulating additional exports, R&D, and employment by the IT&T industries in Australia by an estimated 21, 24 and 4 per cent, respectively, by 1997–98; and
- facilitating the development of business relationships between international companies and their local subsidiaries, and local firms — these relationships were estimated to have resulted in a 9 per cent increase in R&D spending by local firms, a limited increase in output of 3.6 per cent, and transfers of technology to local firms.

The BIE considered that only a small number of local firms had gained major benefits from the programs, while most local IT&T firms had largely been unaffected. This was linked to the relatively small number of companies participating in the programs. Ten firms in the PfD program accounted for 90 per cent of export growth, with IBM alone accounting for 38 per cent. A quarter of respondents to a BIE survey considered that the Government’s information industry programs had reduced their opportunities to sell to the Commonwealth (BIE 1994, p. 139). While the BIE recommended that the programs should be continued it emphasised that, once sufficient scale of operation by the local industry was attained, there would be no reason to maintain the programs (BIE 1994, p. 92).

To improve the performance of the programs, the BIE recommended that:

- the current objective of stimulating exports and reducing the IT&T trade imbalance be replaced with developing long-term internationally competitive IT&T industries;

- the principles of the programs should be clearly explained, an annual reporting requirement introduced and the nature of business relationships between partners and local IT&T firms should be verified by auditors;
- a regular consultative framework should be re-established between the Commonwealth and the States as a permanent feature; and
- the programs should again be reviewed in 1998.

The BIE was also concerned with State and Territory Government competition to attract IT&T activity to their jurisdictions. It considered that there was 'a risk that programs which exploit the leverage from government's purchasing will impose significant costs on targeted firms and users of their products' (BIE 1994, pp. xiii-xiv), and warned that:

While such inter-government competition is understandable from the perspective of a particular State/Territory government seeking to attract IT&T activity to its jurisdiction and/or enlarge the potential benefits to local firms, it does not represent 'good policy' from a national perspective. Amongst other things, it can lead to the fragmentation of activity and in the process weaken the development of natural agglomerations (BIE 1994, p. 154).

DEFENCE PROCUREMENT INQUIRY

Defence purchases account for \$5 billion a year, around half of total government purchases. In 1994-95 about 70 per cent of defence purchases of goods and services occurred in Australia. The efficiency of procurement is an important question for the Department of Defence.

The Commission's recent inquiry into *Defence Procurement* (IC 1994d) found that the efficiency of procurement by the Department of Defence had been improved in recent years. The inquiry made several recommendations which would further improve the process. These included a clearer definition by the Department of Defence of the capabilities it wants industry to provide in order to enhance Australia's defence self-reliance.

According to the Government's *Strategic Review 1993*, some defence projects are of such high strategic priority that there are sufficient grounds for paying a higher price for Australian production, rather than relying on an overseas supplier. The major project for which estimates of the premium were documented, and published, was the F/A-18 aircraft project. The Department of Defence estimated that the assembly in Australia of 75 F/A-18 aircraft in the 1980s incurred a premium of \$700 million, or some 17 per cent of the total project cost. While the principal objective of

local industry involvement was to ensure industry's capability of providing support for the aircraft through their operational lives, this had proved difficult to sustain because maintenance is carried out by the RAAF (IC 1994d, p. xx).

The Commission considered that there are two critical elements to be followed in those projects which are judged to warrant paying a premium for Australian involvement. Firstly, Defence must estimate the size of any premium before a sourcing decision is made. Secondly, it must ensure that the outcomes sought, and paid for, are obtained. The Commission noted that the two largest current Defence projects, the ANZAC frigates and the Collins Class submarines, had not established benchmark prices for foreign supply. This made it impossible to substantiate claims that premiums on these projects are negligible.

To ensure the attainment of the Government's objective of establishing and maintaining certain strategic capabilities in Australian industry, the Commission considered that the focus should be on capabilities in Australian industry that are essential to, or desirable in, a project and its through-life support. The Commission recommended that neither minimum, nor target, levels of local content should be specified in the procurement process. The Commission also recommended that, as a general rule, the mandatory use of Australian prime contractors should not be specified.

The Commission recommended that the Australian Industry Involvement guidelines should be revised to have only two components. The first component, Priority One, would specify those capabilities in Australian industry that Defence considered essential to a project and its through-life support. The second component, Priority Two, would indicate the capabilities in Australian industry that Defence considers desirable, but not essential.

The Government announced its response to the inquiry in June 1995. The Commission's recommendation that Defence should not specify minimum levels of local content nor, as a general rule, specify the mandatory use of Australian prime contractors was accepted. However, the Government stated that, where it is appropriate to do so, Defence will continue to include informed advice on quality and quantity of local content in its procurements. The attendant recommendation that the Australian Industry Involvement guidelines be revised into Priority One and Priority Two capabilities was accepted in principle. Defence has since published the new guidelines: Priority One identifies those capabilities in Australian industry that Defence considers strategically important for particular acquisitions.

Priority Two seeks those capabilities in industry which Defence considers highly beneficial for the particular acquisition and/or for longer term support.

COMPUTERS AND RELATED SERVICE INDUSTRIES INQUIRY

The Commonwealth Government is a major purchaser of information technology products. Its purchases in 1993 were estimated at around \$1.3 billion, or more than 11 per cent of the total information technology market. When State, local government and GBE purchases are included, government purchases account for more than 40 per cent of the Australian information technology market (IC 1995h, pp. 6-7). Consequently, government procurement arrangements can have a major influence on the performance of the information technology industries.

In its inquiry into *Computer Hardware, Software and Related Service Industries* (IC 1995h) the Commission observed that the Commonwealth's PfD and FTA programs avoid many of the shortcomings of the earlier 'offset' programs as they are not tied to specific contracts, thus giving firms flexibility in meeting their commitments to the Government and preserving a national approach to industry development. The Commission concluded, however, that recent developments threaten to undermine these benefits.

The Commission considered that it was sound commercial practice for the Commonwealth to prequalify suppliers as, for example, it avoids the need to reassess suppliers for each contract. However, the requirements for Endorsed Supplier status extend well beyond what could reasonably be expected of firms seeking prequalification as government information technology suppliers. Specifically, the Commission found that the Endorsed Supplier Arrangement adds another step in the procurement process and is likely to act as a barrier to small firms seeking access to the government market; discriminates against foreign firms and local distributors; and restricts government purchasing opportunities. The Commission recommended that prequalification under the Endorsed Supplier Arrangement should be limited to the commercial needs of purchasing agencies and should not be extended to industry development objectives.

After examining the difficult trade-offs which result when governments attempt to balance industry development and value for money objectives, the Commission concluded that recent policy shifts are compromising the value-for-money objective. Of particular concern was the recent imposition

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of industry development obligations on successful tenderers for specific contracts, under the two-envelope approach. As industry development obligations also limit the flexibility of firms, and thus result in a less efficient and dynamic economy, the Commission recommended that industry development undertakings should not be pursued through individual information technology contracts.

The Commission found that information technology policies recently developed by some State Governments reflect a degree of disenchantment with the PfD and FTA programs. Seeking a larger share of information technology industry growth than they have been able to obtain through the Commonwealth's FTA and PfD programs, some State Governments were found to have reverted to the use of offsets-like arrangements. There was also evidence of increasing resort to incentive packages, preferential agreements, and various forms of leverage to seek additional industry development commitments.

The Commission considered that such arrangements risk fragmenting the Australian information technology industry and run counter to the national approach agreed to by the Commonwealth and States in the Government Procurement Agreement of 1991. The Commission recommended that the Commonwealth, State and Territory Governments, through the Council of Australian Governments, recommit to a national approach in the use of government purchasing for industry development.

The Commission also recommended that an independent review should be conducted of the Government's FTA and PfD schemes in 1998.

PARALLEL IMPORTS

Under Sections 37 and 38 of Australia's *Copyright Act 1968*, the Australian copyright owner can prevent legitimate copies of copyrighted material from being imported except through 'authorised distribution channels', unless the copyrighted material is imported by individuals for their own use. Legitimate copies are those which have been made with the consent of the copyright holder in the country in which they were produced. Imports of legitimate copies are referred to as 'parallel imports'— they exclude pirated editions of intellectual products.

The Copyright Act, therefore, not only allows copyright owners or their licensee to prevent the importation of pirated editions of intellectual products, but also the importation of legitimate products available abroad

for commercial use or sale. This has implications for domestic competition and for the prices paid by, and choices available to, consumers of intellectual products.

The issue of parallel imports, however, applies more broadly than just to copyright. Parallel importation can essentially be applied to intellectual property in a range of different products in addition to copyright, including trade marks and patents.

Australia has a number of international commitments which are also relevant when examining issues related to intellectual property. Australia's accession to the Uruguay Round Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) requires other countries to be treated no less favourably than Australians with regard to the protection of intellectual property. Australia is also a signatory to the Berne Convention and the Universal Copyright Convention. These conventions require member countries to protect literary and artistic works for a specified period of time, and also to provide authors the exclusive right to translate, reproduce and alter their works.

Parallel importation has been an issue in a number of reviews of books (PSA 1989a,b and 1995), sound recordings (PSA 1990) and computer software (PSA 1992) by the Prices Surveillance Authority (PSA). It has also been an issue in the Commission's recent inquiry into *Computer Hardware, Software and Related Service Industries* (IC 1995h). These reports are discussed below, focusing on the potential effects of restrictions on parallel imports on domestic prices.

BOOKS

The terms of reference for the PSA's 1989 inquiry included examining the effects of the Copyright Act on the prices of books. The PSA's report focused on the economics of copyright and the effects of the importation provisions of the Copyright Act.

The market for books

The supply of English language books (dominated largely by American and British publishers) on the international market has traditionally been subdivided into specific territorial divisions of copyright. The traditional British markets stem from those countries, including Australia, which were originally part of the former British Empire. While formal agreements on

market share no longer exist, markets are still divided along traditional lines partly because of the exercise of market power by British publishers who have been reluctant to publish books without first being granted copyright in all their traditional markets. Publishing, which includes distribution, is dominated by a small number of large global corporations, in turn giving rise to market power and a possible lack of price competition.

Inquiry findings and recommendations

Where a market can be effectively segmented, there is scope for discriminatory pricing arrangements as a profit-maximising strategy. The PSA considered that the importation provisions contained in the Copyright Act allow such market segmentation, raising the possibility of higher prices for books in Australia.

As part of the inquiry, the PSA examined differences in book prices between countries. A sample of prices of the same copyright editions of UK, Canadian and Australian books, showed that Canadian retail prices were consistently below those in the UK (despite the additional costs of freight), while prices in Australia were consistently higher. In Canada, British publishers who have the Canadian copyright must effectively compete with the US edition of the same book. Average Canadian prices were \$0.35 or 2.6 per cent below UK prices, while Australian book prices were on average \$2.99 or more than 30 per cent above the UK (PSA 1989a, p. 51). Price differentials were also found to be consistent between publishers and across the range of titles.

The PSA considered that the restrictions on parallel imports limit competition on the domestic market and therefore may help to explain why book prices are higher in Australia than in the UK and Canada.

As the PSA considered that consumers were paying too much for books, and also waiting too long for overseas releases to be made available in Australia, it recommended that the importation provisions of the Copyright Act be repealed as they apply to legitimate copies of books. The PSA argued that this would potentially allow retailers to import directly, bypassing the local copyright holder, in turn creating price competition and benefiting consumers.

The PSA recognised that the overnight repeal of restrictions on parallel imports could cause significant disruption for the Australian industry. The PSA therefore recommended that the removal of the importation provisions should be delayed for a period of one year. It also proposed an exemption

The majority of sound recordings sold in Australia are manufactured locally from imported master tapes acquired under licensing agreements with overseas record companies. Competition in the sound recordings industry is often in the form of advertising and promotion, rather than strict price competition.

Inquiry findings and recommendations

The PSA considered that restrictive market practices among the dominant companies supplying the Australian market, together with the importation provisions contained in the Copyright Act, could lead to discriminatory pricing arrangements.

Submissions to the PSA inquiry argued that, by international standards, Australian record prices have been consistently high. For example, survey information showed that CD prices in Australia were 42 per cent higher than in the US, cassette prices were 64 per cent higher than in Canada and LP record prices were 21 per cent higher than in the UK (PSA 1990, p. 83). The PSA attributed these price differentials to limited wholesale price competition between suppliers of sound recordings, brought about by the importation provisions contained in the Copyright Act.

The PSA recommended the removal of the importation provisions of the Act, as they relate to parallel imports. It considered that the initial impact of removing the provisions would depend on the relative price differences between Australia and overseas and on how suppliers responded to the threat of parallel imports. It also considered that local suppliers of records in Australia were still likely to have a cost advantage over imports, and that substantial price reductions may result in a significant expansion of market demand, in turn encouraging domestic manufacturing. While the PSA considered that lower prices may make it more difficult to obtain required rates of return on investment, it did not accept that investment in local artists would be affected by an open market.

The PSA did, however, accept that parallel imports may require some adjustment from companies in their advertising and promotional expenditures. As a result, it recommended a twelve month delay before amending the restrictions on parallel imports.

for Australian resident authors for which separate Australian publishing contracts were held, but limited the exemption to ten years. The PSA recognised that its recommendations, which discriminated between Australian and foreign authors, may cause some problems in relation to the Berne Convention.

Government decision

Following the PSA inquiry in 1989, the importation provisions of the Copyright Act were amended to allow for some parallel importation of books. In order to secure the right to control parallel imports, new releases were to be made available in Australia within 30 days of publication overseas, while orders for backlist titles were to be filled within 90 days. In effect the amendments were designed specifically to address the issue of availability, rather than price competition.

The PSA followed up with a further inquiry into book prices in 1995 to assess whether the concerns it had identified in 1989 remained and whether further reform was necessary. In its 1995 report the PSA found that, while there had been a general reduction in the price differentials of books between Australia and overseas, the prices of some books were still high relative to other countries. To enhance competition further in the Australian market for books, the PSA again recommended the importation provisions in the Copyright Act relating to non-pirated copies of books be repealed. The Government has not yet responded to this latest review.

SOUND RECORDINGS

In February 1990 the PSA was asked to conduct an inquiry into the prices of sound recordings. Among other things, the terms of reference required the PSA to consider the effect of the Copyright Act on the operation of the market for sound recordings and the determination of prices, as well as competition and efficiency in the supply of sound recordings and their effect on prices.

The market for sound recordings

The supply of sound recordings in Australia is dominated by six multinational companies, supplying around 85 to 90 per cent of the value of the sound recordings market. Independent record companies, distributors and importers supply the remaining 10 to 15 per cent of the market.

Government decision

In June 1992 the Government decided to allow parallel imports of new release sound recordings from foreign artists, but not of recordings by Australian artists. This decision was, however, not implemented.

More recently, the Government reversed the decision and decided not to allow parallel imports of sound recordings, except where companies would not supply any recording within 30 days. Instead the Government opted for new industry development agreements for the local music industry. These agreements will require new investments in Australian artists and the multimedia industry. The development agreements with the six multinational companies dominating the Australian market will total \$270 million over a three-year period. Safeguards are also being introduced to protect consumer interests through more formal price monitoring.

In justification of its decision not to allow parallel imports, the Government emphasised the effective protection of owners of copyright against piracy and the rights of owners of copyright to protect the circumstances under which their property is sold. These justifications appear to confuse piracy issues with the parallel importation of legitimate copyrighted sound recordings. The Government also accepted that the original decision to permit parallel imports discriminated between Australian and foreign artists and was therefore contrary to the Uruguay Round TRIPs Agreement. Nevertheless, the Government could have avoided this discrimination by opening the market further to parallel imports of all copyright recordings and this would have been consistent with the Agreement.

In a recent survey, the PSA found that in April 1995 average CD prices in Australia, excluding sales tax, were 34 per cent higher than in the US.

COMPUTER SOFTWARE

The Commission reviewed parallel importing as one issue in its recent inquiry into *Computer Hardware, Software and Related Service Industries*. In its inquiry, the Commission took account of the earlier report by the PSA and a more recent inquiry by the Copyright Law Review Committee (CLRC).

The market for computer software

The Australian software industry is dominated by multinational software developers and the majority of software is imported. Domestic software

developers generally supply specialised niche products and provide little effective competition to the multinationals.

The PSA found in its inquiry that the price sensitivity of demand for individual PC software products is generally high, as technological advances are increasing the degree of substitution between competing software packages. However, brand loyalty tends to reduce the price sensitivity of future purchasing decisions. Product differentiation is also a key feature of the software market. Product differentiation tends to lower the price elasticity of demand for individual products and raise the level of non-price competition for market share.

The importation provisions in the Copyright Act permit international price discrimination by allowing exclusive local suppliers of computer software packages to raise prices above overseas levels without fear of being undercut by parallel imports.

Inquiry findings and recommendations

The PSA's survey of the 33 highest-selling PC business software packages revealed that there are substantial differences between Australian and US computer software prices. Conducted on a monthly basis between July 1989 and July 1992, the survey showed that Australian prices had been consistently higher than in the US. Over the survey period, comparable computer software prices in Australia had on average been 49 per cent higher than in the US (PSA 1992, p. 44). This price differential, however, declined over the survey period. In subsequent price surveys, the PSA observed that the Australia-US price differential had declined to around 20 per cent by mid-1993. The PSA attributed this occurrence almost entirely to external factors, such as movements in exchange rates, rather than to changes in industry structure or competitive forces in the Australian market.

The PSA observed that the differential in prices between Australia and the US could be partially explained by differences in costs and/or margins of Australian distributors and retailers compared with their US counterparts. The PSA also considered that the current importation provisions contained in the Copyright Act had the potential to limit the extent of wholesale price competition and the incentive to reduce costs, as the provisions restricted Australian retailers to relatively high cost local supply sources. If parallel importation was permitted, the PSA argued, significant international price discrimination could not be practised, and there would be greater incentives for efficiencies in distribution.

The PSA also found that those who gain directly from the extension of copyright protection to distribution were able to sustain considerably higher than average profitability over the three years to 1991, despite any cost disadvantages relative to the US. This was accepted as further evidence of limited competition at the wholesale and retail level in Australia.

The PSA recommended that the importation provisions of the Copyright Act be repealed as they apply to non-pirated parallel imports of computer software and accompanying manuals. In recognition of the ease with which illegal duplication of software, or piracy, could be carried out, the PSA also recommended an amendment to the Copyright Act to increase the chances of border detection of pirated or counterfeit copies of computer software.

The CLRC in its final report into computer software protection in 1995 argued against the removal of restrictions on parallel imports, despite an earlier draft report supporting the recommendations of the PSA to allow parallel importation of computer software in order to encourage a more competitive domestic market (CLRC 1995). The CLRC concluded that parallel imports would not necessarily lower software prices and, although it recognised that the importation provisions could be used by copyright holders in an anti-competitive manner, it had not come across any evidence to indicate that this had occurred. The possibility of parallel imports leading to an increased incidence of piracy was the main reason given by the CLRC for the change in recommendation.

More recently, the Commission in its computer inquiry agreed with the general conclusions reached by the PSA. The Commission concluded that allowing parallel importation would ensure that Australian consumers of software (individuals and business) are not unduly penalised by overseas developers' exclusive marketing and distribution arrangements.

The Commission recognised that the desire to reduce the cost of software to Australians must be balanced by the need to preserve the legitimate protection software developers have under Australia's copyright laws. The question was, therefore, how to ensure only legitimate copies of computer programs are imported under any relaxed parallel importing provisions.

In its inquiry, the Commission recommended that the Government should actively support moves to allow parallel importing of legal (non-pirated) copies of software in the current forum established by the World Intellectual Property Organisation (WIPO) to consider a Protocol to the Berne Convention. In the event that the agreed Protocol expressly prohibited parallel importing, the Commission recommended that further assessment

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should be undertaken before the Government takes unilateral action to allow parallel imports of software.

The Government is yet to announce a decision regarding the parallel importation of computer software.

IMPLICATIONS

For all three intellectual products — books, sound recordings and computer software — inquiries by the PSA have found that prices were significantly higher in Australia than in the US and some other overseas markets. The importation provisions contained in the Copyright Act were found to provide control over distribution of these intellectual products, in turn reducing competition by restricting imports. The PSA considered that the removal of the restrictions on parallel importation would enhance competition in the domestic market and reduce domestic prices.

The Commission's findings in its computer inquiry confirmed the thrust of the PSA's conclusions. Moreover, it observed that the retention of restrictions on parallel imports appears at odds with the general direction of competition policy which was recently embraced by all Australian governments. Given the rapidly increasing importance of information technology in most areas of economic activity, these restrictions are very likely to raise the costs of Australian producers, with adverse effects on their international competitiveness.

CULTURAL ACTIVITIES

In its *Creative Nation* statement in October 1994, the Commonwealth Government committed \$253 million of new expenditure on culture and the arts over four years, augmenting the extensive funding already provided by the Government to these activities. Before the *Creative Nation* statement, Commonwealth funding for culture and the arts was budgeted to exceed \$1 billion in 1994–95 (Keating 1994b, p. 11). State and local governments also provide significant funding for these activities.

While *Creative Nation* was premised on encouraging a more creative society, elements of the statement have a commercial emphasis with assistance implications, particularly for Australia's multimedia producers. These include fostering newly developing CD-ROM activities (part of the emerging multimedia industry), skills and training development for the

television and multimedia industries and subsidising the production of high quality television programs.

This section provides some background on the nature and size of arts and culture activities. It also examines the nature and extent of Commonwealth funding provided to the activities, including from the *Creative Nation* statement. The lack of comprehensive data precludes an analysis of the funding provided by State and local governments.

BACKGROUND

In 1994 the Australian Bureau of Statistics (ABS) released a publication on *Cultural Trends in Australia*, sponsored by the Australian Cultural Development Office (ABS 1994a). The ABS adopted the definition of culture developed by the Cultural Ministers Council Statistical Advisory Group. This definition consists of selected industry classes from the Australian Standard Industrial Classification (CMCSAG 1990, pp. 80–1). Another approach is to regard culture as the expression of the personal experiences, attitudes and aspirations of individuals in the community (IAC 1976). Neither of these definitions attach culture to a particular medium.

Using the ABS definition of cultural activities, Australian production of culture-related goods and services was 3.5 per cent of gross domestic product in 1989–90. Of this, 60 per cent was incorporated into other goods and services while the remainder was final demand by consumers.

Cultural occupations are diverse. In its 1991 census, the ABS estimated cultural employment at 119 513 people, classified into 77 major occupations (ABS 1994a, p. 9). Cultural activities listed included creative occupations such as artists, sculptors, photographers and designers. More recently, the ABS included occupations which support or supervise cultural activities such as festival organising, and involvement in art galleries and heritage organisations (ABS 1994a, p. 3,9).⁴

The diversity of cultural activities is also borne out by the more recent ABS survey. In *Cultural Trends in Australia* the ABS reported that, in the twelve months to March 1993, 2.6 million people aged over 15 had some work involvement in cultural activities (ABS 1994a, pp. 2–3).

⁴ Additional information is contained in ABS (1993). Information on Government funding of the arts is available, for example, in the Department of Communications and the Arts (1994).

Payment for cultural activity is far more limited. Only about 20 per cent of these participants received some payment for their culture-related work, with about half of these receiving payment in full. Excluding cultural activity teachers at secondary schools, all of whom are paid, the television industry recorded the highest level of paid activity. The highest percentage not receiving payment worked in heritage organisations, arts and crafts shows, and fetes, and festivals in the performing arts.

GOVERNMENT FUNDING FOR CULTURAL ACTIVITIES

As noted earlier, in 1994–95 total Commonwealth funding for culture and the arts, excluding the recent *Creative Nation* statement, was estimated to exceed \$1 billion.

This funding was dominated by \$515 million provided to the ABC and \$77 million to SBS (Keating 1994b, p. 11). The ABC operates four domestic radio networks, a national television network, an overseas radio service, a satellite television service to South East Asia and six orchestras. The SBS operates multilingual radio stations and a television service. In addition, the Government funds the National Transmission Agency, which provides transmission facilities for the ABC and SBS, at a cost in 1994–95 of \$94 million (with an additional \$61 million provided for capital outlays).

Commonwealth financial assistance to the film industry was budgeted at \$79 million in 1994–95. This funding is provided through a number of Commonwealth agencies, including the Film Finance Corporation (\$54 million), the Australian Film Commission (\$17.9 million) and Film Australia Pty Ltd (\$6.4 million). Additional preferential assistance is provided to the film industry in the form of a 100 per cent tax concession for capital expenditure under divisions 10BA and 10B of the Income Tax Assessment Act (Keating 1994b, p. 44).

The Government also provides funds to the Australian Cultural Development Office (ACDO). The ACDO has responsibility for providing policy advice to the Minister for Communications and the Arts, as well as administering a number of programs to support cultural development. ACDO funding for 1994–95 was estimated at \$117 million. Of the ACDO's programs, the largest is the Cultural Development Program with funding of \$90 million in 1994–95.

Most funding for the arts is provided through the Australia Council (\$59.2 million). Some funds are provided also from the ACDO budget to

the Australian Opera (\$7.4 million), the National Institute of Dramatic Arts (\$3.1 million) and the Australian Ballet School (\$0.6 million). The ACDO (Communications and the Arts 1994, pp. 44–53) also administers a variety of other programs:

- the Tax Incentives for the Arts Scheme — which encourages donations of significant cultural items in return for concessions, including exemption from capital gains tax;
- the Australian Children's Television Foundation;
- the Commonwealth Indemnification Scheme for travelling arts exhibitions; and
- Artbank — which purchases the works of artists it regards as promising.

In addition, the Government funds institutions which manage national collections, such as the National Library of Australia (\$33.2 million), Australian Archives (\$30.5 million), the National Gallery of Australia (\$19.1 million), the National Film and Sound Archive (\$9.1 million) and the National Museum of Australia (\$6.2 million).

CREATIVE NATION

In introducing the Government's *Creative Nation* statement in October 1994, the Prime Minister stated that:

the more we succeed in encouraging a creative spirit and the flow of creative ideas, the more we will succeed as an economy and society ... there are huge economic benefits to flow from a confident and secure, innovative and imaginative culture (Keating 1994b, p. 5).

The statement contained funding for a range of measures including:

- establishment of multimedia programs (\$82 million) — multimedia incorporates text, photos, computer graphics, sound and moving images;
- a television production fund (\$60 million over three years);
- an increase in funding for the Australia Council (\$26 million);
- a new National Institute for Indigenous Performing Arts to be located in Brisbane (\$14.5 million);
- an SBS production fund (\$13 million);
- funding for opera and other artists to visit regional centres (\$11.7 million) with the aim of improving the equality of regional access;

- establishment of a National Academy of Music Performance in conjunction with the Victorian Government (\$8.8 million);
- sponsorship of international visual arts and elite performance tours, and the promotion of Australian culture overseas (\$6.9 million); and
- the establishment of the National Gallery of Aboriginal Australia in Canberra (funding to be determined).

The Government has committed up to \$56.5 million over seven years to establish six cooperative multimedia centres. Of this, only the first \$20.3 million, covering the first four years, was funded in the *Creative Nation* statement and is included in the \$82 million of multimedia funding reported above. The Government has also allocated \$45.2 million for the establishment of the Australian Multi-media Enterprise which will provide financing for the development and commercialisation of interactive multimedia products and services. Other multimedia initiatives, such as the commissioning of several CD-ROMs, and a series of multimedia forums are also to be funded.

Of the \$60 million the Government has committed to the Television Production Fund, approximately half will be available to commercial television licensees for in-house production, with the remainder available to independent Australian producers or production companies. At least 10 per cent of the fund must be spent on children's programming by either commercial licensees, or independent producers, as classified by the Australian Broadcasting Authority. The Government's objectives in providing this funding are to subsidise the production of 'high-quality' programs and to train experienced producers. When added to the extra \$13 million allocated to the SBS over four years for its Production Fund, the Government will be providing substantial additional support to the television production industry.

The increase in funding for the Australia Council is intended to allow the Council to engage in the promotion, exporting and marketing of the arts, as well as to make additional grants to artists, particularly those in the new electronic media industries (Keating 1994b, pp. 13-8).

As well as the new measures discussed above, *Creative Nation* reiterates existing preferential arrangements for the culture industry, including: the tax deductibility for business sponsorship of the arts; exemption from certain aspects of the prospectus provisions of the Corporations Law; tax deductibility for gifts to approved cultural organisations (valued at \$106 million since 1978); tax deductibility for heritage building

preservation; sales tax exemptions for professional artists; and income tax exemptions for non-profit societies, associations or clubs. In addition, legislation is to be introduced to encourage major bequests (Keating 1994b, pp. 95-8).

As part of the statement, the Government committed itself to complying with the Uruguay Round Agreement on TRIPs and to changing copyright law to extend protection to the newly emerging electronic transmission industries. In addition, the Government gave in principle support for a broad-based distribution right which is currently being refined as a possible protocol to the Berne Convention by the WIPO. The broadband transmission right would extend copyright coverage to all forms of media regardless of the specific form of transmission used.

The *Creative Nation* statement was premised on encouraging a more creative society. Associated press releases by the Minister for Communications and the Arts have more of a commercial emphasis, including on international marketing strategies, developing a multimedia industry, skills and training development for the television and multimedia industries, subsidising the production of high quality programs and the protection of copyright (Lee 1994a,b,c).

Creative Nation commits substantial taxpayer funds to fostering the newly developing CD-ROM industry. The multimedia industry, of which the CD-ROM industry is a part, is a relatively new industry in Australia and its commercial structure is still developing. The Government has said that it has provided this support for the industry on the basis that it expects multimedia exports to be worth \$200 million by 1997-98, and the domestic multimedia market to be worth up to \$3 billion by 2001.

While no data exist for the multimedia industry, the effective rate of assistance from government funding could, initially, be high given the present small size of the industry.

The statement also extends some of the familiar elements of industry policy (subsidies to increase domestic production, and programs to increase the export orientation of the industry) to selected cultural activities. These add to the arrangements already in place for certain activities, such as the local content rules applying to commercial television, the restrictions on foreign content in television advertising and controls on the temporary entry of foreign actors, musicians, entertainers and other professional workers in the entertainment field.

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Export measures

Government support for Australian exporters, as measured by the more readily quantifiable Commonwealth programs, exceeded \$1.5 billion in 1994–95, an increase of 7 per cent on the previous year. While recent changes to the Export Market Development Grants scheme have lowered the maximum available grant, total assistance provided is increasing with the growth in eligible exporters. Revenue forgone under the export facilitation and import credits schemes for the highly assisted passenger motor vehicle and textile, clothing and footwear industries continues to increase. This is the result of increased exports associated with the schemes.

Overall, measured Commonwealth Government support for exports represents less than 2 per cent of the value of goods and services exported. However, the distribution of export support between sectors is uneven, with the manufacturing sector receiving a disproportionately large share relative to its contribution to exports. The proportion of export support directed towards primary production has declined, due mainly to the achievement of full cost recovery for export inspection services.

This appendix reports on Commonwealth programs facilitating exports.¹ For this purpose, support for Australian exporters is measured by the level of spending or revenue forgone under the Commonwealth's more readily quantifiable export facilitation and assistance programs.

The aggregate level of spending over recent years and budgeted expenditure for 1995–96 is reported in the next section. This is followed by an outline of the Government's recent *Winning Markets* statement. Changes in existing export programs together with the major continuing programs providing support to exports are then reported individually. The final section looks at the industry distribution of the support provided.

¹ State Governments also have programs supporting exports but these are not reported here. Comprehensive information is not readily available on State programs.

TRENDS IN EXPORT MEASURES

The level of support for exports, as measured by the more readily quantifiable Commonwealth export facilitation and assistance programs, is estimated to have increased by around \$100 million to over \$1.5 billion in 1994–95, an increase of about 7 per cent from the previous year. Commonwealth export support is budgeted to increase marginally in 1995–96, to a level roughly one-third higher than in 1991–92 (Table C1).

Most of the programs reported in Table C1 have the objective of directly supporting exports. Direct export measures accounted for over 80 per cent of total support for exports in 1994–95. Other programs, such as the pharmaceuticals Factor f program, have wider objectives but indirectly support exports.

The major programs accounting for the increase in the value of support for exports in 1994–95 included the passenger motor vehicle (PMV) export facilitation scheme, the textiles, clothing and footwear (TCF) import credits scheme, Tariff Export Concessions (which allow importation of eligible goods intended for export without the payment of duty or sales tax) and the dairy product market support payments. Significant changes to export support in 1995–96 include higher payments for Austrade's Export Market Development Grants scheme and the Factor f program, while payments under the Development Import Finance Facility and Austrade's International Trade Enhancement scheme are expected to decline. Recent developments relating to these programs are discussed below.

The value of support provided under several of the trade facilitation schemes has increased significantly in recent years. However, while revenue forgone under the PMV export facilitation and TCF import credits schemes has increased, this has been due to a rise in the level of exports associated with the schemes. The rate of assistance to PMV exports has declined with reductions in the prevailing tariff rate and the rate of assistance to TCF exports has essentially remained unchanged.

RECENT POLICY DEVELOPMENTS

The Government's trade policy statement, *Winning Markets: Australia's Future in the Global Economy* (DFAT 1995c), released in June 1995, is directed towards improving Australia's trade performance over the short to medium term. In particular, a major objective of the statement is to

improve the export performance of the manufacturing and services sectors.

Table C1: Commonwealth export measures, 1991–92 to 1995–96
(\$ million)

	1991 –92	1992 –93	1993 –94	1994 –95	1995 –96
DIRECT EXPORT MEASURES					
Export finance & insurance services					
Development Import Finance Facility	98.0	120.0	120.0	130.0	120.0
EFIC's Government Guarantee ^a					
– Commercial account	13.0	10.0	10.5	1.1	ne
– National Interest Business (NIB)	1.1	1.8	2.7	4.7	ne
Other assistance from NIB account	ne	ne	ne	ne	ne
Export Finance Facility interest subsidy	10.9	9.4	6.0	5.1	4.8
Export marketing, intelligence and promotional services					
Agri-food industry initiative	–	0.2	1.3	3.3	3.9
Asia Infrastructure initiative	–	–	–	3.0	3.0
Asia Pacific Fellowship program	3.9	3.2	3.3	1.0	1.0
Australia in Asia	–	0.7	7.6	8.3	8.9
Australian Horticultural Corporation	1.5	2.5	2.2	1.5	1.3
Australian International Management Exchange program	–	0.1	1.6	2.1	2.6
Australian Tourist Commission	69.5	74.5	77.2	79.3	80.0
Australian Wool Corporation: wool export promotion	32.1	25.0	20.0	–	–
Clean Food Export Strategy	–	..	2.0	1.2	2.4
Export Access	1.0	4.2	6.1	5.4	3.1
Export Market Development Grants scheme	134.0	148.0	209.7	211.3	236.9
Export Prawn Promotion	–	–	–	–	0.5
Innovative Agricultural Marketing program	4.5	3.8	3.8	5.0	5.0
International Business Services	112.1	125.5	138.0	142.2	140.1
International Trade Enhancement scheme	20.7	20.8	32.0	39.1	15.0
Primary Industries Marketing Skills program	1.0	1.3	0.9	1.2	1.4
Project Marketing Loans Facility	0.6	1.7	0.7	0.2	–
Quarantine & export inspection services ^b	8.4	9.7	–	–	–
– AQIS meat export inspection subsidy	–	–	–	7.3	6.5
Rural Enterprise Network program	–	–	0.4	1.0	0.9
Wine Industry Export Development Grant	–	–	–	0.3	0.4

Table C2 (continued)

	1991 -92	1992 -93	1993 -94	1994 -95	1995 -96
Trade facilitation schemes					
Duty drawback ^c	59.1	68.8	78.6	82.0	85.0
Information industries					
– Vendor Qualification scheme	1.2	1.2	1.3	–	–
– IT Development program	–	–	–	2.3	2.9
PMV export facilitation scheme ^{c,d}	267.9	257.0	289.0	315.7	325.0
TEXCO (Tariff Export Concessions) ^c	37.7	26.0	21.5	43.5	45.0
TCF import credits scheme ^{c,e}	31.4	74.3	105.2	132.0	140.0
Sub-total	909.6	989.7	1 141.6	1 229.0	1 235.7
OTHER MEASURES AFFECTING EXPORTS					
Bounties ^f					
– Computers	34.0	34.2	35.6	35.2	34.6
– Machine tools and robots	2.5	1.4	1.3	1.3	1.1
– Photographic film	12.0	6.0	–	–	–
– Shipbuilding	20.2	19.9	22.2	19.4	18.3
Dairy products – market support ^c	148.4	140.5	143.5	168.2	165.0
Incentives for International Competitiveness	–	ne	ne	ne	ne
Partnerships for Development	ne	ne	ne	ne	ne
Factor f – pharmaceuticals ^f	17.4	27.4	42.2	49.9	72.1
Private Sector Linkages program	–	–	1.0	3.0	5.0
TCF Industry Development Strategy					
– Further Wool Processing program	–	20.1	14.9	–	–
Sub-total	234.5	249.5	260.7	276.9	296.2
Total	1 144.1	1 239.2	1 402.3	1 505.9	1 531.8

ne Not estimated.

– Program not operating or discontinued.

.. Less than \$100 000.

a Assistance is assumed to equal the difference in interest payable on EFIC's borrowings at a market interest rate relative to a government riskless rate of interest. Figures are Commission estimates.

b Represents the deficit associated with recoverable expenditures.

c Figure for 1995–96 is a Commission estimate.

d Automotive Industry Authority estimates of revenue forgone for calendar years 1991, 1992, 1993 and 1994. Data reported for 1995–96 are Commission estimates.

e TCFDA financial year estimates, representing the actual value of import credits issued, which equals the duty forgone when credits are used.

f Figures for bounty programs and Factor f relate specifically to the export component of the program, except for the photographic film bounty for which data on the export component are not available.

Source: Commonwealth Budget Papers, relevant Departmental Annual Reports and Program Performance Statements, TCFDA (1994a) and Commission estimates

The statement set out major elements of the Government's approach to trade policy, including:

- the continued development by government of Australia's increasing export strengths in manufactures and services;
- the commitment of Australia's trade policy to the multilateral trading system (based on the Most Favoured Nation principle of the World Trade Organization);
- the conduct of Australia's trade policy within a 'consciously flexible and pragmatic framework';
- seeking to ensure that regional arrangements are compatible with the multilateral system while, at the same time, seeking to advance trade liberalisation and rule-making bilaterally and regionally when it is efficient to do so;
- the Government will continue to allocate its resources into areas where it can be of greatest assistance to Australian business. In particular, attention will focus on small to medium-sized enterprises in the manufacturing and services sectors; and
- the development of a broadly-based export culture in Australia.

Winning Markets proposes three broad areas for policy action: securing market access and opportunities for Australian goods and services; providing services to assist the efforts of exporters and potential exporters; and entrenching an export culture. The statement contains a number of initiatives in these three areas. These include:

- new Austrade client service policies, an export market information publication series and an export barriers reporting scheme;
- a trade policy dialogue mechanism with Chile and strategic business linkages with Singapore and Chile, a study of trade and investment with the European Union, an Australian trading enterprise feasibility study and an inquiry into air freight; and
- the establishment of a trade policy training course, a Chair and Centre for the Practice of International Trade at the Melbourne Business school and a conference on future directions for the multilateral trading system.

RECENT DEVELOPMENTS IN EXPORT PROGRAMS

AUSTRADE: INTERNATIONAL BUSINESS SERVICES

Austrade is the main Government agency responsible for export marketing, intelligence and promotional services for Australian industry. These services include export counselling and export planning assistance, market research and in-market support, information and publishing services, trade displays, exporter education and sponsorship of the Australian Export Awards. Budgetary outlays for Austrade's international business services are estimated to have amounted to \$142 million in 1994–95, around \$4 million more than in 1993–94.

In *Winning Markets*, the Government announced that a new client service program would be established through Austrade's international business services program. The principal objective of the new program is to improve the trade performance of small and medium-sized companies by concentrating on the export requirements of new and potential exporters. The client service program will provide more free services for new and potential exporters, realistic charges on services for established exporters whose needs are more complex, and subsidies (according to the importance of the service) to emerging exporters or to the development of particular export industries. The Government envisages that up to 30 000 small to medium-sized firms may take advantage of the new scheme.

EXPORT MARKET DEVELOPMENT GRANTS SCHEME

Under the Export Market Development Grants (EMDG) scheme administered by Austrade companies can obtain a grant to offset marketing costs incurred when entering and/or developing export markets. To be eligible, companies must be generating less than \$25 million in export revenue and have incurred at least \$30 000 in costs in the year of claim. The majority of successful grant recipients are small to medium-sized companies, 70 per cent having fewer than 25 employees (Austrade 1994, p. 19). Budgetary outlays for the scheme in 1995–96 are expected to be \$237 million, an increase of 12 per cent on 1994–95.

In 1994–95 Export Market Development Grants were paid to almost 3500 claimants, representing an increase of 7 per cent in the number of claimants over the year. Around 50 per cent of grants were paid to firms providing services and to those promoting industrial property rights such

as patents, trademarks, copyright, know-how and licensing. Total export earnings generated by firms receiving grants under the EMDG scheme amounted to \$5.3 billion over the year. This implies an average rate of export assistance of approximately 4 per cent for firms participating in the scheme. However, for marginal export sales the rate of assistance would be higher.

A number of changes were announced to the EMDG scheme in the 1995–96 Budget. These were aimed at improving the administration of the program and enabling the scheme to better target firms which are deemed to be ‘export-ready’. The new criteria are designed to assist companies in identifying weaknesses in business strategies that may lead to business failure and to encourage companies to defer exporting until it is considered they can succeed.

Under the revised criteria, new claimants are required to register with Austrade in the year prior to lodging their first EMDG claim, and new claimants registering after 1 July 1996 will have to demonstrate a basic export readiness. Companies that do not immediately meet the export readiness criteria will be referred to other programs under the Government’s network approach to industry assistance — programs managed by AusIndustry, Austrade or industry associations. The changes introduce an element of administrative discretion into the scheme, but Austrade estimates that less than 2 per cent of EMDG claimants will need to provide a better demonstration of export readiness than at present.

In addition, the maximum yearly grant made available through the program has been lowered from \$250 000 to \$200 000. With the average grant of about \$60 000, the reduction in the maximum grant is expected to be felt mostly by companies in the high turnover range with a capacity to spend money on export promotion, rather than companies with smaller turnover and less access to funds.

EXPORT ACCESS PROGRAM

The Export Access program provides assistance to eligible small to medium-sized enterprises. The program is not a grant scheme, but rather provides a package of training and practical assistance to firms which may require specialist help to develop successful offshore activities. Participants are not charged fees, and the program is delivered by the private sector through leading industry associations.

The Export Access program was originally due to expire in November 1995. However, the Government has announced that it will be extended for another four years, with an additional funding commitment of \$14.4 million (DFAT 1995a, p. 16). The administration of the program has also been shifted from AusIndustry to Austrade from 1995–96. The transfer in program management is designed to enable a closer link between export access and other export assistance programs operated by Austrade, especially the EMDG scheme.

PMV EXPORT FACILITATION SCHEME

As part of the PMV industry plan, the export facilitation scheme provides duty-free entitlements or 'export credits' to firms which export Australian vehicles or components. Credits are calculated on the basis of one dollar for every dollar of local value added in eligible exports. The export credits enable firms to import eligible automotive products — up to a value equal to the export credits earned — duty free. For example, for \$100 of value added in its PMV exports, a firm would earn \$100 of export credits and could therefore import \$100 of automotive products duty free.

Under the scheme, it is profitable for firms to export at a price which does not cover production costs, provided that the loss so sustained is less than the benefit derived from the duty-free entitlements earned through that export activity. The tariff rate applying to imports determines the maximum rate of export assistance afforded by the scheme, as one dollar of credits earns a duty reduction equal to one dollar multiplied by the tariff rate for vehicles and components. In the above example, at the current tariff rate of 27.5 per cent, the firm's export credits of \$100 would entitle it to a duty reduction of \$27.50 on \$100 worth of PMV imports. As it is linked to the tariff, the rate of assistance to automotive exports is declining in line with the Government's tariff reduction program for the PMV industry.

In 1994–95 duty forgone on goods imported duty free under the PMV export facilitation scheme increased by 9 per cent to \$316 million. This is equivalent to 21 per cent of total passenger motor vehicle and component exports in that year. While the tariff on passenger motor vehicles and components declined from 30 per cent to 27.5 per cent, the duty forgone under the export facilitation scheme increased because of an increase in the level of exports.

TCF IMPORT CREDITS SCHEME

The TCF import credits scheme, introduced in 1991, forms part of the wider TCF Industry Development Strategy designed to restructure the sector. It is the major export assistance element of the industry strategy.

Under the scheme, firms earn 'import credits' equal to a specified proportion (currently 30 per cent) of the domestic value added in eligible TCF exports. The credits earned entitle the holder to a reduction in the import duties otherwise payable, on eligible TCF imports, of the same amount. That is, for \$100 of value added in its TCF exports, a firm would earn import credits of \$30 and be entitled to a duty reduction of \$30 on its TCF imports, regardless of the tariff rate applying to those imports. The operational details of the scheme thus differ from the export facilitation arrangements that apply to the PMV industry. However, both schemes subsidise exports.

The rate of assistance afforded to exports through the import credits scheme depends on the specified proportion of value added, in eligible TCF exports, used in calculating import credits. This proportion, which has remained at 30 per cent since the inception of the scheme, is scheduled to decline to 25 per cent in July 1996, 20 per cent in 1998 and 15 per cent in 1999.

In 1994–95 \$132 million worth of credits were issued in response to more than \$850 million of exports (Table C2). These credits were used to offset duty payments on almost \$338 million of eligible imports. The credits issued in 1994–95 represented an increase of over 25 per cent on the previous year. This reflects a growth in eligible exports, as the specified proportion of value added used in calculating import credits remained unchanged.

Since the inception of the scheme, exports of textiles have increased significantly. The textile industry was the largest recipient of import credits in 1993–94 and 1994–95. Recent changes in the TCF import credits scheme are discussed in Appendix F.

Table C2: TCF import credits, 1993–94 and 1994–95

Sector	Eligible exports (\$m)		Average value added (per cent)		Credits issued (\$m)		Implicit rate of export assistance ^a (per cent)	
	1993	1994	1993	1994	1993	1994	1993	1994
	-94	-95	-94	-95	-94	-95	-94	-95
Leather & fur skins	350.6	451.7	35.8	35.0	37.6	47.6	10.7	10.5
Textiles	213.2	264.2	68.6	70.0	43.9	55.5	20.6	21.0
Apparel	65.0	90.5	71.9	72.0	14.0	19.5	21.5	21.6
Clothing accessories	20.7	12.1	73.8	71.0	4.6	2.6	22.2	21.2
Footwear	23.8	32.1	71.5	69.0	5.1	6.7	21.4	20.8
Total	673.3	850.6	52.1	52.0	105.2	132.0	15.6	15.5

a The implicit rate of export assistance is a nominal measure of assistance and is calculated by expressing the value of credits as a proportion of the value of eligible exports.

Source: TCFDA (1993, 1994a) and Commission estimates

DUTY DRAWBACK SCHEME

The duty drawback scheme provides refunds of import duties, excise duties and sales tax on goods which have been exported. Duty drawback is available on imported goods which are either exported in the same form, or exported after having been further processed or incorporated into other goods for export. Duty drawback is not payable on capital equipment, fuel, or chemicals such as catalysts, cleaning agents, fertilisers, veterinary drugs and the like which are used in the process of producing goods for export. As such, agricultural and mining activities have limited opportunities to use the drawback provisions. Duty drawback is also not available on imports used by import-competing activities, nor on imported inputs that are used in producing other inputs to the production process.

The duty drawback scheme reduced the duty payable by exporters on imported inputs by \$82 million in 1994–95. This was an increase of 4 per cent on 1993–94.

COMPUTER BOUNTY

A computer bounty, paid at a rate of 8 per cent of factory cost, is currently available to domestic producers of eligible hardware and some software. The bounty commenced in July 1984 and is scheduled to end in

December 1995. The bounty was recently reviewed by the Commission in its report on *Computer Hardware, Software and Related Service Industries* (IC 1995h). The Commission recommended that the computer bounty should lapse as scheduled (Appendix J).

Part of the computer bounty is paid on production destined for export. However, export data is not sufficiently disaggregated to determine export levels of those goods which benefit from the bounty. Estimates of the export assistance component of the bounty rely on export-intensity ratios derived from surveys conducted by the Bureau of Industry Economics. Based on available data, exports received around half of the bounty payments on computers.

In 1994–95 export assistance provided through the bounty is estimated to have declined marginally to \$35.2 million. While the bounty is scheduled to end in December 1995, budget estimates for 1995–96 reflect a full year's application.

PHARMACEUTICAL FACTOR F SCHEME

The Pharmaceutical Benefits Scheme (PBS) was introduced by the Commonwealth Government to ensure access for Australian consumers to necessary cost effective medicines at lowest cost to both consumers and government. The Government utilises its market power to reduce the prices of listed drugs — which account for almost 80 per cent of the value of the pharmaceutical market. To the extent that it reduces the returns to manufacturers, the PBS pricing policy discourages pharmaceutical production and research in Australia. As a consequence, the Government established the Factor f scheme in 1987 to compensate for low PBS prices and encourage domestic drug production, exports and research.

Under the Factor f scheme, approved companies receive payments, funded by the Government, to raise returns received for selected products listed on the PBS. In return for these additional payments, the participating companies make a commitment to increase domestic product development, local drug manufacture, research and exports. The Commission is currently reviewing the Factor f scheme as part of its inquiry into the pharmaceutical industry (Appendix J).

In 1994–95 support for exports through the pharmaceutical Factor f program is estimated to have increased to \$50 million, an increase of 18 per cent on 1993–94. Support for exports provided through the program is budgeted to increase substantially to \$72 million in 1995–96.

DEVELOPMENT IMPORT FINANCE FACILITY

The Development Import Finance Facility (DIFF) is an overseas development assistance (ODA) program which provides grants to developing countries which enter into ODA contracts with Australian firms. The DIFF grant is normally combined with concessional finance provided by the Export Finance and Insurance Corporation (EFIC). Together, these two programs create a highly concessional finance package which enhances project bids by Australian firms in developing countries. DIFF grants can range from \$500 000 to \$75 million, where each grant is normally equal to 35 per cent of the eligible contract value of the project. A condition of the facility is that Australian firms must supply goods or services which are mainly of Australian origin, as well as provide evidence that competing foreign firms receive mixed credit support from their governments.

Assistance afforded to exports through the DIFF scheme increased by \$10 million to \$130 million in 1994–95, but is budgeted to decline to \$120 million in 1995–96.

THE DISTRIBUTION OF EXPORT SUPPORT

In analysing the distribution of export support among industries and sectors (Box C1), it is important to recognise the differing objectives of particular programs and the way in which support is delivered. As noted earlier, most programs covered in this appendix have the objective of directly supporting exports. Of these, some are targeted at specific industries while others apply more generally. Also, a variety of programs support exports indirectly — most of these focus on particular industries but have wider objectives than export support. In addition, in the case of export facilitation for PMV, support for exports depends on the overall rate of tariff assistance to the industry.

While Commonwealth Government support for exports as measured in this appendix has increased, it continues to represent less than 2 per cent of the value of goods and services exported. However, this understates greatly the importance of export support for some Australian industries.

The distribution of export support between and within each sector is uneven, with the manufacturing sector receiving a disproportionately large share, relative to its contribution to exports (Figure C1). In 1993–94 the manufacturing sector received around 75 per cent, or \$1059 million,

of export support. This represents approximately 2.5 per cent of the value of manufacturing goods exported.

The distribution of support within the manufacturing sector is also concentrated (Figure C2). In 1993–94 the Transport equipment subdivision (which includes the PMV industry) contributed around 5 per cent to the value of manufactured exports, but received over 39 per cent of export support for the sector. Similarly, the Other machinery and equipment subdivision contributed around 11 per cent to the value of exports yet received about 16 per cent of export support.

In contrast, the Chemicals, petroleum and coal products, and Basic metal products subdivisions accounted for approximately 43 per cent of manufactured exports, but for only around 3.5 per cent of export support to the sector in 1993–94. Also, the Food, beverages and tobacco subdivision contributed about 26 per cent to the value of manufactured exports in 1993–94, while receiving 16 per cent of export support.

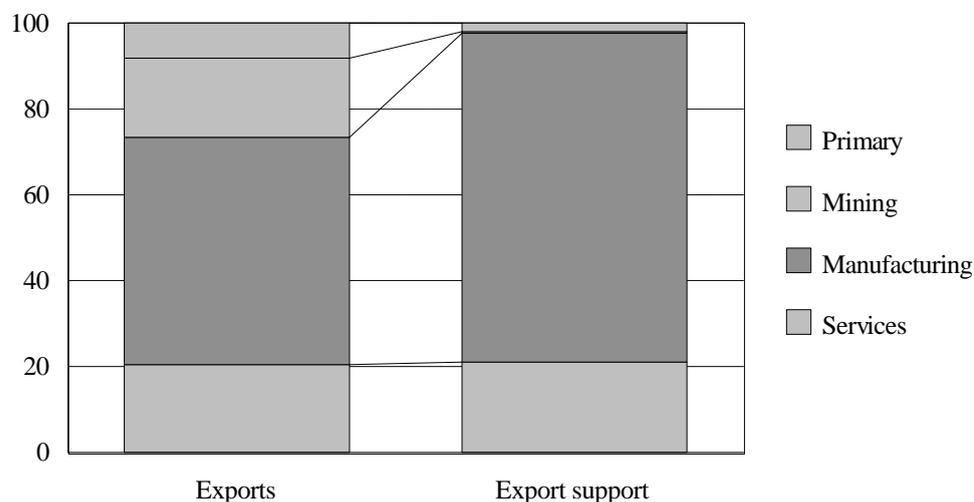
The mining sector, which accounts for a significant proportion of exports, receives little export support. In 1993–94, mining accounted for 18 per cent of the value of Australian exports, but received only 0.4 per cent of the identified export support (Figure C1).

Box C1: The distribution of export support

For this analysis the recipients of government support for exports are divided into four industry groups: Primary production, Mining, Manufacturing and Services. The beneficiary is defined as the industry or industries most likely to benefit from the export support when it is claimed. However, secondary flow-on effects from one sector to another are also likely to occur. For example, dairy products receiving export support are classified as benefiting the manufacturing sector. However, such support is also likely to benefit primary production through higher returns for the agricultural industry than would have otherwise been the case.

The allocation of export support is based on the Australian Standard Industrial Classification (ASIC) system. For comparisons to be consistent, exports (as published by the ABS) are also allocated using the same classification system. The principal effect of this is higher manufacturing exports and lower primary and mining exports than would be the case if exports were allocated on a commodity basis. Using the above example, dairy products such as cheese and butter are classified as manufactured exports, while under a commodity-based system these products would be classified as exports from the primary production sector.

Figure C1: Exports and export support by sector^{a,b} 1993–94 (per cent)



a Export support is allocated on an industry basis using the ASIC system. For comparisons to be consistent, exports are also measured using the same industry classification system, as opposed to measurement on a commodity basis.

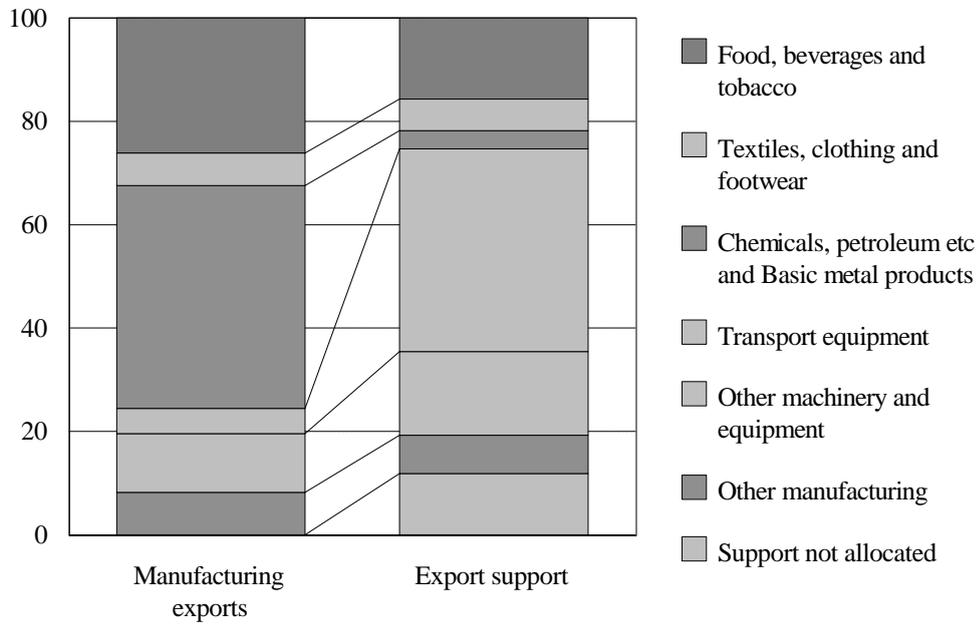
b Exports comprise merchandise trade and services credits.

Source: Commission estimates and ABS Cat. nos 5410.0 and 5302.0

Support for the primary production sector as a proportion of total export support declined in 1993–94, principally due to the achievement of full cost recovery for export inspection services. Primary production, which accounted for 8 per cent of total exports, received 3 per cent of government support for exports in 1993–94.

The proportion of export support received by the services sector is closer to its contribution to exports. In 1993–94, this sector accounted for 20 per cent of total exports, while receiving 22 per cent or \$311 million of export support.

Figure C2: Composition of manufacturing exports and export support, 1993–94 (per cent)



Source: Commission estimates

D

Commonwealth budgetary outlays on industry

Total Commonwealth budgetary outlays on industry are expected to be almost \$2.3 billion in 1995–96, a nominal increase of 8 per cent on 1994–95. In real terms, this is the second highest level recorded over the seven-year period examined (1991–92 being the highest). The manufacturing sector continues to receive the largest share, with outlays expected to reach over \$860 million in 1995–96. Outlays on primary production and services are expected to increase to around \$760 million and \$540 million, respectively, in 1995–96, but will remain below the peak levels recorded in 1991–92. Budget outlays on the mining and energy sector are also expected to increase by over 7 per cent in 1995–96 but, at \$123 million, continue to be relatively less important for this sector.

Budgetary outlays on industry increased from 0.5 per cent of gross domestic product in 1993–94 to 0.6 per cent in 1994–95. However, this is below the peak of 0.7 per cent reached in 1991–92. Budgetary support for agriculture increased from 3.7 per cent of the sector's gross product in 1993–94 to 5 per cent in 1994–95. This is a considerably higher proportion than for manufacturing. Budgetary outlays on manufacturing remained at 1.3 per cent of that sector's gross product in 1994–95. The corresponding figures for mining and energy and services were 0.6 and 0.2 per cent, respectively.

This appendix on Commonwealth budgetary outlays on industry focuses on those expenditures which potentially increase returns to activities in four sectors:

- primary production, comprising agriculture, forestry and fishing (Table D1);
- manufacturing (Table D2);
- mining and energy (Table D3); and

- selected services industries ¹ (Table D4).

The methodology used for selecting and reporting budgetary outlays is described in Box D1.

TRENDS IN BUDGETARY SUPPORT

The programs reported in this appendix accounted for 1.7 per cent of total Commonwealth budgetary outlays in 1994–95. This proportion is expected to increase slightly to 1.9 per cent in 1995–96.

Box D1: Methodology

The estimates report Commonwealth Government budgetary outlays on the main programs directed at Australian industry. Programs covered focus on those which discriminate between industries or activities such as exporting. However, for many schemes, the relationship between program expenditure and assistance received is not straightforward. Moreover, programs which have major social objectives overriding assistance goals have been excluded — for example, outlays on education and health.

The data reported relate to budgetary outlays on industry. In cases where government outlays support an increase in local production or industry returns, budget expenditures can represent assistance. For example, production bounties, like tariffs, assist industry against import competition. On the other hand, budgetary outlays on R&D support seek to increase output in situations where markets fail to deliver the most efficient resource outcomes for the community.

Data are reported net of industry contributions. This distinction is important for agricultural programs where industry levies are often a significant source of program funding. For example, for wool industry programs, the proceeds of industry levies were estimated at \$306 million in 1994–95 whereas the net Commonwealth contribution was \$18 million (Willis and Beazley 1995a, p. 3.156).

Because of the difficulty in identifying and allocating revenue forgone from taxation concessions between sectors on a continuing basis, these have been excluded from the estimates. Nevertheless, these measures can provide significant assistance to industry.

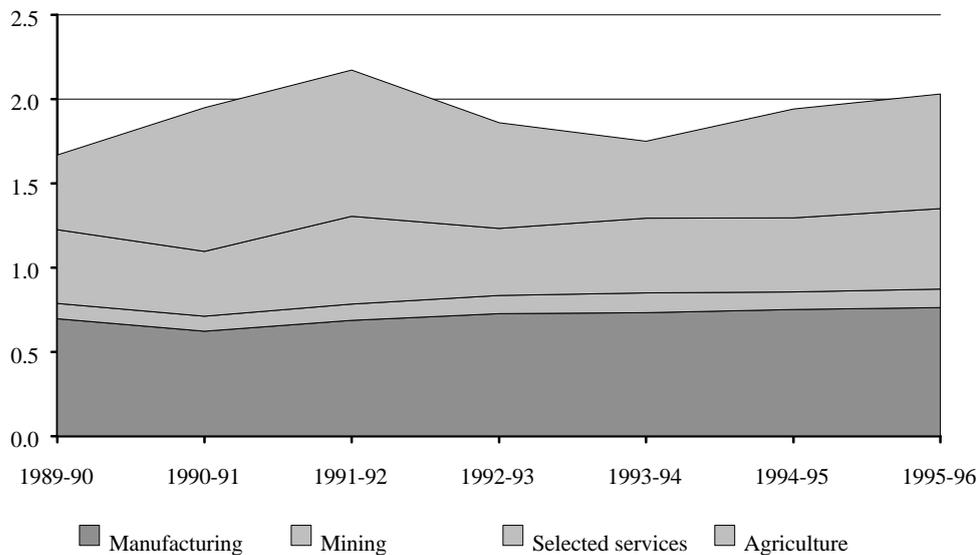
Where data permit, programs conferring benefits across sectors were apportioned between recipients. For example, data were available on the use of Austrade's Export Market Development Grants scheme by the four sectors. In other cases, expenditure has been allocated to the sector receiving the most benefit.

¹ For the purposes of this appendix, the services sector has been defined narrowly to include outlays to the communications, construction, film, retailing, tourism and transport industries.

Total budgetary outlays on industry increased to \$2.1 billion in 1994–95 and are expected to increase to almost \$2.3 billion in 1995–96.² Budgetary appropriations supporting industry in 1995–96 are expected to increase by 8 per cent over 1994–95 outlays. In real terms, outlays on industry in 1995–96 are forecast to be only 6 per cent below the peak reached in 1991–92 (Figure D1).

The manufacturing sector receives the largest proportion of budgetary support, accounting for 39 per cent of total government outlays on industry in 1994–95. Outlays supporting primary producers accounted for 33 per cent, and those for selected service industries for 23 per cent in 1994–95. At 5 per cent, budgetary outlays supporting the mining sector remain relatively minor.

Figure Error! AutoText entry not defined.1: Real Commonwealth budgetary outlays on industry by sector^a, 1989–90 to 1995–96 (\$ billion)



^a Expressed in terms of 1989–90 prices. Values for 1994–95 are based on revised Commonwealth budget estimates and 1995–96 values are based on budget estimates. Outlays have been deflated by the annual GDP(E) implicit price deflator.

² With the Budget being brought down in May instead of August, many estimates reported for 1994–95 are revised budget estimates rather than actual outlays. Actual outlays will be incorporated into the Commission’s 1995–96 Annual Report.

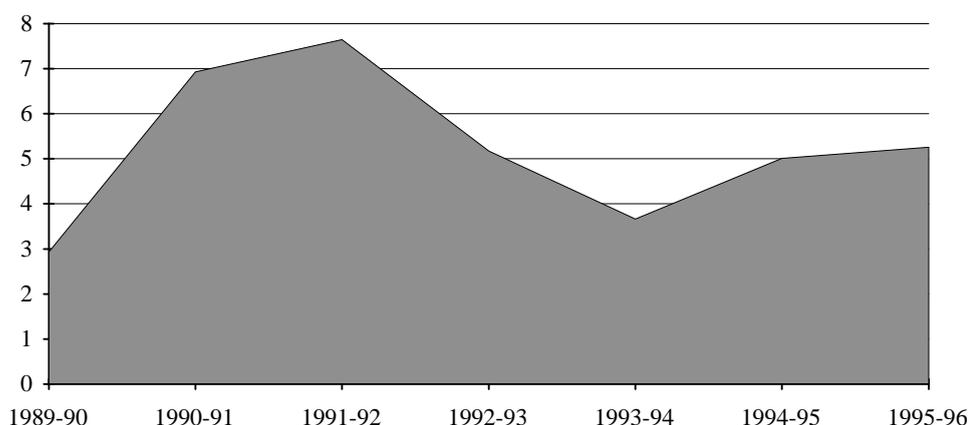
Source: Budget, Budget related papers, ABS (1995b), departmental annual reports (various years) and Commission estimates

The relative importance of budgetary outlays to industry may be assessed by examining the ratio of budgetary outlays to gross domestic product (GDP).³ This ratio increased from 0.5 to 0.6 per cent in 1994–95 and is expected to increase only slightly in 1995–96. Budgetary support remains below the peak of 0.7 per cent reached in 1991–92.

The ratio may also be used to assess the importance of outlays for different sectors of the economy. In 1991–92 budgetary outlays on agriculture, forestry and fishing peaked at 7.6 per cent of the sector’s contribution to gross product (GP) (Figure D2). However, this was partly due to low commodity prices which depressed agricultural GP in that year. After declining to 3.7 per cent in 1993–94, the ratio of budgetary outlays to GP increased to 5 per cent in 1994–95 and is expected to be much the same in 1995–96.

The ratios of budgetary outlays to GP for the other three sectors are substantially lower and more stable than that for agriculture. For manufacturing, the ratio has fluctuated between 1.1 per cent in 1990–91 and 1.3 per cent in 1994–95 and 1995–96. For the mining and energy sector, the ratio has been close to 0.6 per cent between 1989–90 and 1994–95. Similarly, budgetary outlays for selected services have remained around 0.2 per cent of that sector’s GP.

Figure Error! AutoText entry not defined.2: Commonwealth budgetary outlays on agriculture, forestry and fisheries as a proportion of sectoral gross product, 1989–90 to 1995–96 (per cent)



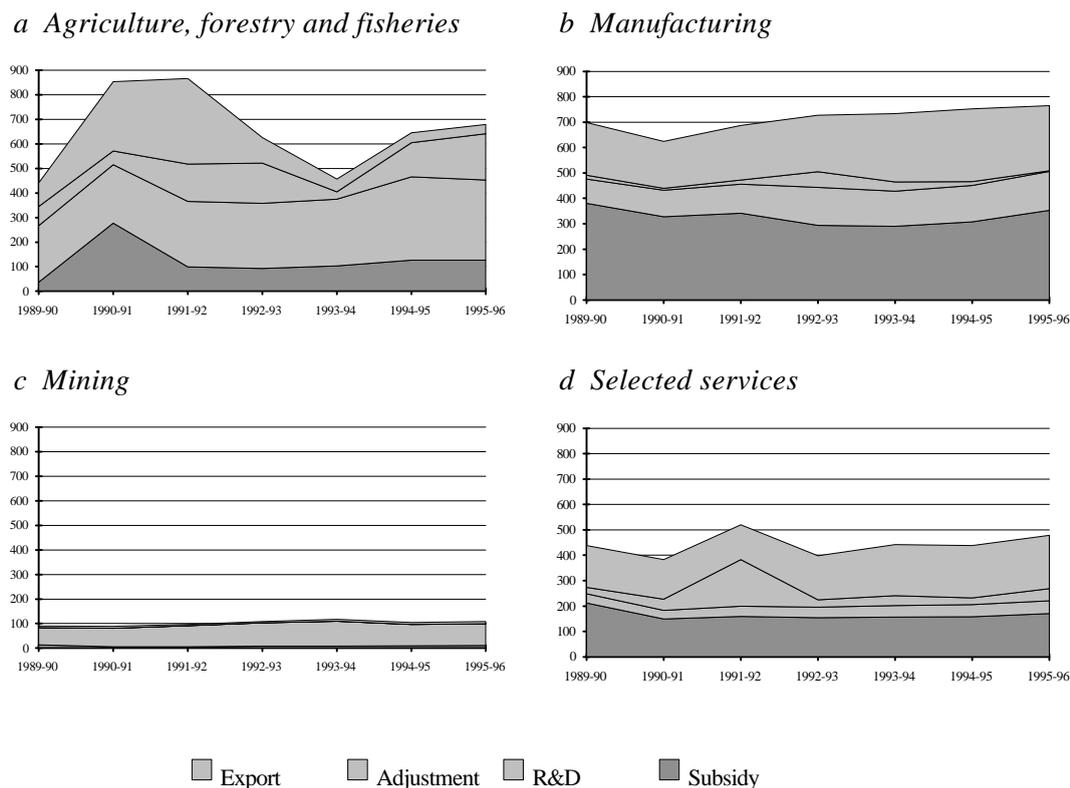
Source: Commission estimates based on ABS (1995a) and budget estimates

³ GDP and sector GPs for 1994–95 and 1995–96 are budget estimates.

Disaggregation of real Commonwealth budgetary outlays into payments that may be classified as adjustment, export, R&D, or subsidies provides an indication of the importance of the different types of outlays for each of the four sectors, and of how each type of outlay has fluctuated within a sector (Figure D3).

For agriculture, forestry and fishing, the high level of outlays in 1990–91 and 1991–92 was associated with an increase in compensatory export payments due to Australia’s imposition of trade sanctions against Iraq; large subsidies to woolgrowers associated with the demise of the reserve price scheme; and a large increase in subsidy payments under the Rural Adjustment Scheme (Figure D3a).

Figure Error! AutoText entry not defined.3: Components of total real budgetary outlays by sector, 1989–90 to 1995–96 (\$ million)



a Expressed in terms of 1989–90 prices. Values for 1994–95 are based on revised Commonwealth budget estimates and those for 1995–96 are budget estimates. To obtain average 1989–90 dollar estimates, current dollar estimates were deflated by the annual GDP(E) implicit price deflator.

Source: Budget, Budget related papers, ABS 1995b, departmental annual reports (various years) and Commission estimates

Since 1992–93 export payments to agriculture have been relatively small. R&D outlays have remained around 50 per cent of total budgetary outlays on agriculture, except in 1990–91 and 1991–92 when they declined in relative terms to around 30 per cent, due to increases in export assistance and subsidies. Adjustment outlays have fluctuated with the fortunes of the agricultural sector. After peaking in 1992–93 and declining in 1993–94, they have subsequently increased. The majority of outlays on fisheries are for R&D, while those for forestry are adjustment related.

Real budgetary outlays on manufacturing have exceeded those on agriculture for each year since 1991–92 (Figure D3b). When classified by type of expenditure, they are substantially different from those for agriculture. Subsidies, mainly bounty payments, averaged 46 per cent of total outlays on manufacturing over the period, compared with 19 per cent for agriculture. Adjustment outlays are lower for the manufacturing sector (averaging 3 per cent of total outlays on the sector compared with 18 per cent for agriculture) and export outlays are relatively more important (averaging 33 per cent, compared with 21 per cent for agriculture, over the period). R&D outlays for manufacturing are relatively less important (averaging 18 per cent compared with 42 per cent for agriculture), although this excludes the support provided by the concessional 150 per cent tax deduction.

The majority of budgetary expenditure on the mining sector is for R&D (84 per cent), with less than 10 per cent of outlays provided for export and as subsidies. No outlays were recorded as adjustment assistance for this sector (Figure D3c).

Real outlays for services comprise mainly export assistance (40 per cent) and subsidies (38 per cent) (Figure D3d). Approximately one quarter of outlays to services cover adjustment and R&D (13 and 10 per cent respectively). Outlays on the sector have been relatively constant in real terms, except for an increase of 36 per cent in 1991–92 associated with waterfront industry reform.

The following sections report briefly on the major program changes in budgetary outlays by sector.

MAJOR CHANGES IN PROGRAMS

PRIMARY PRODUCTION

Agriculture receives by far the largest share of budget outlays directed towards primary production, accounting for 96 per cent in 1994–95 (Table D1). This share is slightly greater than the contribution of agriculture to primary production.

In 1994–95 four programs — the Rural Adjustment Scheme, CSIRO Institute of Plant Production and Processing, the National Landcare Program and the CSIRO Institute of Animal Production and Processing — accounted for over 50 per cent of reported outlays on agriculture, forestry and fisheries.

The increase in agricultural funding for 1994–95 was largely due to increased outlays on drought relief under the Rural Adjustment Scheme (from a net \$19 million in 1993–94 to \$144 million in 1994–95). In addition, funding for ‘other rural research’ increased to \$60 million in 1994–95 (from \$21 million in 1993–94).

Two new programs were introduced in the 1995–96 Budget. The citrus industry market diversification subsidy is intended to help enhance the industry’s marketing skills, particularly for exports. The Clean Food Production Program is aimed at enhancing Australia’s image as a producer of ‘clean’ food.

MANUFACTURING

In 1994–95 four programs — Bounties, the Development Import Finance Facility, the Factor f program for pharmaceuticals and the Export Market Development Grants scheme — accounted for 54 per cent of budgetary outlays on the manufacturing sector (Table D2).

Commonwealth Government funding to the textile, clothing and footwear (TCF) industries is to be extended by five years to 2000, with \$45 million to be provided through the TCF Development 2000 Program. This program aims to increase industry competitiveness by developing managerial competence and facilitating the adoption of ‘best practice’ techniques through benchmarking. Funding for the TCF Industry Development Strategy, managed by the TCF Development Authority, was scheduled to end in June 1995. However, the TCF Development

Authority's role has been extended until February 1996, after which its functions will be transferred to AusIndustry (Appendix F).

Under a further instalment of the Government's National Greenhouse Response Strategy, \$5.9 million will be provided over four years commencing in 1995–96 as part of an agreement with industry to reduce industrial greenhouse gas emissions.

Funding for the Factor f pharmaceutical program is expected to increase from \$95 million in 1994–95 to \$137 million in 1995–96. Budgetary outlays for general industry development programs are expected to increase from \$230 million in 1994–95 to \$280 million in 1995–96. Expenditures on the Industry Innovation Programs and manufacturing Cooperative Research Centres are expected to be major contributors to this increase.

MINING AND ENERGY

The CSIRO Institute of Minerals, Energy and Construction is the major source of Commonwealth outlays on the mining and energy sector. The Institute has accounted for at least 60 per cent of government outlays on the sector between 1989–90 and 1994–95 (Table D3).

As part of the Government's National Greenhouse Response Strategy, a Cooperative Research Centre to develop renewable energy technologies, along with a program to develop Australia's renewable energy industry (\$4.8 million over four years), were funded in the 1995–96 Budget. In addition, a Coal Australia Promotion Program was introduced to assist coal exports and to lift industry productivity. The Commonwealth has also outlaid \$4 million to establish a national electricity management company as part of the national competition policy reforms agreed to by the Council of Australian Governments.

SERVICES

In 1994–95 four programs — Austrade's export promotion and export market development grants, the Australian Tourist Commission, the Australian Film Finance Corporation and Film Australia — accounted for 70 per cent of Commonwealth budgetary outlays on the services industries (Table D4).

As part of the Commonwealth's *Creative Nation* statement, \$20 million per annum for three years will be provided to the Commercial Television

Production Fund (Keating 1994b, p. 48). In addition, \$1.9 million will be outlaid on the film industry to develop multimedia capacity in 1995–96. The Commonwealth will also spend \$1.2 million on the remote commercial television subsidy in 1995–96.

Table D1: Commonwealth budgetary outlays on primary production,^a 1989–90 to 1995–96 (\$ million)

	1989 –90	1990 –91	1991 –92	1992 –93	1993 –94	1994 –95	1995 –96
AGRICULTURE							
Crops							
Australian Horticultural Corporation	0.4	1.0	1.5	2.5	2.2	1.5	1.3
Australian Plague Locust Commission	0.4	0.8	1.1	3.2	3.0	0.4	1.2
Citrus industry market diversification subsidy	–	–	–	–	–	0.4	2.4
Sugar industry adjustment assistance	3.0	0.6	–	–	–	–	–
Sugar Industry Program	–	–	–	–	3.1	4.3	8.6
Trade sanctions compensation – Iraq	–	–	32.9	–	–	–	–
Tri-state fruit fly strategy	–	–	–	–	–	0.2	0.2
Wheat underwriting ^b	33.8	–	–	–	1.1	–	–
Wine Industry Package – Grant to Wine Grape Council	–	–	–	–	0.1	–	–
Sub-total	37.6	2.4	35.5	5.7	9.5	6.8	13.7
General agricultural activities							
Agribusiness Programs ^c	–	–	–	–	–	6.6	7.6
– Primary Industries Marketing Skills Program	1.3	1.8	1.0	1.3	0.9	c	c
– Rural Development Incentive Scheme	–	–	–	–	0.2	c	c
– Rural Enterprise Network Program	–	–	–	–	0.4	c	c
– Rural Industries Business Extension Service	–	–	–	1.0	2.1	c	c
– World Best Practice Incentive Scheme	–	–	–	–	0.7	c	c
Austrade – Export Market Development Grants scheme	4.1	4.1	2.7	3.8	5.3	5.3	5.9
– export promotion operating expenses	2.7	2.7	2.8	3.1	3.4	3.6	3.4
Clean food export strategy	–	–	–	–	2.0	1.2	2.4
Clean Food Production Program	–	–	–	–	–	–	1.8
Commonwealth Development Bank subsidy	–	–	–	–	6.6	9.5	9.5
Drought Relief Payments Scheme	–	–	–	–	–	10.6	–
Farm Household Support Scheme	–	–	–	0.9	4.9	3.5	3.5

Table D1 (continued)

	1989 –90	1990 –91	1991 –92	1992 –93	1993 –94	1994 –95	1995 –96
Farm Management Advisory Skills Program	0.1	0.2	–	–	–	–	–
Innovative Agricultural Marketing Program ^d	2.5	4.1	4.5	3.8	3.8	5.0	5.0
National Landcare Program	–	–	–	57.3	73.7	76.0	83.2
National Soil Conservation Program	24.1	22.0	24.5	–	–	–	–
Quarantine & export inspection services ^e	37.2	18.2	15.7	12.3	–	–	–
– AQIS meat inspection subsidy	–	–	–	–	–	7.3	6.5
Rural Adjustment Scheme ^f	44.7	52.1	149.4	159.6	19.4	143.6	196.2
Rural Communities Access Program ^g	–	–	–	–	10.7	12.7	11.6
– Business advisers for rural areas	–	–	0.9	1.8	1.8	g	g
– Rural counselling	0.9	1.2	5.2	7.0	g	g	g
Tasmanian Freight Equalisation Scheme	1.5	1.5	1.4	1.2	1.3	1.6	1.6
Sub-total	119.1	107.9	208.1	253.1	137.2	286.5	338.2
Livestock, poultry, etc.							
Australian Animal Health Laboratory	5.5	5.4	5.5	6.0	5.9	6.2	5.6
Bovine brucellosis & tuberculosis eradication campaign	8.3	11.0	7.9	5.3	2.7	4.1	2.9
Dairy products underwriting	–	–	22.0	–	–	–	–
Exotic disease preparedness programs	0.2	1.6	1.7	1.3	2.5	3.7	4.1
National residue survey	–	–	–	–	0.9	0.4	0.4
Wool – interest subsidy	–	–	22.5	22.5	–	–	–
– international promotion	25.0	22.9	32.1	25.0	20.0	–	–
– supplementary support payments	–	255.8	44.2	–	–	–	–
Sub-total	39.0	296.7	135.9	60.1	32.0	14.4	13.0
Research and development^h							
Australian Special Rural Research Fund	5.0	–	–	–	–	–	–
Cooperative Research Centres	–	–	3.5	6.7	16.5	20.3	25.6
CSIRO Institute of Animal Production and Processing	55.5	69.0	75.8	65.5	66.8	70.0	64.1

Table D1 (continued)

	1989 -90	1990 -91	1991 -92	1992 -93	1993 -94	1994 -95	1995 -96
CSIRO Institute of Plant Production and Processing	73.3	84.1	90.9	93.8	84.8	89.1	85.0
Dairy	2.2	3.2	5.0	5.1	4.7	9.1	6.4
Grains (wheat and other ⁱ)	13.4	14.5	17.4	15.7	21.2	27.1	24.8
Land and Water Resources R&D Corporation	9.9	13.3	13.3	10.4	11.1	11.1	11.1
Other rural research ^j	6.8	9.5	12.9	17.9	21.3	59.9	73.7
Meat and livestock research ^k	16.1	15.7	23.6	25.5	25.5	33.0	28.5
Rural Industries R&D Corporation	5.0	6.0	8.4	10.5	10.5	10.5	10.5
Water resources – assessment and research grants	7.4	2.7	0.3	0.3	0.7	0.2	0.2
Wool	20.8	11.7	13.8	13.2	11.2	18.0	18.1
Sub-total	215.4	229.7	264.9	264.6	274.3	348.3	348.0
Total outlays on agriculture	411.1	636.7	644.4	583.5	453.0	656.0	712.9
FORESTRY							
Commonwealth-NSW Forest Industry Package	–	–	–	–	–	0.5	5.4
Commonwealth-Tasmanian Forest Industry Package	17.2	–	4.2	12.5	6.4	3.1	3.6
Commonwealth-Victorian Forest Industry Package	–	3.9	4.7	1.3	–	–	–
National Afforestation Program	7.5	0.7	0.4	0.1	–	–	–
National Forest Policy Program	–	–	–	0.7	1.5	2.7	2.7
Northeast Queensland Rainforests Package	11.6	–	–	–	–	–	–
NSW Southeast Forests Package	1.7	0.4	0.1	–	–	–	–
Plantation initiatives							
– National Forest Policy Program	–	–	–	0.5	0.3	–	–
– North Queensland Community Rainforests Revegetation Program	–	–	–	–	0.9	1.5	1.2
Plantation and private forest timber development initiative	–	–	–	–	–	–	2.0
Tasmanian Freight Equalisation Scheme	1.5	1.4	1.2	1.4	1.3	1.6	1.6
Total outlays on forestry	39.5	6.4	10.6	16.5	10.4	9.4	16.5

Table D1 (continued)

	1989 –90	1990 –91	1991 –92	1992 –93	1993 –94	1994 –95	1995 –96
FISHERIES							
Export prawn promotion	–	–	–	–	–	–	0.5
Fisheries industry adjustment	–	–	1.3	–	–	–	–
Research and development	7.9	9.3	7.8	8.5	10.7	12.7	14.5
Fisheries resources research	–	–	2.7	2.9	2.2	2.1	1.5
Surveys and development	0.2	0.5	–	–	–	–	–
Total outlays on fisheries	8.1	9.8	11.8	11.4	12.9	14.8	16.5
Total outlays on agriculture, forestry and fisheries	458.7	652.9	666.8	611.4	476.3	680.2	745.9
National interest business (NIB) ^l	(17.2)	226.5	243.7	53.9	14.8	23.4	20.8
Total outlays on agriculture, forestry and fisheries including net NIB outlays	441.5	879.4	910.5	665.3	491.1	703.6	766.7

– Nil.

a Commonwealth Government expenditure net of industry contributions. 1994–95 data are updated budget estimates and 1995–96 data are budget estimates.

b In respect of the 1986–87 wheat pool.

c The Agribusiness Programs were formed in 1994 to manage five existing programs.

d Some Innovative Agricultural Marketing Program projects may be classified to the manufacturing sector. For example, in 1990–91 approximately 50 per cent of approved projects assisted manufacturing industries. As most assistance is usually to agriculture and detailed information is not available, the program has been classified to agriculture.

e Outlays for quarantine and export inspection services represent the deficit associated with expenditures which were considered to be recoverable.

f The gross Rural Adjustment Scheme outlay of \$58.3 million for 1994–95 was lowered by once-off repayments of \$38.9 million.

g The Rural Communities Access Program, introduced in 1994–95, combined several existing programs.

h These data are as reported in Commission annual reports before 1993–94. The data for the 1993–94 Annual Report were sourced from the Science and Technology Budget Statement 1994–95.

i Other includes barley, grain legumes and oilseeds.

j Horticulture and other industries, including eggs, cotton, dried vine fruits, grapes and wine, honey, sugar and tobacco.

k Includes chicken and pig.

l The estimates reported in this section are net National Interest Business outlays. These payments are insurance pay-outs, and in 1990–91 and 1991–92 were mainly connected with Australia's imposition of trade sanctions against Iraq. Unlike the 'Trade sanctions compensation – Iraq' payments reported elsewhere in the table, these outlays were in response to insurance claims for which premiums had been paid. Because any difference between the National Interest Business scheme's borrowing and lending rates is underwritten by the Commonwealth, the scheme may have provided assistance to agricultural exporters over the 1989–90 to 1995–96 period. However, net National Interest Business outlays provide only a weak indication of any assistance provided.

Source: Commonwealth Budget and Budget related papers (various years), departmental annual reports (various years) and Commission estimates

Table D2: Commonwealth budgetary outlays on the manufacturing sector,^a 1989–90 to 1995–96(\$ million)

	1989 –90	1990 –91	1991 –92	1992 –93	1993 –94	1994 –95	1995 –96
Bounties							
Bed sheeting	1.7	2.9	2.6	2.4	2.0	1.0	0.1
Books	24.0	24.2	21.5	21.4	22.3	25.4	19.2
Citric acid	–	–	0.7	0.7	0.1	–	–
Computers	45.0	51.3	74.5	74.9	78.0	77.0	75.8
Cultivation machinery	3.3	–	–	–	–	–	–
Ethanol	–	–	–	–	–	0.7	13.0
Grain harvesters	2.0	–	–	–	–	–	–
Injection moulding equipment	0.1	–	–	–	–	–	–
Machine tools and robots	12.2	15.2	16.0	8.6	8.4	8.1	7.2
Printed fabrics	1.8	1.7	2.8	1.5	0.8	0.7	0.1
Sensitised photographic film	6.0	12.0	12.0	6.0	–	–	–
Ship repair	0.3	–	–	–	–	–	–
Ships	45.1	37.4	24.4	24.2	25.9	24.2	22.8
Steel mill products	0.1	–	–	–	–	–	–
Textile Bounty Capitalisation Grants scheme	59.3	28.1	39.1	14.5	–	–	–
Textile yarns	90.6	77.2	51.1	32.0	21.0	16.8	4.1
Sub-total	291.5	250.0	244.7	186.2	158.5	153.9	142.3
Other industry-specific programs							
Agri-food Industry Program	–	–	–	0.2	1.3	3.3	3.9
Australian Magnesium Metal Technology Initiative	–	–	–	4.9	12.3	2.8	–
CSIRO pulp mill research	0.5	1.4	1.9	1.9	1.9	–	–
Equity in the Australian Technology Group	–	–	–	30.0	–	–	–
Ethanol research and development	–	–	–	–	1.6	2.2	–
Heavy Engineering Adjustment and Development Program	9.7	3.7	1.2	–	–	–	–
Information industries strategy	2.1	–	–	–	–	–	–
Information Technology Development Program ^b	–	–	–	0.3	0.3	1.3	2.9
– Vendor Qualification Scheme	2.1	1.2	1.2	1.2	1.3	–	–
Malaria Joint Venture	0.8	2.3	9.4	–	–	–	–
Metals-based Engineering Program	2.2	5.1	5.6	1.4	0.1	0.1	–

Table D2 (continued)

	1989 –90	1990 –91	1991 –92	1992 –93	1993 –94	1994 –95	1995 –96
Motor Vehicles and Components							
Development Grants scheme	8.3	4.7	2.3	–	–	–	–
National Space Program	2.4	5.2	5.7	5.4	5.5	3.3	3.4
Pharmaceutical industry							
Factor f program	12.9	16.7	26.3	51.9	80.0	94.5	136.7
Steel study project	–	–	–	0.8	0.3	–	–
Tasmanian wheat freight subsidy	3.0	3.3	3.2	2.9	2.7	2.7	4.2
TCF programs							
– TCF Industries Development Strategy	5.4	4.9	16.0	66.1	34.8	16.0	1.0
– TCF 2000 Strategy	–	–	–	–	–	–	2.4
Wine Industry Package							
– Grants to wine makers	–	–	–	–	–	0.7	2.7
Sub-total	49.4	48.5	72.8	167.0	142.1	126.9	157.2
General industry programs							
Australian Made Campaign	–	–	2.0	2.0	2.0	1.5	2.5
Best Practice Demonstration Program	–	–	10.0	15.6	6.8	4.8	4.2
Commonwealth Development Bank subsidy	–	–	–	–	3.9	5.6	5.6
Cooperative Research Centres	–	–	3.0	10.7	23.5	28.9	36.6
CSIRO Institute of Industrial Technologies	57.1	64.7	64.2	67.6	63.0	69.7	66.8
Enterprise Development Program ^c	–	–	–	–	24.0	25.3	44.5
– National Industry Extension Service	18.8	19.7	21.1	16.4	c	c	c
– Small and Medium Enterprise Development Program ^d	–	–	2.4	1.4	1.0	–	–
Enterprise Networking Program	–	–	–	–	–	3.3	10.1
Greenhouse Response Strategy	–	–	–	–	–	–	0.8
Industry innovation programs ^e	–	–	–	43.5	40.3	47.4	63.1
– Advanced Manufacturing Technology Development Program	–	–	0.1	0.6	e	e	e
– Grants for Industry Research and Development	32.4	29.6	32.2	34.3	e	e	e
– National Procurement Development Program	5.6	4.2	4.4	5.4	e	e	e

Table D2 (continued)

	1989 -90	1990 -91	1991 -92	1992 -93	1993 -94	1994 -95	1995 -96
- Technology Development Programs (including National Teaching Company Scheme)	1.9	3.0	3.2	3.1	e	e	e
Investment Promotion and Facilitation Program	-	-	-	-	-	8.4	8.4
Investment Promotion Strategy	3.5	5.5	8.0	-	-	-	-
Science Innovation Program	0.6	0.4	-	-	-	-	-
Support for Australian suppliers	-	-	-	-	-	1.7	2.9
Tasmanian Freight Equalisation Scheme	30.7	27.9	27.7	27.3	32.0	33.2	34.0
Sub-total	150.6	155.0	178.3	184.5	196.5	229.8	279.5
Total – excluding export outlays	491.5	453.5	495.8	537.7	497.1	510.6	579.0
Export outlays							
Austrade							
- Asia Pacific Fellowship	-	-	3.9	3.2	3.3	1.0	1.0
- Export Market Development Grants scheme	64.8	64.8	50.0	60.7	83.9	84.5	94.8
- export promotion operating expenses	42.4	42.4	44.8	50.2	54.1	56.9	54.8
- International Trade Enhancement Scheme	-	4.5	20.7	20.8	32.0	39.1	15.0
Australian International Management Exchange Program							
Development Import Finance Facility	80.1	72.0	95.1	89.8	103.1	111.7	103.1
Export Access Program	-	-	1.0	4.2	6.1	5.4	3.1
Interest subsidy for financing eligible export transactions (EFIC)	17.8	6.5	10.9	6.9	6.3	5.1	4.8
International Business Development Scheme							
Private Sector Linkages Program	-	-	-	-	1.0	3.0	5.0
Wine Industry Package – export development grant							
	-	-	-	-	-	0.3	0.4
Total export outlays	206.7	190.2	226.4	235.9	291.4	309.1	284.6
Total manufacturing	698.2	643.7	722.2	773.6	788.2	819.7	863.6

- Nil.

a Commonwealth Government expenditure net of industry contributions. 1994-95 data are updated budget estimates and 1995-96 data are budget estimates.

b In 1994-95 the Vendor Qualification Scheme was combined with the Information Technology Development Program.

- c In 1993–94 the National Industry Extension Service became the major component of the Enterprise Development Program.
- d The Small and Medium Enterprise Development Program has been combined with the National Industry Extension Service.
- e From 1993–94 disaggregated information on the schemes included under the Industry Innovation Programs are not available. In the *Working Nation* statement, the programs were merged into a single program for which multiple criteria apply.

Source: Commonwealth Budget and Budget related papers (various years), departmental annual reports (various years) and Commission estimates

Table D3: Commonwealth budgetary outlays on the mining and energy sector^a 1989–90 to 1995–96 (\$ million)

	1989 –90	1990 –91	1991 –92	1992 –93	1993 –94	1994 –95	1995 –96
Austrade – Export Market Development Grants scheme	4.0	4.0	3.1	2.5	5.2	5.3	5.9
– export promotion operating expenses	2.6	2.7	2.8	3.1	3.4	3.6	3.4
Coal Australia Promotion Program	–	–	–	–	–	–	2.0
Coal freight rate efficiency scheme for NSW producers	10.0	–	–	–	–	–	–
Cooperative Research Centres	–	–	3.2	6.7	11.3	13.9	17.5
CSIRO Institute of Minerals, Energy and Construction	56.9	64.4	73.2	80.5	85.3	69.0	68.9
Energy Management Program	1.0	4.2	4.5	7.8	7.3	6.5	5.6
Energy R&D Corporation	–	12.3	11.8	11.6	11.0	11.1	11.8
Energy sectors initiatives	–	–	–	–	0.5	2.0	1.0
National Electricity Market Management and Code Administrator Companies – establishment subsidy	–	–	–	–	–	–	4.0
National Energy Research, Development & Demonstration Program	10.6	–	–	–	–	–	–
Office of the Supervising Scientist of the Alligator Rivers Region Research Institute ^b	1.8	1.6	1.9	1.9	1.6	1.6	1.7
Rehabilitation of former uranium mine sites	1.0	1.5	0.7	0.4	0.3	0.2	0.1
Renewable energy research	0.9	–	–	–	–	–	–
Tasmanian Freight Equalisation Scheme	1.1	0.8	0.9	1.0	1.0	1.2	1.2
Total outlays on mining and energy	89.9	91.5	102.1	115.5	126.9	114.4	123.1

– Nil.

a Commonwealth Government expenditure net of industry contributions. 1994–95 data are updated budget estimates and 1995–96 estimates are budget estimates.

b A levy on uranium exports is intended to cover three quarters of the cost of the supervising scientist. One quarter of the cost has been recorded here.

Source: Commonwealth Budget and Budget related papers (various years), departmental annual reports (various years) and Commission estimates

Table D4: Commonwealth budgetary outlays on selected services industries,^a 1989–90 to 1995–96 (\$ million)

	1989 –90	1990 –91	1991 –92	1992 –93	1993 –94	1994 –95	1995 –96
Ausmusic	–	–	–	0.6	1.2	1.2	1.2
Austrade – Export Market Development Grants scheme	89.1	89.1	78.3	81.0	115.3	116.2	130.3
– export promotion operating expenses	58.3	58.3	61.7	69.0	74.3	78.2	75.3
Australia in Asia programs	–	–	–	0.7	7.6	8.3	8.9
Australian Film Commission	11.8	16.1	16.6	17.1	17.9	19.8	20.5
Australian Film Finance Corporation & Film Australia ^b	60.9	72.8	75.6	67.8	63.4	60.4	56.5
Australian Tourist Commission	55.2	62.6	69.5	74.5	77.2	79.3	80.0
Asian infrastructure initiative	–	–	–	–	–	3.0	3.0
Bass Strait passenger subsidy	–	–	–	–	0.3	0.6	0.3
Building research	0.3	0.3	0.3	0.3	–	–	–
Capital Grants Scheme for purchase of new or second hand trading ships (contingent on lower crewing levels)	7.2	7.6	15.9	0.1	24.0	8.0	26.4
Commercial television production fund	–	–	–	–	–	–	20.0
Commonwealth Development Bank subsidy	–	–	–	–	3.8	5.6	5.6
Construction industry reform and development	–	–	–	–	–	–	1.9
Cooperative Research Centres	–	–	0.5	5.1	11.8	14.2	18.2
CSIRO Institute of Information Science and Engineering	36.6	34.4	42.3	37.9	38.1	37.9	37.8
Development Import Finance Facility	13.2	11.8	2.9	30.2	16.9	18.3	16.9
Domestic airlines – waiver of charges during pilots' dispute	67.6	–	–	–	–	–	–
Film industry multimedia development subsidy	–	–	–	–	–	–	1.9
Interest subsidy for financing eligible export transactions (EFIC)	3.7	1.4	0.9	2.5	1.3	1.1	1.1
Multi-Function Polis	1.0	1.1	2.7	1.5	1.6	3.0	3.0
Pharmacy Restructuring Authority grants	–	13.5	36.4	8.3	6.4	8.7	12.5
Remote air services subsidy	1.0	1.1	1.1	1.1	1.2	1.2	1.3
Remote commercial television subsidy	–	–	–	–	–	–	1.2

Table D4 (continued)

	1989 -90	1990 -91	1991 -92	1992 -93	1993 -94	1994 -95	1995 -96
Shipping Industry Reform program	7.5	6.6	12.5	0.7	11.2	10.9	13.9
Tasmanian Freight Equalisation Scheme	1.8	1.2	1.7	1.7	1.7	2.0	2.0
Tourism – pilots’ dispute recovery package	12.8	–	–	–	–	–	–
Towage industry reform	2.2	0.3	5.3	–	–	–	–
Waterfront industry reform	8.2	17.2	121.5	22.9	–	–	–
Total	438.4	395.4	545.7	423.0	475.2	477.9	539.7

– Nil.

a Commonwealth Government expenditure net of industry contributions. 1994–95 data are updated budget estimates and 1995–96 data are budget estimates.

b The 1991–92 figure does not include Film Australia Pty Limited.

Source: Commonwealth Budget and Budget related papers (various years), departmental annual reports (various years), and Commission estimates

E

Anti-dumping activity

Anti-dumping initiations decreased during 1994–95 to a very low level. This is consistent with observed trends during previous upturns in the economy. However, the number of cases subject to existing measures remains very high. During the year, the Commonwealth Government amended Australia's anti-dumping and countervailing legislation to make it consistent with the General Agreement on Tariffs and Trade 1994 and the Uruguay Round Agreements on Anti-Dumping and on Subsidies and Countervailing Measures. The anti-dumping system has the objective of discouraging what are perceived to be unfair trading practices. While affording protection to local producers, anti-dumping action reduces competition and adversely affects downstream users and consumers.

Dumping occurs when imported goods are sold on the Australian market for less than their 'normal value' in the country of export. If dumping causes or threatens material injury to the Australian industry, anti-dumping action may be taken against those imports. When material injury is caused or threatened by imports which benefit from certain subsidies, countervailing action may be applicable.

Australia's anti-dumping and countervailing legislation is based on the General Agreement on Tariffs and Trade (GATT) 1994 and the Uruguay Round Agreements on Anti-Dumping and on Subsidies and Countervailing Measures. Nothing in the agreements requires action to be taken. Rather, the agreements aim to limit the use of anti-dumping and countervailing action as an alternative form of protection, setting out criteria to which the determination procedure must conform.

Dumping is often viewed by local industry as unfair trade and linked with predatory intent on the part of the exporter seeking to drive domestic producers out of the market. However, predatory intent is not assessed in anti-dumping cases and forms no part of the GATT requirements. For predatory dumping to be effective, there would need to be only one foreign supplier, or effective collusion, and barriers to the re-entry of local producers.

In practical terms, dumping covers situations in which imports are low priced. Sales at prices that do not cover all costs are consistent with commercial behaviour in periods of depressed demand or over-capacity when only variable costs may be recouped. Also, differences in transport costs and other natural advantages may enable monopolistic firms to finance more of their fixed costs from domestic customers. In such cases sales into distant markets could be priced closer to variable cost. In addition, export prices will generally be lower than domestic prices where an exporter benefits from tariff protection in its domestic market.

The competition policy principles agreed to by COAG discourage predatory activity which would limit competition but recognise the benefits to the domestic economy from price competition generally. While of benefit to some domestic industries, denial of access to lower priced imports through anti-dumping action reduces competition and imposes costs on other Australian industries and consumers.

RECENT LEGISLATIVE CHANGES

Australia's legislation has been amended to reflect the completion of the Uruguay Round of the GATT and the establishment of the World Trade Organization (WTO). The amendments do not involve fundamental changes to Australia's anti-dumping and countervailing procedures. However, they do formalise certain practices and introduce specific rules. The main changes, which took effect from 1 January 1995, are outlined below.

STANDING

For an application to be accepted for investigation, it must have standing within the local industry. The 'industry' means producers of 'like goods', being goods identical to or closely resembling the goods under consideration.

Previously it was normal to require that an application be supported by producers representing the majority of domestic production. Standing is now obtained under two new criteria. First, those supporting the application must collectively account for 25 per cent or more of local production. Second, the application must be supported by local producers who collectively account for more than 50 per cent of the total production of those who have commented on the application. Neither of these criteria require overall majority support by local producers.

By ensuring that a significant proportion of the industry supports a dumping claim, frivolous initiations may be avoided. However, industries with few producers may more easily organise sufficient support than those with many producers.

TERMINATION

Demonstrating causal injury is always difficult when dumping margins or import shares are very small. Because they are unlikely to succeed, the new rules seek to terminate such cases early.

Automatic termination of an investigation now occurs when all dumping margins are less than 2 per cent. Where an investigation involves a number of exporting companies, the investigation is terminated for those companies with margins of less than 2 per cent.

An investigation is also terminated when the volume of dumped imports at the country level is negligible, defined as less than 3 per cent of total imports. However, if a number of countries each account for less than 3 per cent, the investigation of those countries will not be terminated where their collective import share is over 7 per cent.

The definition of negligible applies only to dumped imports as a proportion of total imports, not the total domestic market. Thus initiations may still involve quite small quantities of imports despite the use of termination limits.

DUMPING MARGINS

The determination of a dumping margin had, when possible, been based upon calculations for each transaction. Such an approach was not always practical as trade in some goods involves many individual transactions. Also, because transactions can vary greatly in size, the final dumping margin may have been influenced by instances of large dumping margins found for very small transactions.

While the determination of margins using all transactions is still preferred, the new rules allow for sampling when large numbers of transactions are involved. Weighted averages can now be used to dampen the influence of high margin, low value transactions. It is also possible to use a mixture of individual transactions and weighted averages. For example, if there are several exporters in one country, a weighted average normal value for that country could be estimated but compared across

individual export prices from each exporter. Investigators are required to explain their choice of method.

Provisional duties applied following a positive preliminary finding are now in force for six months rather than four months. The purpose of the extension is to cover the period between Customs' finding and the Minister's response.

COUNTERVAILING ACTION

Changes have also been made to countervailing determinations. In particular, in accordance with the Uruguay Round Agreement on Subsidies and Countervailing Measures, subsidies are now defined and categorised into three types:

- non-actionable subsidies, essentially non-specific subsidies, which cannot be countervailed;
- actionable subsidies, generally including specific subsidies, which may be countervailed; and
- prohibited subsidies which may be taken to the WTO for dispute settlement as well as countervailed.

As with dumping, termination limits have now been set for subsidy levels in countervailing cases. For exports from developing countries, subsidies worth less than 2 per cent of the export price (3 per cent in special cases) are not actionable; the level is 1 per cent for developed countries.

ASSESSMENTS AT THE COMPANY LEVEL

The Uruguay Round Agreements shift the focus of anti-dumping investigations to the company level, with dumping margins, and hence any measures, to be determined for each known exporter unless this is impractical. When there are so many exporters that such an investigation would be unwieldy, a representative sample may be used. In this case, the sampled companies are subject to individual measures. Non-sampled companies are subject to weighted average measures determined from the sample, although they may request an individual assessment upon providing the necessary information.

Previously, when country level measures were in place, new exporters from that country were automatically subject to those measures. Under

the revised rules, new exporters will be subject to an accelerated inquiry to determine an individual margin before any measures are imposed.

ANTI-DUMPING ACTION IN 1994-95

The number of cases initiated in 1994–95 dropped to six (Table E1). Two of these, concurrent dumping and countervailing duty cases against trifluralin from South Africa, were later withdrawn. The number of initiations is substantially down on the 51 cases initiated in 1993–94 and is lower than in any year during the 1980s.

In the past, the number of dumping complaints initiated has depended, in part, on the economic conditions facing Australian industry. The decline in initiations during 1994–95 is consistent with this trend. Figure E1 illustrates the tendency for anti-dumping initiations to vary inversely with manufacturing company profitability. The relationship is, however, complicated by the stock of actions already in place and by the changes made to the anti-dumping system at various times.

Table E1: Anti-dumping and countervailing activity, 1990–91 to 1994–95

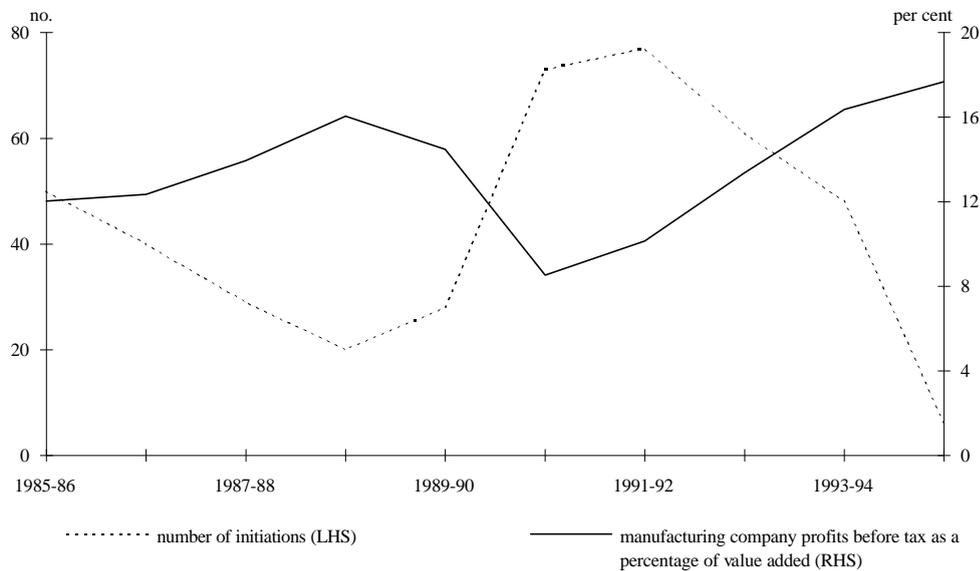
	1990 –91	1991 –92	1992 –93	1993 –94	1994 –95
New cases^a					
New cases initiated	73	88	77	51	6
Cases where measures imposed					
– at preliminary finding stage	40	70	19	16	5
– at final finding stage	12	43	27	19	4
Measures					
Cases subject to measures	21	26	77	94	92 ^b
New cases subject to measures	12	43	27	19	4

a Cases are defined as one commodity from one country.

b If concurrent anti-dumping and countervailing measures were separated, the number of cases would be 101.

Source: ACS (1995a,b)

Figure **Error! AutoText entry not defined.1**: Trends in anti-dumping activity, 1985–86 to 1994–95



Source: ABS (1995b,e) and ACS (1995b)

There are a high number of measures still in place despite the low initiation rate (Table E1). The number of cases subject to existing measures is at its second highest level since 1987–88. In part this reflects the fact that dumping action can continue for periods up to five years before sunset provisions become operative.

Two of the six cases initiated in 1994–95 involved chemicals and petroleum products, traditionally the industry with the largest number of anti-dumping actions (Table E2). However, both cases were later withdrawn. As at 30 June 1995, the only case initiated during 1994–95 to proceed past the preliminary finding stage, steel/concrete floor panels from China, was still under investigation by the ADA. The other four preliminary measures imposed during the year resulted from cases initiated during 1993–94.

Table E2: Anti-dumping and countervailing cases, complaints formally initiated by industry^a, 1990–91 to 1994–95

<i>ASIC subdivision</i>	<i>1990 –91</i>	<i>1991 –92</i>	<i>1992 –93</i>	<i>1993 –94</i>	<i>1994 –95</i>	<i>Five-year period</i>	
						<i>total no.</i>	<i>per cent</i>
Food and beverages	11	18	10	–	2	41	13.9
Textiles	–	–	2	10	–	12	4.1
Paper and paper products	3	2	9	–	–	14	4.7
Chemical and petroleum products	43	32	18	16	2	111	37.6
Metallic mineral products	–	–	–	–	–	–	0.0
Non-metallic mineral products	1	13	–	4	–	18	6.1
Basic metal products	–	–	3	4	–	7	2.4
Fabricated metal products	–	7	–	–	1	8	2.7
Transport equipment	7	4	1	–	–	12	4.1
Other machinery & equipment	4	–	2	4	1	11	3.7
Miscellaneous manufacturing	4	12	32	13	–	61	20.7
Total	73	88	77	51	6	295	100

– Nil.

a Cases are defined as one commodity from one country.

Source: ACS (1995b)

A wide spread of countries have been subject to initiations by Australian industry (Table E3). The highest levels of initiations have been against our major Asian trading partners, including South Korea, China and Taiwan. The proportion of initiations against these countries is significantly greater than their import shares. Overall, APEC members account for just over half of the initiations. There have been no initiations against imports from New Zealand, Australia's sixth largest source of imports, since the two governments agreed to eliminate anti-dumping actions in trans-Tasman trade from July 1990. Instead, companies are able to seek recourse through the Australian Trade Practices Act and the New Zealand Commerce Act. However, no litigation has yet been pursued.

Table E3: Australian initiations of anti-dumping and countervailing cases by target country^a, 1990–91 to 1994–95

	<i>1990</i> <i>–91</i>	<i>1991</i> <i>–92</i>	<i>1992</i> <i>–93</i>	<i>1993</i> <i>–94</i>	<i>1994</i> <i>–95</i>	<i>Total</i>	<i>Share of</i> <i>dumping</i> <i>cases</i> <i>%</i>	<i>Country</i> <i>import</i> <i>share^b</i> <i>%</i>
Belgium–Lux	1	2	3	–	–	6	2.0	0.9
Brazil	6	1	4	1	–	12	4.1	0.6
China	5	8	3	2	1	19	6.4	4.9
France	2	6	3	1	–	12	4.1	2.4
Germany	3	2	5	1	–	11	3.7	6.5
Hong Kong	–	1	3	2	–	6	2.0	1.2
India	–	2	4	–	–	6	2.0	0.7
Indonesia	1	4	5	1	1	12	4.1	1.6
Italy	3	7	1	2	2	15	5.1	2.7
Japan	5	4	1	2	–	12	4.1	17.1
South Korea	6	5	6	5	–	22	7.5	2.7
Malaysia	2	3	5	3	–	13	4.4	1.9
Netherlands	–	3	1	3	–	7	2.4	1.0
Singapore	4	2	5	6	–	17	5.8	3.0
South Africa	–	–	3	6	2	11	3.7	0.4
Spain	4	2	–	1	–	7	2.4	0.6
Taiwan	4	7	3	5	–	19	6.4	3.4
Thailand	1	7	6	1	–	15	5.1	1.3
UK	2	4	1	2	–	9	3.1	5.9
USA	5	4	3	2	–	14	4.7	21.5
Other	19	14	12	5	–	50	16.9	19.7
Total	73	88	77	51	6	295	100	100

– Nil.

a Cases where dumping and subsidisation are alleged for the same country and commodity were counted as two distinct initiations.

b Share of Australia's total merchandise imports accounted for by imports from each country in 1994–95.

Source: ACS (1995b) and ABS (1995d)

ANTI-COMPETITIVE EFFECTS

The anti-dumping system offers an avenue for domestic firms to maintain profitability by reducing import competition. While the effects of price rises on downstream users can be substantial, they play no formal part in dumping determinations.

Anti-dumping duties are set at the minimum level necessary to remove the injury to the local industry but can be no higher than the assessed dumping margin. Alternatively, the exporter may make an undertaking not to sell below a certain price. If the price undertaking is sufficient to remove injury, duties are not imposed. There is, therefore, an incentive for the exporter to enter into a price undertaking, as it appropriates revenue through higher prices which would otherwise have been paid in duties to Customs.

The threat of initiation of anti-dumping action itself can also act as a barrier to trade, even when the action is unsuccessful. The risk of incurring duties, including provisional duties which may eventually be refunded, can be sufficient to cause exporters to raise their prices to a level estimated to deter an initiation. This effect is continuous, as the threat of action exists whenever firms export to Australia.

TRENDS IN RECENT CASES

In 1994 the ADA published ten reports concerning final investigations. These have been examined to assess any anti-competitive patterns in anti-dumping and countervailing cases. The analysis considered cases at the company level and, overall, covered 34 such cases. The findings are summarised in Table E4.

Sole local producers or industries with few producers appear to be more successful in pursuing anti-dumping action. Of the ten reports examined, seven involved sole local producers and none of the remainder had more than four local producers. Of the 34 cases examined, 30 were brought by sole local producers.

These producers tend to operate in industries characterised by large economies of scale relative to the size of the domestic market. Similarly, the imports against which they take action tend to come from companies operating solely or with few compatriot producers in the exporting country. Firms which benefit from economies of scale are also more likely to be able to 'dump' because their costs of production typically decline as output expands.

Table E4: ADA report and case analysis, 1994

<i>Type</i>	<i>Number of cases^a</i>
ADA reports	10
ADA reports involving sole local producers	7
Dumping cases	33
Countervailing cases	1
Total cases	34
Cases brought by sole local producers	30
Cases brought by sole local producers resulting in measures	23
Cases involving more than one local producer	4
Cases involving more than one local producer resulting in measures	1

a In this analysis a case means one commodity from one company.

Source: ADA (1994a,b,c,d,e,f,g,h,i,j)

Success for the complainant often revolves around the ability to show material injury and sole local producers appear to have a better chance of success in this regard. Of the 34 cases, 24 were successful and all but one (the single countervailing case) were brought by sole local producers.

Of the ten reports examined, five were against more than one company and/or country for the one commodity. A broad initiation, even though it may be unlikely to succeed, can serve as a useful ambit claim from which more specific claims can follow and also serves notice to the exporters that they may face anti-dumping action.

One of the reports examined involved a claim initiated in 1993 against 11 producers of A4 copy paper from six countries. During the investigation the two local producers effectively merged to enhance the international competitiveness of local production. A range of duties and price undertakings across six countries resulted from the initiation and are still in place. The paper industry is typically cyclical. Since the investigation, world paper prices have risen markedly and pulp prices have reportedly doubled. In recent times publishers and other paper users have been experiencing difficulty with higher paper costs (ABM 1995).

The analysis of reports published in 1994 also shows that dumping margins tend to be higher than prevailing tariffs. Duties are shaped by dumping margin determinations and high margins offer scope for

significant protection should action be taken. Dumping margins from the ten reports examined demonstrate the magnitudes involved (Table E5).

Table E5: Dumping margins from ADA reports, 1994 (per cent)

<i>Commodity</i>	<i>Dumping margin</i>	<i>Tariff range</i>
Phthalic anhydride	0–34	4–9
A4 copy paper	0–42	7–12
Trifluralin – countervailing ^a	18–19.5	12
Trifluralin – dumping case	37–55	12
Fibreglass gun rovings	0–22	5–10
Compact discs	0–22	0
Clear float glass	0–200	4–9
Textured nylon yarn	2–20	0
Blood collection packs	51–116	10
Fibreglass gun rovings	2–26	5–10

a Level of subsidy.

Source: ADA (1994a,b,c,d,e,f,g,h,i,j)

EFFECTS ON USER INDUSTRIES

Whilst affording protection to local producers, dumping duties or price undertakings also affect downstream users. When duties are applied to inputs to other production processes, the competitiveness of those industries is reduced. This can be compounded where the products produced by downstream users compete with imports which incorporate dumped inputs (known as ‘secondary dumping’).

Australian exporters using a good subject to anti-dumping action as an input have their competitiveness reduced against other world suppliers who have full access to the low priced good. The chemical industry provides a good example of such effects on user industries.

Anti-dumping action by chemical producers raises the cost of inputs to downstream industries. For example, anti-dumping action against chemicals used in the production of packaging materials imposes costs on food processors, making them less able to compete both domestically and internationally, particularly against firms that have access to cheap inputs.

Anti-dumping measures in place at 30 June 1995 include a number of packaging materials and chemicals used in packaging materials.

Expandable polystyrene, polypropylene and high density polyethylene had duties imposed with dumping margins of up to 50 per cent, 41 per cent and 47 per cent respectively.

Polyvinyl chloride homopolymer resin (PVC) is also subject to anti-dumping measures. PVC has uses in packaging and is widely used in pipes and fittings. The dumping margins found for this product were up to 64 per cent, and commonly around 25 per cent, and measures were in place against imports from 10 countries.

Dumping duties are also in place for chemicals which are used as plasticisers for PVC (softeners used to modify PVC for specific end uses). Imposing anti-dumping measures on PVC and its post-production additives has the potential to deter both foreign and local competition. Raising the cost of imported PVC encourages further reliance upon the two local producers. However, only one of these also produces the plasticisers. It may also encourage the importation of finished PVC products as an alternative to local production, or the use of a substitute material.

INTERNATIONAL DEVELOPMENTS

In the past, Australia, Canada, the US and the European Union (EU) have been the major initiators of anti-dumping action. At 30 June 1994, this group of economies accounted for 86 per cent of measures in place that had been notified to the GATT. Australia had the third highest number of anti-dumping measures in place behind the US and EU.

The pattern of anti-dumping activity in most countries is similar, with the chemicals or metals industries being the predominant initiators. Measures against steel products are particularly common in the US and Canada. Indeed the US has previously taken action against imports of steel from Australia. Chemicals figure highly in the EU's list of measures. PVC is subject to measures in Mexico, Brazil and India, as well as Australia. In the chemicals and electronics industries there have also been instances of multinational companies lodging claims in several countries around the same time.

More countries are now introducing anti-dumping regimes of their own, including many of Australia's trading partners in Asia. The growth of anti-dumping regimes worldwide has implications for Australian exporters as they too must now consider the risk of facing anti-dumping action when making both export and home market pricing decisions. This

raises the need for Australia's stance in international negotiations on anti-dumping regimes to have regard for the interests of our export industries.

F

Assistance to agriculture and manufacturing

Measured assistance to agriculture remained at 4 per cent in nominal rate terms in 1993–94. Increases in output assistance to market milk, tobacco and sugar were largely offset by reductions for wool, wheat, dried vine fruits and wine grapes. However, the effective rate of assistance rose from 10 per cent in 1992–93 to 12 per cent in 1993–94, partly reflecting reductions in the tariff penalties on agricultural inputs. Disparities in assistance within the sector also increased, mainly as a result of increases in assistance to commodities that were already highly assisted.

For the manufacturing sector, measured assistance continues to decline under the program of tariff reductions set in place in 1991. The average effective rate of assistance fell to 9 per cent in 1994–95 from 10 per cent the previous year and is projected to decline to 5 per cent by 2000–01. At the end of the program, the textile, clothing and footwear and passenger motor vehicle industries will still be afforded assistance levels several times higher than the sectoral average. Assistance to these highly assisted industries is scheduled for review in 1996.

This appendix reports on recent developments in assistance to agriculture and manufacturing and provides details of the Commission's estimates of assistance for these sectors.

Reductions in tariff assistance are a central element of the Government's microeconomic reform agenda. Tariffs have been the principal form of assistance to manufacturing industries. Under the program of phased reductions announced in March 1991, most tariffs are being reduced to 5 per cent by mid-1996. While tariffs on textiles, clothing and footwear (TCF) and passenger motor vehicles (PMV) are being substantially reduced by 2000, they will remain significantly higher than tariffs for other goods.

The program includes reductions in tariffs for agricultural products, such as citrus, currants, raisins and wine grapes. However, tariffs on agricultural commodities represent only a relatively small part of

assistance to the agricultural sector. Most assistance to agriculture is provided by domestic marketing arrangements (for example, for dairy, sugar and rice). Government guarantees, adjustment assistance and various taxation concessions also contribute significantly to agricultural assistance. Over time, some of these arrangements are being unwound which should reduce the potential for counter-cyclical changes in assistance to the agricultural sector.

Support continues to be provided to industry in a range of forms. The Commission's assistance estimates cover the major Commonwealth Government interventions which selectively assist activities. However, because they do not incorporate the entire range of assistance provided by the Government (Box F1), the estimates are supplemented by reporting on specific developments (Appendix B), export measures (Appendix C), budgetary outlays on industry (Appendix D) and anti-dumping activity (Appendix E).

The announced program of assistance reductions has enabled the Commission to produce projections of assistance to the manufacturing sector through to 1996–97 and for 2000–01. These projections have been reported in previous annual reports. In addition, in March 1995 the Commission (1995c) published an information paper, *Assistance to Agricultural and Manufacturing Industries*, which presented a time series of all previously published estimates for agriculture (1970–71 to 1992–93) and manufacturing (1968–69 to 1996–97 and 2000–01). This appendix therefore presents estimates of assistance to the manufacturing sector only at the aggregate level and updates to 1993–94 the estimates of assistance to agriculture at the commodity level.

Box F1: Measurement methodology and coverage of forms of assistance

The Commission uses a number of standard measures in reporting industry assistance. Nominal and effective rates of assistance are the principal measures. The *nominal rate of assistance on outputs* for an activity is the percentage by which government assistance allows the average gross returns per unit of output to increase, relative to the hypothetical situation in which no assistance is provided. The *effective rate of assistance* is the percentage increase in returns to an activity's value added per unit of output, relative to the hypothetical situation of no assistance. (Value added is the return to land, labour and capital from the production process.) These measures are production weighted (rather than trade weighted) and facilitate comparisons of the relative incentive effects of assistance on different industries within a sector and over time.

The focus is on trends in assistance and disparities in assistance within a sector. The Commission's purpose in measuring and monitoring assistance has been two-fold. The first is to identify the major government interventions which differentially assist industries. The second is to measure consistently over time and between industries the assistance within a sector, at the most disaggregated level practicable. Reflecting their relative importance and data limitations, the forms of assistance measured are broader in agriculture than in manufacturing. Hence, care should be exercised when making intersectoral comparisons.

The estimates reported cover the 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 and income tax concessions. The estimates do not cover the entire range of assistance provided by the Commonwealth. For example, assistance arising from government procurement policies, the partnerships for development program, the Factor f scheme for pharmaceuticals and anti-dumping activity is not included.

State Government interventions of national significance which 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 excluded due to the difficulty in quantifying the level of assistance involved in activities where there is no clear alternative benchmark price.

ASSISTANCE TO AGRICULTURE

This section summarises trends and developments in agricultural assistance. Most of the estimates for 1993–94 are based on 1992–93 local value of output data, as detailed data for 1993–94 are not yet available.¹ The assistance estimates for 1993–94 are therefore preliminary. The tables at the end of this appendix summarise:

- assistance to agriculture by form (Table F1);
- price distortions induced by the assistance and associated transfers of income to producers (producer transfers) (Table F2); and
- nominal and effective rates of assistance by activity and standard deviations for the sector (Table F3).

TRENDS IN SECTORAL ASSISTANCE

In 1993–94 assistance to agricultural output rose by \$78 million, though this left the nominal rate of assistance unchanged at 4 per cent. Increases in the nominal rate for commodities such as market milk, tobacco and sugar were largely offset by decreases for wool, wheat, dried vine fruits and wine grapes.

The average rate of assistance to value added in agriculture (the effective rate) increased by 2 percentage points to 12 per cent in 1993–94, the highest rate since 1990–91. Two factors were the main influences leading to the higher level of net assistance (Table F1). Firstly, there was a marginal increase in assistance to output and value-adding factors. Secondly, under the general reductions in tariffs, the taxing effect of tariff assistance on intermediate inputs fell.

There was a sharp increase in the disparities in assistance between industries in the sector in 1993–94. The standard deviation of the nominal rates of assistance increased from 8 to 14 percentage points and that of the effective rates from 25 to 69 percentage points. The increased disparities resulted largely from the increases in assistance accruing to commodities which already had high levels of assistance.

The levels of assistance in 1994–95 will be affected by reductions in livestock and crop production and by the special government measures introduced to assist farmers affected by drought. It is uncertain at this

¹ The assistance estimates for tobacco, deciduous canning fruits and rice for 1993–94 are based on 1993–94 local value of output data.

stage what implications implementation of the national competition policy reform package will have for the statutory marketing arrangements which underpin assistance to some agricultural activities.

DEVELOPMENTS AFFECTING THE SECTOR

Rural adjustment

Despite the drought experienced in most States, Commonwealth funding to the sector through the Rural Adjustment Scheme (RAS) decreased in 1993–94, from \$169 million in 1992–93 to \$150 million. Out of this total, \$105 million assisted agricultural activities listed in Table F2. Funding under RAS provisions for exceptional circumstances (primarily drought, flood and the wool industry) totalled \$42 million.²

The revised RAS had its first full year of operation in 1993–94. From January 1993, the RAS was modified to provide greater focus on measures to improve skills in farm management, access by farmers to expert advice and land trading to facilitate adjustment.

Drought

The Government progressively responded to the recent drought with three relatively distinct packages costing \$14 million, \$164 million and \$112 million, respectively.

The first two packages announced in August (Collins 1994a) and September 1994 (Keating 1994c) included \$8 million for RAS, \$74 million for 'exceptional circumstances', \$5 million for counselling, \$5 million for the re-training of workers dislocated by the drought and \$76 million in welfare measures.³ The third package, announced in December 1994 (Keating and Collins 1994), included \$10 million for adjustment in drought-prone areas, \$14 million for the National Landcare Program and an additional \$5 million over three years for continuing research into climate forecasting and drought management techniques. The third package also had longer-term assistance implications, as it included an

² The responsible Minister has the discretionary power to determine that exceptional circumstances such as severe drought exist. Eligible farmers can then receive payments such as interest rate subsidies of up to 100 per cent on commercial finance (RASAC 1994).

³ These welfare measures include drought relief payments, Austudy exemptions, family payments and health care cards.

enhanced farm management bond scheme and taxation incentives to encourage farmers to build up their own drought reserves.

Increased drought relief is likely to increase agricultural assistance only marginally for 1994–95 and beyond, as a large part of the assistance has been in the form of general welfare measures such as family payments and Austudy exemptions which help individuals and do not directly influence production.

Export inspection

On average the Australian Quarantine Inspection Service (AQIS) achieved full cost recovery in 1993–94. For some individual programs an over-recovery occurred while others were under-recovered. Where over-recovery occurred, AQIS paid a rebate to exporters. In cases of under-recovery, no such adjustment was made and the assistance provided is included in the Commission's assistance estimates.

Research

The Commission's agricultural assistance estimates include Commonwealth payments to relevant Research and Development Corporations and the CSIRO. The nature of research and development (R&D) funding differs from other forms of assistance in that it is allocated to address the spillover benefits to the community of R&D (IC 1995f).

The Commission allocates R&D funding as assistance to value-adding factors (Table F1). The 1993–94 assistance estimates also include Commonwealth funds for the following Cooperative Research Centres (CRCs): Viticulture; Premium Quality Wool; Cattle and Beef Industry (Meat Quality); and Sustainable Cotton Production. ⁴ The inclusion of CRC funding as assistance has only a very small impact on the measured assistance to agriculture.

⁴ CRCs have been established to develop linkages between universities, government research agencies and industry. Such centres operate through participating organisations — universities, CSIRO, other government research agencies, firms and others — contributing cash as well as other resources, and jointly managing research over set time periods, mostly seven years.

TRENDS IN COMMODITY ASSISTANCE

Wool

Assistance to wool production derives mainly from government support for wool marketing. Details of recent changes are given in Appendix B.

The nominal rate of assistance fell from 6 per cent in 1992–93 to 4 per cent in 1993–94 and the effective rate of assistance from 17 per cent to 13 per cent over the same period. Three factors were mainly responsible for this decline. Firstly, a smaller differential between the market rate of interest and the government-guaranteed rate resulted in the value of the government guarantee on wool loans falling from \$83 million in 1992–93 to \$69 million in 1993–94. Secondly, the Government terminated grants to the Australian Wool Realisation Commission (AWRC).⁵ Thirdly, the Government cut its Wool Promotion Contribution from \$25 million in 1992–93 to \$20 million in 1993–94.

In 1993–94 research assistance to the wool industry totalled \$30 million, including \$1 million of CRC funding.

Milk

Assistance to milk depends on its end use, with separate arrangements applying for manufacturing and market milk. Assistance to manufacturing milk is derived from Commonwealth support provided to dairy products. This support sets the minimum level of assistance to all milk produced. By setting prices and rationing access, State Governments provide additional assistance to the production of market (liquid) milk.

Assistance provided to manufacturing milk, through market support payments on exports, fell marginally in 1993–94. The nominal rate fell from 9 per cent in 1992–93 to 8 per cent in 1993–94. Effective assistance fell from 20 per cent to 18 per cent, over the same period.

In contrast, market milk assistance rose sharply to very high levels in 1993–94. This rise in assistance reflected the maintenance of market milk prices in the face of declines in manufacturing milk prices. The nominal assistance increased from 37 per cent in 1992–93 to 83 per cent in 1993–94 and the effective rate from 118 per cent to over 200 per cent. This increased the producer transfer (assistance) to market milk production by \$139 million in 1993–94 to \$344 million.

⁵ In 1991–92 and 1992–93 grants to the AWRC were \$22.5 million.

The Government announced new arrangements for assisting the manufacturing milk sector, following the conclusion of the Uruguay Round and implementation of the GATT 1994 Agreement on Agriculture. Changes were necessary as, under the previous arrangements, there was no practical nor acceptable mechanism for Australia to meet its GATT commitment to reduce the quantity of its subsidised exports of dairy products. Export subsidies, termed market support payments, were an integral part of the previous Commonwealth support arrangements to the dairy industry.

Under the new arrangements, export subsidies have been replaced with rebates of a new dairy produce levy. The rebate is not technically an export subsidy in terms of the GATT but provides a similar level of incentive to export, and of assistance to manufacturing dairy products. The new arrangements provide for the continuation of the previously announced reductions in support to manufactured dairy products and for this form of support to be terminated in 2000. Legislation to implement the new arrangements was passed in the autumn sitting of Parliament and they became operative on 1 July 1995.

In essence, the previous Commonwealth assistance arrangements depended on taxing all milk received for processing from farmers and using the proceeds to subsidise the export of dairy products. The resultant higher domestic prices for manufactured dairy products enabled much higher prices to be paid for milk than if there had been no milk tax and export subsidy on manufactured dairy products.

The new arrangements have retained the tax on milk received for processing into market milk at the existing rate.⁶ The tax is no longer levied on milk received for the manufacture of dairy products. In its place a new tax is levied on the production of individual manufactured dairy products. Rebates of this new tax are given on exports of manufactured dairy products. The net proceeds of the new tax on manufactured dairy products, and the intra-industry transfer of the proceeds of the tax on milk received for processing into market milk, are collected by the Australian Dairy Corporation and paid to farmers on the basis of the milk fat and protein content of their deliveries of manufacturing milk.⁷

⁶ The basis for levying the tax has been changed from a milk fat content to a composite milk fat and protein content basis.

⁷ Operationally, to reduce the flow of funds, makers of manufactured dairy products offset the rebates due on exports against the tax due on production of manufactured dairy products.

Tobacco

The Tobacco Industry Stabilisation Plan continued to operate in 1993–94. Under the Plan, high minimum prices were set for each grade of tobacco leaf, and production quotas and a Local Leaf Content Scheme applied. Measurement of assistance provided under the Plan is based on comparisons of the administered domestic price with the price of comparable imports.

The price comparisons revealed the nominal rate of assistance to the tobacco growing industry increased from 71 per cent in 1992–93 to 75 per cent in 1993–94, despite the producer transfer falling from \$33 million to \$21 million. This apparent contradiction arises from a substantial decline in the value of tobacco grown in 1993–94. The effective rate of assistance remained substantially above 200 per cent.

Following a report by the Commission in 1994 on the tobacco growing and manufacturing industries and consultations with growers, manufacturers and State Governments, the Commonwealth Government announced that: from 1 January 1995 imports of tobacco leaf, manufactured tobacco and tobacco products would be duty-free; and the Tobacco Industry Stabilisation Plan and the Local Leaf Content Scheme would cease to operate (Collins 1994d). The abolition of the plan and scheme had been foreshadowed some years earlier.

As part of the change and to ease adjustment in the industry, the relevant governments negotiated a one-off subsidy in 1994–95 to buy out the production quotas of growers who decided to leave the industry. Australian cigarette manufacturers provided \$10.8 million of this subsidy, while the Queensland, New South Wales and Victorian Governments matched the subsidy dollar for dollar. In addition, for those growers who wished to stay in the industry, the manufacturers agreed to enter into three-year production and price contracts with the potential to extend the contract by another two years, after which domestic prices are to be renegotiated to be competitive with imports. As these new arrangements are implemented, the assistance provided to tobacco growing will change and should become minimal when the contracts expire no later than 2000. It is uncertain at this stage what level of assistance will be provided during the transition.

Sugar

Assistance is provided to sugar production by Queensland's statutory marketing arrangements for raw sugar and a specific rate tariff of \$55 per

tonne, which allows domestic prices to be raised above import parity prices. The tariff on sugar is to be maintained at \$55 per tonne until 30 June 1997, after which the rate is yet to be determined. The industry also benefits from funding for specific infrastructure.

The nominal rate of assistance to sugar increased from 3 per cent in 1992–93 to 5 per cent in 1993–94 and the effective rate from 8 per cent to 15 per cent. The increase in assistance resulted from domestic prices increasing by more than the increase in world prices. The effects of this were tempered by a fall in adjustment assistance from \$3 million in 1992–93 to \$1 million in 1993–94.

Under the four year Sugar Industry Program approved in November 1993, the Commonwealth is to provide total funding of \$19 million covering 12 sugar infrastructure projects in Queensland and NSW (Crean 1993). Commonwealth funding under this program, amounting to \$3.1 million in 1993–94, has been allocated as assistance because of its industry-specific nature and the benefits it will deliver to farmers. This funding had only a minor impact on the measured assistance for sugar.

Rice

Statutory marketing arrangements in New South Wales allow the NSW Rice Growers' Co-operative Limited to vest and market all rice grown in that state. NSW is by far the main rice producing area in Australia. Although, the Marketing of Primary Products Act (NSW) was to be reviewed in 1996, in January 1995 the New South Wales Government extended the cooperative's vesting powers until 1999 (Causley 1995). These vesting powers constrain competition on the domestic market, thereby enabling higher returns to be earned from the domestic market.

The nominal rate of assistance to rice declined from 2 per cent in 1992–93 to 1 per cent in 1993–94, and the effective rate from 10 per cent to 4 per cent. This decline in assistance largely resulted from the rice industry in NSW increasing domestic prices only marginally in response to a firmer world market for rice.

Dried vine fruits

All imports of currants, raisins and sultanas (dried vine fruits) were subject to a 12 per cent tariff in 1993–94. This tariff is reducing in line with the general tariff reduction program. Local production of currants and raisins competes against imports and receives assistance from this tariff protection. Despite its export orientation, sultana production also

benefits from the tariff protection as, under statutory marketing arrangements, domestic competition is limited and higher domestic prices are maintained by the diversion of supplies to export markets.

Assistance to dried vine fruits fell substantially in 1993–94. The nominal and effective rates of assistance fell from 28 to 16 per cent and from 71 to 40 per cent, respectively. The primary cause was a fall in the price differential between domestic and export returns from sales of sultanas. In line with the phased tariff reductions, assistance to currants and raisins continued to decline.

In October 1992 the industry's exemption from section 45 of the Trade Practices Act was removed. In principle, this should have allowed greater competition and reduced the scope for the Australian Dried Fruit Association to price discriminate between the domestic and export markets. However, comparisons of export and domestic prices for sultanas indicate that the industry continues to be able to maintain domestic prices higher than equivalent export prices. This may be due to other restrictions such as State licensing requirements which discourage new packers from entering the industry. In the medium term, mutual recognition may enhance competition and reduce the extent to which the industry can continue to engage in price discrimination. Exports remain under the control of the Australian Dried Fruits Board.

Eggs

By 1993–94 full deregulation of the egg industries had occurred in New South Wales, South Australia and Victoria. Statutory marketing arrangements were still in place in Western Australia and Tasmania, and in Queensland which commenced phased deregulation in August 1993. Egg producers in these regulated States benefited from higher prices which amounted to a transfer to producers of \$6 million in 1993–94.

The nominal and effective rates of assistance for eggs remained at the 1992–93 levels of 3 per cent and 8 per cent, respectively in 1993–94.

The estimates for the period 1990–91 to 1992–93 have been revised to better reflect assistance to the egg industry from the less regulated environment. In addition, comprehensive data to support the previous method of estimation are no longer available. The revised methodology uses a weighted average of retail prices for eggs in the fully deregulated States to determine a benchmark retail price. This benchmark price is compared with the average retail prices in the regulated States in order to make an estimate of the rate of assistance provided at the retail level.

Finally, this level of assistance at the retail level is used to estimate assistance at the farm-gate level by assuming assistance accrues to preceding activities on a pro rata basis.

Citrus

In 1993–94 the nominal rate of assistance for citrus was unchanged from the 1992–93 rate of 2 per cent. The effective rate increased marginally from 4 per cent in 1992–93 to 5 per cent. In large part, this assistance derived from maintenance of a protective tariff of 10 per cent against competitive imports of frozen concentrated juice from developing countries. This assistance was also supported by the Commonwealth Government then levying sales taxes on imported fruit juices at a higher rate than juices which contained a specified minimum proportion of domestically produced fruit juice.

As part of the Uruguay Round outcome, Australia undertook to remove this discrimination in its sales tax regime for fruit juices. Previously, juice products were taxable:

- at the concessional rate of 11 per cent if they were made wholly from juices of fruits or vegetables grown in Australia, New Zealand or Papua New Guinea *and* had 25 per cent or more by volume of fruit or vegetable juice;
- otherwise the rate of 21 per cent applied.

From January 1995, the concessional sales tax applied to juice products made from Australian, New Zealand and Papua New Guinean fruit or vegetables was removed. Juice products are currently taxed at the general rate of 21 per cent unless they contain 25 per cent or more by volume of fruit or vegetable juice, in which case the concessional rate of 11 per cent applies.

Following the report of the Horticultural Task Force in March 1995, the Government announced that it would provide: \$4.5 million to the Australian Horticultural Corporation to facilitate structural change in the industry; \$9 million to fund a five-year citrus market diversification program; \$0.6 million as the Commonwealth's contribution to controlling fruit fly; \$0.5 million to the Horticulture Policy Council; as well as the write-off for taxation purposes of expenditure incurred in establishing new citrus plantations (Sherry 1995). These arrangements are likely to increase assistance to citrus growing.

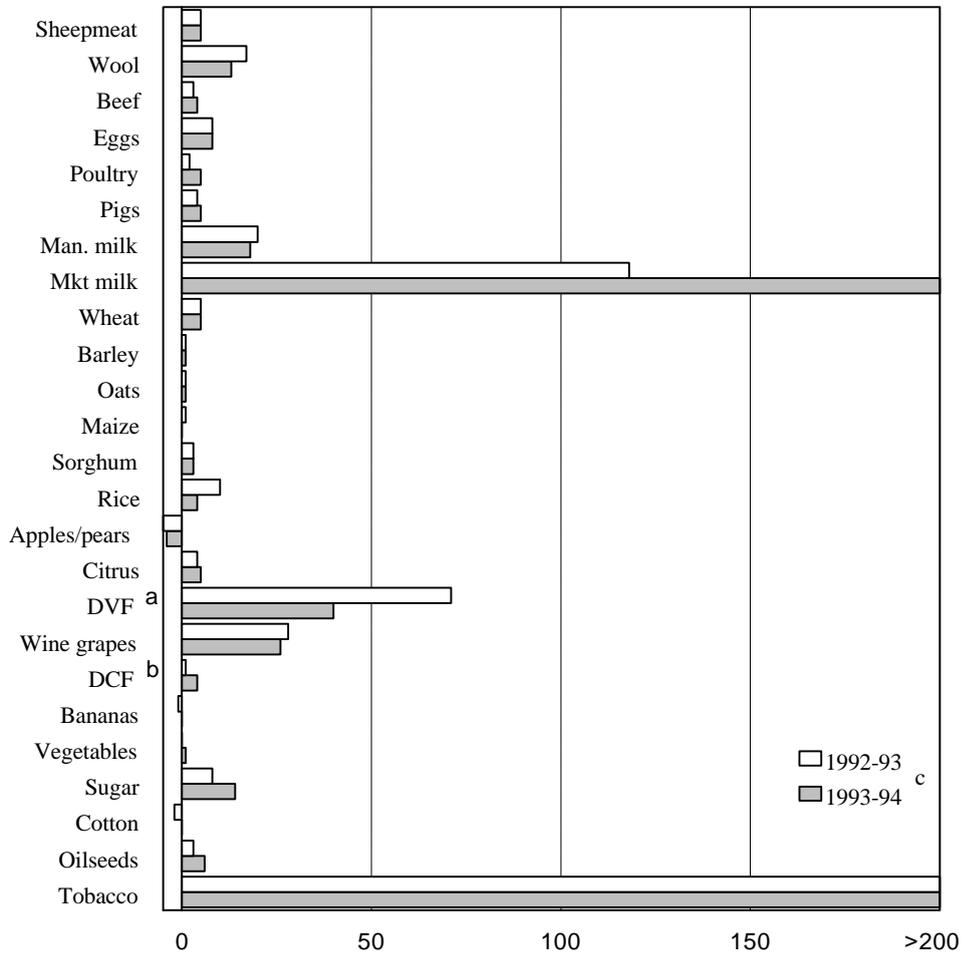
DISPARITIES IN ASSISTANCE

Disparities in levels of assistance to agricultural activities and commodities increased in 1993–94. Disparities, as measured by the standard deviation, indicate how levels of assistance afforded individual industries differ from the sectoral average. The higher the standard deviation, the larger the variability in rates of assistance. Disparities between effective rates of assistance indicate the potential for inefficiencies in resource use. Highly disparate nominal rates of assistance can indicate the potential for losses of consumption efficiency arising from distorted consumer prices.

Disparities in effective rates between commodities increased from 25 percentage points in 1992–93 to 69 percentage points in 1993–94 (Table F3 and Figure F1). The primary cause was the substantial increase in the effective rate of assistance for market milk. If the effective rate for market milk in 1993–94 had stayed at its 1992–93 level, the standard deviation would have been substantially lower at 15 percentage points.

Nominal rates also became more disparate in 1993–94. Disparities in nominal rates increased to 14 percentage points in 1993–94, from 8 percentage points in 1992–93 (Table F3 and Figure F2).

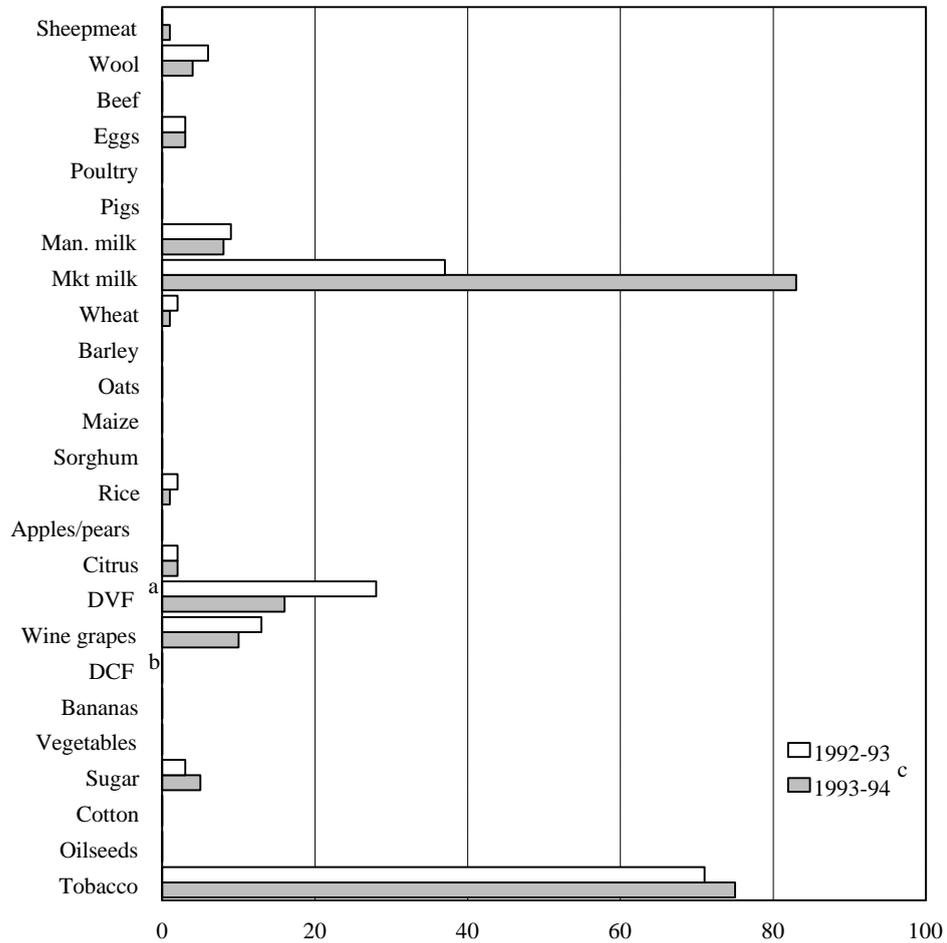
Figure **Error! AutoText entry not defined.1:** Average effective rates of assistance to agricultural commodities, 1992–93 and 1993–94 (per cent)



- a Dried vine fruits.
- b Deciduous canning fruits.
- c Preliminary estimates.

Source: Commission estimates

Figure **Error! AutoText entry not defined.2:** Average nominal rates of assistance to agricultural commodities, 1992–93 and 1993–94 (per cent)



- a Dried vine fruits.
- b Deciduous canning fruits.
- c Preliminary estimates.

Source: Commission estimates

ASSISTANCE TO MANUFACTURING

This section discusses recent changes in assistance to the manufacturing sector and provides an update of developments affecting future manufacturing assistance including:

- the establishment of AusIndustry;
- a new TCF assistance package costing \$45 million over five years;
- a review of the Tariff Concession System by the Department of Industry, Science and Technology (DIST); and
- the exclusion of passenger motor vehicle and certain textile parts from the Tariff Concession System.

TRENDS IN MANUFACTURING ASSISTANCE

While tariffs remain the principal form of assistance to manufacturing, their relative importance is decreasing in line with the continuing tariff reduction program. Tariffs on most dutiable goods decreased from 12 per cent to 10 per cent, or from 9 per cent to 8 per cent, on 1 July 1994. Further reductions to 7 or 8 per cent occurred in July 1995, with a rate of 5 per cent to apply from July 1996 (Keating 1994a, p. 43).

Two industries, PMV and TCF, however, continue to receive substantially higher assistance. Tariffs on PMVs fell to 27.5 per cent on 1 January 1995, and are scheduled to phase down to 15 per cent by 2000. Tariffs on most textiles fell to 28 per cent on 1 March 1995 and are to decline to 15 per cent by 1 July 2000. Tariffs on many items of apparel were reduced to 40 per cent in 1995 and are to fall to 25 per cent by 2000. Tariffs on footwear have fallen to 30 per cent and are to be reduced to 15 per cent in 2000. In addition, a variety of industry-specific arrangements apply, such as export facilitation for PMV and import credits for TCF (Appendix C).

The tariff reduction program is the principal factor behind the overall decline in the measured nominal and effective rates of assistance for manufacturing industry. However, the measures do include other forms of assistance (Box F1). The production-weighted nominal rate for manufacturing declined from 4 per cent in 1993–94 to 3 per cent in 1994–95. The effective rate fell from 10 per cent to 9 per cent over the same period and is expected to fall further to 5 per cent in 2000–01. The dispersion in assistance also continues to decline, with the standard deviation of effective rates of assistance falling to 13 percentage points in

1994–95 from 14 percentage points the previous year. A complete time series of assistance estimates for manufacturing (from 1968–69 to 2000–01) is contained in the Commission’s recently released information paper (IC 1995c).

Prior to the completion of the Uruguay Round, only about 20 per cent of Australia’s tariff rates were bound in the GATT. Tariff bindings represent a commitment not to increase the tariff above that level, except by negotiation with compensation for affected trading partners. The low level of bindings, however, did not preclude Australia from implementing substantial tariff reductions on a unilateral basis.

The scope and depth of Australia’s tariff bindings increased substantially as a result of the Uruguay Round. More than 99 per cent of imports and 95 per cent of tariff lines have been bound, including all tariffs on agricultural products. However, in many cases Australia has agreed to bind tariffs above the levels that will exist after implementation of the tariff cuts already announced by the Government.

Australia’s Uruguay Round commitments involve an average tariff cut of 44 per cent (relative to 1986–87) with an average final bound tariff of 10.9 per cent (based on a simple average of General tariff rates weighted by line item). This compares with the Government’s announced program which involves a reduction in average tariffs of 70 per cent and a simple average tariff of 6.3 per cent in 1996–97, falling to 4.9 per cent in 2000–01. Trade-weighted average tariffs will be even lower — 2.8 per cent in 1996–97, declining to 2.2 per cent in 2000–01.

Australia’s commitment in the 1994 APEC Bogor Declaration to regional free trade by 2010 may offer the prospect of further tariff reductions beyond 2000.

OTHER DEVELOPMENTS AFFECTING MANUFACTURING ASSISTANCE

AusIndustry

The Government announced the formation of AusIndustry in its *Working Nation* statement of May 1994. AusIndustry is intended to become industry’s first point of contact for receiving government assistance, and is to administer the Government’s manufacturing industry assistance programs.

AusIndustry was established in October 1994 as an office within DIST. Under a Memorandum of Understanding between the State and Commonwealth Governments, AusIndustry will use the National Industry Extension Service network to deliver industry assistance (Cook 1994a). The Government is committed to providing over \$100 million annually to AusIndustry to fund existing programs aimed at improving firms' skills in: management planning; R&D; technology upgrading; and intra-industry coordination. AusIndustry is scheduled for review in 1997.

Extension of TCF assistance programs

In February 1995 the Textiles, Clothing and Footwear Development Authority (TCFDA) proposed changes to the Government's TCF assistance arrangements due to expire in February 1996 (TCFDA 1994b). In response, the Government introduced in its 1995–96 Budget a five-year program amounting to \$45 million. As part of the revised arrangements, the TCFDA will be replaced by a TCF unit within DIST.

The revised TCF assistance arrangements were aimed at assisting firms to adjust to the phased reductions in tariffs and the implementation of the Bogor Declaration. The Government has announced its intention that this will be the last TCF-specific adjustment assistance program. After the expiry of the new arrangements in 2000, TCF firms will be eligible only for the general assistance programs available to all firms (Cook 1995b,c). Post-2000 TCF tariffs are scheduled for review in 1996.

The new TCF arrangements are to be structured around four five-year programs:

- The AusIndustry TCF Outreach Program will provide total funding of \$15 million to assist at least 100 TCF firms in implementing 'best practice' arrangements. The program will also fund a TCF Quick Response Project to spread quick response techniques throughout TCF firms.
- The AusIndustry Quality Program, costing \$8 million, will encourage TCF firms to become more competitive by developing a 'quality culture'.
- The TCF International Information Program, totalling \$1.3 million, will support TCF firms locating in, and exporting to new customers in, targeted markets. The Program will also seek to make existing exporters under the TCF import credits scheme (ICS) aware of other programs assisting exports.

- The TCF Infrastructure Program, involving total expenditure of \$8 million, will fund various projects, including investment promotion, training and ‘outworker entitlements’ projects.

A TCF Advisory Panel will also be established to advise the Minister for Industry, Science and Technology on international agreements affecting the TCF sector. In addition to enabling TCF industries to raise concerns stemming from these agreements, the Panel will oversee AusIndustry’s TCF Outreach Program.

The Government also accepted the TCFDA’s recommendations that:

- it investigate the provision of further support for wool processing beyond the tops stage;
- Austrade provide specialist support to TCF exporters — despite criticism that most parties found Austrade’s schemes ‘not useful’ and ‘insufficiently practical’ (Werner, p. vi. and p. 56); and
- the ICS, with modifications, and the Overseas Assembly Provisions (OAP) Program, due to expire in February 1996, be extended to 2000 (see below).

A further major change to the TCF assistance arrangements was the exclusion of exports of wet blue hides from the ICS. Hides tanned to the wet blue stage have been a major TCF export (along with wool tops and textiles).

The ICS, like the PMV export facilitation scheme, provides additional incentives for TCF firms to export by granting duty reductions on imports equivalent to 30 per cent of domestic value added in their exports. Following the introduction of the ICS in July 1991, the leather sector of the industry became a major earner of import credits. Leather exporters earned 68 per cent of all ICS credits in 1991–92. The percentage of credits accruing to the leather sector has since dropped, to 36 per cent in 1993–94, as exports of other TCF products have increased. The TCFDA considered that the hides and leather sector of the industry had been sufficiently assisted, and that removing this sector from the scheme would contain its cost. Total ICS credits issued had increased from \$31 million in 1991–92 to \$105 million in 1993–94 (TCFDA 1994a, p. 40).

In addition, the TCFDA considered that the OAP needed simplification because it had been underused and had not been as effective as similar overseas programs. It made no specific recommendations on how to simplify the inherently complex arrangements. The OAP allows

manufacturers to export domestically cut, or manufactured, cloth for assembly overseas, and to import the assembled product while paying customs duty only on the foreign value added. The program helps improve local clothing manufacturers' competitiveness by sourcing the relatively expensive (labour intensive) assembly operation from low-wage countries such as China. This is likely to reduce assistance to domestic clothing assemblers, but may increase assistance to earlier stages of production.

Tariff Concession System

The Tariff Concession System (TCS) allows duty-free entry of imports for which there are no domestically produced goods 'serving similar functions' or, if there are, where the granting of a concession is not likely to have a significant adverse effect on the market for the substitute good (the so-called 'market test'). Over recent years, the number of tariff concessions granted has increased considerably, from 1366 in 1990–91 to 3784 in the year to November 1994.

Under the Government's PMV plan, most imports of PMV parts were excluded from obtaining duty-free status under the TCS. However, local automotive producers have an automatic duty-free entitlement equal to 15 per cent of their annual value of production. In addition, the export facilitation scheme gives designated PMV exporters the right to import vehicles and components duty free up to a value equal to the Australian value added in their exports.

In December 1992, following changes to the TCS, Customs refused an application to import body panels as replacement parts for fully imported (non-plan) vehicles. Customs considered that the duty-free importation of body panels would have a significant adverse effect on the local industry. However, changes to the TCS in 1992 had deleted the 'capability of being produced in the normal course of business' and the 'cross elasticity of demand' test. In addition, Customs' discretionary powers had been removed. These changes had the effect of making it extremely difficult for plan producers of vehicles, as distinct from producers of body panels, to object to the granting of a Tariff Concession Order (TCO). This difficulty was compounded because the TCO application was concerned only with body panels for a non-plan product. In addition, while the wording of Customs' Excluded Goods Schedule prohibited the importation of plan PMV parts, it did not exclude the importation of non-plan PMV parts.

A spate of other similarly worded applications occurred, with many requesting TCOs to import non-plan PMV replacement parts. Approval of these applications would have increased the competitiveness of non-plan importers relative to local producers.

In October 1994 Customs regulations were amended to prevent further such applications. This effectively ended the use of all PMV TCOs granted before the changes to the TCS in 1992. The initial applicant was given duty rebates for imports of goods covered by the original TCO up until it was revoked by the amending Customs regulation in October 1994.

The amendment to the Customs regulations expanded the Excluded Goods Schedule of the Customs Tariff, to make all goods with a tariff of 15 per cent ineligible for a TCO. Only PMV replacement parts currently have a tariff of 15 per cent. Although tariffs on footwear, cotton sheeting, and woven and other fabrics will fall to 15 per cent in July 2000, Customs considered that most TCF goods were also listed in the Excluded Goods Schedule. Where necessary, Customs intends introducing similar amendments to maintain the status quo for TCF goods.

More generally, in January 1995 a review of the TCS was announced by DIST in consultation with the Australian Customs Service to consider whether the system is meeting its objectives (DIST 1995).

Textiles and goods made of textiles used in aircraft repairs were excluded from duty-free entry under the TCS from 17 March 1995. Duty-free entry is still granted to all other aircraft parts, materials and test equipment used in the manufacture, repair or maintenance of aircraft. This change added to aircraft repair costs, and is likely to have increased protection for parts of the domestic textiles industry.

Table F1: Assistance to agriculture by form, 1990–91 to 1993–94
(\$ million)

	<i>Current series</i>			
	<i>1990 –91</i>	<i>1991 –92</i>	<i>1992 –93</i>	<i>1993 –94^a</i>
Assistance to outputs				
Domestic pricing arrangements ^b	450	438	368	505
Tariffs	29	33	28	23
Local content schemes	21	22	33	21
Export incentives	1	1	3	2
Export inspection services ^c	37	8	11	16
Marketing support	59	56	50	22
Underwriting arrangements	22	–	–	–
Government guarantees	81	113	117	99
Wool supplementary support payments	300	–	–	–
Total	1 000	671	610	688
Assistance to value-adding factors				
Adjustment assistance ^d	68	139	106	105
Agricultural research	122	136	148	157
Income taxation concessions ^e	19	27	78	95
Natural disaster relief	9	5	4	2
Total	218	307	336	359
Assistance to inputs				
Disease control ^f	11	8	5	3
Tariffs on inputs ^g	-100	-103	-105	-82
Tariffs on plant and machinery ^g	-76	-68	-66	-58
Total	-165	-163	-166	-137

– Nil.

a 1993–94 estimates are based on the 1992–93 local values of output, except for tobacco, deciduous canning fruits and rice.

b These estimates include the effects of any import restrictions which enable the domestic price to exceed the landed duty-free price of competing imports (eg tariffs on dried vine fruits and sugar imports).

c Based on shortfalls from 100 per cent cost recovery.

d Estimates for 1992–93 and 1993–94 include improved measurement of assistance provided under the Rural Adjustment Scheme. These figures reflect actual Commonwealth interest subsidies provided to farmers.

e A small amount of this assistance supports activities for which nominal and effective rates have not been estimated.

f Covers assistance provided by the bovine brucellosis and tuberculosis eradication campaign.

g The additional costs incurred due to assistance raising the prices of inputs. The current series includes the effect of tariffs on materials used in non-traded inputs.

Source: Commission estimates

Table F2: Price distortions and producer transfers for agricultural commodities, 1990–91 to 1993–94

Activity/commodity description	1990–91		1991–92		1992–93		1993–94 ^c	
	Price distortion	Producer transfer	Price distortion	Producer transfer	Price distortion	Producer transfer	Price distortion	Producer transfer
	%	\$m	%	\$m	%	\$m	%	\$m
Horticulture								
Dried vine fruits ^d								
Sultanas	31	11	28	8	26	11	16	6
Currants	17	1	15	1	14	1	11	1
Raisins	17	1	15	1	14	..	11	..
Wine grapes	15	22	14	28	13	25	10	20
Citrus	4	7	2	5	2	3	1	3
Tobacco ^e	35	21	36	22	74	33	75	21
Extensive irrigation and high rainfall crops								
Sugar ^f	54	69	31	40	13	21	19	36
Rice ^g	14	4	14	4	13	4	6	2
Intensive livestock								
Eggs ^h	9	20	8	16	3	7	2	6
Manufacturing milk								
Cheese	15	62	15	62	12	53	9	44
Butter	23	23	21	22	16	18	14	12
Skim milk powder ⁱ	24	16	22	15	14	10	13	12
Whole milk powder	21	6	22	5	15	4	13	4
Casein	29	1	26	..	15	..	16	..
Market milk ^j	38	198	45	229	37	205	83	344

Table F2 (continued)

- .. Producer transfer less than \$0.5 million.
- a The price distortion is the proportional difference between the assisted price of a commodity and the price that would prevail without assistance. For export-competing commodities, it is the proportional difference between domestic or constructed import parity 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 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. The transfers are derived for export industries either by multiplying the difference between domestic or constructed import parity and comparable export prices 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, it is assumed that all transfers accrue to the farming activity.
- c 1993–94 estimates are based on the 1992–93 local values of output, except for tobacco, deciduous canning fruits and rice.
- d Includes price raising effects of tariffs used in conjunction with the domestic marketing arrangements. The price distortion for sultanas is based on the difference between the lower of either average domestic or constructed import parity returns and comparable export returns to packers.
- e Transfers derived by applying the price differential between Australian green leaf and comparable imported green leaf to the domestic sales of Australian leaf.
- f Producer transfers were estimated in accordance with the industry formula used for dividing raw sugar returns between millers and growers. The price distortion was calculated by comparing the average domestic unit returns with a constructed export parity price.
- g Estimated by comparing domestic and export prices for medium- and long-grain rice. 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 1991–92 to 1993–94 exclude producer transfers associated with Queensland production. Queensland production accounts for approximately 2 per cent of Australian production.
- h The estimates for the period 1990–91 to 1992–93 have been revised. This methodology uses a weighted average of retail prices for eggs in the deregulated States to determine a benchmark retail price. This benchmark price is compared to the average retail prices in the regulated States in order to make an estimate of assistance provided at the retail level. Finally, this retail-level assistance is apportioned on a pro rata basis using the value of farm-gate and retail prices to provide an estimate of assistance at the farm-gate level.
- i Includes buttermilk.
- j Estimates are 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).

Source: Commission estimates

Table F3: Average nominal and effective rates of assistance by agricultural activity and standard deviations for the agricultural sector, 1990–91 to 1993–94

<i>Activity/commodity description</i>	<i>Nominal rate of assistance on output^a</i>				<i>Effective rate of assistance^b</i>			
	<i>1990–91</i>	<i>1991–92</i>	<i>1992–93</i>	<i>1993–94^c</i>	<i>1990–91</i>	<i>1991–92</i>	<i>1992–93</i>	<i>1993–94^c</i>
Horticulture								
Apples and pears	–	..	..	..	-5	-5	-5	-4
Dried vine fruits ^d	14	12	28	16	29	27	71	40
Wine grapes	15	14	13	10	31	29	28	26
Citrus	5	3	2	2	9	5	4	5
Deciduous canning fruits	..	..	..	..	3	3	1	4
Bananas	..	..	..	..	..	..	..	..
Tobacco	35	36	71	75	119	123	>200	>200
Vegetables	..	..	..	..	-1	..	..	..
Average	4	3	4	3	7	7	8	6
Extensive cropping								
Wheat	5	1	2	1	12	4	5	5
Barley	..	..	..	..	..	1	1	1
Oats	..	..	..	..	1	..	1	1
Maize	..	..	..	..	1	..	1	..
Sorghum	..	..	..	..	1	..	3	3
Oilseeds	..	..	..	..	2	3	3	6
Average	3	1	1	1	8	3	4	4

Table F3 (continued)

<i>Activity/commodity description</i>	<i>Nominal rate of assistance on output^a</i>				<i>Effective rate of assistance^b</i>			
	<i>1990-91</i>	<i>1991-92</i>	<i>1992-93</i>	<i>1993-94^c</i>	<i>1990-91</i>	<i>1991-92</i>	<i>1992-93</i>	<i>1993-94^c</i>
Extensive irrigation and high-rainfall crops								
Sugar ^e	10	7	3	5	27	21	8	15
Cotton	..	..	..	..	-5	-3	-2	..
Rice ^f	4	2	2	1	10	5	10	4
Average	4	3	2	2	10	7	4	8
Extensive grazing								
Beef	1	..	..	..	3	3	3	4
Wool	10	6	6	4	25	15	17	13
Sheepmeat	3	..	..	1	8	4	5	5
Average	6	2	2	2	14	8	8	7
Intensive livestock								
Pigs	..	..	..	..	2	4	4	5
Poultry	..	..	..	..	1	6	2	6
Eggs ^g	9	8	3	3	25	23	8	8
Milk production	28	28	19	28	55	73	54	92
Manufacturing milk	20	16	9	8	43	33	20	18
Market milk ^h	41	45	37	83	129	160	118	>200

Table F3 (continued)

<i>Activity/commodity description</i>	<i>Nominal rate of assistance on output^a</i>				<i>Effective rate of assistance^b</i>			
	<i>1990-91</i>	<i>1991-92</i>	<i>1992-93</i>	<i>1993-94^c</i>	<i>1990-91</i>	<i>1991-92</i>	<i>1992-93</i>	<i>1993-94^c</i>
Average	13	13	10	13	42	45	31	46
Total agriculture								
Average	6	4	4	4	15	11	10	12
Standard deviationⁱ	9	9	8	14	22	24	25	69

– Nil.

.. Between -0.5 per cent and 0.5 per cent.

a Average nominal rates on outputs are weighted by the unassisted value of output of each activity.

b Average effective rates are weighted by the unassisted value added of each activity.

c 1993-94 estimates are based on the 1992-93 local values of output, except for tobacco, deciduous canning fruits and rice.

d The estimates of assistance to sultanas are based on a comparison of the lower of either domestic or constructed import parity returns with the export returns.

e The price distortion was calculated by comparing the average domestic unit returns with a constructed export parity price.

f Estimated by comparing domestic and export prices for medium- and long-grain rice. 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 1991-92 to 1993-94 exclude producer transfers associated with Queensland production. Queensland production accounts for approximately 2 per cent of Australian production.

g The estimates for the period 1990-91 to 1992-93 have been revised. This methodology uses a weighted average of retail prices for eggs in the deregulated States to determine a benchmark retail price. This benchmark price is compared to the average retail prices in the regulated States in order to make an estimate of assistance provided at the retail level. Finally, this retail -level assistance is apportioned on a pro rata basis using the value of farm-gate and retail prices to provide an estimate of assistance at the farm-gate level.

h 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.

i 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

G

International trade in services

Services directly account for well over two-thirds of Australian GDP and employment, and around one-third of services produced are consumed as intermediate inputs. The international competitiveness of many Australian industries depends upon the efficient production of services, many of which are currently supplied by highly regulated industries. The creation from 1 January 1995 of the General Agreement on Trade in Services (GATS) under the umbrella of the World Trade Organization (WTO) to cover international trade in services is a landmark. By covering all modes of supply, including commercial presence, the GATS is potentially very broad in coverage. GATS suffers from several structural limitations, however, especially its bias towards sector specificity. It has secured very little by way of reductions in existing barriers.

Australia's 'bound' sectoral commitments against using restrictive measures apply to an estimated one-fifth of Australia's services production. They include mainly business services, high value-added telecommunications, sporting services and wholesale trade. A quarter of services production, including coastal shipping, railways, basic telecommunications and postal as well as courier services, was excluded outright by Australia from specific GATS commitments. Further, for those sectors covered by specific commitments, the liberalising obligations are skewed away from the services within those sectors which are produced in Australia. These include construction, retailing, banking, insurance and road transportation, in which no obligations were made to provide market access or national treatment — existing restrictions can be maintained and/or new ones introduced.

Progressive liberalisation of Australia's product markets during the past decade, including the abolition of import quotas on textiles, clothing, footwear and motor vehicles as well as continuing across-the-board tariff reductions, has further highlighted the need to liberalise the production of services. Producers, including service exporters, faced with greater competitive pressures to improve efficiency and international competitiveness, need access to services and other inputs at world prices. Moreover, the enhanced economic benefits to Australia from promoting more efficient production of manufactured and agricultural goods have

led to an increasing recognition that liberalisation of services trade would supplement such gains.

These domestic developments coincided with greater recognition by other countries of the gains to themselves and the world economy from liberalising international trade in services. These joint efforts among countries culminated in services trade being incorporated for the first time into the multilateral trading negotiations during the Uruguay Round. The new rules, called the General Agreement on Trade in Services (GATS), are administered by the World Trade Organization (WTO) which was established on 1 January 1995.

Australia's trade in services is also the subject of regional arrangements. Services trade with New Zealand is covered by the Closer Economic Relations Agreement (CER). Under CER, all services may be freely traded between the two countries, except for those sectors inscribed as exceptions in the Agreement.¹ Moreover, Australia has strongly supported the APEC free trade initiative announced in the Bogor Declaration of 1994, which calls for open trade and investment, including for services, in the Asia-Pacific region by 2010 for industrialised members and for other economies by 2020.

SERVICES IN THE AUSTRALIAN ECONOMY

Services are an important component of the Australian economy. Economic prosperity hinges heavily on Australia developing efficient industries, including production of services, capable of surviving without continued government support. Production of services now accounts for well over two-thirds of Australian GDP and employs some three-quarters of the labour force. The importance of the services sector is not unique to Australia; the close correlation between a country's economic development and the increased role of services relative to manufacturing and agriculture has been well documented.

Demand for services has grown steadily in Australia. The interdependence between services and other sectors is reflected in the fact that almost one-third of services produced are consumed as intermediate

¹ Sectors inscribed as exceptions in CER by Australia are telecommunications, airport services, domestic air services, international aviation, including passenger and freight services, coastal shipping, broadcasting and television, basic health insurance, third party insurance, workers compensation insurance and postal services. New Zealand inscribed as exceptions: aviation; communications; postal services; and coastal shipping.

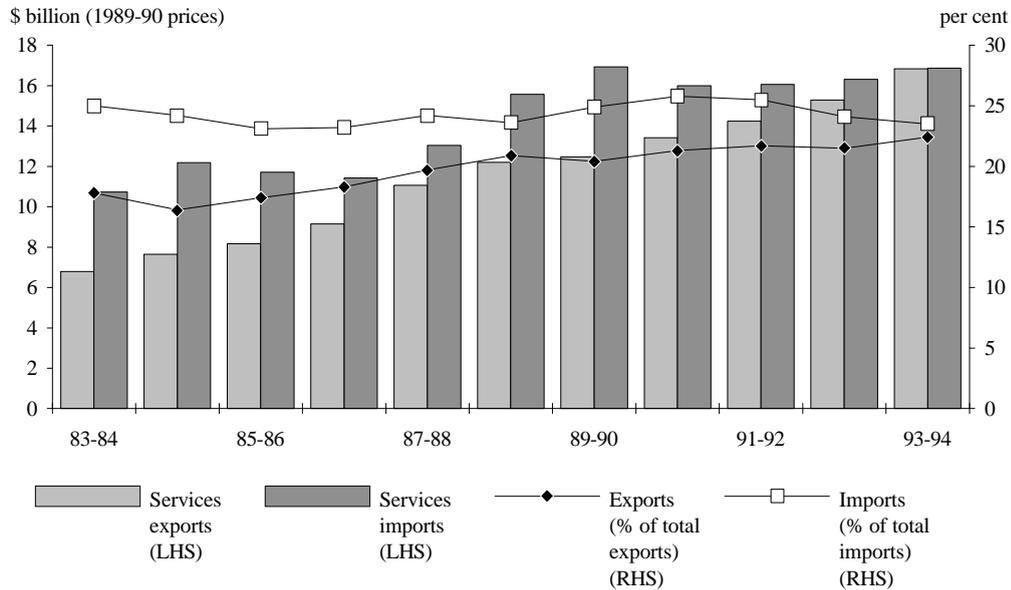
inputs, such as communications and financial services. In Australia, government dominates the provision, of many services such as health, education, transport, communications and electricity — often through regulated industries involving public business enterprises and monopolies. Many of these services are consumed by producers as intermediate inputs, and are now subject to national competition policy reforms.

The services sector makes an important contribution to Australia's external account, with trade in services recording substantial growth in real terms (Figure G1). While annual services imports exceeded services exports by \$1.4 billion in 1993–94, exports of non-factor services (that is, activities not relying on the cross-border movement of factors of production, such as shipping, other transport items and travel) are growing more rapidly. The real annual growth of services exports averaged 9 per cent over the decade to 1993–94, almost double that of imported services. Services as a share of total exports were 22 per cent in 1993–94, up appreciably from 18 per cent in 1983–84. Services imports declined as a share of total imports over this period, from 25 per cent to 24 per cent.

Australia's services exports have grown slightly faster than the world average — 14 per cent per annum in \$US terms since 1986, compared with the world rate of 12 per cent. Australia's share of world services trade (exports and imports combined) has, however, remained at 1.1 per cent, reflecting slower than world import growth (Table G1 at the end of this appendix).

Travel (comprising goods and services consumed in Australia by overseas travellers as well as Australians abroad, but excluding passenger transport services) is by far Australia's major internationally traded service, accounting for 42 per cent of services exports, and 29 per cent of services imports, in 1993–94 (Figure G2). The categories 'other services' (comprising mainly finance, insurance, professional, telecommunications, construction and consultancy), and 'other transportation services' (including mainly passenger services), each represented about one-quarter of imported and exported services in 1993–94.

Figure Error! AutoText entry not defined.1: Australia's exports and imports of services, 1983–84 to 1993–94

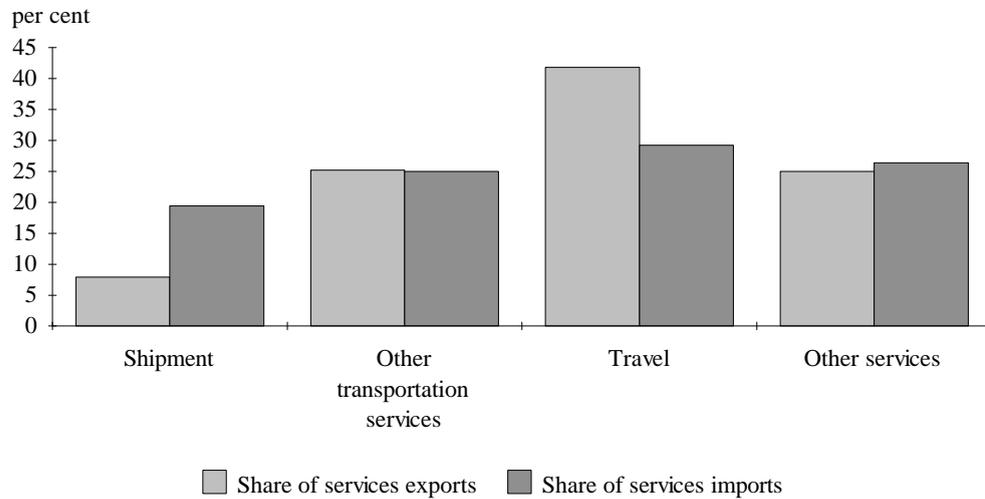


a Non-factor services as defined in the Balance of Payments. These are classified into four types, namely: shipping; other transportation services, including passenger and port services; travel (goods and services consumed in Australia by overseas travellers as well as by Australians abroad); and other services (including defence, aid, finance, insurance and miscellaneous services, such as professional, telecommunications, construction, mining, computing and entertainment). Services exports are those rendered by Australian residents to non-residents, while services imports are supplied by non-residents to Australian residents.

Source: DFAT (1995b)

Japan remains the major single purchaser of Australia's services exports, accounting for over one-sixth of total services exports in 1993–94, followed by the US with 12.5 per cent (Figure G3). Exports to the combined European Union (EU) market, however, almost equalled those to Japan — and represented about 17 per cent of Australia's services exports in 1993–94. The UK accounted for well over half of Australia's services exports to the EU, and is also Australia's principal source of services imports.

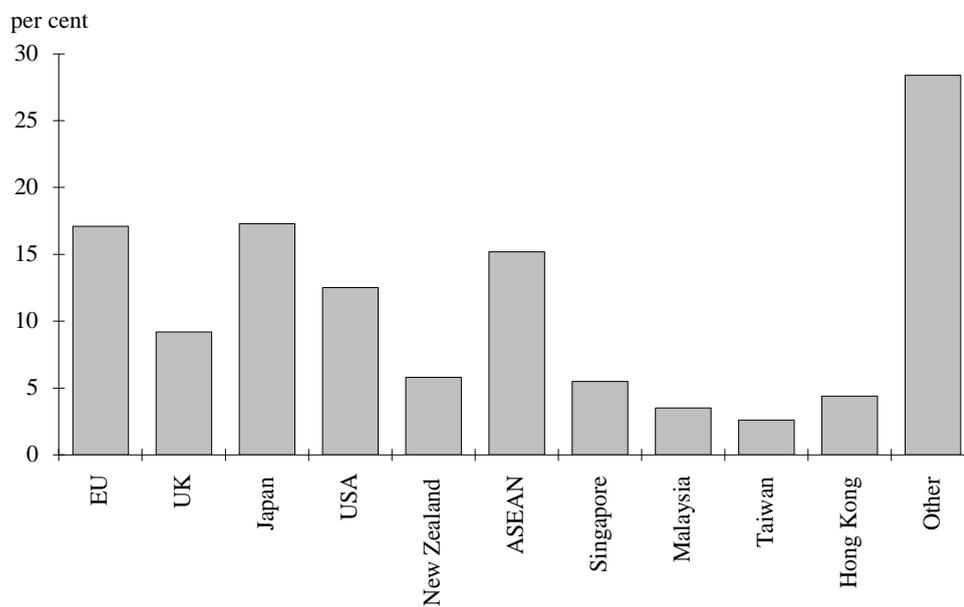
Figure Error! AutoText entry not defined.2: Australia's exports and imports of services by type, 1993–94



a See footnote to Figure G1.

Source: DFAT (1995b)

Figure G3: Principal destinations of Australian services exports, 1993–94



a See footnote to Figure G1.

Source: ABS (1994c)

While Australia's trade in services has grown in recent years, it still represents only a small share of production. Most of Australia's services are consumed domestically, with only 5 per cent of production currently exported directly. Moreover, services imports represent less than 2 per cent of domestic services production. These shares are low compared to those of many other countries. While these figures may reflect reasons other than government intervention, such intervention is an important factor.

Australia's future export performance in services was recently reviewed in a study commissioned by the Government and the private sector (LEK Partnership 1994). According to the LEK report, Australia's services exports are projected to more than double from \$15 billion in 1993 to \$33 billion in 1998. The main export growth areas identified in the report were construction, services associated with electricity, gas and water, scientific research, computers, advertising and marketing, and finance and insurance. Other growth areas mentioned were health, education, tourism, consultancy and legal services.

GLOBAL TRADE IN SERVICES

Over the past decade or so, global growth in services trade has substantially exceeded merchandise trade.² Services trade has been facilitated by rapid advances in technology, telecommunications, information and travel. Growing globalisation, and interlinkages among national economies and in the production and marketing strategies of modern transnational firms, have dramatically changed the ways in which business is done and economic transactions are performed.³ Services transactions are an integral component of these developments, in the form of increased international trade in services and expanding service-related investments. Trade in services, worth almost \$US 1000 billion in 1992, accounts for well over one-fifth of total world trade.

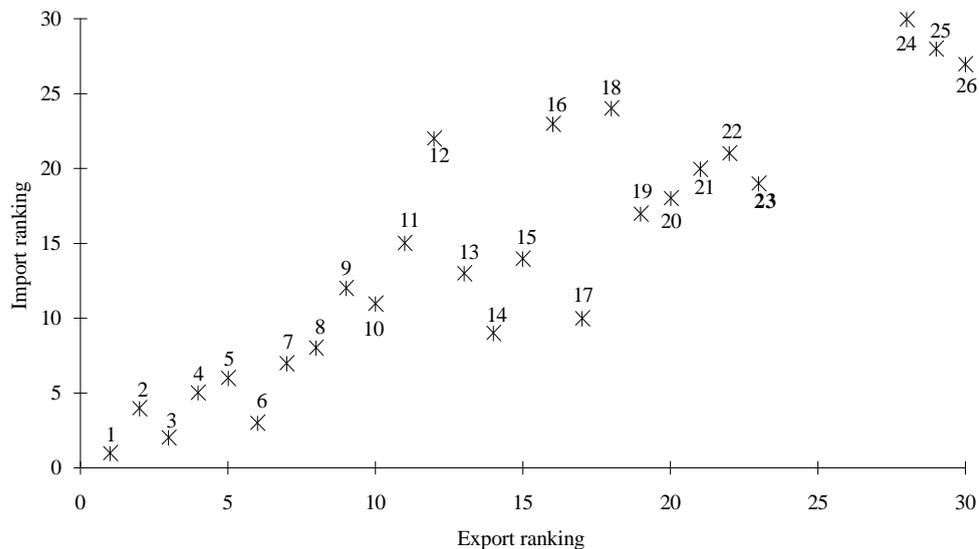
The main international traders of services are the US, the EU (especially France, Germany, Italy and the UK), and Japan. The leading world importers of services are also the main exporters of services (Figure G4).

² Over the period 1980 to 1992, services exports grew in \$US terms at an average annual rate of 8.1 per cent, compared with 5.2 per cent for merchandise trade.

³ Some of the services growth in recent years may reflect changes in production structures and relationships in the form of greater specialisation, leading to manufacturing firms out-sourcing a greater share of services inputs. This process has been called 'splintering' (Bhagwati 1984).

Within the Asian region, Hong Kong, placed 11th in the world, is the largest exporter of commercial trade services, followed by Singapore, Korea, Chinese Taipei, Thailand, China, the Philippines and Malaysia which are all in the world's top 30 exporters of services. Chinese Taipei is the 10th largest importer of services, with Korea, Hong Kong, Thailand, China, Singapore, Indonesia and Malaysia also in the top 30 world buyers. Although Asia's overall income and trade growth performance has been impressive, its share of services trade has grown only modestly, from 14 per cent to 17 per cent. ⁴ Australia is currently ranked 23rd and 19th in the world in services exports and imports, respectively.

Figure **Error! AutoText entry not defined.**4: World's leading exporters and importers of services, 1993



a Rankings based on WTO statistics:

1 United States	8 Belgium-Luxembourg	15 Korea, Republic of	22 China
2 France	9 Spain	16 Mexico	23 Australia
3 Germany	10 Austria	17 Chinese Taipei	24 Portugal
4 Italy	11 Hong Kong	18 Denmark	25 Israel
5 United Kingdom	12 Singapore	19 Norway	26 Malaysia
6 Japan	13 Switzerland	20 Sweden	
7 Netherlands	14 Canada	21 Thailand	

Source: Low (1995)

⁴ Inward foreign investment has, however, grown substantially in the region as a means of establishing services production facilities in host countries.

The composition of services traded globally has also changed substantially. Since 1980, the relative importance of transport services has declined from 37 to 26 per cent, while that of 'private services and income' has increased from 36 to 44 per cent (Table G2).

IMPEDIMENTS TO INTERNATIONAL TRADE IN SERVICES

Services have some special characteristics which make their international exchange, and hence the nature of trade impediments, different from those of merchandise trade. Firstly, many services cannot be stored: they are produced and consumed simultaneously. Secondly, it follows that for many services, arms-length provision via cross-border trade, even through the electronic media, is not technically feasible due to their non-transportability, and direct interaction is required between consumers and producers. Moreover, direct interaction is often the preferred means of delivery for many services.

For many services a physical presence in the importing country is required, or preferred. Liberalisation of services trade necessarily implies that foreign services providers be allowed to enter the home market, at least temporarily, or that foreign enterprises be permitted under foreign investment regulations to establish a commercial presence. Services traded internationally via foreign investment are not reflected in the services exports and imports statistics. Some 60 per cent of foreign direct investment is currently concerned with the provision of services.⁵ Regulations controlling foreign investment can therefore in practice be a major restriction on international services transactions.

Impediments to trade in services and in merchandise trade can differ substantially. Tariffs and non-tariff measures which restrict merchandise trade operate mainly at the border. Many restrictions on trade in services are, however, embodied in domestic regulations, including foreign investment rules, which are frequently aimed at meeting regulatory objectives.⁶

⁵ In Australia, the services sector accounts for 69 per cent of total foreign investment, with the category 'Finance, property and business services' attracting almost half of all foreign investment. Manufacturing represents only 18 per cent of total foreign investment in Australia. Foreign investment in Australian services industries has grown at double the pace of that in manufacturing.

⁶ Perhaps even more so for services than for merchandise, trade policy and other regulatory objectives are often closely intertwined. Thus, it is frequently difficult in

Such domestic regulations often impose quantitative restrictions and prohibitions. A barrier to trade in services can be any government measure that creates an obstacle to importation (or exportation), including restrictions that raise the price of imported services. Because of their nature, services production and trade tend to be more heavily regulated by governments than goods.

A wide range of impediments affects services trade. Impediments include regulations limiting the establishment of local operations by foreign investors, or excluding foreign suppliers indirectly by requiring certain standards to be met that effectively discriminate against overseas suppliers. Other impediments to services trade are subsidies, both direct and implicit, provided to government-owned firms, rationing of foreign exchange, local content rules and regulatory barriers to market entry which often limit the number of firms which can contest a market, or restrict the nature of their operations (Table G3). They are more regulatory in nature, and hence often less visible, than most impediments to merchandise trade.

Restricting trade in services for protectionist motives is likely to reduce economic efficiency, and hence national welfare. As for goods, real income is increased if a country's resources are allocated to producing those services in which it is relatively most efficient, that is services in which it has a comparative advantage. By opening up domestic markets to imported services, countries improve their productivity and benefit from greater international trade and specialisation. As in merchandise trade, these gains cover not only the static (or allocative) effects but, more importantly, the dynamic effects, such as higher productivity growth, associated with new investment and increased foreign competition. Because production of goods and services is so interdependent, dynamic gains are likely to be greatest where both markets are relatively open.

Efficiencies resulting from services

practice to ascertain the precise goals of government measures restricting services trade. As a result, drawing the line between legitimate domestic regulation and trade barriers per se is usually more complicated for services. Immigration controls, for example, restrict trade in services. Moreover, in most services, consumer protection is widespread, with prudential supervision normally of paramount concern to governments in the financial and banking sectors. However, such objectives are best met by applying neutral policy measures that do not discriminate between sources of supply.

liberalisation will benefit not only consumers, through lower prices and/or other gains, but also producers of final services and goods, in much the same way as liberalisation of product markets.⁷ Trade and investment liberalisation, including in services, can be an effective means of controlling anti-competitive behaviour and ensuring a highly competitive economy.

Cross-border supply is only one, and perhaps the smallest, of the modes of delivery for exchanging services internationally. Services that appear initially to be non-traded may be tradeable, especially if foreign direct investment and the temporary movement of people are recognised as important ways of exchanging services. Liberalising services trade requires governments to cover multiple modes of delivery, including facilitating commercial presence through allowing foreign investment and the temporary movement of people across borders.

Australia, like most other countries, imposes substantial regulatory impediments to imports (and exports) of services. Australia's regulation of air transport, telecommunications and coastal shipping either excludes outright or licenses foreign suppliers, and in many cases, imposes quotas on the services provided by foreigners.⁸ Many of these regulations are in the purview of State Governments.

THE GENERAL AGREEMENT ON TRADE IN SERVICES (GATS)

One of the more significant outcomes of the Uruguay Round was the creation of the GATS under the umbrella of the WTO. This resulted in services being included for the first time within the system of multilateral trading rules, with government policies affecting international trade in services now being subject to worldwide disciplines. Like all other Uruguay Round Agreements (including GATT 1994), the GATS is annexed to the Agreement creating the WTO. All WTO members

⁷ For example, preliminary modelling work has indicated that the effects on national welfare of liberalising services trade will be of the same order of magnitude as the liberalisation of goods achieved in the Uruguay Round, with the inclusion of services liberalisation producing benefits in the production of both goods and services (Brown et al 1995).

⁸ Despite deregulation of Australia's domestic aviation industry, access by foreign carriers remains tightly controlled. In October 1994, the Australian Government decided not to proceed in allowing Air New Zealand to operate domestically, nor to run further international flights through Australia (beyond rights) to those already made effective from 1 November 1994.

accepted GATS as part of the 'single undertaking' outcome.⁹ The GATS applies to both developing and developed countries.¹⁰ While the GATS has extended to services trade some key features applied by GATT to goods, there are important differences (Table G4).

The GATS covers four different modes of supplying services internationally. These are: cross-border supply; consumers moving to another member to consume services overseas, such as tourists travelling abroad; suppliers establishing a commercial presence in another member's market; and temporary movement of people between members. Commercial presence refers to the right of establishment. Although temporary movement of people across borders is covered, members retained the right to regulate labour movements through the discriminatory issue of visas, and controlling access to labour markets.¹¹

The GATS is a complex agreement comprising two central parts which require members to undertake both general and specific commitments (Table G5). First, a framework agreement exists whereby countries have undertaken to apply a set of general obligations and disciplines, across-the-board, to measures affecting trade in services, especially regarding most-favoured-nation (MFN) treatment (Part II). Second, each member has made specific sectoral commitments covering 'national treatment' and 'market access', subject to sector-specific or cross-sectoral qualifications or conditions (Part III). Countries' schedules of specific commitments are attached in an appendix to the Agreement.

⁹ WTO members were required to accept Uruguay Round Agreements as one — previously GATT contracting parties could choose whether to become signatories to the add-on agreements (codes) negotiated during the Tokyo Round. The only exceptions under the WTO which require individual acceptance by members are the plurilateral agreements on Trade in Civil Aircraft and on Government Procurement, as well as the International Dairy Agreement and the International Bovine Meat Agreement.

¹⁰ Unlike the GATT, the GATS requires developing economies to undertake commitments in the same manner as developed countries. However, the GATS permits developing countries to apply certain rules more flexibly, such as the provisions on transparency, economic integration and progressive liberalisation.

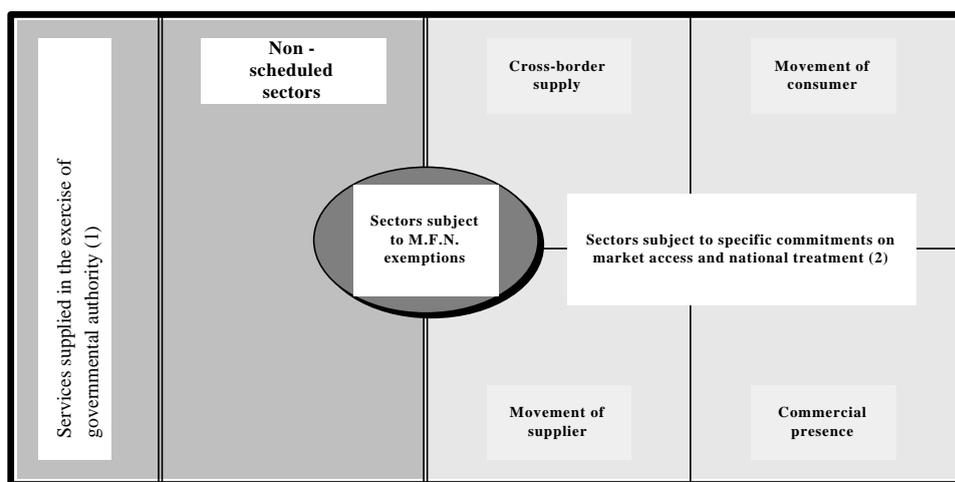
¹¹ GATS Annex on Movement of Natural Persons Supplying Services Under the Agreement. Natural persons may either themselves be service suppliers or be employees of foreign service suppliers. A GATT/WTO Ministerial Decision provides for the creation of a negotiating group to continue work in this area.

COVERAGE

GATS recognises the diverse nature of services and measures affecting their trade. It applies to measures affecting trade in services from any sector (Figure G5). Measures affecting the consumption of services originating in any other member are covered, including laws, regulations, procedures, decisions and administrative action, whether taken at the central, regional or local government level.¹² This is important for members, like Australia, having federal systems where State Governments have substantial powers over matters affecting the provision of and trade in services.

Specifically excluded from the GATS are air landing rights, and services supplied in the exercise of governmental functions.¹³ Another, possibly temporary, major omission in coverage of the GATS is government procurement of services.¹⁴

Figure **Error! AutoText entry not defined.5:** Coverage of the GATS



(1) Excluded from GATS coverage.

¹² Members are required to take reasonable measures to ensure that regional and local governments observe their commitments and obligations, including non-governmental bodies exercising powers delegated by all levels of government.

¹³ This covers any service which is supplied neither on a commercial basis, nor in competition with one or more service suppliers, such as basic infrastructure services.

¹⁴ Government procurement covers the purchase by governmental agencies of services for governmental purposes but not with a view to commercial resale or to use in the supply of services for commercial sale. Multilateral negotiations on government procurement in services are to be held under the GATS within two years.

(2) Subject to terms, limitations, conditions and qualifications as inscribed in members' schedules.

Source: Hoekman and Sauve (1994)

Non-governmental measures and private practices are covered where their existence depends on authority delegated from government. As under the GATT, countries may adopt measures otherwise inconsistent with the Agreement to safeguard public morals, order, health, security, consumer protection and privacy.

Although not binding or exhaustive, services were classified for purposes of administering the Agreement into eleven sectors using the UN classification system.¹⁵

FRAMEWORK AGREEMENT

General commitments applying to all members

Most-Favoured-Nation

The main general obligation extended by GATS to trade in services is the MFN non-discrimination pillar of the GATT. This commitment is applicable to all measures affecting trade in services, and in all sectors, whether or not specific commitments were made. It establishes unconditional MFN treatment and prevents governments from discriminating in any way among foreign countries.¹⁶ Countries wishing to maintain restrictions must do so against all members equally, and any exemption afforded one member must be extended to all others.¹⁷

¹⁵ These are taken from the United Nations' Central Product Classification which formed the basis for countries lodging specific sectoral commitments. The eleven sectors are: business services, including professional services; communication services, including telecommunications and audiovisual services; construction and related engineering services; distribution; educational; environmental; financial, including banking and insurance; health related and social services; tourism and travel services; recreational, cultural and sporting services; and transport services, including maritime, waterways, air and road transport services.

¹⁶ As for GATT, the unconditional MFN obligation extends to all WTO members. Countries may apply non-MFN treatment to non-WTO members.

¹⁷ Emergency safeguard measures based on non-discrimination are to be implemented within 3 years of the start of the WTO. In the meantime, however, members may withdraw or modify specific commitments provided a minimum of one year's notice is given and they can show that the change was necessary before three years.

In contrast to the provisions of the GATT, however, members could exempt certain sectors from MFN treatment.¹⁸ Exemptions had to be lodged by 1 January 1995, and could not be expanded.¹⁹ The deadline for lodging MFN exemptions was extended for basic telecommunications and maritime transport services until end-April and end-June 1996, respectively.²⁰ Negotiations were also extended for financial services, initially to 30 June 1995, but subsequently until 28 July 1995. These negotiations concluded with the United States not participating in the Financial Services Agreement, instead withdrawing financial services from its sectoral commitments, and exempting the sector from MFN treatment. This agreement, due to expire on 1 November 1997, when all countries will again be able to change their offers, enables the United States to extend discriminatory access to its own markets while itself receiving MFN access to other markets. Many governments see this as the US 'free riding' on other countries' MFN commitments.

All MFN exemptions are to be reviewed after 5 years, and 'in principle' should be eliminated within 10 years. These exemptions can only apply in sub-sectors for which there are no specific obligations.²¹ MFN exemptions were lodged by 61 countries, including Australia. Such exemptions are relatively common in sectors covered by bilateral agreements and other

¹⁸ Many countries felt that MFN exemptions were necessary because of what they saw as a 'free rider' problem — namely, that some countries were gaining access to liberal services markets, while themselves maintaining sheltered markets. Thus, the prospect of MFN treatment was used as negotiating coin by some countries to force open relatively closed service markets of other countries through sectoral reciprocity. In this way, GATS permitted members to apply conditional MFN treatment to chosen sectors. The same argument could, of course, have been made in relation to the GATT. The absence of such a provision has facilitated important cross-sectoral liberalising agreements in the GATT.

¹⁹ Any exemptions lodged after the commencement of the GATS require a WTO ministerial waiver under Article IX.

²⁰ These deadlines were agreed as a last minute compromise to prevent countries from invoking MFN exemptions and withdrawing tabled commitments in key sectors. As such, MFN provisions do not currently apply to basic telecommunications and maritime services (except where specific commitments have been undertaken), pending completion of negotiations in these areas.

²¹ What is offered in a country's specific commitments on national treatment and market access must be offered to members without exception, that is on an MFN basis.

arrangements, such as maritime and land transport, audiovisual services, as well as the temporary movement of people.²²

Regional integration

The only other MFN exemptions authorised by GATS are under the regional integration provisions (Article V). These largely mirror GATT (Article XXIV) requirements of substantial sectoral coverage,²³ the elimination of substantially all discriminatory measures among parties and/or the prohibition of new ones, and not raising the overall level of barriers to trade in services to third countries within the respective sectors or sub-sectors. They nevertheless appear weaker than GATT, since the obligation of not raising third country barriers relates to sectors rather than 'substantially all trade' as in the GATT, and a standstill agreement against introducing new barriers may be sufficient to meet the requirements of the schedule.

Transparency and other commitments

Transparency provisions require members to publish all relevant measures of general application affecting trade in services, as well as any international agreements pertaining to or affecting trade in services. Inquiry points are also to be established for disseminating information to foreign service providers, and to notify all new or modified laws, regulations and administrative guidelines at least annually. Members are also required to apply recognition of other members' standards or licensing requirements, such as professional educational requirements, in a non-discriminatory manner and not in a way that would restrict services trade.

²² Many MFN exemptions reflect reciprocal preferential treatment under existing regional agreements. Although audiovisual services were excluded from MFN treatment at the insistence of the Europeans and not covered by scheduled commitments, they are nevertheless covered by the GATS and are to be the subject of future negotiations.

²³ To meet this condition, agreements should not provide for the a priori exclusion of any mode of supply.

Qualification requirements, technical standards and licensing requirements should be based on objective and transparent criteria, be no more burdensome than necessary to ensure the quality of the services and, for licensing procedures, not restrict the supply of the service.²⁴

Members are also obliged to meet other general provisions covering mainly transparency and competitive behaviour, namely:

- Domestic regulations and laws affecting trade in services should be administered in a reasonable, objective and impartial manner (Article VI).
- Public or private monopolies, although permitted, must not act inconsistently with the MFN clause, or with a members' specific sectoral commitments. Moreover, such an entity must not 'abuse its monopoly position' when supplying services subject to specific commitments that are outside the scope of its monopoly rights' (Article VIII).
- Business practices that restrain competition are considered to restrict trade in services, and members are requested to cooperate in the provision of all relevant public information (Article IX).
- Subsidies are recognised as, on occasions, distorting trade in services, and members are to negotiate future multilateral disciplines to avoid such trade-distortive effects, and to address countervailing procedures (Article XV). Unlike the GATT, the GATS contains no anti-dumping provisions.

SPECIAL OBLIGATIONS COVERED BY SCHEDULED COMMITMENTS

The main special obligations contained in the GATS relate to 'market access' and 'national treatment'. These are core commitments of the GATS. They apply only to specific sectors included by individual members in their schedule to the GATS, subject to those qualifications listed.

The country schedules contain, for both market access and national treatment, commitments on a sector-by-sector basis for each of the four modes of services supply. In addition to specific sector commitments,

²⁴ Members' recognition of education, experience and qualifications as criteria for licensing or certification from certain members should offer adequate opportunity to others to negotiate comparable arrangements. Although an exception to MFN is thus created, these arrangements must be kept open to new members.

members have made further limitations (called horizontal commitments) that covered all services sectors contained in the schedule. Horizontal commitments cover mainly laws and general policy measures applicable to all sectors, and in practice mostly contain qualifications related to foreign investment restrictions or limitations on the movement of natural persons (Table G6).

Understanding a members' obligations on services therefore requires both its specific and horizontal commitments to be considered. A typical example of a country's schedule is given in Table G7. The schedules listing specific commitments are a mixture of both 'positive' and 'negative' lists. A positive list specifies those sectors to be covered by the market access and national treatment disciplines, while a negative list specifies those measures retained in violation of these commitments.

Countries have recorded limitations on market access and national treatment for each mode of delivery of the service.²⁵ Where 'none' appears in the schedules, countries have bound themselves not to impose restrictions on market access or national treatment for the relevant services sector. These are similar to binding commitments made in the GATT. Where 'unbound' commitments have been made in their schedules, however, members have placed no limitations on their use of measures violating national treatment or market access. In other words, countries are free in these sectors to maintain existing restrictions and to introduce new ones. Countries also have entered partial commitments whereby market access or national treatment obligations were made subject to certain qualifications.

Members have agreed not to restrict international transfers and payments for current transactions involving services covered by specific sectoral commitments, unless authorised to safeguard serious difficulties in the balance of payments under Article XII. The provisions mirror those of the GATT (Articles XII and XVIII).

Market access commitments (Article XVI)

Market access, although not defined in the GATS, requires each member to give foreign service suppliers treatment 'no less favourable' than the terms and conditions specified in its schedule. For scheduled services, six

²⁵ Members were also permitted to negotiate additional sectoral commitments, such as inscribing in their schedules matters of professional qualifications, standards or licensing. However, little use of this option was made in the Uruguay Round. Australia, for example, entered no additional commitments.

specified categories of quantitative measures which would restrict market access are prohibited.

These measures are restrictions which limit: (i) the number of service suppliers; (ii) the total value of service transactions or assets; (iii) the total number of service operations; and (iv) the total quantity of service output or the total number of people that may be employed. ²⁶ Although these are similar to GATT Article XI prohibitions on the use of import and export quotas on goods, the GATT covers all goods, while this article of the GATS covers only scheduled services.

National treatment commitments (Article XVII)

National treatment requires foreign service suppliers to be granted treatment 'no less favourable' than that accorded domestic service suppliers. National treatment covers all restrictions discriminating between domestic and foreign suppliers, other than those relating to market access.

The GATT proscribes (subject to exceptions) all non-tariff barriers on all goods as violating national treatment. However, as a form of discrimination against foreign suppliers, it 'legitimises' tariffs as an exception. In contrast, GATS applies national treatment only to scheduled sectors. In other sectors, any form of barrier is permitted so long as it does not discriminate among foreign suppliers. National treatment is thus negotiated in GATS as part of sectoral commitments.

OVERVIEW OF SPECIFIC COMMITMENTS

Sectoral commitments under GATS were made by 106 members, comprising 25 developed countries, 76 developing economies and five economies in transition (Table G8). Although no single sector was excluded, substantial variation exists between countries in the sectoral coverage of commitments in each group. The highest number of country commitments was found in tourism and travel, while the least was in audiovisual, basic telecommunications and transportation. Only five countries made commitments covering more than 100 sectors, while 28 countries made commitments on 10 or fewer services sectors (Table G9). Australia was in the second largest group, making commitments on between 81 and 100 sectors.

²⁶ These measures cover numerical quotas, monopolies, exclusive services suppliers and the requirements of an economic needs test.

Looking more closely at specific commitments, sectoral limitations are generally low in the modes of cross-border supply and consumption abroad. Most countries readily permit consumption of services by residents overseas. Limitations are not as low for commercial presence and presence of persons, especially when account is taken of the fact that many limitations on these modes are listed as horizontal commitments. Moreover, the coverage ratio of scheduled sectors varied substantially across members, averaging 53 and 30 per cent, respectively, for developed and large developing countries (Table G10).

STRUCTURAL LIMITATIONS OF THE GATS

The GATS represents a landmark achievement in establishing multilateral disciplines under the WTO which have enabled countries internationally to bind their current policies on trade in services. In addition to general MFN commitments, subject to certain exemptions, countries have lodged substantial sectoral commitments covering market access and national treatment. The GATS, by establishing multilateral rules (including transparency provisions) on liberalising services trade and creating what, in effect, is a partial register of the main barriers used by members to restrict trade in many important services sectors, has substantially improved transparency and will facilitate trade in services.

In its current form, however, the GATS only limits the introduction of more restrictive measures in certain sectors. It contains very limited commitments to liberalise barriers restricting services trade, though the preamble to the GATS, as for the GATT, sees progressive liberalisation through successive rounds of multilateral negotiations as an objective. Countries bound their exceptions to national treatment and market access for certain nominated sectors, thereby undertaking not to apply or introduce any measures in those sectors that would contravene these obligations. Many other services sectors, however, were either not included by members in their schedules at all, or were scheduled subject to 'unbound' commitments, meaning that members are free to maintain existing restrictions and/or introduce new ones.

The main achievement of GATS so far is as a means of curtailing the growth of restrictions on trade in services, and providing a framework or a mechanism to promote future liberalisation. Successive negotiations, starting within 5 years, are intended to liberalise progressively sectoral exceptions to national treatment and market access.

Despite these significant results, GATS contains several structural limitations. These risk undermining its potential usefulness as a platform for expanding the coverage of bindings, and inducing substantial multilateral liberalisation of services markets. GATS at this stage has imposed few limitations on national policies, and ample scope still exists for countries to adopt trade-restricting policies in services that are inconsistent with economic efficiency.

Major structural weaknesses in the GATS include inadequate transparency, its sector-specificity, the limited number of generic rules, and the basis (or modalities) of scheduling.

Transparency inadequacy

The GATS, while recognising the importance of improved transparency, contains some rather opaque features. The scheduling arrangements, based on positive lists of sectors concerned, fail to provide a comprehensive cross-country inventory of measures restricting trade in services. Many sensitive services sectors where restrictions and discriminatory practices abound have been left out of the country commitments. A negative list would have made a far greater contribution to transparency by providing an exhaustive country-specific inventory of non-conforming measures. Improved transparency is especially important in services where, by their nature, restrictions are less visible, being largely regulatory barriers operating at both the national and sub-national levels.

A negative schedule which noted only restrictions to trade in services, though much longer, would have been easier to read than a positive list. Understanding and evaluating the GATS schedules is complicated, and requires substantial knowledge of the sectors concerned. Moreover, the degree of transparency varies across individual countries' schedules. Some members provided substantial detail on exceptions, while others simply noted limitations without giving information on laws etc. Many schedules are vague and subject to ambiguity, especially concerning areas of overlap between commitments on national treatment and market access.

Sector-specificity

In sharp contrast to the GATT, which largely avoided commitments being made on a sectoral basis, the GATS is driven by sector-specific commitments. This is likely to increase greatly the importance of sectoral

reciprocity negotiations (as has already occurred in financial services, audiovisual, telecommunications, and other areas). This discourages cross-sectoral trade-offs and inhibits the exercise of negotiating pressure from those with production interests outside a particular sector. Moreover, such negotiations could be used to prevent countries from adding other sectors to their scheduled commitments. The heavy emphasis of GATS on sectoral commitments, while at the same time providing a rather weak general framework for ensuring future MFN liberalisation, is a major shortcoming of GATS.

The positive scheduling of sectors is likely to hinder future negotiations aimed at liberalising trade in services. New services are not explicitly mentioned, and thereby are automatically excluded from specific commitments. Countries are also free to maintain existing restrictive measures and to introduce new ones in scheduled and unscheduled sectors, unless they are specifically covered by bound commitments. A negative listing of sectors closed or restricted to international competition would have promoted future openness by accelerating the liberalisation of new services, and assuring firms that all other sectors, except those listed, would remain open.²⁷

The limited number of generic rules

While the GATT generally establishes for goods the fundamental right of national treatment for foreign suppliers, under the GATS, national treatment is only extended to those sectors scheduled.²⁸ The same applies to market access which, not being defined in the GATS, prohibits only the use of specific measures. This enables other measures to be applied with similar effects. Moreover, the general MFN commitment under the GATS is subject to exemptions.

²⁷ It is interesting to note that the North American Free Trade Agreement (NAFTA), like CER, contains a negative list of services sectors exempt from the arrangements. This differs to the US-Canada Free Trade Agreement which specified a positive list of services sectors covered by the arrangement.

²⁸ It has been suggested that national treatment should have been made a general obligation in the GATS, even if this necessitated permitting certain measures, such as differential taxes on imported services, that would reduce foreign suppliers' ability to contest domestic markets. See, for example, Deardorff (1994) and Snape (1994). Such an approach would be consistent with the GATT which, although making national treatment a general obligation for goods, nevertheless does 'legitimise' the imposition of tariffs on imports.

Combining a positive list approach with specific commitments may have the perverse effect of encouraging countries to adopt and list prohibitive measures in non-bound sectors to be used as coin in future negotiations.

The basis (modalities) of scheduling

Singling out sectoral commitments according to particular modes of supply may have both desirable and undesirable consequences. By including both trade and investment modes of delivery, this approach, in principle at least, may limit the use of alternative restrictive measures across substitutable modes. However, the effectiveness of the GATS in achieving this is reduced considerably by the somewhat modest nature of the scheduled commitments, and the little consistency that exists between commitments across different modes of delivery for particular services (Snape 1995). Moreover, singling out all modes of delivery may bias countries towards relying more on certain, less desirable, modes (Hoekman 1995). Greater reliance on measures limiting commercial presence, for example, may be used by members to discourage inward foreign direct investment.

AUSTRALIA'S COMMITMENTS UNDER THE GATS

Meeting Australia's GATS commitments as they currently stand will require little or no liberalisation of Australia's international trade in services. The high proportion of Australia's production covered by 'unbound' commitments leaves it free to maintain existing restrictive measures and/or to introduce new ones over most of its services production. These commitments may possibly be interpreted as implying that many of Australia's services industries are already assisted by substantial barriers against foreign services.

Of course, Australia can continue to reform its services industries unilaterally in order to encourage domestic economic efficiency. These efforts should be complemented with multilateral attempts by Australia to ensure that future negotiations under GATS become an effective means of liberalising world trade in services. Australia could accord a high priority to extending the coverage of its GATS bound commitments to 'lock in', internationally, unilateral reforms in remaining highly regulated services, such as basic or standard telecommunications and coastal shipping. The results of the ongoing GATS negotiations in these two areas will be important.

MFN EXEMPTIONS

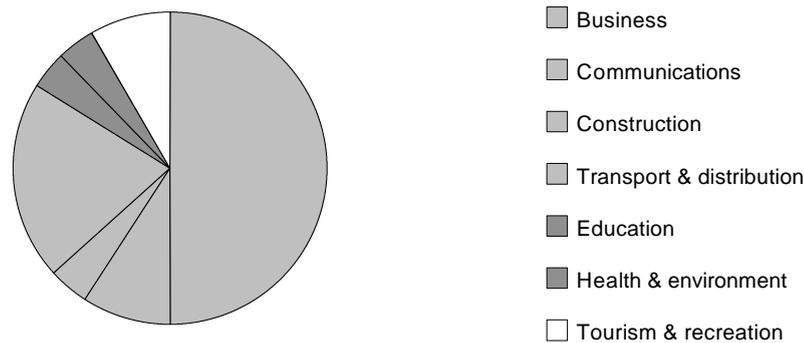
As at 1 January 1995, Australia had submitted three MFN exemptions affecting audiovisual and financial services. Two exemptions of unlimited duration related to audiovisual services. With these exemptions, Australia may use measures in response to 'unreasonable' unilateral measures imposed by other members on its audiovisual exports; and can extend preferential treatment to some members, currently Italy, UK, Canada and France, under film and television co-production arrangements which confer national treatment for eligible works. These arrangements are maintained to promote collaborative efforts between Australian and foreign film producers and general cultural links. Australia's third MFN exemption allows foreign access to its stock exchanges to be made conditional on Australian firms receiving reciprocal access to foreign exchanges on similar terms and conditions.

SECTORAL COMMITMENTS

As indicated above, Australia made a substantial number of sectoral commitments under the GATS. On a simple count of commitments in services activities, it was ranked within the top 10 countries. Australia scheduled 90, or 58 per cent, of the total services categories defined in the United Nations' Central Product Classification (Table G10). Many of Australia's main services sectors were excluded outright from Australia's GATS schedule of specific commitments (Table G11). These included: all communications, except high value-added telecommunications, including postal and courier services; transport services, such as coastal shipping, air, rail, space and certain road transport; primary and adult educational services; certain health, including hospital, services; and entertainment.

Of Australia's total number of sectors scheduled under both market access and national treatment commitments, 62 per cent were bound as having no limits on market access, and 71 per cent for national treatment. Business services were by far the main area where Australia bound itself to providing unhindered market access or national treatment (Figure G6). Other areas include certain narrow segments of transportation, such as maritime and non-maritime freight forwarding, and high value-added telecommunications, such as electronic mail, voice mail and electronic data interchange.

Figure Error! AutoText entry not defined.6: Australia's scheduled 'bound' commitments, by sector (per cent of total sectoral commitments)



Source: GATS (1994)

Australia also made substantial horizontal limitations that override sectoral commitments on market access and national treatment. These are inscribed at the beginning of its schedule of sectoral commitments, and represent additional limitations applied to all scheduled sectors. For Australia, as for other members, they mainly cover foreign investment and the temporary movement of people. Australia's commitments to market access, for example, are subject to notification and examination under Australia's foreign investment policy guidelines and the *Foreign Acquisitions and Takeovers Act 1975*. Moreover, national treatment after establishment is subject to Australia's foreign investment policy guidelines.

Production coverage

It is estimated that the sectors included in Australia's schedule of sectoral commitments cover in total three-quarters of its gross value of output of services, equivalent to \$414 billion in 1989–90.²⁹ About one-quarter of

²⁹ This figure, taken from the input-output statistics, represents the total sales value of services. The sales value includes value-adding inputs (such as labour and capital) and intermediate goods and services used in production. It cannot be compared with GDP which includes only value-adding factors.

domestic services production is therefore excluded from specific commitments.³⁰ This includes the production of air transport services which were specifically excluded from the GATS.

Moreover, a large number of Australia's scheduled commitments are unevenly spread across its services production. Most of Australia's GATS commitments to provide unhindered market access and/or national treatment are found in services sectors accounting for a relatively small share of domestic production. Such bound commitments cover just over an estimated one-quarter of Australia's production in scheduled services, mostly covering the areas of business services, high value-added telecommunications, wholesale trade, sporting services and freight forwarding services (Table G12). The other services sectors included in Australia's schedule represent some three-quarters of its production of scheduled services. For these services, Australia is free to maintain existing measures and/or to introduce new limitations to market access or national treatment because it has only made 'unbound' (or conditional) commitments. Moreover, many of those areas covered by bound commitments are also subject to horizontal limitations.

Revealed openness

A major problem in analysing the domestic economic effects of Australia's impediments in services trade is the great paucity in data on the measures and degree to which particular service markets are restricted. Unfortunately, the GATS provides only limited additional information on Australia's impediments to services trade.

One possible way of interpreting GATS schedules is to see what they may imply about a country's revealed openness (Hoekman 1995, Hoekman and Braga 1995).³¹ That is, Australia's schedule of GATS sectoral commitments could be interpreted as revealing which of its services markets are more likely to be relatively closed. While sectors for which Australia made bound commitments are relatively open, considerable

³⁰ Australia's sectoral commitments to the GATS were matched with Australia's services production figures. This analysis was made difficult by the inadequate disaggregation in production statistics currently available in Australia on services. Production figures for services were derived from the input-output statistics which are based on a different classification of services to the UN's CPC system used in the GATS. Moreover, the most recent input-output statistics available in Australia are for 1989-90. Figures for 1990-91 are to be released by the ABS in 1996.

³¹ For a comparison of this type of revealed openness analysis across APEC economies based on individual GATS schedules, see APEC (1995).

uncertainty surrounds the relative openness of those sectors made subject to unbound commitments. Unbound commitments leave open the possibility that Australia may maintain significant barriers to foreign competition in these sectors. One important means of improving the future effectiveness of GATS would be to eliminate any 'water' between the existence of barriers and members' actual commitments, by members ensuring that unbound commitments are only retained in areas where substantial barriers to foreign competition exist.

Thus, around half of Australia's production of scheduled services appears to be located in areas where considerable uncertainty exists as to their degree of openness. Services falling into this category include mainly construction, retailing, road transportation, repair and maintenance of aircraft, international maritime transport and maritime storage and warehousing, secondary and tertiary education, accounting, legal and real estate services, insurance, banking, travel operators and hotel accommodation. The extent, if any, to which foreign trade in these services is impeded remains unclear, and some areas would appear to be relatively open even though they were included in Australia's unbound commitments.

An added area of uncertainty includes those major services, estimated to amount to one quarter of Australia's services production, excluded from Australia's GATS commitments. Although their exclusion by Australia from commitments does not necessarily imply high existing trade barriers in these areas, this is known to be the case for some industries. A good example is Australia's coastal shipping industry which, despite the introduction of single voyage permits for foreign ships on coastal trades, remains heavily protected in favour of Australian-licensed vessels under cabotage policies.

It is important for Australia's efficiency that any regulatory and other barriers to foreign suppliers of these services be publicly scrutinised to ensure that they are not operating as unnecessary impediments to Australia's importation of services.

Table 11: World trade in commercial services for selected regions and countries, 1980 and 1992

	1980		1992		Average annual change in values per cent
	Value \$US billion	Share per cent	Value \$US billion	Share per cent	
WORLD	375	100	960	100	8.1
North America	43.6	11.6	179.7	18.7	12.5
– Canada	7.1	1.9	16.5	1.7	7.3
– United States	36.5	9.7	163.2	17.0	13.3
Latin America	19.5	5.2	38.8	4.0	5.9
Western Europe	226.7	60.4	522.9	54.5	7.2
– France	43.0	11.5	103.1	10.7	7.6
– Germany	30.4	8.1	67.1	7.0	6.8
– Italy	21.2	5.7	62.8	6.5	9.5
– United Kingdom	34.3	9.1	56.1	5.8	4.2
Africa	13.7	3.7	23.0	2.4	4.4
Middle East	12.9	3.4	17.2	1.8	2.5
Asia	52.7	14.0	164.2	17.1	9.9
– Australia	4.1	1.1	10.6	1.1	8.3
– China ^a	2.6	0.7	9.1	0.9	13.6
– Chinese Taipei	2.1	0.6	10.6	1.1	14.3
– Hong Kong ^a	4.4	1.2	18.4	1.9	12.7
– Japan	18.9	5.0	49.6	5.2	8.4
– Korea, Rep.	4.5	1.2	12.8	1.3	9.1
– Singapore	6.0	1.6	18.2	1.9	9.7
– Thailand	1.7	0.5	9.0	0.9	14.7

a As data for 1980 were not available, data for 1982 were used. Data cover both exports and imports.

Source: Low (1995)

Table 12: Composition of world commercial services exports in 1980 and 1992

	<i>Value \$US billion</i>		<i>Share in exports of commercial services per cent</i>		<i>Average annual change per cent</i>
	<i>1980</i>	<i>1992</i>	<i>1980</i>	<i>1992</i>	
Transportation	140	253	37	26	5.0
– Shipment	63	105	17	11	4.3
– Passenger transport	19	54	5	6	9.3
– Other transportation	59	94	16	10	4.0
Travel	99	285	26	30	9.2
Other private services and income	135	423	36	44	10.0
Commercial services	375	960	100	100	8.1

Source: Low (1995)

Table 13: Typology of main barriers to worldwide trade in services

<i>Service/sector</i>	<i>Obstacles</i>			
	<i>Establishment/market access</i>	<i>Operations</i>	<i>Competition</i>	<i>Other</i>
Banking	Prohibition on establishment other than of representative offices or branches; restrictions on takeovers of domestic banks, equity or other controls	Discriminatory reserve requirements, capital asset ratios, taxation; discriminatory application of regulations	Limitations on government deposits, services offered; prohibition on access to guaranteed export credit, central bank re-discount facilities; restrictions on asset acquisitions and local retail banking	Foreign exchange controls, personnel restrictions, controls over trans-border data flows
Insurance	Prohibition of access by foreign insurers; discriminatory licensing procedures; mandatory local incorporation	Discriminatory deposit and capital requirements and taxation of foreign insurers	Government procurement policies; encouragement/requirement of insurers to insure with domestic companies; exclusion of foreign insurers from trade associations; restrictions covering international insurance transactions favouring domestic insurers, eg reinsurance and imports	Restrictions on remittances; personnel restrictions
Construction	Restrictions on form of market access	Discriminatory subsidies and taxation	Government procurement and local content policies; technical standards	Personnel restrictions; exchange controls

Table 14 (continued)

<i>Service/sector</i>	<i>Obstacles</i>			
	<i>Establishment/market access</i>	<i>Operations</i>	<i>Competition</i>	<i>Other</i>
Air transport	Regulation of routes; preferences to national carriers; access to reservation systems	Discriminatory user charges, taxation and subsidies for domestic carriers	Preferential ground handling facilities; limitations on airport terminal space	–
Shipping	Cabotage, cargo sharing and reservation; prohibition on establishment of foreign shippers	Discriminatory taxation and fee rebates; subsidies to domestic shippers	Extensive documentation and loading delays; importation standards	–
Telecommunications and information	Prohibition of majority shareholding in foreign subsidiaries	Regulations on privately secured equipment to the public network; requirement to process and store information domestically	Limitations on services provided by foreign firms; preferential tariff policies; discriminatory technical standards	Prohibition/discouragement/taxation of trans-border data flows
Tourism (including hotel accommodation)	Restrictions on ownership and equity holdings	Tariff and import restrictions	Discriminatory taxes	Personnel restrictions; exchange controls; restrictions on travellers, eg visa, documentation controls, customs regulations

Table 15 (continued)

<i>Service/sector</i>	<i>Obstacles</i>			
	<i>Establishment/market access</i>	<i>Operations</i>	<i>Competition</i>	<i>Other</i>
Professional (accountancy, legal and medical)	Restrictions on rights of establishment	Discriminatory taxation; problems of having qualifications of non-nationals recognised and obtaining local qualifications; local ownership requirements; subsidies to local health care firms	Restrictions on: using international firm names; scope of activities; forming partnerships	Exchange controls (remittance of income)
Advertising	Limitation on foreign content of advertising	Local ownership requirements; discriminatory firm licensing	Prohibition of foreign-produced broadcast material; government procurement policies	Exchange controls (remittance of fees and profits)
Film and television	Controls on establishment	Subsidies to domestic film industry	Obligations to sub-title and process locally; restrictions on distribution; screen-time quotas and import restrictions	

– Nil.

Source: Peat, Marwick, Mitchell and Company (1986)

Table 16: Key features of the GATT and GATS

<i>Key features</i>	<i>GATT</i>	<i>GATS</i>
Most-favoured-nation (MFN) treatment ie non-discrimination between members, so that all members are treated equally	Exists unconditionally for WTO members, without exceptions.	Exists for WTO members, but conditional MFN applied to ‘one-off’ sectoral exemptions (Article II) lodged by 1 January 1995. MFN obligation suspended for maritime transport and basic telecommunications, pending on-going negotiations, to finish by end-April and end-June 1996, respectively. MFN treatment extended to financial services by all members, except by the United States.
National treatment, ie imports to be provided treatment ‘no less favourable’ than domestic production	Exists as a general obligation for all goods, but tariffs are a ‘legitimised’ exception. Tariff bindings negotiated for specific goods using a ‘positive list’. Non-tariff barriers (subject to use under exceptional circumstances) are proscribed as violating national treatment. Exceptions and waivers have exempted certain sectors, mainly agricultural and clothing and textiles, from national treatment by many countries.	Covers only sectors scheduled by members, and subject to ‘bound’ commitments not to violate national treatment.
Market access, ie foreign suppliers to receive treatment ‘no less favourable’ than domestic producers	Exists as a general obligation — the use of quantitative restrictions is prohibited on all goods (Article XI). Limited by tariffs.	Covers only services sectors scheduled by members. Six specified categories of quantitative restrictions which would restrict market access are prohibited for these sectors.
Coverage	Addresses only trade in goods and has little to say regarding foreign investment.	Addresses trade, investment and movement of people for services by covering commercial presence and temporary presence of persons as modes of delivery.

Table G4 (continued)

<i>Key features</i>	<i>GATT</i>	<i>GATS</i>
Regional integration	Allowable exception to MFN arrangements provided they cover ‘substantially all trade,’ are phased in within a ‘reasonable time’ (now defined as 10 years), and involve no increase in external barriers to non-participants (Article XXIV).	Allowable exception to MFN treatment provided they have ‘substantial sectoral coverage’, eliminate substantially all discriminatory measures among parties and/or prohibit the introduction of new ones, and do not raise the overall level of barriers to services trade to third countries within the respective sectors. These requirements appear weaker than the GATT, since: (i) obligation of not raising barriers to third countries relates to sectors; and (ii) standstill agreement against introducing new barriers may be sufficient.
Commitments to liberalisation	GATT 1994 contains major commitments by members to liberalise goods trade, to eliminate so-called ‘grey area’ measures (such as voluntary export restraints), and to control distortive agricultural policies, including tariffication of non-tariff barriers, reduction of agricultural tariffs, export subsidies and certain domestic support arrangements. Commitment not to introduce such new measures. High level of tariff bindings. Preamble endorses progressive liberalisation.	Contains no commitments to liberalise trade in services, but a limited standstill agreement — countries committed not to introduce new measures violating national treatment or market access in those sectors scheduled with ‘bound’ commitments. For other sectors, either not scheduled or scheduled subject to ‘unbound’ commitments, members can maintain, or introduce, measures violating market access and national treatment. Members committed to successive negotiations, commencing within five years, aimed at progressive liberalisation of barriers to services trade. Preamble endorses progressive liberalisation.

Table G4 (continued)

<i>Key features</i>	<i>GATT</i>	<i>GATS</i>
Provisions relating to developing countries	Concept of 'special and differential treatment' extends to developing countries' special concessions and exemptions, including relief from meeting certain obligations.	Developing members integrated into GATS by applying no 'special and differential treatment'. Developing members required to make similar commitments to developed countries, but may implement certain rules more flexibly, such as those on transparency, regional integration and progressive liberalisation.
Emergency safeguard measures	These may be applied when it can be shown that imports have increased to such an extent as to cause, or threaten to cause, serious injury to the domestic industry.	These measures do not currently exist, although GATS calls for such non-discriminatory measures to be implemented within three years. Until then, members can withdraw any specific commitment after one year.
Dumping and countervailing action	Anti-dumping action can be taken against 'dumped' imports where it can be shown that they are causing, or threaten to cause, material injury to the domestic industry. Countervailing duties can be levied to offset for certain bounties or subsidies bestowed on the manufacture or export of any merchandise by the exporting country.	Members have agreed to enter into negotiations to address the appropriateness of countervailing procedures. No anti-dumping provisions.

Source: Distilled from the GATT 1994 and GATT (1994b)

Table 15: The structure of the GATS

Scope and definitions	I: All services, all measures and modes of supply <ul style="list-style-type: none"> • cross-border trade • consumer mobility • commercial presence • producer mobility 	
	XXVIII: Definitions	
Base rules	General requirements	Specific requirements
	II: Most-Favoured-Nation	XVI: Market access
		XVII: National treatment
		XVIII: Additional obligations
Exceptions to base rules	V: Integration	IV: Developing countries
	Vb: Labour integration	
	VII: Recognition*	
	XIII: Government procurement	
	XIV: General exceptions*	
Support rules	Transparency of measures	Progressive liberalisation
	III: Transparency	XIX: Negotiations
	IIIb: Confidential information	XX: Lists
		XXI: Modifications of lists*
	Transparency of competition policies	
	VI: Domestic regulations	
	VII: Recognition*	
	VIII: Monopolies	
	IX: Commercial practices	
	XI: Payments and transfers	
	XV: Subsidies	
Consultations and disputes		XXII: Consultation
		XXIII: Dispute settlements
		XXIV: GATS Council
		XXV: Technological co-operation
		XXVI: Other organisations
Safeguards	X: Emergency safeguards	XXI: Modification of lists*
	XII: Balance of payments	XXVII: Refusal
	XIV: General exceptions*	
	XIVb: Security exceptions	

* Double entry.

Source: OECD (1995a)

Table 16: Summary of members' horizontal commitments in the GATS

<i>Market access</i>	<i>Number of schedules</i>	<i>National treatment</i>	<i>Number of schedules</i>
A. Covering commercial presence			
Total	87	Total	87
Unbound	1	Unbound	1
No limitations	31	No limitations	18
With limitations	55	With limitations	68
Authorisation subject to an economic needs test ^a	10	Taxation	11
Legal entity	25	Eligibility for subsidies	28
Ceilings on foreign equity participation	20	Purchase of real estate	41
		Nationality requirements for directors	8
		Access to local finance	6
B. Covering presence of natural persons			
Total	87	Total	87
Entry of natural persons is subject to:		Unbound	2
An economic needs test	14	No limitations	50
A quota	3	With limitations	35
Binding for intra-corporate transferees of which:	70	Taxation	6
Only for senior personnel ^b	66	Eligibility for subsidies	23
Subject to an economic needs test	11	Purchase of real estate	8
Subject to quota	14	Other	2

a Subject to conditions ranging from national interest, job creation, technology transfer or training of nationals.

b Executives, managers and specialist.

Source: GATT (1994c)

Table 17: Format and example of a schedule of specific commitments

<i>Commitments</i>	<i>Mode of supply</i>	<i>Conditions and limitations on market access</i>	<i>Conditions and qualifications on national treatment</i>
Horizontal commitments (ie across all sectors)	Cross-border supply	'None'	eg 'None' other than tax measures that result in differences in treatment with respect to R&D services
	Consumption abroad	'None'	'Unbound' for subsidies, tax incentives, and tax credits
	Commercial presence (FDI)	eg 'Maximum for foreign equity stake is 49 per cent'	eg 'Unbound' for subsidies. Under Law x, approval is required for equity stakes over 25 per cent; new investment that exceeds y million.
	Temporary entry of natural persons	eg 'Unbound' except for the following: intra-corporate transferees of executives and senior managers; specialist personnel for up to one year; specialist personnel subject to economic needs test for stays longer than one year; service sellers (sales people) for up to three months	eg 'Unbound' except for categories of natural persons referred to in the market access column
Specific commitments: eg I.A.d. Architectural services	Cross-border supply	eg 'Commercial presence required'	eg 'Unbound'
	Consumption abroad	eg 'None'	eg 'None'
	Commercial presence (FDI)	eg '25 per cent of senior management should be nationals'	eg 'Unbound'
	Temporary entry of natural persons	eg 'Unbound, except as indicated in horizontal commitments'	eg 'Unbound, except as indicated in horizontal commitments'

Source: Hoekman (1995)

Table 18: Commitments within subsectors^a (number of countries)^b

	<i>DC</i>	<i>LDC</i>	<i>Trans- s- ition</i>	<i>Total</i>		<i>DC</i>	<i>LDC</i>	<i>Trans- ition</i>	<i>Total</i>
Maximum	25	76	5	106					
1. Business					Wholesale trade	25	8	4	37
Professional	25	37	4	66	Retailing	24	7	2	33
Computer	25	34	4	63	Franchising	23	5	2	30
R&D	22	15	3	40	Other	2	0	0	2
Real estate	23	3	0	26	5. Education				
Rental/leasing	25	13	3	41	Primary	18	5	4	27
2. Communication					Secondary	19	5	4	28
Postal	0	3	0	3	Higher	18	4	4	26
Courier	4	15	3	22	Adult	18	1	4	23
Telecom	4	18	3	25	Other	3	2	2	7
– basic	2	16	3	21	6. Environment				
– value-added	25	22	5	52	Sewerage	23	7	2	32
Audio-visual	2	11	0	13	Refuse disposal	24	7	3	34
Other	6	0	6	12	Sanitation	23	5	3	31
3. Construction					Other	24	6	1	31
Buildings	24	21	3	48	7. Financial				
Civil engineering	24	20	3	47	Banking	25	37	4	66
Installation & assembly	24	19	3	46	Other	0	0	0	0
Completion & finishing	23	13	3	39	8. Health				
Other	20	15	2	37	Hospital	14	14	1	29
4. Distribution					Other human health	2	4	0	6
Commission agents	22	2	0	24	Social	13	1	0	14

Table G8 (continued)

	<i>DC</i>	<i>LDC</i>	<i>Tran- s- ition</i>	<i>Total</i>		<i>DC</i>	<i>LDC</i>	<i>Trans- ition</i>	<i>Total</i>
9. Tourism and travel					11. Transport				
Hotels and restaurants	25	68	4	97	Maritime transport	5	26	1	32
Travel agencies, tour operators	25	53	4	82	Internal waterways	2	2	3	7
Tourist guides	23	21	2	46	Air	23	17	3	43
Other	1	13	0	14	Space	2	0	0	2
10. Recreational, cultural, sporting					Rail	19	5	3	27
Entertainment	17	16	1	34	Road	25	15	3	43
News agency	22	0	0	22	Pipeline	3	1	1	5
Libraries, archives, museums	4	3	0	7	Auxiliary services	21	15	1	37
Sporting	21	16	1	38	Other	14	6	0	20
Other	1	1	0	2					

a The three country groups are developed countries (DC), developing economies (LDC) and transition economies.

b The figures count the 12 members of the European Union individually.

Source: Low (1995)

Table 19: Number of commitments on service activities of GATS participants

More than 100	Austria, European Union, Japan, Switzerland, United States
Between 81 and 100	Australia, Canada, Czech Republic, Hungary, Iceland, Norway, Slovak Republic, Sweden
Between 71 and 80	Finland, Hong Kong, Republic of Korea, Liechtenstein, New Zealand, South Africa, Thailand, Turkey
Between 61 and 70	Dominican Republic, Malaysia, Mexico
Between 51 and 60	Argentina, Poland, Singapore, Venezuela
Between 41 and 50	Brazil, Colombia, Israel, Kuwait, Morocco, Nicaragua, Philippines, Romania
Between 31 and 40	Chile, Cuba, Pakistan, Ghana, India, Jamaica
Between 21 and 30	Aruba, Brunei Darussalam, Egypt, El Salvador, Kenya, Macau, Netherlands Antilles, Nigeria, Peru, Senegal, Uruguay
Between 11 and 20	Antigua & Barbuda, Benin, Costa Rica, Cote d'Ivoire, Gabon, Guatemala, Guyana, Honduras, Mauritius, Mozambique, Trinidad & Tobago, Tunisia, Zambia, Zimbabwe
Between 1 and 10	Algeria, Bahrain, Bangladesh, Barbados, Belize, Bolivia, Burkina Faso, Cameroon, Congo, Cyprus, Dominica, Fiji, Grenada, Indonesia, Madagascar, Mozambique, Malta, Myanmar, Namibia, New Caledonia, Niger, Saint Lucia, Sri Lanka, St. Vincent and the Grenadines, Suriname, Swaziland, Tanzania, Uganda

Source: Low (1995)

Table G9: Specific sectoral commitments

<i>Countries</i>	<i>Total no. of commitments^a</i>	<i>Share of commitments in relation to all sectors</i>	<i>Share of commitments with no market access (MA) limitations</i>	<i>Share of commitments with no national treatment (NT) limitations</i>	<i>Share of commitments without MA or NT limitations in relation to all sectors</i>
		<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>
High income countries		53.3	56.4	65.1	28.0
Large developing countries ^b		29.6	36.7	49.3	10.0
All other countries		15.1	47.3	60.4	6.4
High income countries					
Australia	360	58.1	61.7	71.4	35.3
Austria	412	66.5	68.7	69.7	43.2
Canada	352	56.8	52.8	62.5	29.0
EU	392	63.2	43.1	59.4	26.3
Finland	328	52.9	61.6	96.7	32.1
Hong Kong	200	32.3	45.0	20.5	5.0
Japan	408	65.8	56.4	48.8	25.0
Korea	311	50.2	43.1	60.1	21.5
Mexico	252	40.7	31.4	49.2	12.6
New Zealand	276	44.5	68.2	65.9	26.8
Norway	360	58.1	58.3	65.8	32.9
Singapore	232	37.4	50.9	65.5	18.6
Sweden	320	51.6	67.2	67.8	33.4
Switzerland	400	64.5	61.8	62.8	38.9
Turkey	276	44.5	60.9	77.2	24.8
USA	384	61.9	63.5	84.4	35.2

Table G10 (continued)

<i>Countries</i>	<i>Total no. of commitments</i>	<i>Share of commitments in relation to all sectors</i>	<i>Share of commitments with no market access (MA) limitations</i>	<i>Share of commitments with no national treatment (NT) limitations</i>	<i>Share of commitments without MA or NT limitations in relation to all sectors</i>
		%	%	%	%
Large developing countries^b					
Argentina	208	33.6	65.4	65.4	21.9
Brazil	156	25.2	12.2	17.3	2.7
Chile	140	22.6	25.7	34.3	5.8
China	196	31.6	21.4	27.6	6.0
Colombia	164	26.5	37.8	37.8	10.0
India	132	21.3	7.6	23.5	1.6
Indonesia	140	22.6	30.0	21.4	4.5
Israel	180	29.0	50.0	50.6	14.4
Malaysia	256	41.3	39.1	64.9	14.5
Pakistan	108	17.4	27.8	35.2	4.8
Philippines	160	25.8	63.8	90.0	14.7
Poland	212	34.2	37.3	77.4	12.7
South Africa	288	46.5	52.1	63.2	24.0
Thailand	260	41.9	22.7	50.8	9.4
Venezuela	156	25.2	34.0	34.0	8.6

a The total number of commitments is counted as the number of service activities multiplied by the number of modes in respect of which commitments have been made. Thus, the maximum number of possible commitments is 620 (155 activities times 4 modes of supply).

b Large developing countries are classified as those with GDP of \$US40 billion which do not fall into the high income group.

Source: Hoekman (1995)

Table G11: Services sectors excluded from Australia's GATS commitments

<i>GNS sector</i>	<i>Subsector</i>
1. Business services	landscape architectural services medical services services provided by midwives, nurses, physiotherapists and para-medical personnel data base services R&D services on natural sciences interdisciplinary R&D services technical testing and analysis services services incidental to manufacturing maintenance and repair of equipment (not including transport equipment) packaging services printing, publishing
2. Communication services	postal services courier services voice telephone services packet-switched data transmission services circuit-switched data transmission services telex services telegraph services facsimile services private leased circuit services on-line information and/or data processing (including transaction processing) motion picture and video tape production and distribution services motion picture projection services radio and television services radio and television transmission services sound recording
5. Educational services	primary education services adult education
8. Health related & social services	hospital services social services

Table G11 (continued)

<i>GNS sector</i>	<i>Subsector</i>
10. Recreational, cultural & sporting services (other than audiovisual services)	entertainment services (including theatre, live bands and circus services) libraries, archives, museums & other cultural services
11. Transport services	maintenance and repair of vessels maritime pushing and towing services internal waterways transport air passenger transportation air freight transportation rental of aircraft with crew space transport rail transport services rental of commercial road vehicles with operator maintenance and repair of road transport equipment supporting services for road transport services cargo-handling services

Source: GATS (1994)

Table G10: Australia's scheduled services under the GATS (\$ million, 1989–90 prices)

<i>Service sector</i>	<i>Sectors covered by 'bound' commitments</i>			<i>Sectors covered by partial or unbound commitments</i>				
	<i>Domestic production^a</i>	<i>Imports</i>	<i>Exports</i>	<i>Domestic production</i>	<i>Imports</i>	<i>Exports</i>		
Business	architecture & urban planning	1 600.2	7.7	7.4	accounting & auditing	3 379.5	15.0	21.0
	taxation ^b				legal	4 560.1	38.0	117.0
	engineering & integrated engineering	2 626.3	447.8	256.9	real estate	49 076.4	67.0	272.0
	dental	1 359.4	0.0	0.0	personnel	661.9	0.0	0.0
	veterinary	302.6	0.0	0.0	building cleaning	1 174.5	2.0	13.7
	computers	2 082.3	111.4	103.6				
	social science R&D ^c	1 164.2	127.0	75.9				
	ship leasing without crew	289.5	na	na				
	aircraft leasing without crew	608.4	na	na				
	other transport leasing	501.3	2.0	0.0				
	other machinery leasing	3 370.6	na	na				
	advertising ^d	7 292.7	153.0	66.0				
	market research & management consulting	6 810.3	157.0	91.0				
	agriculture & forestry consulting	1 241.2	14.8	30.5				
	fishery consulting	1.0	0.0	0.0				
	mining consulting	319.7	40.0	21.0				

Table G11 (continued)

<i>Service sector</i>	<i>Sectors covered by 'bound' commitments</i>	<i>Domestic production^a</i>	<i>Imports</i>	<i>Exports</i>	<i>Sectors covered by partial or unbound commitments</i>	<i>Domestic production</i>	<i>Imports</i>	<i>Exports</i>
	energy distribution consulting ^e	na	na	na				
	security, conventions, telephonic, interpreters & interior design	1 179.5	705.0	473.0				
	surveying	514.0	42.7	10.4				
	photographic	218.2	0.0	0.0				
	duplication & mailing lists	1 894.3	0.0	0.0				
Communication	electronic mail, voice mail, enhanced facsimile services, code & protocol conversion, electronic data interchange, on-line retrieval ^f	9 749.9	620.1	522.2	*			
Construction	*				general construction for buildings, installation, assembly, completion and finishing	20 793.1	39.0	25.0
					work for civil engineering	35 704.3	49.0	26.0

Table G12 (continued)

<i>Service sector</i>	<i>Sectors covered by 'bound' commitments</i>	<i>Domestic production^a</i>	<i>Imports</i>	<i>Exports</i>	<i>Sectors covered by partial or unbound commitments</i>	<i>Domestic production</i>	<i>Imports</i>	<i>Exports</i>
Distribution	commission agents & wholesale trade	35 102.9	37.7	3 383.8	retailing	36 823.4	0.0	0.0
	franchising	na	na	na				
Education	*				private secondary institutions, private tertiary education & others including English language	17 090.8	169.0	588.0
Environmental	*				sewage, refuse & sanitation	1 051.7	0.0	0.0
Financial ^g	*				insurance	6 684.5	372.0	154.1
					banking	11 796.7	43.6	38.0
Health	*				podiatry & chiropody ^h	1 362.1	0.0	0.0
Tourism and travel	tourist guides ⁱ				hotels and restaurants	13 593.4	6.0	0.0
					travel agencies & tour operators	937.7	na	na

Table G13 (continued)

<i>Service sector</i>	<i>Sectors covered by 'bound' commitments</i>	<i>Domestic production^a</i>	<i>Imports</i>	<i>Exports</i>	<i>Sectors covered by partial or unbound commitments</i>	<i>Domestic production</i>	<i>Imports</i>	<i>Exports</i>
Recreational, cultural and sporting	newsagency	74.0	30.0	2.0	*			
	sporting	3 806.9	0.0	0.0				
	other including parks and beaches	na	na	na				
Transport	rental of crewed vessels ^j				international maritime transport	1 979.0	305.0	882.8
	maritime freight forwarding	498.3	0.0	0.0	maritime storage and warehousing	1 076.7	0.0	0.0
	maritime preshipment inspection	na	na	na	maintenance and repair of aircraft	2 196.9	10.9	0.0
	computer reservation systems ^k				road passenger transport ^l	2 419.1	6.3	0.0
	fuel pipelines	na	na	na	road freight transport	11 829.9	0.0	1 164.9
	other pipelines	na	na	na	non-maritime storage and warehousing ^m			
	non-maritime freight forwarding	798.3	0.0	0.0				
	non-maritime preshipment inspection	368.2	0.0	0.0				

Table G14 (continued)

<i>Service sector</i>	<i>Sectors covered by 'bound' commitments</i>	<i>Domestic production^a</i>	<i>Imports</i>	<i>Exports</i>	<i>Sectors covered by partial or unbound commitments</i>	<i>Domestic production</i>	<i>Imports</i>	<i>Exports</i>
Totals above		83 774.2	2 496.2	5 043.7		224 191.7	1 122.8	3 302.5
Total services		3 079 653.2	3 619.0	8 346.4		3 079 653.2	3 619.0	8 346.4
Share of services scheduled (%)		27.2	69.0	60.4		72.8	31.0	39.6

na Not available.

* No commitments scheduled.

a Concordance between United Nations' Central Product Classification (CPC) and Australian Standard Industrial Classification (ASIC) is not exact, thus some values include some non-scheduled services. Figures are gross value of output figures taken from ABS input-output tables. The latest data available are for 1989–90. Data for 1990–91 are due to be released by ABS in 1996.

b Aggregated with accounting and auditing.

c Aggregate of all disciplines.

d Does not include production or broadcasting of advertisements for radio, TV or cinema.

e Figures aggregate energy generation and distribution and were therefore not used.

f The six commitments under communication are within one CPC classification and the level of commitment is the same for each.

g All eight modes of supply are at least conditional in the finance area.

h These values capture 'other' medical services including optometry and are therefore overestimates.

i Output of tourist guide services is included in travel agents and tour operators.

j Rental values are aggregated with international maritime transport figures.

k Aggregated with computer data services.

l Value includes urban bus services, although these are not included in schedule.

m Values are aggregated with maritime storage and warehousing.

Source: Compiled from ABS (1994b) and GATS (1994)

H

Progress on microeconomic reform

Since 1989–90 the Commission's Annual Report has included a review of microeconomic reforms undertaken by Commonwealth, State and Territory Governments. This appendix discusses the major areas of change and lists microeconomic reforms implemented during 1994–95.

INTRODUCTION

Microeconomic reform involves changes in government policies intended to create an operating environment that is more conducive to the effective and efficient operation of businesses and government agencies. Such changes seek to bring about a more productive economy.

Information on microeconomic reform initiatives implemented by Commonwealth, State and Territory Governments is collected annually by the Commission and used to compile a list reforms. In compiling the list, the Commission checks information provided by the jurisdictions for consistency (for example, whether initiatives submitted have been implemented rather than proposed) and balance in the description.¹ The Commission does not attempt to check for omissions systematically or to verify the nature and significance of reforms. The following discussion should be viewed in this light.

¹ Difficulties arise in defining when reforms have been implemented. For instance implementation of a reform could occur when a process has been initiated (for example, issuing a prospectus for the privatisation of a utility). It could also be deemed to have been carried out when the process is complete (for example, when shares are listed on the stock exchange). In addition, some reforms are on-going in nature (for example, workplace bargaining). Some reforms involving processes (for example, the privatisation of Qantas, regulatory reviews and workplace agreements) have been included even though these processes have not been completed.

MAJOR REFORMS

The major reforms are discussed under several headings:

- interjurisdictional;
- industry-specific;
- general;
- trade;
- labour market;
- environmental management; and
- government business enterprises (GBEs).

INTERJURISDICTIONAL REFORMS

The major interjurisdictional reform to occur during 1994–95 was the agreement between the Commonwealth, States and Territories on a national competition policy. The April 1995 meeting of the Council of Australian Governments (COAG) agreed to implement a package of measures designed to extend pro-competitive policies to previously exempt sectors of the economy (unincorporated enterprises, GBEs and the professions).²

The Commonwealth *Competition Policy Reform Act 1995* is a key element of the competition policy package. The Act:

- amends the competitive conduct rules of Part IV of the *Trade Practices Act 1974* and the provisions that exempt specific forms of conduct from these rules;
- inserts provisions into the Trade Practices Act extending the coverage of the competitive conduct rules to the unincorporated sector and to State GBEs;
- creates a new section of the Trade Practices Act (Part IIIA) establishing a new national regime for access to services provided by means of ‘nationally significant’ infrastructure facilities;
- amends the *Prices Surveillance Act 1983* to extend prices oversight to State and Territory-owned business enterprises; and
- creates two new institutions responsible for overseeing and providing advice on the implementation of the policy package: the Australian

² The competition policy package is discussed in more detail in Chapter 2.

Competition and Consumer Commission (ACCC) and the National Competition Council (NCC).

The competition policy package also consists of three intergovernmental agreements.

- The *Conduct Code Agreement* sets out the basis for extending the application of the Trade Practices Act and the consultative processes for making modifications to the competition law and appointments to the ACCC. It also commits each State and Territory to pass the required application legislation enabling the Commonwealth's new legislation to take effect.
- The *Competition Principles Agreement* establishes agreed principles on structural reform of public monopolies, competitive neutrality between the public and private sectors, prices oversight of government enterprises, a regime to provide access to essential facilities, a program of review of legislation restricting competition and consultative processes for appointments to the NCC (see the discussion on 'GBE reform').³
- Under the *Agreement to Implement the National Competition Policy and Related Reforms*, the Commonwealth will provide competition payments in return for States meeting agreed obligations set out in the Competition Principles Agreement and the Conduct Code Agreement, as well as reform commitments in electricity, gas, water and road transport (see the section on 'GBE reform').

Although many States were already implementing some of the required reforms, the competition package can help ensure consistency across jurisdictions and that reforms continue on a broad front.

INDUSTRY-SPECIFIC REFORMS

During 1994–95, governments reported initiatives aimed at promoting competition and reducing some forms of selective assistance to industry.

Governments continued to deregulate and eliminate assistance to specific industry sectors. For instance, reform measures implemented in the tobacco industry included the abolition of the tariff on imported leaf, termination of the industry stabilisation plan and local content scheme and deregulation of tobacco marketing. Across a number of States, price controls on primary products (for example, dairy products, tomatoes and

³ The review of legislation is discussed in more detail in IC (1995j).

eggs) were removed. In Queensland and South Australia wheat marketing legislation was amended to allow domestic trading by the Australian Wheat Board in competition with other marketing bodies and grain traders.

In infrastructure services, a key development was the implementation of access regimes designed to facilitate competition in industries requiring the use of services provided by infrastructure operators.

In line with the COAG agreement to implement free and fair trade in natural gas by 1 July 1996, a number of States implemented or modified access regimes for gas networks. In New South Wales the *Gas Act 1986* was amended to improve the access provisions. South Australia established a legislative framework for access to gas transmission pipelines. In Queensland, an access regime has been implemented for designated public and private oil and gas facilities.

Access regimes have also been implemented (or are being developed) for rail and electricity. For instance, the Commonwealth has established an interim access regime for Australian National's interstate rail network. In New South Wales, as part of the broader reform of rail transport, the Government has established a Network Access Unit to facilitate third-party access to the State Rail Authority's network. It has also developed an access regime for the State's electricity distribution network.

The extension and development of access regimes will be given additional impetus by the implementation of national competition policy (see the discussion on 'Interjurisdictional reforms' and in Chapter 2).

GENERAL REFORMS

During 1994–95, reforms have been introduced: to review regulations affecting business and restricting competition; to increase competition and private involvement in the provision of services; and to improve accountability and incentives for efficiency in public administration.

Regulatory review

Regulatory reform at the State and Territory, and inter-jurisdictional level figured prominently in the review. Key developments included the endorsement of a paper containing principles and guidelines for national standard setting and regulatory action and the commencement of regulatory review processes in Queensland, South Australia, Tasmania,

and the Australian Capital Territory. These reviews are focused on reforming legislation that affects the business sector. Queensland estimated that the reduced regulatory burden arising from the reviews will generate net benefits of around \$370 million per year. Tasmania estimated that regulatory reform could deliver total gains in the order of \$28 million.

Private service provision

The review highlights the trend towards greater competition and private sector involvement in areas traditionally reserved for the public sector. This is being achieved through competitive tendering, contracting out and in some cases, privatisation.

New South Wales approved private sector provision and management of a number of infrastructure projects. The private sector will construct and operate a city-to-airport rail line, a light rail connection between Sydney City and Ultimo-Pyrmont, the M2 motorway in north-west Sydney and the Hawkesbury hospital.

In Victoria, the Government agreed to private sector development and management of a new women's prison. It has also contracted out metropolitan non-emergency ambulance transport and management of the ambulance subscription service. Local councils have been compelled to introduce competitive tendering for fixed proportions of total expenditure (20 per cent in 1994–95 rising to 50 per cent by 1996–97).

South Australia has approved proposals to introduce private management of a public hospital (Modbury), as well as private construction and operation of new hospitals and a prison in Mt Gambier. The Woodend Primary School is to be developed and owned by a private developer and leased to the State Government for a fixed period. A number of departments have also contracted-out functions such as computer support, vehicle repair and maintenance, and design, engineering and surveying.

The Tasmanian Government contracted out a range of services in the health sector (for example, medical imaging, public hospital services at the Mersey hospital and construction and maintenance).

In several jurisdictions, privatisation has contributed to greater private sector involvement (see the discussion under 'GBE reform').

Accountability and incentives for efficiency in public administration

Governments continued to implement reforms designed to enhance the accountability of public sector managers and sharpen incentives for improved performance during 1994–95.

New South Wales developed a list of 24 performance indicators to be used to monitor the performance of all councils. In Victoria, the Government has implemented a capital charge that will be applied to government-funded capital outlays. This is designed, *inter alia*, to make managers more aware of the cost of providing services. Queensland, South Australia and the Northern Territory have implemented case-mix hospital funding, following its introduction in Victoria in 1992–93.

In South Australia, the activities of the Department for Family and Community Services and the Housing Trust were separated to achieve a clearer delineation between their commercial and non-commercial responsibilities. The South Australian Government also introduced accrual accounting for agency and whole of government financial reporting. In public housing, both the Tasmanian and South Australian Governments moved to market-based rents with assistance provided in the form of an explicit rent subsidy, and separated assistance and regulatory responsibilities from commercial operations.

TRADE REFORMS

Reductions in tariffs are a key element of the Commonwealth Government's microeconomic reform agenda.

In 1994–95, the Commonwealth Government reaffirmed its commitment to international trade liberalisation. For instance, Australia and other members of the Asia Pacific Economic Cooperation forum signed the Bogor Declaration, agreeing to work towards the goal of free trade and investment in the region.

The Commonwealth also passed legislation giving effect to the Uruguay Round Agreements. The legislation: modifies market support arrangements for the dairy industry; eliminates preferential sales tax arrangements for products containing fruit juice from Australia, New Zealand and Papua New Guinea; binds over 95 per cent of tariff lines; reduces some rates of tariff assistance (for example, light beer, as well as some medical equipment, motor vehicle parts and agricultural products);

and imposes restrictions on the use of anti-dumping actions (where dumping margins are small or where allegedly dumped imports are a very small proportion of total imports).

Tariff assistance to Australian industry continued to fall in line with the program of reductions announced in March 1991 (Appendix F).

LABOUR MARKET REFORMS

Enterprise bargaining

Enterprise bargaining continued to spread in a number of jurisdictions during 1994–95. For instance, the Commonwealth Government reported that the number of employees on Federal awards covered by workplace agreements increased from 1.23 million in 1993–94 to around 1.56 million in 1994–95. Approximately 80 per cent of the agreements were made in the private sector, covering roughly half of the private sector employees on Federal awards.

The New South Wales Government reported that the number of public sector enterprise agreements grew from 79 in 1993–94 to 288 in 1994–95 (with the number of employees covered increasing from 26 886 to 212 057). Over the same period the number of private sector enterprise agreements nearly doubled, from 587 to 1039 (with employees covered rising from 36 684 to 47 319). According to information supplied by Western Australia, around 25 000 employees in 865 workplaces were covered by agreements as at 30 June 1995.

Public sector agreements were also put in place in South Australia, Queensland and the Northern Territory. For example, in South Australia public sector enterprise agreements were finalised within the WorkCover Corporation, Engineering and Water Supply Department, Department for Family and Community Services, TransAdelaide workshops, and Department of Environment and Natural Resources. In Queensland, the linking of improved pay and conditions for public sector employees to changes in work practices is estimated to have contributed to productivity gains of \$144 million per annum. A public sector-wide agreement was developed for the Northern Territory public service, along with a number of specific agency agreements.

OHS and workers' compensation

During 1994–95, a number of initiatives were implemented in the areas of workers' compensation and occupational health and safety (OHS).

In Queensland, a merit/demerit scheme for premiums was introduced and is aimed at strengthening the financial incentives for employers to improve injury prevention efforts. In South Australia, the claims management function has been contracted out to several competing private providers.

A number of jurisdictions reported implementing nationally agreed and streamlined OHS standards. Queensland, South Australia and the Northern Territory implemented a National Occupational Health and Safety Commission certification standard for users and operators of industrial equipment, thereby replacing differing sets of regulations.

Vocational education and training

In the vocational education and training area, there was a major restructuring in South Australia, including the encouragement of increased involvement by private providers. A move towards greater recognition of training and improved accreditation processes was initiated in Queensland. Competency-based training was introduced into the Queensland and Tasmanian vocational education framework.

ENVIRONMENTAL MANAGEMENT

The focus of environmental management reforms was on streamlining controls (particularly in regard to environmental impact assessment requirements) and applying user-pays principles to use of the environment.

For instance, the Queensland Government has implemented a whole of government approach to environmental impact assessments (EIAs). This will reduce the requirement for industry to prepare multiple environmental studies for different agencies. Amendments to the Mineral Resources Act will also facilitate Commonwealth accreditation of Queensland's EIAs.

In New South Wales, Waste Services has moved towards cost-reflective pricing for disposal of wastes to landfill and transfer stations.

The application of a new National Telecommunications Code should improve environmental management by removing telecommunications carriers' rights to decide on the environmental impact of proposals without consulting local authorities.

Reforms considered under other sections within this appendix also have implications for environmental management. For instance, moves to raise prices in the water industry (to ensure that prices better reflect costs of supply) are likely to contribute to improved environmental outcomes through encouraging conservation and sustainable use of water resources. New South Wales argued that the corporatisation and sale of Government Irrigation Areas and Districts would also confer environmental benefits through both the impact on efficiency of water use and the clarification of regulatory and operational roles.

GBE REFORM

The agreement on the national competition policy has major implications for GBEs.

Many of the principles contained in the intergovernmental agreements relate directly to GBEs. For instance, governments are required to develop competitive neutrality policies (covering issues such as the payment of tax equivalent charges and dividends) for GBEs by June 1996. Governments must also remove regulatory functions and review the appropriate structure before they privatise GBEs or introduce competition to a sector traditionally supplied by a public monopoly.

Many changes to GBEs were implemented during 1994–95. Several continuing trends can be identified:

- moves to separate regulatory and other non-commercial functions from the commercial operations of GBEs;
- vertical and horizontal restructuring of formerly integrated GBEs;
- institutional changes such as corporatisation and the imposition of tax equivalent and debt guarantee payments; and
- pricing reform, including explicit government funding of some cross-subsidies and reductions in others.

Major initiatives in these areas reported by individual jurisdictions are summarised in Table H1.

A prominent feature of this year's review is the continued rise in the number of GBEs reported to have been privatised. For example, in the 1993–94 review, nine full or partial privatisations were reported, up from only three in 1992–93. In 1994–95, 16 full or partial sales were completed or close to completion (Table H2).

Table H1: Summary of GBE reforms reported by jurisdictions, 1994–95

	<i>Industry</i>	<i>Initiative</i>
C'wealth	Aviation	Separation of CAA into regulatory and operational bodies.
NSW	General	Capital structure policy for GBEs.
	Electricity	Reduction in cross-subsidies between customer classes. Development of an interim wholesale market.
	Water	Finalisation of regulatory arrangements to apply to Hunter Water. Separation of regulatory functions from Sydney Water. Reduction in cross-subsidies between customer classes. Corporatisation of Sydney Water Board.
	Ports	Geographical separation of the Maritime Services Board (MSB). Separation of regulatory functions from MSB.
	Rail	Accounting separation of train and track operations.
Vic	General	Performance monitoring framework established for major GBEs. Charges levied on GBEs for underwriting of borrowings.
	Electricity	Vertical and horizontal separation of the SECV.
	Gas	Horizontal separation of the Gas and Fuel Corporation.
	Water	Vertical and horizontal separation of Melbourne Water and of the Rural Water Corporation.
	Ports	Restructuring of Victorian ports. Passing on benefits of reform through price reductions. Separation of responsibility for managing non-commercial ports from major port authorities.
Qld	General	Policy to require GBEs to pay tax equivalents.
	Electricity	Vertical and horizontal separation.
	Ports	Corporatisation of Queensland's major ports.
	Rail	Corporatisation of Queensland Rail.
	Investment	Corporatisation of Queensland Investment Development Corporation.
WA	General	Continued move towards user-pays pricing.
	Electricity, gas & urban transport	Separation of regulatory functions.
	Ports	Commercialisation of Fremantle Port Authority.
	Rail	National Rail Corporation given access to WA's rail network. Removal of Westrail monopoly on passenger and freight services.

Table H1 (continued)

	<i>Industry</i>	<i>Initiative</i>
	Urban transport	Competition introduced to metropolitan bus services. Transperth ferry services contracted out.
SA	General	Commercial framework established for GBEs (including corporatisation).
	Electricity	Corporatisation and vertical 'ring-fencing' of the Electricity Trust. Largely removed cross-subsidies between customer classes. Separation of regulatory functions from the Electricity Trust of SA.
	Water	Corporatisation of the Engineering and Water Supply Dept. and preparation for contracting out of metropolitan operations in 1996. Regulatory functions transferred from EWS.
	Ports	Marine and Harbours corporatised (now the SA Ports Corporation). Separation of non-commercial activities to the Dept. of Transport.
	Urban transport	Contracting out of bus services. Separation of ownership of transport assets from transport contractors.
Tas	Electricity	Move towards user-pays pricing.
ACT	Electricity & water	Restructuring of tariffs and move towards usage-based charges.
NT	General	Creation of government business divisions.
	Electricity	Removal of regulatory functions from PAWA. Tariff set for purchase of power from co-generators.
	Water	Move towards cost-reflective tariffs.

Table H2: Full or partial privatisations of government enterprises reported by jurisdictions, 1994–95

<i>Jurisdiction</i>	<i>Industry</i>	<i>Comment</i>
C'wealth	Aerospace	Sale of Aerospace Technologies of Australia Ltd (ASTA) to Rockwell Systems Australia Pty. Ltd.
	Aviation	Public float of the national carrier Qantas. ^a
	Veterans' affairs	Sale of Repatriation General Hospital Greenslopes.
NSW	Water	Sale of the Lachlan, Murray, Lower Murray, and Gumley Government Irrigation Areas and Districts to irrigators.
	Banking	Sale of the State Bank of NSW to Colonial Mutual Life Ltd.
Vic	Procurement service	Sale of State Supply Service.
	Wagering & gaming	Public float of TABCORP Holdings Ltd.
	Electricity	Privatisation of United Energy Ltd. ^b
	Grain loading	Grain Elevators Board sold to Vicgrain Operations Ltd.
WA	Insurance	State Government Insurance Office privatised.
	Printing	State Print privatised.
SA	Banking	BankSA sold to Advance Bank Australia Ltd.
	Gas pipelines	Assets of PASA (Moomba-Adelaide and Katnook Natural Gas Pipelines) sold to Tenneco Gas Australia.
	Clothing	State Clothing Corporation sold to the private sector.
	Investment	Sale of Enterprise Investments Ltd, Enterprise Securities Ltd and interests in the Enterprise Investments Trust.
Tas	Health services	Privatisation of Devon and St. John's Park Nursing Homes.

^a Shares in Qantas began trading on the Australian Stock Exchange in August 1995.

^b The successful bidder for United Energy was announced in August 1995.

GENERAL REFORMS

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Primary industry				
Egg industry	Qld	May 1995	Commercial egg producers voted to end the Statutory Marketing Scheme. Transitional arrangements are being introduced with a view to total deregulation by 1998.	Reorganisation will reduce costs and increase the industry's capacity to compete with interstate producers.
Fishing	WA	1995	Fisheries Department introduced user-pays and fee-for-service arrangements for commercial fishing activities.	Departmental operations on a more commercial basis.
Forestry	C'wealth	May 1995	Removed a taxation anomaly affecting sales of immature timber plantations. Net rather than gross proceeds of sales will now be taxed.	Encourage continued development of a sustainable forestry plantation industry in Australia.
	NSW	Sept 1994	Streamlining of the State forestry regulation following the replacement of the <i>Forestry Regulation 1983</i> (under which State Forests is given the authority to regulate in a wide range of forestry matters) with the <i>Forestry Regulation 1994</i> .	Enhances the effectiveness of regulations governing the State's forestry industry.
	Vic	1995	Contracting out of State-wide Aerial Photographic Inventory and initiation of privatisation of nurseries formerly managed by the Department of Conservation and Natural Resources.	Departmental savings from rationalisation and expected improvement in efficiency of nursery operations.
	WA	1994-95	Introduction of 10 year (long term) contracts for all mills.	Provides certainty and security for investment in value adding processes.
	SA	1994-95	Sale of sawlogs through competitive marketing process.	The introduction of market forces into the sale process encourages industry competitiveness and economically efficient log allocation.

GENERAL REFORMS (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Grain	Qld	April 1995	The Wheat Marketing (Facilitation) Act has been amended to enable the Australian Wheat Board (AWB) to trade in the domestic grain market in Queensland.	Deregulation of the domestic grain market in Queensland will increase competition between grain traders.
	SA	Feb 1995	<i>Wheat Marketing Act 1989</i> amended to allow the Australian Wheat Board to trade domestically in barley in South Australia.	Further deregulation of barley marketing arrangements will increase competition between grain marketing boards and other grain traders.
Meat and livestock	C'wealth	1 July 1995	Establishment of bodies in the meat industry responsible for: industry policies and strategic direction; program management and service delivery including promotion, marketing and R&D. The new arrangements have a sunset date of 30 June 1998 when the bodies will evolve to a non-statutory status. These bodies are required to pay State pay-roll tax and stamp duty.	Initial step in giving the industry a greater role and responsibility in deciding its own affairs and moving it to a less regulated environment.
	C'wealth	1 July 1995	Powers to trade in meat and livestock, negotiate international freight rates and nominate carriers have been removed from the AMLC.	Reduces regulatory restrictions on competition.
	Qld	1994–95	Enhanced commercialisation of the Queensland Abattoir Corporation (QAC) by separating out the regulatory roles to the Queensland Livestock and Meat Authority (QLMA) and the strategic policy interface with Government to the Queensland Livestock and Meat Industry Policy Council.	Competitors and consumers will benefit from the commercialisation of QAC. The new accreditation regime operated by QLMA and requirements for quality assurance certification in the industry will increase efficiency by focusing on outcomes rather than processes.
Mining and exploration	NSW	Sept 1994	Non-mandatory Guidelines for Safe Mining (excluding coal) to further develop performance-based regulation, and to promote national uniformity in safety-related regulations.	Promotes improved mine safety performance by companies. Individual mines are to develop site-specific safety plans and procedures.

Tobacco	C'wealth, Qld, Vic and NSW	1994–95	Abolition of tariffs, local content and stabilisation schemes and gradual dissolution of State statutory marketing arrangements (by end 1996).	Reduced assistance will expose Australian tobacco growers to market signals and provide an incentive to adjust to changing market requirements.
	Qld	1994–95	Tobacco industry restructuring plan, jointly funded by the Queensland Government (\$5.84 million) and tobacco manufacturers.	Aims to increase the viability of remaining growers, facilitate a movement toward commercially viable practices and strengthen the industry prior to the removal of highly regulated marketing arrangements.
Tomatoes	NSW	1994–95	Voluntary deregulation by the Processing Tomato Marketing Committee.	Reduces the level of regulation providing scope for lower tomato prices.
Veterinary chemicals	Tas	March 1995	Tasmania included in the National Registration Scheme (NRS) for agricultural and veterinary chemicals.	Under the NRS it is no longer necessary for States to register thousands of chemicals, thus reducing inefficiency through regulatory overlap.

Manufacturing

Dairy industry	Vic	1995	Abolished price controls at wholesale and retail levels. Replaced current uniform price paid to the Victorian Dairy Industry Authority by an ex-depot price.	Will promote more flexible pricing and higher cost recovery. Greater competition to reduce cost pressures. Facilitates the privatisation of the Authority's marketing activities (scheduled for 1996).
	Vic	1995	Introduced competitive tendering for the cartage of bulk milk from factory to processor.	Expected to save around \$3 million annually.
	Qld	1994–95	Implemented a program to gradually remove: post-farm gate regulations; price controls; regulation and licensing of milk runs and regulations limiting market access by milk processors by 1998.	These reforms will allow a more competitive State dairy industry to develop, benefiting the operators in the industry and consumers.

GENERAL REFORMS (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Margarine	Vic	1994	Repeal of the <i>Margarine Act 1975</i> , abolishing licensing controls on margarine manufacturers.	Less regulated and more competitive environment achieved through reducing costs facing potential market entrants.
Services				
Gas	C'wealth	April 1995	COAG's agreement to implement free and fair trade in natural gas by 1 July 1996, linked to the competition payments under National Competition Policy Agreement.	Seeks to encourage a national approach to legislative and regulatory reform, third party access to natural gas transmission and distribution networks and facilities and pipeline interconnection. The estimated economic return from new gas pipeline interconnections is between \$1 billion and \$1.5 billion over 35 years.
	NSW	Dec 1994	Amendment of the <i>Gas Act 1986</i> to improve the third party access provisions of the Act.	Access to gas pipelines is essential for the introduction of competition, and free and fair trade in natural gas.
	Qld	April 1995	Provision for third party access to pipelines for public and private providers of gas and oil. Designated facilities may also be subject to an access regime in some circumstances.	Aimed at removing impediments to free and fair trade in gas. Potential advantages in increasing the role of natural gas in the State's energy mix.
	SA	April 1995	Establishment of a legislative framework for third party access to natural gas transmission pipelines in SA, consistent with nationally agreed principles.	Provides a basis for improved competition within the gas industry through open and fair access to pipelines, promoting free trade in natural gas.
	SA	Sept 1994	Removal of impediments to interstate trade in natural gas.	Release of 160PJ of ethane concentrate to Cooper Basin Producers for sale to ICI for use in its petrochemical plant at Botany, NSW.
	Qld	July 1994	Change to government policy in relation to oil and gas exploration in an attempt to stimulate further exploration activity.	Discourages 'buy and hold' practices. Exploration permit holders will lose exploration acreage if they do not meet exploration commitments.

Electricity	SA	Nov 1994	Government endorsement for use of CPI-X formula to establish maximum prices charged by the Gas Company.	Provides greater certainty to consumers about gas tariff movements and ensures pricing restraint in the absence of sufficient competition.
	SA	June 1995	Formation of the Natural Gas Authority of SA (NGASA).	Establishes an authority to administer existing gas sales contracts following Pipeline Authority SA sale, consistent with nationally agreed principles.
	NT	1995	An energy competitor has been given access to the PAWA's own natural gas enabling reticulation to proceed in the Alice Springs township.	Allows gas to be sold to a competitor and facilitates free and fair trade in gas.
	Joint	1994-95	Progressing national market arrangements under the NGMC. Commonwealth and States reaffirmed commitment to further reform at April 1995 COAG meeting.	These reforms will move Australia closer to a competitive electricity industry, leading to better, more cost reflective electricity pricing and more efficient resource allocation.
	NSW	Nov 1994	Passage of legislation (to be proclaimed) to provide non-discriminatory access to the distribution network.	Preparation for introduction of the competitive market.
	NSW	1994-95	Approval of power purchase agreements for three private generation plants.	Opening of generation sector to private sector participation.
	NT	1994	Lease agreements with private developers for the construction and operation of power lines.	Competition will promote cost effectiveness and enhance the development of an independent power industry in the NT.
	NT	1994-95	Private power supply at Macarthur River and Pine Creek and tenders for construction of a private power station to serve Alice Springs using PAWA network.	Private producers supplying power in competition with the PAWA.

GENERAL REFORMS (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Road transport	Joint	1995	National introduction of heavy vehicle reforms, tabling in Federal Parliament of National Road Transport Regulations and passage of amendments to the Interstate Road Transport Legislation.	Will lead to higher productivity gains in the road transport industry through removal of mass permits for conventional type vehicles and a uniform approach to service standards for all heavy vehicles.
	NSW	1994–95	Changes to allowable truck configurations, dimensions, mass limits and extension of road train routes.	Initiatives seek to balance improved transport efficiency with the protection of road and bridge assets.
	Qld	March 1995	A number of licensing requirements have been streamlined or abolished in regard to B-doubles, road trains, driving school instruction licensing and rental vehicle licensing.	Administrative costs of licence and permit arrangements exceeded their usefulness in improving transport outcomes and raising revenue.
	SA	1994–95	National Heavy Vehicle Charges introduced for South Australian and Federal Interstate registered vehicles following participation in development of a National Registration Scheme.	Provides a single registration scheme for vehicles which reflects collective road costs and enables more consistent and equitable charging for freight operators.
Rail	C'wealth	1995	The standard gauge rail link between Melbourne and Adelaide was finished in June 1995, completing the standard gauge link between all mainland capitals (and Alice Springs).	Significant improvements in transit times on the east-west rail corridor expected. The need for bogie exchange at Adelaide removed, providing for handling and productivity improvements.
	C'wealth	1995	Establishment of an interim access pricing regime for the Australian National interstate rail network.	This interim arrangement will enable third party operators to access the AN rail network during 1995–96, pending the possible development of a formal arrangement under Track Australia.
Water	C'wealth	April 1995	COAG agreed to link progress on implementing the strategic framework for the efficient and sustainable reform of the Australian water industry to the second and third tranches of Competition Payments.	Will encourage all jurisdictions to implement the strategic framework within the agreed time frame. The framework plays a key role in improving the sustainability of natural resource use, achieving better environmental outcomes and contributing to the overall microeconomic reform agenda.

Shipping	WA	1995	Closure of Stateships operation and sale of vessels.	Discontinues cross-subsidisation of an uneconomic mode of transport.
Retail trade	WA	1995	Various reforms in regard to: Sunday trading and rostering of petrol stations; trading hours of licensed premises; and retail business trading hours.	Allows business greater flexibility.
	SA	June 1995	Extension of retail trading hours through passage of legislation to permit Sunday trading in Adelaide city centre.	Reduces restrictions governing the hours of operation of retail shops and provides retailers with greater flexibility to determine appropriate hours of business, based on consumer demand.
	Tas	April 1995	Removal of restrictions preventing retailers employing more than 250 employees from trading on Saturday afternoons.	Reduces regulation of the retail sector and promotes consistency between trading hours of Tasmanian retailers and those of mainland enterprises.
Real estate	SA	June 1995	Legislation implemented to alter the licensing provisions of valuers, land agents and conveyancers to achieve a change in emphasis from licensing to registration.	Removes unnecessary regulations and reduces industry compliance costs.
Building & construction	SA	June 1995	Introduction of a code of practice for SA building and construction industry. The code addresses contract administration, tendering, consultant selection, industry relationships, security of payment, training and skills development.	Code provides incentives for the private sector to introduce best practices to achieve productivity gains and savings on public works.
	Tas	Nov 1994	Adoption of a national building code which aligns Tasmania's technical requirements for buildings with other States and Territories.	Will speed up the approvals process and ensure significant savings in building costs through performance based design, rather than prescriptive regulatory requirements.

GENERAL REFORMS (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Ports	Qld	1994–95	Restructured pricing policy for public and private pilotage and conservancy services.	The policy aims to: link prices with costs; reduce cross-subsidisation; and encourage trade by reducing prices. An average reduction of 50 per cent will be attained over the next three years.
	Qld	June 1995	Commercialisation of the Hydrographic Information area and adoption of business principles in the Maritime Operational Services areas.	Benefits include: greater focus on service provision; charges reflect full cost recovery; increased freedom of choice for users; and greater productivity from better management.
Roads	NSW	1994–95	Competitive tendering introduced for all maintenance and rehabilitation works on National Highways.	Savings of 10 to 15 per cent on National Highway contracts are expected.
	Qld	1994–95	Established targets for competitive tendering of road maintenance (70 per cent in 1995–96) and road works (85 per cent by 1996–97).	Gains from the road reform project are estimated at \$52 million in 1992–93, \$79 million in 1993–94 and \$120 million in 1994–95. The average size of construction projects has doubled, with substantial economies of scale.
	SA	1994–95	Metropolitan road construction and corporate information services required to operate as separate business units within the Department of Transport and compete for works against external providers.	Improve effectiveness of operations and enable the evaluation of operational and financial performance against the private sector.
Motor fuel	Qld	1994–95	Repeal of legislation governing the retail sale of motor fuel in order to eliminate licensing requirements.	Will remove the financial impost of motor fuel permits on occupiers of retail outlets by removing the need to license genuine retail outlets.
Limousine industry	Qld	Nov 1994	Deregulated entry into the limousine (private hire car) industry, with the Government selling an unlimited number of licences on demand for market value prices.	Greater competition within the industry to promote higher levels of service and enhanced targeting of market sectors.

Superannuation	Tas	1994–95	Abolished the Retirement Benefits Fund Investment Trust.	Management of the investments of the State Retirement Benefits Fund is now determined by competitive tendering.
Tourism	Tas	1994–95	Operation of Tasmanian Travel Centres (in Devonport and Burnie) transferred to the private sector.	This has completed the process of placing information to visitors at the major gateways to Tasmania in the hands of the private sector.
Optometry services	Tas	Nov 1994	<i>Optometrist Registration Act 1994</i> was enacted.	Deregulated optical dispensing in Tasmania.
Legal profession	Tas	Jan 1995	The <i>Legal Profession Act 1993</i> commenced operation on 1 January 1995.	This Act abolished non-litigious fee scales and prohibitions on advertising. Mechanisms for dealing with complaints against the legal profession were also upgraded.
Legal services	NT	1994–95	Implementation of the Conveyancing Agents Licensing Scheme.	Frees up the provision of conveyancing services from legal practices.
Non-bank financial institutions	Qld	1995	Agreed to national regulation and prudential supervision for friendly societies; and progress towards bringing the operation of Queensland's secondary mortgage market scheme into line with those of the other States.	These reforms will introduce uniformity in legislation throughout Australia, which will lead to an increase in efficiency via reductions in overly prescriptive State regulations.
Consumer credit	ACT	1995	Implementation of national uniform legislation regulating the Consumer Credit Industry.	This will provide standards for the provision of credit which will not be overtaken by changes in the financial market place.

GENERAL REFORMS (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Competition policy	Joint	11 April 1995 and 30 June 1995	Commonwealth, States and Territories agreed to a national competition policy incorporating: extending the coverage of the competitive conduct rules in the <i>Trade Practices Act 1974</i> to all businesses (including professions); a national regime for third party access to services provided by means of significant infrastructure facilities; agreement to review legislation restricting competition by 2000; and principles for competitive neutrality, prices oversight of public monopolies, and structural reform of public monopolies (see section on 'GBE reform').	Coverage of the competitive conduct rules will be extended (August 1996) to all State and Territory GBEs and to the unincorporated sector. They aim to prevent anti-competitive practices (eg price fixing, misuse of market power, exclusive dealing and resale price maintenance). The national access regime will aid competition in the market for services from facilities such as electricity grids and gas pipelines. The principles of legislation review, competitive neutrality, prices oversight and structural reform establish a framework for future reform which takes account of social and economic policy objectives.
	C'wealth	Nov 1994	New prices oversight arrangements announced for the private sector and Commonwealth GBEs. Will apply following the establishment of the Australian Competition and Consumer Commission (ACCC).	Aims to establish prices oversight arrangements which achieve price restraint in markets where competition is weak or non-existent without restraining business innovation, investment and efficiency. Nineteen companies have been removed from declaration in eight different industries.
	Qld	May 1995	Establishment of a National Competition Policy Implementation Unit. This will include the establishment of Trade Practices Act compliance programs for all government agencies and establishing prices oversight and access regimes.	Economic efficiency will be enhanced by the extension of competition in line with the National Competition Policy principles.
Regulatory reform	Joint	April 1995	Principles and guidelines released for national standard setting and regulatory action by Ministerial Councils and standard setting bodies.	Being used by Ministerial Councils and other bodies to guide their standard setting and regulatory activities.
	Qld	1994-95	Of 470 pieces of regulation identified for review, about 420 had been dealt with by 30 June.	To date the review process has generated net economic benefits to government, consumers and industry of over \$370 million a year.

	SA	May 1995	Ongoing program of regulation review with resources focused on regulations of strategic significance.	Priorities determined in accordance with economic development opportunities and improving resource allocation.
	Tas	1994–95	Commencement of a systematic review to explicitly consider the economic and social impacts (including the impact on competition) of certain legislation impacting on business.	The objective is to minimise the legislative burden imposed on business and in turn improve the efficiency of the economy.
	Tas	March 1995	A comprehensive review of Tasmanian subordinate legislation. All subordinate legislation will be repealed by 2005, unless re-made and all new subordinate legislation will sunset after 10 years. New and remade subordinate legislation must meet sunrise tests (including the impact on competition).	The net present value of the savings from reduced regulatory burden on private enterprises and the community has been estimated at \$20 million for business and \$8 million for government.
	ACT	1995	Systematic review of all legislation impacting on ACT business.	Will establish whether the regulatory process works for the benefit of the community while encouraging economic growth and job creation.
Local government	NSW	1994–95	Selection of 24 indicators by local government stakeholders to monitor the broad performance of all NSW councils.	Promotes improved management practices and increases accountability of councils.
	NSW	Feb 1995	Approval given for councils to exempt a broad range of minor and fundamental building activities from the need to obtain council approval.	Lowers compliance costs for builders.
	Vic	1994	Compulsory competitive tendering is being phased in over three years. Councils are required to submit 20 per cent of their total expenditure to competitive tender in 1994–95, and 50 per cent by 1996–97.	Aims to promote the review and clearer specification of council services. Cost savings are expected to ease the pressures on municipal rates.

GENERAL REFORMS (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Tas	Nov 1994	Introduced the Tasmanian Plumbing Code.	This is the first fully performance-based plumbing code in Australia. Performance-based codes allow for flexibility and innovation.
Health	Qld	Jan 1995	Casemix based funding for Queensland hospitals is now in operation. Funding is based on each hospital's volume and mix of patients treated.	The casemix system creates an incentive for each hospital to increase patient throughput within those health services that it provides most efficiently.
	SA	July 1994	Casemix funding system introduced. Funding allocations are based on the level of services provided, while also reflecting fixed costs.	Expected to increase productivity and reduce hospital waiting lists through efficiency improvements. Provides detailed monitoring information, and accompanies the introduction of contestability to the provision of health services.
	NT	1995	Began introducing casemix-based hospital funding.	Although not the sole basis of funding, casemix will provide a financial incentive for technical efficiency in hospitals.
	C'wealth	June 1995	Full cost recovery by the Australian Government Health Service (AGHS).	Promotes cost efficiency and a focus on services and outcomes tailored to (mainly government) client needs. From 1995-96 onwards, AGHS will be fully reliant on client revenue in a competitive environment.
	NSW	March 1995	Finalisation of the contract for Hawkesbury Hospital (a Build-Own-Operate-Transfer scheme). The hospital is expected to open in August 1996.	Capital savings plus improved accessibility and accountability of services.
	Vic	1994	Withdrawal of the State Government from the monitoring and regulation of Nursing Homes.	Eliminates duplication with the Commonwealth regime, lowering costs.
	Vic	1994	Shift in provision of mental health services from the Department to generic health service providers (predominantly public hospitals) following public advertisement and tender.	Improves the integration of services. The Department contracts to purchase services from hospitals and other agencies at benchmark rates.

WA	1994–95	Non-core public hospital functions opened to competition from the private sector.	Focuses hospital management on core business and provides opportunities for cost savings.
SA	1994	Approval has been given for the Flinders Medical Centre and private sector to jointly develop plans for a private hospital, ophthalmic centre and day surgery suite.	Represents a significant step in the joint provision of health services with the private sector. Expected to generate significant savings and improve community access to medical facilities.
SA	March 1995	Local councils no longer have to register Commonwealth funded nursing homes and aged care hostels (exemption granted under <i>Supported Residential Facilities Act 1992</i>).	The Commonwealth Government is now solely responsible for monitoring standards, thus removing duplication and overlap.
SA	Feb 1995	Contracts signed for the private management of Modbury Public Hospital and for the construction of a private hospital on the site.	Guarantees ongoing provision of high quality public hospital services at a lower cost. Will result in a wider range of medical specialities being available. Provides benchmark against which to measure hospital efficiency.
Tas	Nov 1994	Contracting out of the medical imaging services in the north west of Tasmania.	Removes duplication of services leading to cost savings.
Tas	Feb 1995	Privatisation of Devon House and St. John's Park Nursing Homes.	Commercial operator replacing State Government provision, realigning service provision model with the national profile.
Tas	May 1995	Contracting out of public hospital services at the Mersey Hospital.	Mersey is the first whole of hospital service contract for Tasmania and one of only a few in Australia.
Tas	1994–95	All construction, upgrading, general maintenance and landscape maintenance work now let through a competitive private sector tendering process.	Expected cost savings through competitive process. Greater efficiency through transfer of non-core operations to the private sector.

GENERAL REFORMS (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Ambulance service	Vic	1994	Metropolitan ambulance service has outsourced: non-emergency transport services; fleet management; and operation of the subscription scheme.	Non-emergency services contracted out on the basis of tender or benchmark rates. Administrative functions outsourced to achieve economies and improve services.
Family & community services	SA	1994-95	Restructuring of the Department for Family and Community Services into funder, purchaser and provider functions.	Separates funder, purchaser and provider functions and improves efficiency of specific tasks.
Housing	SA	Ongoing	Restructuring and commercialising provision of public housing involving: pricing services; some tax equivalent payments; performance agreements; and separation of regulatory and operational activities.	Provides for clear functions and objectives and enhances accountability and transparency. Effectiveness of service quality to be monitored and subject to external competition.
	SA	1995	Property management and tenancy management within the SA Housing Trust have been separated, with commercial activities to be distinguished and CSOs defined. Also contracted out design, engineering, surveying and real estate functions and payment of maintenance invoices.	Achieves cost savings, greater flexibility and clearer focus on management of service processes, outcomes and strategic issues. Commercial property management expected to improve investment decisions.
	Tas	April 1995	Home Ownership Assistance Program (HOAP) developed to replace former house finance scheme. All loan assessment, interviews, management and administration is undertaken by the government appointed agent. Government maintains a role in policy and monitoring.	Represents a transfer of non-core business to the private sector. Represents a large cost saving in comparison to the total administration costs of the previous scheme. HOAP is self-funding and is expected to continue to be financially viable in the longer term with possible dividends to the Treasury. Subsidies are now explicit, clearly identifiable and have the capacity to be rationed.
	Tas	June 1995	Public tenant rentals changed from income based to market rents.	Extent of community service obligations (subsidy) becomes transparent and quantifiable.

Education	Joint	May 1995	Reform of tertiary admissions system to provide for common dates for applications and main round offers and development of a single national approach to the calculation of tertiary rank equivalences.	Increased efficiency of placement of interstate applicants at higher education institutions. More effective assessment by potential students of the likelihood of placement at higher institutions in Australia.
	SA	May 1995	Woodend Primary School developed and owned by a private developer and leased to State Government for 15 years with option to extend. Convertible to retail/residential facilities if the lease is terminated.	Greatly reduces construction time and allows earlier construction of community infrastructure by avoiding the need for large initial government capital outlay.
Correctional services	Vic	1994–95	Contract signed with the private sector to finance, design, construct and operate a 125 bed women’s prison.	Competition introduced to create a market comprising public and private providers of correctional facilities.
	SA	1994–95	Tenders called and evaluated for a 100 bed correctional facility at Mt Gambier.	This will be the first privately managed prison in South Australia. Aimed at introducing a more competitive and service oriented culture.
Police	SA	1994–95	Contracting out of the servicing, repair, fit and strip, and accident repair of Police vehicles.	Estimated annual savings of \$750 000 and releases 18 staff for operational duties.
General government	Vic	1994	A capital charge has been applied to State funded capital outlays, with credit allowed on the proceeds of certain asset sales. A superannuation charge was included in Departmental budgets for 1994–95.	Managers will be made more aware of the cost of providing services and the need to dispose of under-utilised assets. Both changes enhance competitive neutrality.
	WA	Oct 1994	Introduction of the Public Sector Management Act provides an environment of greater delegation to CEOs, operating in accordance with high-level management standards and principles.	Gives agencies greater flexibility in making decisions about competitive tendering and contracting and financial management.
	WA	1994–95	Deregulation of: freight transport; electricity supply; gas supply; grain marketing and non-jet air services (intrastate).	Reduces restrictions on competition and improves resource use.

GENERAL REFORMS (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	SA	April 1995	Passage of the <i>Public Sector Management Act 1995</i> to provide new arrangements for managing the Public Sector.	Introduces a clear and flexible management framework. Less prescriptive arrangements provide for increased emphasis on performance, focusing on results, service and accountability.
	SA	July 1994	Government endorsed the adoption of accrual accounting for agency and whole of government financial reporting.	Provides a financial management and reporting framework which will assist with resource allocation decisions of government and its agencies.
Taxation	C'wealth	April 1995	Removal of wholesale sales tax exemptions for 100 per cent recycled paper from November 1995.	Eliminates the incentive to divert waste paper from use in less than 100 per cent recycled paper products.
	C'wealth	April 1995	The review of Fringe Benefits Tax (FBT) compliance costs of employers. The revenue cost of the FBT changes was offset by increases in car statutory fractions, used for the valuation of car benefits.	The changes in the review are designed to substantially reduce compliance costs for employers, in a manner consistent with the objectives of the FBT system, the tax system generally and the Government's fiscal policy.
Legal services	C'wealth	1 July 1995	The Attorney-General's Department's Legal Practice, will operate on a user choice/user pays basis.	The Practice will now compete for the provision of legal advice to other government agencies, statutory bodies and business enterprises.
Radio communications	C'wealth	April 1995	More transparent and rational fee structure and transferability of apparatus licences.	Reflects cost recovery and the value of spectrum. Also provides for easier transfer of ownership of licences resulting in more efficient use of spectrum through application of market principles.
Immigration	C'wealth	April 1995	The Business Skills class has been expanded through the relaxation and addition of categories.	Designed to expand business migration into Australia and assist business migrants to quickly and successfully establish a business in Australia.

	C'wealth	Nov 1994	Employers permitted to pay for the medical costs of executives or specialists and their families whom they intend to employ in Australia. The health requirement can be waived for the applicant or any member of their family included in the application.	Intended to facilitate the entry of highly-skilled business persons into Australia.
	C'wealth	Oct 1994	Multinational companies wishing to establish their regional headquarters in Australia can fast track the visa applications of key personnel and their families.	This will greatly assist the ability of multinational companies to move key employees in and out of Australia which is often a critical factor in deciding whether to set up regional headquarters in Australia.
Veterans' Affairs	C'wealth	Jan 1995	Sale of Repatriation General Hospital Greenslopes in Brisbane and the contracting of services with the buyer.	Aims to increase the efficiency of service delivery by funding through the Repatriation Private Patients Scheme (RPPS), which is throughput based, rather than a fixed annual amount.
Private provision of infrastructure	NSW	Feb 1995	Contracts have been signed for joint private and public development, construction and operation of a new southern rail line between Sydney City and Kingsford-Smith Airport.	Private sector involvement reduces the capital investment and operating risk for State Rail.
	NSW	Dec 1994	Private sector to construct and operate a light rail service between the Sydney CBD and the urban renewal area of Ultimo-Pyrmont.	Will encourage the development of the area, make public transport use more attractive, and reduce demands on government finances.
	NSW	Aug 1994	Signing of an agreement with the private sector for the 20 kilometre M2 Motorway (a Build-Own-Operate-Transfer project) in north-western Sydney. Work on the \$644 million project is expected to take three years to complete.	More efficient provision of road transport infrastructure and reduction of the Government's financial burden and operating risk.
Purchasing	Vic	1994	Sale of State Supply Service.	Release of significant resources employed in what was deemed to be outside the core business of the Department of Treasury and Finance.

GENERAL REFORMS (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Tas	1994–95	Restructuring of State Purchasing and Sales (SPS). Closure of the Technical Services Division and transfer of office and computer equipment maintenance to the private sector.	Restructuring will result in the focus of SPS being on major high value contracts, with agencies given expanded authority to manage their own purchases. Annual savings of \$1.9 million are expected.
Passenger transport	Qld	Nov 1994	Introduction of performance-based commercial service contracts for urban passenger services. Contracts will be set to meet passenger needs.	Higher levels and standards of services at less cost to government will be provided, in exchange for the exclusive right to provide those services in a restricted market.
Construction	Tas	Nov 1994	Introduced building regulations that reference the Building Code of Australia (BCA) for technical requirements.	Introduces modernised building controls and adopts the nationally uniform BCA.
	Tas	1994–95	Commercialisation of the Civil Construction Services (CCS) of Works Tasmania.	CCS now competes on a more equal footing with private contractors in the civil construction industry.
Contracting	WA	1994–95	Implementation of a policy to contract and competitively tender services across the public sector.	The estimated annual value of contracted services reached \$672 million. Average savings of 24 per cent achieved from contracting. Potential market of \$1.3 billion open to private sector competition.
	SA	1994	Department of Environment and Natural Resources has contracted out boundary and engineering surveys and worksite inspections required under the <i>Occupational Health, Safety and Welfare Act 1986</i> .	Has resulted in improved productivity and faster turnover. All worksites are now inspected within twelve months.
	SA	1994–95	Contracting out of support and development of computer applications systems, beginning with student management systems within the Department for Employment, Training and Further Education.	Transfer of non-core IT activities to the private sector to increase efficiency and provide for local industry development. Also establishes base for future marketing of systems developed by government.

TRADE REFORMS

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Trade	C'wealth	Nov 1995	APEC member countries signed the Bogor declaration agreeing to work towards the goal of free and open trade and investment by the year 2010 for developed economies (2020 for less developed economies).	Expected to lead to a reduction in barriers to trade and investment in the region. Member countries agreed to: refrain from measures increasing the existing level of protection; continue to harmonise and simplify customs procedures and other regulations; and look at establishing a voluntary dispute mediation mechanism.
	C'wealth	Oct 1994	Passed legislation giving effect to the World Trade Organization (WTO) agreement arising from the Uruguay Round of trade negotiations. The legislation: modifies market support arrangements for the dairy industry; eliminates preferential sales tax on products containing Australian, NZ and PNG fruit juice; binds more than 95 per cent of tariff lines; reduces tariffs beyond previously agreed levels for a small number of manufacturing and agricultural industries; and imposes restrictions on the application of anti-dumping action.	Major commitment to international trade liberalisation. For the first time, trade in agriculture, services and intellectual property have been brought within WTO disciplines. The Industry Commission has estimated that as the result of the WTO agreement, Australian exports could rise by as much as \$5 billion per year and GDP by \$3.7 billion.
	C'wealth	1994–95	Continued reduction in protection to industry in line with the program of tariff reductions announced in March 1991.	Tariffs on most dutiable goods decreased from 12 per cent to 10 per cent or 9 per cent to 8 per cent on 1 July 1994, and to 8 per cent and 7 per cent from 1 July 1995. Passenger motor vehicle tariffs fell to 27.5 per cent on 1 Jan 1995. Tariffs on most textiles fell to 28 per cent on 1 March 1995. During 1995 tariffs on many items of apparel and footwear were reduced to 40 per cent and 30 per cent respectively.

LABOUR MARKET REFORMS

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Enterprise agreements	C'wealth	Aug 1994	The Review of Wage Fixing Principles decision by the Industrial Relations Commission established a Statement of Principles to operate until July 1996. Gives effect to the industrial relations framework created by the <i>Industrial Relations Reform Act 1993</i> .	The decision encourages the making of enterprise level agreements, underpinned by an effective award safety net. It confirms the separation of the award and bargaining streams, helping to ensure that bargained outcomes do not flow on to awards.
	C'wealth	1994–95	Continued spread of workplace agreements through the federal industrial relations arena. Since October 1991, 4907 federal workplace agreements have been formalised by the Industrial Relations Commission.	An analysis of 4677 agreements estimated that: over half were formalised in 1994–95; agreements cover 57 per cent of federal award employees; 1.6 million employees are covered (up from 1.2 million in 1993–94); and 80 per cent were made in the private sector (covering 47 per cent of private sector federal award employees).
	NSW	1994–95	Public sector enterprise agreements increased from 79 to 288 (the number of employees covered increasing from 26 886 to 222 057). Around 90 per cent of staff in the health sector are now covered. The number of private sector enterprise agreements increased from 587 to 1039 (the number of employees covered rose from 36 684 to 47 319).	Key outcomes include work redesign, improved training, increased focus on performance, fewer job classifications and salary scales, greater flexibility on working hours and changes to work practices. These changes are expected to lead to higher enterprise productivity.
	Qld	July 1994	Stage 1 of the Marine Operations Enterprise Development Agreement (EDA) covers Regional Harbour Masters, marine pilots and boat crew.	The EDA is expected to result in direct benefits to the Government of \$3.8 million a year and to facilitate overall productivity benefits in excess of \$133 million a year to the State.
	Qld	May 1995	Linking improved pay and conditions for public sector employees with work practice changes.	Budget sector wage increases have been partially offset by productivity gains estimated at \$144.5 million per annum. Major productivity gains have also been achieved in the budget areas of health, education and police.

Vocational education & training	WA	1994–95	Growth of workplace agreements .	As at 30 June, 1995 nearly 25 000 employees with 865 employers had been covered by workplace agreements.
	SA	1994–95	Public sector enterprise agreements finalised within the: WorkCover Corporation; Engineering and Water Supply Department; Department for Family and Community Services; TransAdelaide workshops; and Department of Environment and Natural Resources.	Expected to deliver efficiency improvements through workplace restructuring and satisfactory wages outcomes. Enterprise agreements now underway in approximately 30 government agencies.
	Tas	March 1995	Introduction of an enterprise agreement under the Federal Industrial Relations System at Forestry Tasmania.	The previous bifurcated arrangement of the Federal and State jurisdictions prevented Forestry Tasmania from establishing a unified approach to the management of its human resources.
	ACT	1995–96	Enterprise bargaining and the development of competency standards at ACTEW and enterprise bargaining at ACTION.	Agreement at ACTEW will improve employee skills and efficiency. The ACTION agreement is set to produce a reduction in bus operator staffing levels resulting in annual net savings of \$3.5 million.
	NT	1994–95	Public sector wide enterprise agreement finalised, replacing different awards. Separate agency level agreements for the Darwin Port Authority, Police Fire and Emergency Services, and bus operations.	Agreements facilitate ongoing change, mobility and structural reform within the entire NT public sector. Contribute to cost efficient delivery of government services.
	C'wealth, States and Territories	1994–95	The National Training Wage (Interim) Award (NTWA) was approved in the Industrial Relations Commission. NTW arrangements are now substantially in place in States and Territories.	Allows for greater flexibility in wages for entry level trainees and unskilled workers. Facilitates matching labour costs and individual productivity thereby encouraging employment.
	Qld	1994–95	Implementation of competency-based training and assessment.	Skills development and certification of work skills nationally. Contributes to higher productivity and increased competitiveness of industry.

LABOUR MARKET REFORMS (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Qld	1994–95	The developers of courses in vocational education and training can apply for national accreditation. People who have not completed a formal (indentured) apprenticeship or who have completed an overseas qualification can have their skills fully recognised.	More flexible, efficient and timely recognition process, leading to a more competitive labour market. The opportunity for national accreditation should increase the number of training providers.
	SA	1994–95	Development of a competitive training market through the allocation of an increasing proportion of public funded training for tender.	Improves efficiency and cost effectiveness of training delivery and increases transparency in the use of public funding.
	SA	1994–95	Funding allocated towards national and interstate cooperative projects opened up to both public and private providers through a competitive submission-based process.	Achieves cost effective use of funding and promotes projects of relevance to the broader sector, community and industry.
	SA	Dec 1994	Enactment of <i>Vocational Education, Employment and Training Act 1994</i> .	Achieves deregulation of accreditation processes and greater industry and community input into establishing priorities.
	Tas	1994–95	Introduction of competency-based training in Institutes of TAFE.	Previously training was time based and did not take into account individual rates of learning.
	NT	1995	Extending registration and funding of private providers.	Expansion of the training market, which has seen the number of private providers rise from 4 to 70.
Occupational health and safety	Joint	June 1994	The National Occupational Health and Safety Commission declared a national standard for Users and Operators of Industrial Equipment. Implementation to proceed through passage of State & Territory and Commonwealth OHS legislation.	Rationalisation of OHS legislation and achievement of nationally uniform minimum performance-based standards, consistent with international practice.
	Qld	Aug 1994	Implementation of the NOHSC Standard and rationalisation of certificate arrangements for partially regulated occupations.	Gives effect to national uniform requirements for competency standards and the issue of certificates for regulated occupations.

Workers' compensation	SA	April 1995	Move from industry-specific regulation to hazard-based control focusing on injury and disease prevention.	Replaces 16 different sets of regulations and is consistent with the National Uniformity program and Australian standards.
	Tas	June 1995	Diverse occupational health and safety legislation replaced by a single Act and regulations.	Simplified and less prescriptive legislation, nationally consistent and expected to lead to a reduction in the incidence and cost of workplace injury and disease.
	Vic	1995	WorkCover surcharge to be reduced from 25 per cent of the premium to 10 per cent from 1 July 1996.	Victorian employers to save an extra \$16 million each year in premium payments.
	Qld	Dec 1994	Amendments to the <i>Workers' Compensation Act 1990</i> to contain costs to employers and achieve greater equity both amongst employers and for injured workers.	Reduced cost to employers by amending the definition of injury to require employment to be a significant contributing factor.
	Qld	July 1994	Introduction of a merit/demerit scheme for premiums.	Aimed at strengthening financial incentives for employers to improve prevention, claims management and rehabilitation.
	SA	April 1995	Contracted-out WorkCover claims management to nine private sector claims managers.	Expected benefits include savings of 1 per cent in liabilities and improved customer service.
	NT	1995	Amendments to the Work Health Act to resolve cross border issues in relation to workers.	Removes the requirement for an employer to have workers' compensation insurance in other jurisdictions for employees who travel interstate to work on a temporary basis.
Industrial relations	C'wealth & NSW	1994–95	Abolition of the Coal Industry Tribunal and the transfer of coal mining industrial relations arrangements to the Industrial Relations Commission.	Ensures that the black coal mining industry is subject to the same industrial relations arrangements as other industry sectors.

LABOUR MARKET REFORMS (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	Qld	April 1995	The <i>Industrial Relations Act 1990</i> was amended to enable revised arrangements for workplace reform and industrial relations in the public sector.	Gives public sector managers greater responsibility for the management of industrial relations by allowing them to provide their own representation before Queensland industrial tribunals without furnishing a request to the Minister.
	WA	1995	Passage of the <i>Industrial Legislation Amendment Act 1995</i> to reduce regulatory control of the labour market.	Reduces regulation of the industrial relations system and promotes greater efficiency in the workplace through increased flexibility.
Work place agreement	WA	1994	Workplace reforms agreed with Prison Officers' Union including new salary structure and overcoming restrictive work practices.	Savings of \$8 million per annum or 10 per cent of the State's prison operations budget.
Award reviews	C'wealth	Sept 1994	In its Safety Net Adjustments and Review decision on 21 September, the AIRC established a process for the three yearly review of all awards required by s.150A of the <i>Industrial Relations Act 1988</i> .	The reviews will seek to make awards easier to understand and more relevant to the needs of enterprises. The decision established a pilot award review program involving both individual and award reviews and consideration of key issues by central working parties. Significant agreement was reached on s.150A requirements through the working party process including approaches to award flexibility, identification of discriminatory provisions and standard award formatting. The experience of the pilot process has underpinned recent AIRC proceedings to develop guidelines for award parties in the general review of all federal awards.
Award flexibility	SA	1994-95	Agreement with the Public Transport Union giving worksite committees flexibility to amend the Award to suit local circumstances.	Increases productivity through more flexible rostering, reduced unit pay rates, changed work rules and lower operating costs to ensure competitiveness of bus services.

Labour market flexibility	NT	1994–95	Introduced partially integrated workforce at Darwin Port Authority. Port Authority labour acts as a secondary waterside workers' labour force to ensure adequate labour is available at times of peak demand.	Permits stevedoring companies to employ a core workforce only and minimises idle time costs.
Multi-skilling	NT	1994–95	Agreement for multi-skilling of physical grades in hospitals.	Permits greater flexibility in the workforce resulting in efficiencies.

ENVIRONMENTAL MANAGEMENT

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Environmental assessment	Qld	May 1995	The establishment of a single 'whole-of-government' response to terms of reference for environmental impact assessments.	Increased efficiency in processing and cost savings for industry through not having to prepare a number of environmental studies for different approval agencies.
	Qld	1994–95	Implementation of the Environmental Protection Act to ensure that environmental impacts are considered in mining licences and amendments to the Mineral Resources Act to provide for a consistent, clear and systematic environmental impact assessment process and allow mine developers to submit environmental management and plant operation plans on a project rather than lease related basis.	Increased the efficiency and effectiveness of the environmental impact assessment process for the mining industry, reduces delays and duplication and facilitates accreditation with the Commonwealth. Also, there will be a clear separation of environmental management from other mine lease tenure issues, and reduced duplication of paperwork.
	NT	Dec 1994	Amendments to Environmental Assessment Act and Administrative Procedures to provide greater certainty to industry on requirements for environmental assessments, including time lines.	Removes need for a Preliminary Environmental Report as a necessary precursor if an Environmental Impact Statement is warranted.
Land management	WA	1994–95	Policy to restrict clearing and assist fencing of remnant vegetation in agricultural regions. Financial support provided to encourage local enterprises in innovative projects to revegetate areas.	Major implications for soil conservation and erosion management and ongoing agricultural viability.
	WA	1994–95	Gradual implementation of a policy to collect visitor entry fees at 15 additional parks.	Contributes to moving the Department of Conservation and Land Management onto a net appropriation arrangement. Park services enhanced through reinvestment of entry fees levied.
Waste management	NSW	July 1995	Rise in Waste Service's charges for local council, industrial and commercial waste to land-fills and transfer stations.	Moves towards cost-reflective pricing in the waste industry reduces quantities of waste disposed of and encourages recycling.

Catchment management	SA	May 1995	<i>Catchment Water Management Act 1995</i> proclaimed and two Catchment Boards established (Torrens and Patawalonga).	Provides for the establishment of regional authorities to manage catchment water resources. Funded via a levy collected by local government.
Environmental licences	SA	May 1995	Integration of six pollution and waste licensing systems into a single system and more equitable application of the polluter-pays system.	Reduces administration costs for licences and ensures greater equity between licensees regarding fee payments.
Environmental management and pollution control	Tas	Jan 1995	Establishment of new environmental management and enforcement tools in Tasmania which apply the polluter-pays principle.	Introduces penalties for not meeting standards and rewards for exceeding standards. Power to make companies pay for environmental restoration.
Environmental standards	Tas	1994	Introduction of a new environmental management system associated with the production and distribution of electricity within the Hydro-Electric Commission.	Compliance with internationally accepted standards and improved environmental management.
Water resources	WA	1994–95	Framework to establish marine conservation reserves as part of a three-tier system (nature reserves, parks and conservation areas).	Allows for a range of uses within the reserves in accordance with zoning based on biological and resource surveys.
Water quality	NT	Ongoing	Implementation of a strategy for management of water quality consistent with the National Water Quality Management Strategy.	Community and specific stakeholder involvement in the development of water quality management plans. Control of discharges through licences.
Tele-communications	C'wealth	June 1994	Application of a new Telecommunications National Code specifying technical, design, safety, environmental and other standards, as well as the required consultation procedures with local, State and Territory Governments for telecommunications carriers.	Facilitates network roll-out by establishing a uniform national regulatory regime. The Code reduces carriers' powers to unilaterally decide on the environmental significance of proposals; tightens consultation procedures between carriers and local government authorities; and requires carriers to co-locate tower facilities if certain conditions are met.

GOVERNMENT BUSINESS ENTERPRISE REFORM

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
General	Joint	11 April 1995 and 30 June 1995	<p>Adoption of the National Competition Policy which provides for:</p> <ul style="list-style-type: none"> • Application of the competitive conduct rules in the <i>Trade Practices Act 1974</i> to all State and Territory GBEs. • Principles for prices oversight of State and Territory public monopolies. • Competitive neutrality for significant GBEs and significant business activities conducted by agencies. • Agreement to conduct a review of certain competition issues before a public monopoly is privatised or before competition is introduced into a sector traditionally supplied by a public monopoly. 	The extension of the competitive conduct rules and the implementation of competitive neutrality measures will promote allocative efficiency between government and private businesses. Prices oversight will impose a discipline on monopoly pricing. The pre-privatisation and pre-competition reviews of public monopolies should provide the impetus for structural reforms and more competitive markets where appropriate.
	NSW	Aug 1994	Introduction of a capital structure policy for GBEs. Sets out a commercially based methodology to be used to determine target capital (ie debt/equity) structures.	The policy seeks to create an environment that encourages GBE management to operate in a commercial manner and to match the performance of private sector businesses of similar risk.
	NSW	Dec 1994	Introduction of a risk reporting requirement for GBEs to augment the setting of financial targets.	Provides a mechanism to identify and monitor risks and give 'early warning' of financial problems facing a GBE.
	Vic	1995	Establishment of a performance monitoring framework for major GBEs based on a 'Parent Company-Subsidiary' relationship model.	Provides for a focus on commercial performance and management of risk exposures.

Electricity	Vic	1995	Passage of legislation to enable the Government to impose guarantee charges and financial accommodation levies. It will be progressively implemented for all significant GBEs from 1 July 1995.	Compensates the State for the risks it assumes by providing guarantees and minimises the competitive advantage enjoyed by GBEs as a consequence of government underwriting borrowings.
	Qld	1994–95	Government-owned corporations are to incur taxes that resemble the Commonwealth income and sales tax regimes.	Introduces competitive neutrality to government owned enterprises thereby facilitating competition.
	WA	1994–95	Pricing reform involving: electricity and gas; water, sewerage and drainage; public transport; and port charges.	Increased focus on ‘user-pays’ principle and greater transparency of costs to consumers.
	WA	1995	Development of a tax equivalent regime for GBEs.	Will place GBEs on a more competitively neutral footing with the private sector.
	SA	1994–95	Commercial financial framework established for State Trading Enterprises (STEs). Includes corporatisation of major government businesses.	Places STEs on a more commercial footing through the establishment of target rates of return, commercial capital structures, dividend policy, the implementation of a tax equivalent regime and a system of performance monitoring.
	NT	1994–95	The creation of Government Business Divisions as the basis for implementing ongoing commercialisation reforms in GBE and identified business units.	Aims to provide greater autonomy and financial management control within agencies. Identifies any significant change in revenue and budget control.
	C’wealth, NSW & Vic	1995	Agreement on principles for corporatisation of the Snowy Mountains Hydro-Electric Authority.	Will enable commercial operation and permit the corporatised Snowy to participate in the national electricity market.

GOVERNMENT BUSINESS ENTERPRISE REFORM (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	NSW	Feb 1995	Establishment of TransGrid to manage high voltage transmission in NSW. This function was formerly undertaken by Pacific Power.	The reform separates transmission from generation in NSW and provides for non-discriminatory access to the grid. This is a necessary pre-condition for a competitive electricity market.
	NSW	May 1995	Government endorsement of a new code to effect the accounting separation of the network and retail businesses of electricity distributors.	Important pre-condition for a competitive electricity market.
	NSW	June 1995	Development of an interim NSW wholesale market to facilitate amalgamations of electricity distributors, restructuring of generation and provision of subsidiary 'wires' and retail supply businesses for each distributor.	Prepares the existing industry bodies for reform and provides the Minister for Energy with the requisite powers to implement reform.
	NSW	1994-95	Continued unwinding of historical cross-subsidies between tariff classes and enhancement of cost-reflectivity in the Government Pricing Tribunal's 1994-95 electricity price determination.	The 8 per cent nominal reduction in the wholesale price of electricity (Bulk Supply Tariff) was directed to reducing business tariffs. Residential prices were frozen.
	Vic	1994-95	The separation of distribution, transmission and generation elements and further disaggregation within the distribution and generation components to promote competition.	Establishes a competitive electricity supply industry in Victoria consistent with the transitional arrangements for the introduction of a national electricity market.
	Vic	1995	Privatisation of the first distribution business, United Energy Ltd commenced with sale scheduled for completion in 1995-96. Indicative plan provides for privatisation of the remaining distribution businesses and one generator business by the first quarter of 1996.	Privatisation will lock in the benefits of structural reforms and provide a competitive industry structure.

Qld	Jan 1995	The Queensland Electricity Commission (QEC) was restructured into separate generation and transmission/supply companies. These will operate with a commercially-based capital structure, explicit funding of CSOs and a performance monitoring regime.	Restructuring is aimed at facilitating competition in generation and separating regulatory from commercial functions. Market trading arrangements are being developed to be consistent with those proposed by the National Grid Management Council, facilitating open access to the grid.
SA	June 1995	Creation of a commercial operating framework for ETSA Corporation from July 1995. Generation, Transmission, Distribution and New Business subsidiaries established.	Provides for an increasingly commercialised and competitive operating environment, encouraging improved performance and efficiency. Enables ETSA to compete effectively in the emerging national competitive electricity market.
SA	Nov 1994	Cost reflective pricing for provision of electricity infrastructure supplied to property developers.	Will encourage sound investment decisions by property developers and ensure that the cost of grid extensions is borne by the ultimate end user.
SA	June 1995	Further restructuring of electricity tariffs to more closely reflect the actual cost of supply and reduce cross subsidies between market segments.	Improves efficiency within the sector, with resulting flow-on benefits to other sectors.
SA	May 1995	Contracting out by ETSA in areas including: vocational training; information management; vehicle fleet services; information technology; and telecommunication services.	Focuses management attention and resources on central activities of the organisation, improves service provision and enhances the efficient and effective operation of ETSA.
SA	June 1995	Licensing of electrical workers and contractors transferred from ETSA to Office of Consumer and Business Affairs, and administration associated with electrical article approvals transferred to Energy Division of the Department of Mines and Energy.	Separates regulatory functions from commercial functions in accordance with competitive neutrality objectives.
Tas	Aug 1994	Introduction of a network fee and variable pricing component for electricity by the Hydro-Electric Commission.	Ensures a more competitive and cost reflective pricing structure in line with national reforms.

GOVERNMENT BUSINESS ENTERPRISE REFORM (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	NT	1994–95	Administration of the Electrical Workers and Contractors Act was transferred to the Department of Lands, Housing and Local Government from the Power and Water Authority.	Separation of the regulatory and service functions.
	NT	1995	PAWA has developed a buy back tariff for the purchase of power from cogenerators or private power producers to generate in parallel with the PAWA grid.	While the connection of co-generation plant to the PAWA system reduces revenue, it also may have the potential to defer investment in more generating plant.
Electricity and gas	WA	1994–95	Establishment of the Office of Energy.	Separates regulatory functions from energy provision and facilitates the development of energy industry competition.
	WA	Jan 1995	Separation of State Energy Commission into two corporatised businesses – Western Power (electricity) and AlintaGas (gas).	Maximises scope for efficiency improvements in the electricity and gas industries. Increases potential for competition from private sector providers.
Electricity and water	ACT	1994–95	Pricing reform including removal of the free water allowance and the introduction of a business time of use electricity tariff and reduction in the minimum fixed charge.	Improve economic efficiency and equity of charges by reflecting costs and reducing cross subsidies, and aid in maintaining market share.
Electricity, water and gas	NT	1995	PAWA's commercial and non-commercial activities have been identified as separate divisions.	Provides management with clear and non-conflicting objectives and makes subsidies and cross-subsidies more transparent.
Water	NSW	1994–95	Negotiation of a five year package of regulatory arrangements to apply to the Hunter Water Corporation for the period 1995–2000 covering access to raw water, service standards, pricing, and discharge standards.	The HWC is continuing a shift towards cost-reflective pricing. The property valuation component of HWC's tariffs was removed.

NSW	Jan 1995	Sydney Water required to enter into memoranda of understanding with three regulatory agencies following its corporatisation.	Separation of the operational and regulatory functions of Sydney Water.
NSW	1994–95	Corporatisation and subsequent sale of four Government Irrigation Areas and Districts to irrigators.	Benefits include improved commercial and environmental outcomes; reduction of direct subsidies; improved efficiency of water use; irrigator control of water delivery service; and separation of the Government’s regulatory and commercial responsibilities.
NSW	1994–95	Continued unwinding of Sydney Water’s historic business charge cross-subsidy via a reduction in the property-value component. Usage charges increased from 27 per cent of total revenue in 1993–94 to an estimated 33 per cent in 1994–95 with progressive replacement of property-value charges.	The pricing reform reduced Sydney Water’s revenues from the business sector by an estimated \$95 million, or 17 per cent in 1994–95. This was achieved mainly by productivity improvements rather than increases in residential prices (water usage and access charges were frozen). Pricing to reflect cost of supply encourages better use of resources.
Vic	1995	Restructuring of Melbourne Water into three retail companies operating under licence, one headworks business and a parks and waterways authority.	Provides benchmark competition, clear service outputs and overall cost reduction of current services.
Vic	1994	The functions of the former Rural Water Corporation have been transferred to five retail rural authorities, with a rural headworks authority pending.	Rationalises operational and capital expenditure, with the benefits from reduced overheads and improved local cost control flowing to customers.
WA	1995	Commercialisation of Water Authority, including opening services to competition from private sector providers and separating the policy/regulatory functions from operations and service provision.	Cost efficiencies, clearer accountability and definition of responsibility for the separate management of water resources and infrastructure.

GOVERNMENT BUSINESS ENTERPRISE REFORM (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	SA	June 1995	Corporatisation of Engineering and Water Supply Department (now the SA Water Corporation). Plans to facilitate contracting out operations, maintenance and construction activities from January 1996.	Corporatisation will establish clear objectives to ensure accountability and performance. Contracting out with further restructuring measures is expected to reduce costs by \$38 million per annum beyond 1995–96.
	SA	Dec 1994	Restructuring of water pricing system by introduction of volumetric water pricing so that all water consumption incurs a charge.	Provides more appropriate price signals to consumers and thereby enhances allocative efficiency.
	SA	1994–95	Regulatory functions transferred from the Engineering and Water Supply Department to non-commercial government agencies.	Separates regulatory and operational functions and increases the commercial focus of the organisation.
	SA	1994–95	Sale of manufacturing and fabrication businesses of the Engineering and Water Supply Department to the private sector.	Privatisation of non-core elements of the enterprise being pursued in order to achieve contestability and improve operational efficiency.
Water & sewerage	NSW	Jan 1995	Corporatisation of the Sydney Water Board.	Corporatisation creates the structures for the organisation to become a more commercial and accountable business.
	NT	1995	Increased water and sewerage tariffs and development of a trade waste tariff policy based on user pays.	Tariffs more closely reflect costs. Ensures that more efficient decisions are made in relation to waste treatment and water consumption.
Ports	NSW	July 1995	Restructuring of the Maritime Services Board into three independent port corporations (Sydney, Newcastle and Port Kembla) and the Waterways Authority on 1 July 1995. Residual functions of the former MSB transferred to the new Office of Marine Safety and Port Strategy.	Corporatisation is expected to lock in the productivity gains made to date and provide an added impetus to improve the efficiency of NSW ports.

Vic	1995	New framework announced for Victoria's ports including: establishment of a new statutory authority as the landlord for the Port of Melbourne; leasing of underwater assets to port owners; and establishment of a Victorian Channels Authority.	Increase port efficiency and improve services while reducing port costs.
Vic	1994	Reduction of port authority charges, including the abolition of the State Tonnage Duty, with further price reductions planned.	Benefits of reforms to flow to port users in reduced charges and improved service.
Vic	1994	Legislation to remove community ports from the scope of port authorities and then place under the management of local committees.	Removes CSOs from the operations of port authorities, enabling them to focus on commercial activities.
Qld	1994–95	The Harbours Corporation of Queensland, the Port of Brisbane Authority and the Port of Gladstone Authority were corporatised on 1 July 1994. The remaining five port authorities — Cairns, Townsville, Mackay, Rockhampton and Bundaberg — were corporatised on 1 July 1995.	Introduction of greater commercial focus to port development and management. The reforms will also increase efficiency in operations and place port authorities in a competitively neutral environment.
WA	1994–95	Commercialisation of Fremantle Port Authority.	Focus on core business (port management) and transfer of other functions to the private sector. Increasing profitability and significantly reduced costs per unit of cargo.
SA	Oct 1994	Marine and Harbours agency restructured as a corporate authority, the SA Ports Corporation. New corporation to be subject to a tax equivalent regime from 1 July 1995.	The performance of the Corporation will be assessed against a commercial charter and performance objectives. CSOs will be explicitly funded.
SA	Oct 1994	Removal of non-commercial activities from the Ports Corporation to the Department of Transport.	Transfer of CSOs and related functions improves the commercial focus of the organisation.

GOVERNMENT BUSINESS ENTERPRISE REFORM (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	NT	1994–95	Adoption of ‘landlord’ model by Darwin Port Authority whilst ensuring competition is maintained between service providers in the port.	Port Authority land not required for core business and repairs and maintenance transferred to private sector.
Rail	NSW	1994–95	Accounting separation of ownership of SRA network assets from train operations. A Network Access Unit has been established to facilitate reform.	Open access is expected to drive efficiencies in network asset management and promote competition among current and potential operators.
	Qld	July 1995	Corporatisation of Queensland Rail.	Replicates a commercial trading environment and achieves competitive neutrality with the private sector. Track access to be given to private operators.
	WA	Aug 1994	Westrail and National Rail Corporation finalised arrangements for track access rights in WA.	Commercial agreement over specified track and infrastructure related to interstate rail movements.
	WA	1994–95	Removal of Westrail monopoly on passenger, ore and grain freight services.	Introduced competition to previously closed marketplace.
Urban transport	WA	1995	Transperth (Metrobus) services in Perth metropolitan area opened to competition by private operators.	Introduced competition to previously closed marketplace.
	WA	1994–95	Transperth Ferry service contracted to private sector operator.	Greater transparency in actual operating costs.
	WA	1994–95	Transfer of remaining coordination functions from transport providing agencies to the Department of Transport.	Separation of monitoring/regulating and policy development roles from major public sector providers of transport services.
	SA	March 1995	Commencement of a major program to contract out metropolitan bus services.	Expected to improve service quality and cost effectiveness.
	SA	1995	Transfer of TransAdelaide bus, depot and workshop assets to the Department of Transport and the ticketing system to the Passenger Transport Board.	Establishes Department of Transport as the owner of public transport assets, to be leased on a commercial basis to passenger transport contractors.

	SA	July 1994	Passenger Transport Board created to undertake the regulation, coordination and funding of public passenger transport including bus, rail and taxi services.	Separates policy functions and operational activities in the passenger transport sector. Combines administration of all public transport modes into a single agency.
	SA	1994–95	TransAdelaide track re-sleepering activities contracted out.	Places greater emphasis on core business activities and has resulted in significant operational savings.
Gas	Vic	1994	Disaggregation of the Gas and Fuel Corporation into separate transmission and distribution businesses.	Restructuring a pre-requisite to establishing arrangements for third party access, and creation of a competitive environment.
	SA	May 1995	Assets of the Pipelines Authority of South Australia sold to Tenneco Gas Australia.	The private sector now controls production, transmission and distribution/retailing of gas in SA, providing for an increasingly competitive market.
Banking	NSW	Dec 1994	Sale of the State Bank of NSW to Colonial Mutual Life Limited for \$576.5 million.	Preserves competition in the banking industry. Proceeds used to reduce State debt.
	SA	June 1995	BankSA sold to Advance Bank Australia Ltd for \$730 million.	Major ownership reform, enhancing competition within the banking industry. Central component in debt reduction strategy, with proceeds used to reduce State debt.
Post	C'wealth	Dec 1994	Reduction in extent of Australia Post's reserved market and changes to internal operations to increase commercial focus, maintain price competitiveness and improve service.	Ensures that the benefits of competition are passed on to consumers and business in the form of price restraint and encourages competition in value-added services such as bulk-mail, document exchanges and express mail.

GOVERNMENT BUSINESS ENTERPRISE REFORM (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
Aviation	C'wealth	1995	The Civil Aviation Authority was replaced by two new bodies, the Civil Aviation Safety Authority (CASA) and Airservices Australia (AA) from 1 July 1995. CASA provides the regulatory framework for civil aviation in Australia and Airservices Australia is the airways service provider.	The separation of the two bodies is expected to result in both increased aviation safety and greater efficiencies.
	C'wealth	June 1995	Finalisation of arrangements for the public float of the remaining 75 per cent of the shares in Qantas Airways Ltd.	The sale is expected to improve the company's operational efficiency and financial performance, with flow-on effects to the competitiveness and efficiency of the aviation sector in general.
Aerospace	C'wealth	June 1995	Sale of AeroSpace Technologies of Australia Ltd (ASTA) to Rockwell Systems Australia Pty Ltd.	Completes a reform process commenced in 1986 when the Government Aircraft Factories (GAF) was corporatised.
Vehicle fleet	NSW	1994-95	Extension of the passenger vehicle leasing facility for State Fleet Services by a further \$30 million through a sale and lease-back arrangement with Macquarie Bank.	Frees up government funds for use in alternative areas.
Wagering and gaming	Vic	1994	Public float of TABCORP Holdings Ltd on the Australian stock exchange raised \$609 million.	Eliminates risks of ownership, expands competitive industry and diversifies ownership. Sale proceeds used to reduce State debt.
Grain loading	Vic	1995	Government has signed an agreement to sell the Grain Elevators Board to Vicgrain Operations Ltd. Ship loading facilities will be subject to oversight by the Regulator-General on pricing and access issues.	Privatisation opens up the business to private sector initiatives for diversification and expansion.

Trustee services	Vic	1994	Agreement between State Trustees Ltd and the Department of Health and Community Services for the provision of trustee services, where appropriate, at non-commercial rates.	This ensures transparency in the costing and funding of CSOs.
Investment	Qld	Oct 1994	Queensland Investment Development Corporation (QIDC) was corporatised.	Places the organisation in an environment which resembles as closely as possible a commercial trading environment.
Insurance	WA	1994	State Government Insurance Office privatised.	Transfer of non-core government activity to the private sector.
	SA	1994–95	State Government Insurance Commission (SGIC) restructured in preparation for sale, expected to be completed by the end of 1995 subject to the passage of enabling legislation.	Intended sale of restructured State Government insurance agency represents significant ownership reform, enhancing competition within the insurance industry.
Private provision and management of infrastructure	WA	1994–95	Private infrastructure provision in: <ul style="list-style-type: none"> • Ord hydro-electric scheme; • Pilbara/Goldfields gas pipeline; • Collie coal power station; • Pilbara energy project; and • BP Kwinana co-generation plant. 	Minimises public exposure to commercial risk and reduces the need for new public sector borrowing. Enhances economic growth prospects for the State and particular regional areas.
Investments	SA	Dec 1994	Sale of Enterprise Investments Ltd, Enterprise Securities Ltd and beneficial interest in the Enterprise Investments Trust to the private sector.	Shedding of non-core venture capital company activities, to allow for more efficient operation by the private sector.
Printing	WA	Jan 1995	State Print privatised.	Increased competition in the delivery of printing services to the public sector.

GOVERNMENT BUSINESS ENTERPRISE REFORM (continued)

<i>Sector</i>	<i>Jurisdiction</i>	<i>Date</i>	<i>Nature of reform</i>	<i>Significance</i>
	SA	June 1995	Large offset printing operation of State Print closed and equipment sold to the private sector.	Consistent with strategy of transferring non-core government services to the private sector, in order to improve efficiency in service provision.
Clothing	SA	May 1995	State Clothing Corporation sold to the private sector.	Component of strategy to contract out non-core government services to the private sector in order to improve efficiency.

I

Staffing and management

This appendix provides supporting information to Chapter 4 on staffing and management matters. Its structure largely follows that of the Corporate Overview in that chapter.

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ORGANISATIONAL STRUCTURE AND MEMBERSHIP

COMMISSIONERS

Table 11: Chairperson and Commissioners, 30 June 1995

	<i>Period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr W I Scales AO (Chairperson) (M)	21 May 1992	20 May 1997
Mr G R Banks (Executive Commissioner) (C)	19 June 1991	18 June 1996
Dr M L Parker (C)	9 March 1995	31 August 1995
Mr K J Horton-Stephens (M)	1 March 1994	28 February 1999
Prof T J Hundloe (C)	10 February 1992	9 February 1997
Mr J R Rae (M)	1 December 1992	30 November 1997
Mrs H J Owens (M)	8 February 1993	7 February 1998
Mr M J Joyce (M)	22 March 1995	21 March 2000
Mr J H Cosgrove (C)	27 June 1995	26 June 2000

M denotes Melbourne based; C denotes Canberra based.

Two new Commissioners, Mr Maurice Joyce and Mr John Cosgrove, were appointed during the year.

Mr Joyce joined the Commission from Comalco where he was last employed as General Manager (Commercial) in Comalco's Extruded and Foundry Products Business Unit. With Comalco he spent considerable time in the United States and Asia. Mr Joyce's prior experience at the World Bank included industry policy analysis and industrial project development.

Much of Mr Cosgrove's career has been with the Australian Treasury, and included work on a range of domestic and international economic policy issues. He served as the Treasury representative in the Australian Mission to the European Communities, the Australian Delegation to the OECD and the Australian High Commission in London. Prior to joining the Commission, Mr Cosgrove was a member of the Executive Board of the World Bank.

Dr Roger Mauldon retired as a Commissioner on 31 December 1994 after 22 years with the Commission and its predecessor organisations. During his time as a Commissioner, Dr Mauldon was involved in around 100 inquiries and was widely recognised for his expertise in agricultural economics. Towards the end of his appointment he was involved in the inquiry into charitable organisations and he agreed to continue as a part-time Associate Commissioner until the completion of the inquiry in June 1995.

September 1995 saw the retirement of Dr Max Parker who served with the Industry Commission and its predecessor organisations for over 21 years. Dr Parker was appointed as a Commissioner in 1989. He participated and presided over a number of inquiries, the most recent of which included: public housing; petroleum products; the vehicle and recreational marine craft repair and insurance industries; and computer hardware, software and related service industries.

The Commission recognises and thanks both Dr Mauldon and Dr Parker for the valuable contributions they have made to its work.

ASSOCIATE COMMISSIONERS

Table I2: Associate Commissioners (fixed term appointments), 30 June 1995

	<i>Period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr N Gruen	19 April 1994	18 April 1999
Dr S Richardson (part-time)	6 February 1995	5 February 2000
Prof R Snape	6 February 1995	5 February 2000

Dr Susan Richardson and Professor Richard Snape were new appointments during 1994–95.

Dr Richardson's appointment is on a half-time basis, enabling her to continue active involvement as reader in the Department of Economics and convenor of the academic board at the University of Adelaide. She has a number of other appointments, including to the board of the national Pipeline Authority and as a member of the EPAC Advisory Board. Her recent research interests are in the fields of labour economics and income distribution.

Professor Snape joined the Commission on secondment from his position as Professor of Economics at Monash University. In recent years, his main research interests have been in international trade policy, and particularly multilateral and regional trade agreements. Professor Snape has worked at the World Bank, the GATT and UNCTAD and is a member of several editorial and research boards.

Part-time Associate Commissioners are appointed for the duration of particular inquiries. Those with appointments at 30 June 1995 are shown in Table I3.

Table I3: Part-time Associate Commissioners (appointed to particular inquiries), 30 June 1995

	<i>Inquiry</i>	<i>Appointed</i>
Mr M Easson	Work, health and safety	24 June 1994
Prof B Johns	Computer hardware and software	13 October 1994
Mr C McAlister	Competitive tendering and contracting	5 December 1994

Note: Professor T Parry was appointed as a part-time Associate Commissioner on 30 June 1995 but resigned shortly thereafter due to other commitments.

During the year, a number of part-time Associate Commissioner appointments ended with the completion of the relevant inquiry. Details are shown in Table I4.

Table I4: Part-time Associate Commissioner appointments completed in 1994–95

	<i>Inquiry</i>	<i>Appointed</i>	<i>Ended</i>
Prof B Johns	Petroleum industry	8 Jun 1993	5 Jul 1994
Mr J Moten	Defence procurement	14 Sep 1993	2 Sep 1994
Mr P Hall	Research and development	30 Sep 1993	15 May 1995
Sr M McGovern	Charitable organisations	16 Dec 1993	16 Jun 1995
Dr T Considine	New and advanced materials	30 May 1994	29 Oct 1994
Dr B Hickman	New and advanced materials	25 Oct 1994	22 Mar 1995
Dr R Mauldon	Charitable organisations	1 Jan 1995	16 Jun 1995

STAFF

Table I5: Staffing profile^a 30 June 1995

<i>Level</i>	<i>Female</i>		<i>Male</i>		<i>Total</i>	
Senior Executive Service Band 2	1	(1)	2	(1)	3	(2)
Senior Executive Service (Specialist) Band 2	0	(0)	1	(1)	1	(1)
Senior Executive Service Band 1	3	(3)	13	(13)	16	(16)
Senior Officer Grade A	0	(0)	0	(1)	0	(1)
Senior Officer Grade B	7	(9)	31	(32)	38	(41)
Senior Officer Grade C	12	(13)	21	(22)	33	(35)
Senior Info Tech Officer Grade B	1	(0)	1	(2)	2	(2)
Senior Info Tech Officer Grade C	0	(1)	2	(1)	2	(2)
Info Tech Officer Grade 2	0	(0)	2	(1)	2	(1)
Info Tech Officer Grade 1	0	(0)	0	(1)	0	(1)
Senior Public Affairs Officer Grade 1	0	(0)	1	(1)	1	(1)
Senior Professional Officer Grade C	1	(1)	0	(0)	1	(1)
Professional Officer Class 2	2	(2)	0	(0)	2	(2)
Administrative Service Officer Class 6	15	(17)	19	(22)	34	(39)
Administrative Service Officer Class 5	19	(14)	17	(22)	36	(36)
Administrative Service Officer Class 4	4	(6)	6	(2)	10	(8)
Administrative Service Officer Class 3	17	(24)	3	(7)	20	(31)
Administrative Service Officer Class 2	14	(21)	6	(2)	20	(23)
Administrative Service Officer Class 1	2	(1)	0	(2)	2	(3)
Research Officer Grade 2	2	(7)	13	(7)	15	(14)
Graduate Administrative Assistant	3	(3)	6	(13)	9	(16)
Total	103	(123)	144	(153)	247	(276)

a Figures in brackets are the corresponding numbers at 30 June 1994. Includes 24 inoperative staff at 30 June 1995, and 40 at 30 June 1994.

Table I6: Senior Executive Service staff by employment status, 30 June 1995

<i>Level</i>	<i>Status</i>	<i>Female</i>		<i>Male</i>		<i>Total</i>	
Band 2	Permanent	0	(1)	1	(1)	1	(2)
Band 2 (HDA)	Temporary	0	(0)	1	(0)	1	(0)
Band 2 (Specialist)	Permanent	0	(0)	1	(1)	1	(1)
Band 2	Inoperative	1	(0)	0	(0)	1	(0)
Band 1	Permanent	2	(2)	11	(10)	13	(12)
Band 1 (HDA)	Temporary	0	(0)	1	(1)	1	(1)
Band 1	Inoperative	1	(1)	1	(2)	2	(3)
Total		4	(4)	16	(15)	20	(19)

a Figures in brackets are the corresponding numbers at 30 June 1994.

Table I7: Staff (other than Senior Executive Service) by employment status, 30 June 1995

<i>Status</i>	<i>Female</i>		<i>Male</i>		<i>Total</i>	
Full-time permanent	86	(107)	120	(133)	206	(240)
Full-time temporary	5	(6)	8	(5)	13	(11)
Part-time permanent	8	(3)	0	(0)	8	(3)
Part-time temporary	0	(3)	0	(0)	0	(3)
Total	99	(119)	128	(138)	227	(257)

a Figures in brackets are the corresponding numbers at 30 June 1994.

Table 18: Staff by classification and location^a, 30 June 1995

<i>Level</i>	<i>Canberra</i>	<i>Melbourne</i>
Senior Executive Service Band 2	1	2
Senior Executive Service (Specialist) Band 2	1	0
Senior Executive Service Band 1	8	8
Senior Officer Grade B	19	19
Senior Officer Grade C	12	21
Senior Info Tech Officer Grade B	0	2
Senior Info Tech Officer Grade C	0	2
Info Tech Officer Grade 2	1	1
Senior Public Affairs Officer Grade 1	0	1
Senior Professional Officer Grade C	0	1
Professional Officer Class 2	1	1
Administrative Service Officer Class 6	9	25
Administrative Service Officer Class 5	10	26
Administrative Service Officer Class 4	3	7
Administrative Service Officer Class 3	7	13
Administrative Service Officer Class 2	7	13
Administrative Service Officer Class 1	0	2
Research Officer Grade 2	7	8
Graduate Administrative Assistant	6	3
Total	92 (156)	155 (120)

a Figures in brackets are the corresponding numbers at 30 June 1994. Includes the following inoperative staff: 30 June 95 — Canberra 15, Melbourne 9; 30 June 1994 — Canberra 34, Melbourne 6.

SEPARATIONS

The high staff turnover of 1993–94 continued into 1994–95, largely as a result of the Commission's relocation to Melbourne. During 1994–95 staff departures totalled 117 (Table I9).

Of the 68 separations for 'other' reasons, 27 were due to staff accepting voluntary retirement packages, 39 resulted from contracts ending and the remaining two were as a result of staff being seconded to other agencies. There were no applications from departing officers under Chapter 16 of the *Guidelines on Official Conduct of Public Servants (1995)* relating to the acceptance of business appointments on retirement or resignation.

Table I9: Staff by classification and reason for separation,
1994–95

	<i>Reason for separation</i>											
	<i>Promotion</i>		<i>Transfer</i>		<i>Resignation</i>		<i>Retirement</i>		<i>Other</i>		<i>Total</i>	
Senior Executive Service	0	(0)	0	(3)	0	(1)	0	(0)	1	(1)	1	(5)
Senior Officer Grade A	0	(0)	0	(0)	1	(0)	0	(0)	0	(0)	1	(0)
Senior Officer Grade B	0	(0)	4	(6)	0	(0)	0	(0)	5	(0)	9	(6)
Senior Officer Grade C	3	(1)	2	(3)	0	(1)	1	(0)	5	(5)	11	(10)
Senior Information Technology Officer Grade B	0	(0)	1	(0)	0	(0)	0	(0)	0	(0)	1	(0)
Senior Information Technology Officer Grade C	0	(0)	0	(0)	0	(0)	0	(1)	0	(1)	0	(2)
Senior Publications Affairs Officer Grade 1	1	(0)	0	(0)	0	(0)	0	(0)	0	(0)	1	(0)
Public Affairs Officer Class 3	0	(0)	0	(1)	0	(0)	0	(0)	0	(0)	0	(1)
Professional Officer Class 2	0	(0)	2	(0)	0	(0)	0	(0)	0	(1)	2	(1)
Professional Officer Class 1	0	(0)	0	(0)	0	(0)	0	(0)	1	(1)	1	(1)
Information Technology Officer Grade 1	0	(0)	1	(0)	0	(0)	0	(0)	0	(0)	1	(0)
ASO ^b 6	1	(1)	6	(4)	4	(0)	0	(0)	2	(1)	13	(6)
ASO 5	1	(2)	3	(7)	3	(1)	0	(0)	3	(2)	10	(12)
ASO 4	1	(0)	1	(0)	0	(0)	0	(0)	0	(3)	2	(3)
ASO 3	1	(1)	5	(5)	2	(0)	1	(2)	11	(6)	20	(14)
ASO 2	1	(2)	0	(1)	1	(3)	0	(0)	19	(9)	21	(15)
ASO 1	0	(0)	0	(0)	0	(0)	1	(0)	11	(4)	12	(4)
Research Officer Grade 2	1	(1)	0	(0)	0	(0)	0	(0)	2	(0)	3	(1)
GSO ^c 3	0	(0)	0	(0)	0	(0)	0	(0)	1	(1)	1	(1)
GSO 2	0	(0)	0	(0)	0	(0)	0	(0)	7	(0)	7	(0)
Total	10	(8)	25	(30)	11	(6)	3	(3)	68	(35)	117	(82)

a Figures in brackets are the corresponding numbers for 1993–94.

b Administrative Service Officer.

c General Services Officer.

RECRUITMENT

The Commission recruited 88 staff during the year. Of these, 43 females and 33 males were employed as full-time permanent staff. Another nine males were employed on a full-time temporary basis for various periods and three females were employed on a permanent part-time basis.

As part of its graduate recruitment program, the Commission recruited six male and three female Graduate Administrative Assistants (GAAs) in 1994–95.

EQUAL EMPLOYMENT OPPORTUNITY IN APPOINTMENTS

Each of the 93 people recruited to the Commission during 1994–95 was given the opportunity to identify with any of the equal employment opportunity groups. Where new staff indicated membership of the groups, the records show that there were 46 females, one person of non-English speaking background, no Aboriginal or Torres Strait Islander peoples and one person with a disability. Further breakdowns are contained in Table I10.

Gender balance has declined slightly since last year with females now occupying 42 per cent of all positions. Females occupy 20 per cent of Senior Executive Service positions, 16 per cent of Senior Officer Grade B (and equivalent) positions and 38 per cent of Senior Officer Grade C (and equivalent) positions.

Table 20: Equal employment opportunity target groups, 30 June 1995

	Salary range									Total
	Above \$58 107 <i>(includes SES)</i>	\$49 832 – 59 268 <i>(SO A&B & equiv)</i>	\$44 898 – 48 770 <i>(SO C & equiv)</i>	\$37 932 – 43 573 <i>(includes ASO 6)</i>	\$35 122 – 37 241 <i>(includes ASO 5)</i>	\$31 488 – 34 189 <i>(includes ASO 4)</i>	\$28 252 – 30 492 <i>(includes ASO 3)</i>	\$24 804 – 27 506 <i>(includes ASO 2)</i>	Below \$24 223 <i>(includes ASO 1)</i>	
Gender										
– female	4	6	14	17	16	7	17	19	3	103
– male	16	31	23	23	18	15	4	9	5	144
Total	20	37	37	40	34	22	21	28	8	247
Aboriginal or Torres Strait Islander peoples	0	0	0	0	0	0	0	0	0	0
People with disabilities	0	1	2	1	0	0	0	0	0	4
Non-English speaking background										
– 1st generation	2	1	2	3	1	0	0	0	0	9
– 2nd generation	0	2	4	3	5	1	5	2	0	22

Source: Based on staff responses to voluntary equal employment opportunity surveys.

SOCIAL JUSTICE AND EQUITY

ACCESS AND EQUITY CONSULTANCY

During the year the Commission engaged a consultant to assess its performance against the Government's access and equity (A&E) strategy. The consultant's principal recommendations were that the Commission consider:

- developing a formal A&E Plan to be incorporated within the organisation's Corporate Plan;
- formalising its processes around planning and reporting on A&E by developing appropriate checklists and including A&E matters in its reports;
- compiling an ethnicity database which may assist in making more informed decisions about the A&E target groups;
- developing an integrated multicultural marketing strategy to guide its communications with non-English speaking background groups; and
- developing a suitable A&E training program for staff.

The consultant's recommendations have been examined and are being incorporated into a revision of the Commission's A&E Plan which will emphasise the integration of A&E into Commission activities. The Plan will identify a range of strategies aimed at achieving more positive outcomes and increasing participation from A&E target groups in the Commission's activities.

Initiatives already introduced include the use of the Telephone Interpreter Service and the introduction of statements in other languages in Commission publications. The Commission has a number of bilingual and multilingual staff with skills covering 18 languages other than English. This provides an opportunity to further enhance communication with a number of non-English speaking groups.

TRAINING AND DEVELOPMENT

The Commission's expenditure on training and development in 1994–95 represented 2.3 per cent of annual salaries. This excludes the salary cost of staff while undertaking training, and the considerable on-the-job training that is undertaken.

A total of 464 person-days were spent participating in eligible training programs during the year or, on average, 1.6 days per staff member (293 staff participated which includes staff who left the Commission during the year). Main categories of training included professional and technical development (including Studybank), people and performance management skills, communication and presentation skills. A number of training activities were arranged during the year to address specific needs, including report writing, understanding financial statements, administrative support tasks, OHS for senior management, and using software packages.

During the year six staff received postgraduate study awards, five for study in Australia and one overseas.

Graduates undergo a 12 month induction program of formal and on-the-job training. This provides them with an understanding of the structure and operations of the Commission, including the nature of its research and inquiry activities. Graduates are encouraged to play an active role in the workplace and to apply their individual skills at an early stage. Each graduate is allocated to an area of the Commission best suited to his/her qualifications and interests. They receive regular feedback on their work performance and further training and personal development needs are assessed. They are also assigned a mentor who is available to discuss relevant matters.

PERFORMANCE APPRAISAL AND PAY

The Commission continued the performance appraisal scheme for Senior Executive Service and Senior Officer staff. The scheme requires written work agreements between officers and their supervisors, and the formal rating of performance is linked to a performance payment. A broadly similar scheme applies to officers below the Senior Officer range, although no formal ratings are determined and no performance-based pay is attached to this scheme.

The performance appraisal schemes provide a means for staff and supervisors to agree on the work to be completed over the period of the performance contract or work plan. The appraisals provide the opportunity for structured feedback on performance. Separate discussions are held to agree on any training and development needs identified in the appraisal process.

The performance pay schemes rate achievement against the performance contract on a 1 to 5 scale. The ratings imply the following:

- 1 – inefficient performance not eligible for performance-based pay;
- 2 – adequate performance not eligible for performance-based pay;
- 3 – fully effective performance eligible for performance-based pay;
- 4 – superior performance eligible for performance-based pay at one and a half times the amount paid to an officer achieving a 3 rating; and
- 5 – outstanding performance eligible for performance-based pay at twice the amount paid to an officer achieving a 3 rating but no more than the maximum amount payable — \$12 500 if Senior Executive Service Band 2, \$10 000 if Senior Executive Service Band 1, \$8 000 if Senior Officer Grade A or B (and equivalents), and \$3 000 if Senior Officer Grade C (and equivalents).

Distribution of the performance-based pay pool was made equitably so that officers within a particular band who achieved the same rating received the same payment. Pro-rata payments were made where officers had worked the minimum three months to establish eligibility for payment but had not completed a full 12 months. In respect of performance during 1994–95, a total of \$288 288 was distributed to 17 Senior Executive Service officers (\$102 318), 43 Senior Officers Grade B (\$142 317), and 39 Senior Officers Grade C (\$43 653). Table I11 shows the spread of ratings and the related dollar amounts.

Table I11: Performance based pay: distribution of ratings and amounts paid, 1994–95

		<i>Rating</i>			
		2	3	4	5
<i>Percentage of officers who achieved rating</i>					
Senior Executive Service, Bands 1 & 2 ^a	%	0	18	82	0
Senior Officer Grade B	%	5	51	42	2
Senior Officer Grade C	%	10	56	26	8
Overall	%	6	48	42	4
<i>Amount payable per capita for 12 month period</i>					
Senior Executive Service Band 2	\$	0	5 338	8 007	na
Senior Executive Service Band 1	\$	0	4 270	6 406	na
Senior Officer Grade B	\$	0	3 416	5 124	6 832
Senior Officer Grade C	\$	0	1 281	1 921	2 562

na Not applicable.

a Privacy provisions preclude further disaggregation.

MELBOURNE RELOCATION

Of the 254 staff with the Commission on 13 May 1992 (announcement date of the relocation), staff movements as at 30 June 1995 have been as follows:

- 69 have been absorbed into the Canberra office;
- 34 have transferred to Melbourne;
- 96 have found positions elsewhere, retired or resigned; and
- 43 have taken voluntary redundancy packages.

As at 30 June 1995, 12 staff not placed in the Canberra office were still to be relocated, redeployed or retired.

Table I12: Expenditure on Commission relocation to Melbourne, 1992–93 to 1994–95

<i>Costs associated with the relocation</i>	<i>\$ 000</i>
Duplicate salaries, training, etc	3 861
Office fit-out	3 462
Redundancy pay-outs	1 995
Furniture and equipment	1 551
Staff relocations	1 314
Property rent	1 643
Relocation task force	718
Remaining obligations (estimated)	794
Total	15 338

OTHER MANAGEMENT MATTERS

INDUSTRIAL DEMOCRACY

The National Consultative Council underwent a name change during the year and is now referred to as the Industry Commission Consultative Council (ICCC). It remains the Commission's formal consultative mechanism for industrial democracy. It met four times during 1994–95 to:

- review reports on equal employment opportunity and occupational health and safety issues;
- consider policy issues relating to permanent part-time employment, leave without pay, exit procedures, Studybank, compensation implications in out-of-hours situations, long-term higher duties allowances and performance appraisal; and
- discuss issues relating to corporate planning, agency bargaining, office accommodation, benchmarking and the Canberra-Melbourne relocation.

OCCUPATIONAL HEALTH AND SAFETY

The Commission's commitment to OHS is documented in an agreement with the Community and Public Sector Union (CPSU) and is promoted mainly through an OHS Committee. The Committee has management and CPSU representatives as well as staff observers. The OHS Committee met five times during 1994–95 and dealt with a variety of topics, ranging from promoting OHS generally to specific matters such as the safe use of laptop computers, manual handling techniques and office sunglasses. The Commission continued its active approach to the early identification of potential workplace injuries.

The Commission contracted Comcare to undertake an audit to assess compliance with relevant legislation. Comcare provided an interim report but before discussions were convened, Comcare withdrew from contract audits for internal reasons. However, a number of the recommendations contained in the interim report have been acted upon by the Commission. Comcare was also contracted to review the work practices of inquiry support staff. Recommendations relating to manual handling and other work practices have been put into place.

Contracted ergonomists have continued to provide advice to staff in both offices, and in particular to all staff moving into the new Canberra office. Senior Executive Service and Senior Officer staff attended training courses to reinforce their understanding of the principles and practice of OHS.

The Commission achieved an insurance premium for workers' compensation of 1.15 per cent of salaries expenditure, which compares with the average premium of 1.7 per cent for the pool of APS agencies.

No formal OHS investigations were conducted during the year. An Improvement Notice, under the Occupational Health and Safety (Commonwealth Employment) Regulations, was served on 1 February 1995 on tenants of the complex in which the Commission had its Canberra office. The Notice related to the building's airconditioning system. On 3 July 1995 Comcare advised its satisfaction that the Commission had 'taken the reasonably practicable steps necessary to address the issues raised'.

EMPLOYEE ASSISTANCE PROGRAM

The Commission continued to provide access for staff to an Employee Assistance Program (EAP). New contracts were let during the year to the Apt Consulting Group in Melbourne and the Industrial Program Service in Canberra.

The EAP provides independent, confidential and professional counselling, consultation and training assistance to staff and their immediate families who seek help with work-related and personal problems.

EQUAL EMPLOYMENT OPPORTUNITY

The Commission continued to work with the Public Service Commission and staff association representatives to give effect to its equal employment opportunity plan.

All positions advertised during the year included a selection criterion relating to awareness and understanding of government policies on equal employment opportunity, industrial democracy, and occupational health and safety. All applicants were invited to address their claims on this criterion and interviewed applicants were questioned on their experience and commitment to these three important issues.

The Assistant Commissioner, Corporate Services Branch, is the Senior Executive with responsibility for equal employment opportunity. An Administrative Service Officer Class 5 has day-to-day operational responsibility for these matters.

The ICCC provides the forum for discussing equal employment opportunity issues raised by management and staff.

WORKPLACE BARGAINING

Developments continued during the year to identify potential areas of productivity improvements to form the basis of pay increases and/or improved working conditions. The process falls within the ambit of the December 1992 agreement between the Government and the CPSU, entitled *Improving Productivity, Jobs and Pay in the Australian Public Service 1992–95*. Substantial progress on a conditions of service agreement has been reached with the Union, and the parties aim to reach an agreement in the first half of 1995–96 for certification by the

Australian Industrial Relations Commission. The draft agreement contains undertakings in relation to the development and implementation of continuous improvement and improved conditions of service.

ADVERTISING AND MARKET RESEARCH

The Commission publicises each of its inquiries so that any individual, firm or organisation with an interest has an opportunity to present their views. Activities to publicise inquiries range from newspaper advertisements and the distribution of the IC Bulletin (a quarterly newsletter) to announcing key stages of inquiries by press release and inquiry circulars.

In 1994–95 a total of \$149 348 was paid to Neville Jeffress Advertising, the Commonwealth's master agency, for classified advertising.

FREEDOM OF INFORMATION

The Commission received one application for documents during 1994–95 under the *Freedom of Information Act 1982*. The request related to the charitable organisations inquiry and was responded to within the statutory timeframe. In the public interest, all fees were waived in relation to this application.

A statement encompassing formal reporting requirements is provided at Attachment I1.

PUBLICATIONS AND SUBMISSIONS

A list of Commission publications and submissions to a range of committees and external inquiries is at Attachment I2.

ANNUAL REPORTING REQUIREMENTS AND AIDS TO ACCESS

Information contained in this annual report 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 1991*, section 50AA of the *Audit Act 1901*, and section 8 of the *Freedom of Information Act 1982*.

The entire report is provided in accordance with section 45 of the *Industry Commission Act 1989*.

This year's annual report has been prepared in accordance with the guidelines issued by the Department of the Prime Minister and Cabinet. The guidelines seek to minimise the amount of detail contained within annual reports but state that matters of detail previously required for inclusion in annual reports should be made available within five working days of the date of request from Parliament.

A compliance index is at Attachment I3.

The contact officer for inquiries or comments concerning this report is:

Assistant Commissioner
Corporate Services Branch
Industry Commission
Locked Bag 2
Collins Street East Post Office
MELBOURNE VIC 8003
Telephone (03) 9653 2251

Inquiries about any Commission publications can be made to:

Director
Communications Unit
Industry Commission
Locked Bag 2
Collins Street East Post Office
MELBOURNE VIC 8003
Telephone (03) 9653 2183

ATTACHMENT I1

FREEDOM OF INFORMATION STATEMENT

The following information is provided in accordance with subsection 8(1) of the *Freedom of Information Act 1982*.

The role, functions and organisational structure of the Industry Commission are detailed elsewhere in this report.

The Commission is required under its Act to conduct public inquiries on matters referred to it by the Government. The Commission's inquiry procedures actively seek to encourage participation by all interested parties.

The Commission may inspect and copy relevant documents and summons persons to give evidence in the course of its inquiries, and such persons are protected under the Act from being subject to prejudicial treatment as a result of their giving evidence.

Categories of documents

Information circulars, issues papers, inquiry guidelines and draft reports are sent to interested parties and inquiry participants, as well as being made available to the public free of charge, on request. Final reports are made available, free of charge, to inquiry participants.

Documents available for purchase at Commonwealth Government Bookshops include:

- the Commission's Annual Report to Parliament;
- reports on matters referred to the 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 Expo Document Copy Centre, PO Box 1154, Fyshwick, Canberra, ACT 2609. Transcripts of public hearings can be purchased from Spark and Cannon Pty Ltd, which has offices in Melbourne, Adelaide, Sydney, Brisbane and Perth. Transcripts and submissions can also be accessed through all State libraries.

Facilities for access

Relevant Commission documents, including copies of submissions and transcripts, may be inspected in the Commission's libraries in Melbourne and Canberra between 8.30 am and 5.00 pm, Monday to Friday. Information and written requests for access to Commission documents under the *Freedom of Information Act 1982* can be made through:

The Director
Finance and Office Services
Industry Commission
Locked Bag 2
Collins Street East Post Office
MELBOURNE VIC 8003
Telephone: (03) 9653 2270
Facsimile: (03) 9653 2199

The Commission received one application for documents during 1994–95 under the *Freedom of Information Act 1982*. The request was responded to within the statutory timeframe. In the public interest, all fees were waived in relation to the application.

ATTACHMENT I2

REPORTS, PAPERS AND SUBMISSIONS RELEASED IN 1994–95

1 INQUIRY REPORTS

Draft reports

- Charitable Organisations in Australia (27 October 1994)
- Vehicle and Recreational Marine Craft Repair and Insurance Industries (31 October 1994)
- New and Advanced Materials (15 November 1994)
- Research and Development (8 December 1994)
- Computer Hardware, Software and Related Service Industries (5 April 1995)
- Work, Health and Safety (12 April 1995)

Final reports

- Petroleum Products, Report no. 40 (5 July 1994)
- Defence Procurement, Report no. 41 (30 August 1994)
- New and Advanced Materials, Report no. 42 (8 March 1995)
- Vehicle and Recreational Marine Craft Repair and Insurance Industries, Report no. 43 (15 March 1995)*
- Research and Development, Report no. 44 (15 May 1995)
- Charitable Organisations in Australia, Report no. 45 (16 June 1995)
- Computer Hardware, Software and Related Service Industries, Report no. 46 (30 June 1995)

* not yet released by government

2 ANNUAL REPORTS

- Annual Report 1993–94
- Performance of Australian Industry 1993–94
- Compendium of Reports 1993–94

3 INDEPENDENT RESEARCH REPORTS

- Australian Gas Industry and Markets Study: A report for the Trade Practices Commission (6 March 1995)
- The Growth and Revenue Implications of Hilmer and Related Reforms: A report by the Industry Commission to the Council of Australian Governments (March 1995)
- Winegrape and Wine Industry in Australia: A report by the Committee of Inquiry into the Winegrape and Wine Industry (30 June 1995)

4 INFORMATION PAPERS

- What Future for Price Surveillance? Submission to the PSA's review of declarations (September 1994)
- Australian Manufacturing Industry and International Trade Data 1968–69 to 1992–93 (23 March 1995)
- Assistance to Agricultural and Manufacturing Industries (27 April 1995)

5 PERFORMANCE MONITORING

The following reports were prepared by the Commission for publication by the Steering Committee on National Performance Monitoring.

- Guidelines on Accounting Policy for Valuation of Assets of Government Trading Enterprises (October 1994)
- Government Trading Enterprises Performance Indicators 1989–90 to 1993–94, Volume 1: Overview (April 1995)
- Government Trading Enterprises Performance Indicators 1989–90 to 1993–94, Volume 2: Data (April 1995)

6 SUBMISSIONS BY THE INDUSTRY COMMISSION

- Ministerial Oversight of Government Business Enterprises (March 1995) Supplementary submission to the Joint Committee of Public Accounts Inquiry into the Commercialisation of Public Sector Operations

7 OFFICE OF REGULATION REVIEW PAPERS

- The Analysis and Regulation of Safety Risk: A Survey of the Practices of National and Commonwealth Regulatory Agencies (February 1995)

8 SUBMISSIONS BY THE OFFICE OF REGULATION REVIEW

- The Migration Agents Registration Scheme: Effects and Improvements (August 1994) Submission to the Joint Standing Committee on Migration
- Country of Origin Labelling of Food (October 1994) Submission to the National Food Authority
- National Competition Policy: Draft Legislative Package (December 1994) Response to the draft legislative package; Submission to Treasury
- Compliance with the Road Transport Law (December 1994) Submission to the National Road Transport Commission
- Broadband Cable Access Regime (January 1995) Submission to Department of Communications and the Arts
- Pre-merger Notification and the *Trade Practices Act 1974* (February 1995) Submission to Treasury
- Australia's Visa System for Visitors (February 1995) Submission made to the Joint Standing Committee on Migration inquiry into Australia's visa system for visitors
- Competitive Safeguards in Telecommunications (February 1995) Submission to Telecommunications Policy Review
- Competition and Retail Banking (March 1995) Submission to Prices Surveillance Authority
- The Use of Cost Litigation Rules to Improve the Efficiency of the Legal System (March 1995) Submission to the Australian Law Reform Commission

- Submissions to the Corporations Law Simplification Taskforce (Feb–March 1995) Various submissions to the taskforce located in the Attorney-General’s Department
- Environmental Impact Assessment (April 1995) Comments to Environmental Protection Agency on its Environmental Impact Assessment discussion paper
- Review of Licensing Regime for Securities Advisers (April 1995) Submission to the Australian Securities Commission
- Regulation and the Direct Marketing Industry (May 1995) Submission to a working group of the Ministerial Council on Consumer Affairs

9 STAFF PAPERS

- General Equilibrium Models and Policy Advice in Australia (November 1994) Philippa Dee

10 CORPORATE PUBLICATIONS

- IC Bulletin nos 4–6
- Public Hearings Brochure
- Introduction to the IC Brochure

ATTACHMENT I3

COMPLIANCE INDEX

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J

Inquiry and related activities and reports of the Commission

Public inquiries and independent research studies undertaken for other organisations are major areas of the Commission's work. A wide range of subjects, including aspects of economic and social infrastructure, is embraced. This appendix provides information relating to the administration of the Commission's 1994–95 program of inquiries and independent research studies. It also documents the stages of the programs — the terms of reference, principal issues and the recommendations, together with the Government's responses to the inquiry recommendations.

J1 INQUIRY ADMINISTRATIVE MATTERS

PUBLIC INQUIRY ACTIVITIES

The largest of the Commission's activities — involving over 40 per cent of Commission staff time — is the conduct of public inquiries on issues referred by the Commonwealth Government. During 1994–95 the Commission completed seven inquiries and received a further five inquiry references. Table J1 summarises public inquiry activities for the last three years.

Brief summaries of findings and recommendations from Commission reports are presented in section J2, along with Government decisions on recent reports and the terms of reference for inquiries received.

Administrative matters relating to independent studies undertaken by the Commission on wine, gas, electricity and the Hilmer and related reforms are covered in the following subsection, while the major findings of the studies are summarised in section J3.

The public inquiries conducted during 1994–95 continued to be wide ranging, involving complex and sometimes contentious issues, with wide community interest. Of the seven inquiries completed in the year, three

required longer than 12 months (*Petroleum Products, Research and Development, and Charitable Organisations in Australia*).

The wide scope of Commission inquiries and the breadth of community coverage has meant higher levels of public participation and consultation. Since 1992–93 the number of public hearings held has nearly doubled, the number of submissions received has more than doubled and industry visits undertaken have nearly trebled (Table J1). In addition, the broader agenda and community coverage is requiring the Commission to interact with people and organisations who are not necessarily familiar with its processes or analytical framework. Involvement of these new participants is requiring both Commissioners and staff to invest additional time in listening to their perspectives, discussing the issues and gathering relevant information during the inquiry process. As an illustration, Box J1 summarises aspects of the process undertaken during the *Research and Development* inquiry and especially those actions taken to encourage effective public input.

Expenditure

In keeping with the larger and longer inquiries, the cost of the Commission’s inquiries has increased. Table J2 summarises total inquiry expenditure (by inquiry) in 1994–95, while details of non-salary administrative costs (by main cost items) associated with inquiries in 1994–95 are shown in Table J3.

Table Error! AutoText entry not defined.1: Public inquiry activity, 1992–93 to 1994–95

<i>Indicators</i>	<i>1992–93</i>	<i>1993–94</i>	<i>1994–95</i>
References received	8	7	5
Issues papers released	8	8	5
Public hearings (sitting days)	96	145	174
Industry visits ^a	360	660	941
Submissions ^a	890	1 495	2 082
Draft reports completed	7	8	6
Reports completed	7	8	7
References on hand (as at 30 June)	8	7	5

a As distinct from hearing days, which are attributed to the year in which they occur, industry visits and submissions only relate to those for inquiries finishing in that year.

Box Error! AutoText entry not defined.1: The inquiry process illustrated — the R&D inquiry

The terms of reference for the R&D inquiry were received in September 1993. They were very broad: encompassing university research, the CSIRO, business R&D programs and rural research.

An issues paper, inviting participation and seeking advice on the key issues, was distributed widely. The Commission held discussions with many people and organisations, including representatives of public and private research agencies, universities, private firms and government departments. As the reference asked about aspects of R&D in selected countries, discussions were also held with similar groups in Europe, Asia, North America and New Zealand to learn from their experiences and to provide a basis for comparison. Commissioners and staff also made presentations to various groups, to explain the inquiry and encourage participation.

The first round of public hearings was held during November and December 1993 in Perth, Adelaide, Melbourne, Sydney, Brisbane and Canberra. Because of wide interest in the inquiry, supplementary first round hearings were needed in February and March 1994. More than 100 participants presented evidence at these hearings.

After advertising for expressions of interest, the Commission let four consultancies on: the role of R&D in economic growth; taxation concessions for R&D in selected Asian countries; the policy advisory framework for science and technology; and a review of the economic justification for government support of R&D and its policy implications. Copies of the consultants' reports were made publicly available.

In May 1994 the Commission organised a conference on *R&D and Economic Growth*, at which Dr Steve Dowrick (Australian National University) and Professor Paul Romer (University of California, Berkeley) made presentations. The transcript of the conference proceedings was made publicly available. Also in May, the Commission held two informal 'roundtable' meetings, which were attended by prominent representatives of the research and business communities. Further meetings and visits took place throughout the remainder of the inquiry.

The Commission released a three-volume draft report in December 1994, and provided briefings to Ministers' officers and government departments. At the time the draft report was released, the Commission had received 262 written submissions. During the following weeks, there were requests for some 2200 sets of the draft report. Further presentations and briefings were made by the Commission during this period.

The Commission also produced and distributed information papers on: the organisation and funding of government research agencies in selected countries; government support to R&D classified according to the industry benefiting from the support; and the provision of research to rural R&D corporations.

Box J1 (continued)

Following the release of the draft report, the Commission received a further 200 submissions. Public hearings on the draft report were held during February and March 1995 in Hobart, Perth, Adelaide, Melbourne, Sydney, Brisbane and Canberra. More than 80 participants presented evidence at these hearings. The final report, which incorporated some changes in the Commission's views from those in the draft report resulting from participants' submissions, was forwarded to the Government in May 1995.

Table **Error! AutoText entry not defined.2:** Total expenditure on public inquiries completed in 1994–95 (\$ 000)

<i>Inquiry</i>	<i>Approximate salary cost^b</i>	<i>Other costs</i>	<i>Total cost</i>
Petroleum products	773	139	912
Defence procurement	593	129	722
New and advanced materials	517	145	662
Vehicle and recreational marine craft repair and insurance industries	357	80	437
Research and development	1 334	488 ^c	1 822
Charitable organisations in Australia	984	720 ^d	1 704
Computer hardware, software and related service industries	300	126 ^e	426

- a In previous annual reports, this table provided information on 'total expenditure on inquiries for which expenditure was completed in' that financial year. The transition this year to report simply on 'total expenditure on public inquiries completed in 1994–95' means that the Commission's inquiry into *The Tobacco Growing and Manufacturing Industries* will not have appeared in this table in either this annual report or in the 1993–94 Annual Report, the year in which the inquiry was completed but not all inquiry expenditure had been incurred or acquitted. For the record, the total cost for the tobacco inquiry was estimated to be \$401 000, of which approximately \$318 000 was direct salary costs and \$83 000 other costs.
- b The data provide estimates of *direct* salary costs, including for the preparatory period prior to the commencement of each inquiry. The data do not include an allowance for overheads. A factor of 1.6 is considered an appropriate multiple to account for on-costs etc.
- c Includes estimated 1995–96 carry-over expenditure of \$80 000.
- d Includes estimated 1995–96 carry-over expenditure of \$39 000.
- e Includes estimated 1995–96 carry-over expenditure of \$13 000.

Table 3: Public inquiry (non-salary) expenditure, 1994–95 (\$)

<i>Inquiry</i>	<i>Duration of inquiry</i>	<i>Travel</i>	<i>Printing</i>	<i>Consultants</i>	<i>Other</i>	<i>Total 1994–95</i>	<i>Total inquiry expenditure to date</i>
Tobacco growing & manufacturing industries	10/93 – 6/94	2 722	11 883	–	89	14 694	82 556
Petroleum products	5/93 – 7/94	4 928	21 563	736	142	27 369	138 513
Defence procurement	8/93 – 8/94	1 951	14 770	–	5 074	21 795	128 937
Vehicle repairs & insurance etc	3/94 – 3/95	10 856	22 498	7 000	9 565	49 919	79 726
New and advanced materials	4/94 – 3/95	80 003	24 170	–	26 351	130 524	144 886
Research & development	9/93 – 5/95	55 148	120 285	32 124	39 623	247 180	408 623
Charitable organisations in Australia	12/93 – 6/95	152 344	92 888	136 582	80 565	462 379	680 832
Work, health and safety	5/94 – 9/95	119 388	124 806	56 035	124 015	424 244	429 631
Computer hardware, software etc	9/94 – 6/95	45 440	16 985	29 197	21 280	112 902	
Competitive tendering & contracting	12/94 – 1/96	73 044	10 003	1 147	48 668	132 862	
Tourism accommodation & training	2/95 – 2/96	56 208	3 623	59 623	48 152	167 606	
Packaging and labelling	2/95 – 2/96	23 607	7 115	419	23 558	54 699	
Pharmaceutical industry	6/95 – 3/96	5 611	–	–	2 034	7 645	
General inquiry preparation and marketing		55 962	6 802	18 054	13 886	94 704	
Totals		687 212	477 391	340 917	443 002	1 948 522	

a Includes all public inquiry (non-salary) expenditure acquitted in 1994–95, regardless of the commencement or completion date of the inquiry.

As shown in Table J4, inquiry administration costs (that is, excluding salary costs) have risen from about \$0.8 million in 1991–92 to nearly \$2 million in 1994–95. The largest cost involved in running inquiries is travel associated with public consultation. Bigger reports (with improved presentation) and more participants have resulted in publication costs increasing substantially. The new issues involved in some references have led to a greater use of consultancy services. Increased venue hire and transcription costs — due to an increase in the number of hearing days — are the main contributors to the overall upward trend in ‘other costs’.

The Commission is currently benchmarking the inquiry process to identify areas in which its performance can be improved and to achieve further cost efficiencies.

Table Error! AutoText entry not defined.4: Public inquiry (non-salary) expenditure, 1991–92 to 1994–95 (\$)

<i>Cost item</i>	<i>1991–92</i>	<i>1992–93</i>	<i>1993–94^a</i>	<i>1994–95</i>
Travel	456 122	629 920	829 727	687 212
Printing	76 138	64 998	153 273	477 391
Consultants	66 737	84 325	245 790	340 917
Other ^b	268 184	230 566	454 316	443 002
Total	840 181	1 009 807	1 683 106	1 948 522

a The discrepancies between the 1993–94 totals reported in Table M4 of the Commission’s 1993–94 Annual Report and the 1993–94 totals shown here are accounted for by the exclusion of \$12 819 of 1993–94 expenditure on the Committee of Inquiry into the Winegrape and Wine Industry, shown in Table M4 last year as being ‘inquiry expenditure’. This year it is reported separately under ‘expenditure on independent research studies’ later in this appendix.

b Includes other costs of running an inquiry, such as advertising, venue hire, court reporters/transcription services and data acquisition.

INDEPENDENT STUDIES FOR OTHER AGENCIES

During 1994–95 the Commission was involved in the conduct of four independent studies into various aspects of the wine, gas and electricity industries, along with a study on the benefits to the Commonwealth and State Governments of implementing the competition policy reforms proposed in the Hilmer Report and related reforms. It submitted reports on three of them in 1994–95 — the electricity reference was received on 30 June 1995 and thus, virtually all work and expenditure on it has been undertaken in the 1995–96 financial year.

The Commonwealth Government announced the establishment of the independent Committee of Inquiry into the Winegrape and Wine Industry in Australia in April 1994. The Committee comprised Bill Scales (Chairperson, Industry Commission), Brian Croser (Executive Chairman, Petaluma Limited), and Professor John Freebairn (Monash University). The Commission's involvement extended to the provision of secretariat services, which it largely funded.

The Australian gas industry and markets study was undertaken by the Commission on contract to the Trade Practices Commission, with the concurrence of the Assistant Treasurer (IC 1995b). In September 1994 the Council of Australian Governments forwarded terms of reference which asked the Commission to report on the growth and revenue implications of Hilmer and related reforms (IC 1995d). Again, the Commission provided most of the funding for the conduct of these projects.

The terms of reference for the study into New South Wales electricity generation options, *Does Pacific Power have Market Power?*, emanated from the Commonwealth Assistant Treasurer following a request from the New South Wales Government (IC 1995i).

Section J3 discusses the three completed reports and provides the terms of reference for independent studies received on or since 30 June 1995. Details of expenditure by the Commission on the three studies completed in 1994–95 are shown in Table J5.

Table Error! AutoText entry not defined.3: Total expenditure on independent research studies completed in 1994–95 (\$)

<i>Study</i>	<i>Duration</i>	<i>Approximate salary costs^a</i>	<i>Other costs</i>	<i>Total cost</i>
Winegrape and wine industry	6/94 – 6/95	255 000	382 038	637 038
Australian gas industry and markets study	8/94 – 3/95	163 017	41 149	204 166
Growth and revenue implications of Hilmer and related reforms	9/94 – 3/95	241 817	67 000	308 817

a The data provide estimates of *direct* salary costs and do not include an allowance for overheads. A factor of 1.6 is considered an appropriate multiple to account for on-costs etc.

J2 THE INQUIRY PROGRAM

This section sets out the main findings and recommendations of inquiry reports released since the Commission's 1993–94 Annual Report, provides the terms of reference for new inquiries received, and summarises Government responses to previous Commission reports. It updates the inquiry program information provided in previous annual reports.

Since the last annual report, two inquiries have been completed but the reports have yet to be released by the Government. The report on *Vehicle and Recreational Marine Craft Repair and Insurance Industries* (Report no. 43) was signed on 15 March 1995. The report on *Work, Health and Safety* (Report no. 47) was signed on 11 September 1995. Terms of reference for these inquiries were provided in the Commission's 1993–94 Annual Report.

Readers with an interest in a complete list of Commission findings and recommendations are referred to the individual inquiry reports or to the *Compendium of Reports 1994–95* (IC 1995k).

Table J6 summarises inquiry activity for 1994–95. Earlier inquiries which are yet to receive a Government response, or for which a response was announced in 1994–95, are also included. The table does not include inquiries which were completed by the Commission more than two years ago (that is, before 1993–94) and for which a formal Government response has not been received.

Table 1: Stage of completion of inquiries and Government responses to Commission reports

<i>Date received</i>	<i>Inquiry title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>For major recommendations see</i>	<i>Government response</i>
18-2-91	Horticulture	AR 91-92	Report no. 29 signed 18-2-93	AR 92-93	page 347
18-9-92	Environmental waste management equipment, systems and services	AR 92-93	Report no. 33 signed 17-9-93	AR 93-94	no response
18-9-92	Impediments to regional industry adjustment	AR 92-93	Report no. 35 signed 17-12-93	AR 93-94	no further response
5-11-92	Workers' compensation in Australia	AR 92-93	Report no. 36 signed 4-2-94	AR 93-94	page 346
5-11-92	Public housing	AR 92-93	Report no. 34 signed 11-11-93	AR 93-94	no further response
5-5-93	Petroleum products	AR 92-93	Report no. 40 signed 5-7-94	page 332	page 333
23-6-93	Meat processing	AR 92-93	Report no. 38 signed 20-4-94	AR 93-94	page 348
31-8-93	Defence procurement	AR 93-94	Report no. 41 signed 30-8-94	page 333	page 334
10-9-93	Research and development	AR 93-94	Report no. 44 signed 15-5-95	page 334	page 334
29-10-93	The tobacco growing & manufacturing industries	AR 93-94	Report no. 39 signed 29-6-94	AR 93-94	page 348
16-12-93	Charitable organisations in Australia	AR 93-94	Report no. 45 signed 16-6-95	page 337	page 338
17-3-94	Vehicle and recreational marine craft insurance and repair industries	AR 93-94	Report no. 43 signed 15-3-95	not yet released	na
12-4-94	New and advanced materials	AR 93-94	Report no. 42 signed 8-3-95	page 335	page 335
23-5-94	Work, health and safety	AR 93-94	Report no. 47 signed 11-9-95	not yet released	na
29-9-94	Computer hardware, software and related service industries	page 339	Report no. 46 signed 30-6-95	page 336	page 336
8-12-94	Competitive tendering and contracting by public sector agencies	page 341	Inquiry in progress	na	na
14-2-95	Packaging and labelling	page 342	Inquiry in progress	na	na
28-2-95	Tourism accommodation and training	page 343	Inquiry in progress	na	na
21-6-95	Pharmaceutical industry	page 344	Inquiry in progress	na	na
31-8-95	Implications for Australia of firms locating offshore	page 345	Inquiry in progress	na	na

REPORTS RELEASED BY THE GOVERNMENT

This subsection summarises the main findings and recommendations of inquiry reports which have been released by the Government since the Commission's 1993–94 Annual Report.

PETROLEUM PRODUCTS

Report no. 40 released 22 September 1994

The Commission's report focused on removing impediments to the better performance of the petroleum products industry. The report found that:

- retail prices of petrol and diesel in Australia are low by comparison with other OECD countries;
- the price volatility observed in cities is indicative of strong competition and there is effective competition in most country markets;
- competition could be improved and fuel prices lowered by removing a range of impediments to better performance — for example, the current forms of price surveillance do not provide the reassurance that consumers are seeking; they distort the prices of petrol and diesel and confuse investors; and
- additional benefits would result from the removal of barriers that restrict access to oil terminals.

The Commission recommended:

- the winding back of price controls and the withdrawal of industry-specific legislation (the Sites Act and Franchise Act) which impose commercial constraints on the marketing of petroleum products and mean that fuels are not necessarily being distributed or sold in the most efficient ways;
- a mix of regulation and self-regulation supported, where necessary, by light-handed monitoring. The petroleum products industry has the capacity to operate under the same competition and fair trading rules as other industries and the Trade Practices Commission has an important role in safeguarding the community against attempts to engage in anti-competitive behaviour;
- several ways in which Oilcode could be strengthened to help improve relationships between all parties in the industry; and

- acceleration of the withdrawal of the Laidly Agreement by negotiation. Terminal gate pricing achieved through regulation is neither practical nor warranted and will jeopardise efficiency.

Government response

The Government's final response to the report (Schacht and Gear 1995) stated that consideration will be given to repeal of the Sites Act and the Franchise Act once Oilcode has been refined and extended, and amendments to the Trade Practices Act are in place. To this end the Government is encouraging industry participants to participate in discussions aimed at developing a set of mutually acceptable safety net provisions under Oilcode.

The Government had stated earlier that any changes to prices surveillance arrangements will not be made until after an Australian Competition Commission (now Australian Competition and Consumer Commission) review in the second half of 1995 (Gear and Cook 1994).

DEFENCE PROCUREMENT

Report no. 41 released 6 December 1994

The Commission investigated the scope for gains in the efficiency of defence procurement. Key proposals included:

- Australian industry involvement — the Department of Defence should be wary of paying premiums for Australian supply unless there are strategic reasons for doing so; in particular, neither minimum nor target levels of local content should be specified in the procurement process and the Department of Defence's Australian Industry Involvement Guidelines should be revised to focus on the capabilities in Australian industry essential to, or desirable in, a project;
- the Commercial Support Program (the Department of Defence's program for opening up non-core activities to tender) — this program should be expanded and speeded up and there should be improved transparency and accountability; and
- the procurement process — the costs of tendering for both the Department of Defence and for industry could be reduced by reforms to the tendering process providing for multi-stage tendering with more rapid shortlisting and less documentation.

Government response

The Government response, announced on 30 June 1995 (Ray 1995), accepted in part the Commission's recommendations about Australian industry involvement. The Government stated that, where it is appropriate to do so, the Department of Defence will continue to include informed advice on quality and quantity of local content in procurement.

Most of the Commission's recommendations about the Commercial Support Program and the procurement process were accepted, or accepted in principle.

RESEARCH AND DEVELOPMENT

Report no. 44 released 8 June 1995

Australia's achievements in R&D over the years have been substantial. The Commission found much to commend in the current arrangements which are the outcome of deliberate effort by governments and the community over a long period.

The Commission's proposals were directed at enhancing the contribution of R&D to national welfare by more clearly defining governments' roles, improving funding processes and making research more responsive to users and community needs. The Commission's key proposals included:

- CSIRO — a need for wider community influence on its priorities and a greater role for government in monitoring its performance;
- the universities — an enhanced role for the Australian Research Council in funding research according to performance;
- business — more widespread R&D support for smaller companies unable to use the tax concession; and
- the rural sector — changes to enhance the role of the Research and Development Corporations and Councils in rural research.

Government response

When releasing this report, the Government said that it would address the Commission's recommendations as far as possible in the context of the Innovation Statement, due later in 1995. The Government also noted that some recommendations, such as those proposing increased contestability for higher education research funding, were the subject of inquiries and reviews scheduled to report to Government after the Innovation

Statement. While the Government will refer to these issues in that statement, they are to be addressed in full after consideration of the relevant inquiries and reviews (Cook and Gear 1995a).

NEW AND ADVANCED MATERIALS (INDUSTRY DEVELOPMENT REFERENCE)

Report no. 42 released on 4 August 1995

The Commission assessed the importance of new and advanced materials (based on metals, ceramics and polymers) in the development of internationally competitive manufacturing industries in Australia. The report found that:

- Australia is unlikely to be a significant *producer* of new and advanced materials from raw materials — rather, the greatest potential lies in making the best *use* of new materials by incorporating them into products;
- compared with most other industrialised countries, Australia has a low level of awareness of the availability and properties of new and advanced materials — consequently, Australian firms may not be making the most appropriate decisions about their use;
- skills shortages, training needs and a lack of receptiveness by managers to new technology are barriers to the use of new materials;
- State-based industry extension and technology transfer organisations should be encouraged to better co-ordinate their activities; and
- there is a shortfall in infrastructure in research institutions, particularly materials processing facilities in universities.

Government response

When releasing this report, the Government indicated that it will respond to the Commission's report in its Innovation Statement, to be released later in 1995 (Cook and Gear 1995b).

COMPUTER HARDWARE, SOFTWARE AND RELATED SERVICE INDUSTRIES (INDUSTRY DEVELOPMENT REFERENCE)

Report no. 46 released on 31 August 1995

The Commission examined factors affecting the efficiency, growth and internationalisation of Australia's computer hardware, software and related service industries. The report found that:

- the Australian information technology (IT) market was worth about \$13 billion in 1994 and was growing at 10 per cent per year, with computer services growing at 19 per cent and software at 14 per cent annually;
- the IT industries, together with telecommunications, are subject to the highest rates of technological change, and are amongst the fastest growing industries, globally and in Australia; and
- the IT industries have many strengths which provide sound grounds for optimism, especially in niche market production of hardware and software, and in the provision of computer services.

The Commission:

- recommended that governments recommit to a national approach to the use of government purchasing for industry development, noting that State Governments' pursuit of industry development at the local level is threatening to fragment the IT industries and detract from their growth potential;
- supported recommendations contained in its report on R&D relating to access to R&D assistance through a non-taxable subsidy for firms not earning taxable profits (which would benefit many IT firms);
- recommended that the production bounty of 8 per cent of factory cost (paid to manufacturers and assemblers of computer hardware and to some software developers), due to expire in December 1995, be allowed to lapse; and
- reported on issues relating to standards and conformance, access to finance, the protection of intellectual property, and certain taxation matters.

Government response

In its initial response to the report, the Government stated that many of the Commission's recommendations address issues currently being

considered by the Government in other contexts (Cook and Gear 1995c). Where this is the case, the Commission's recommendations will be referred to the appropriate forum. The Government stated that it will determine the future of the computer bounty shortly.

CHARITABLE ORGANISATIONS IN AUSTRALIA

Report no. 45 released 27 September 1995

The Commission sought to strengthen the contribution which the charitable sector makes to Australian society. The Commission's proposals are aimed at ensuring that Community Social Welfare Organisations (CSWOs) are more capable in the future than they are today at catering for the diverse needs of the people in the community who have come to rely on CSWOs for the provision of high quality services, delivered with care and understanding. Key policy proposals include:

- *Service quality.* The adoption of suitable quality management systems would protect the rights of clients and enable agencies to manage their resources more independently. Such systems would also provide governments with the accountability they require in acquitting expenditure on behalf of the community.
- *A better partnership with governments.* The principles and procedures underlying the selection of the CSWOs which governments fund and the basis of funding should be clearly articulated, widely known and efficiently implemented. Performance should normally be measured via outputs with a defined level of quality. Where governments set the price at which they purchase a service, they should take into account all components required to deliver the service.
- *Taxation.* CSWOs should retain their income tax free status, distinctions between organisations in relation to the tax deductibility of donations should be removed and assets bequeathed to CSWOs that enjoy tax deductibility status should also be free from any capital gains tax liability. There should be regular reviews to ensure that CSWOs receiving tax benefits still meet the criteria by which they were granted those benefits. The exemption from fringe benefits tax (FBT) available to CSWOs which are Public Benevolent Institutions should be removed. But CSWOs should continue to receive any rebate on their FBT available to income tax-exempt organisations.

- *Public accountability and community involvement.* Specific accounting standards for the sector would both help the community assess the effectiveness of CSWOs (and encourage public confidence and support) and assist CSWOs to minimise accounting and reporting costs. The Commonwealth should fund the development of appropriate accounting standards for the sector. Governments should establish a form of incorporation for CSWOs which should be a prerequisite for tax deductibility.

Government response

In its initial response (Lawrence et al 1995), the Government acknowledged that the report, in throwing a spotlight on the way governments handle their relationships with charitable organisations, had challenged both itself and the charitable organisations to take a fresh look at methods of operation. In this respect, the Government agreed that funding should be related to outcomes, or to agreed objectives where it is not easy to define desired outcomes. In reaching outcomes agreements with charitable organisations, the Government agreed with the Commission that costs should reflect efficiency and quality.

The Government accepted the Commission's recommendation that organisations should have a publicly available policy on client fees. However, the Government noted that for services funded or partly funded by governments, organisations' policies should reflect government policies on access.

The Government endorsed the Commission's objective of improving service quality, but said that further work is needed on formal quality standards. The Government also supported the idea of a consistent set of funding principles for charitable organisations, but believed that further consideration as to how this might be achieved is needed.

The Government welcomed the Commission's emphasis on improving accountability to governments, taxpayers and the public. It stated that it will consider further the Commission's recommendations on incorporation and accounting standards and their links to tax deductibility and fundraising legislation in determining its final response to the report. The Government also stated that it supported the broad objectives of ongoing review of the tax deductible status of non-government aid organisations, and will examine further how this might be implemented.

On the question of selecting service providers, the Government stated that it already pursues the principle of contestability whenever practical, but

undertook to examine the tendering issue more closely. In relation to taxation matters, the Government accepted the Commission's recommendation that charitable organisations maintain their income tax free status. However, it did not accept the need for any review of the dividend imputation system (noting that there was ongoing monitoring by the Treasury and the Australian Taxation Office), nor did it accept that the fringe benefits tax exemption for charitable organisations should be removed.

The Government accepted the broad objectives of the Commission's recommendations on best practice in departmental administrative arrangements with charities, and will give these matters further consideration. It stated that a number of recommendations (for example, on simplifying and standardising tax exemptions, fundraising regulation, inoperative inheritance legislation and policy for funding peak councils) have implications for other levels of government, and that it will raise these issues with relevant Commonwealth/State bodies. The Government also stated that other recommendations by the Commission may need to be raised with Commonwealth/State bodies following its detailed response to the report.

TERMS OF REFERENCE FOR NEW INQUIRIES

This subsection presents the terms of reference for inquiries that have been received since the Commission's previous annual report.

COMPUTER HARDWARE, SOFTWARE AND RELATED SERVICE INDUSTRIES

The computer hardware, software and related service industries were referred to the Commission for inquiry and report by 30 June 1995.

The Commission was asked to report on:

- emerging trends in local and global markets for the computer hardware, software and related service industries, including trends in technology convergence and protection of intellectual property and the role of government purchasing policies;
- the international marketing environment, including barriers to Australian investment, exports and import replacement;

- the availability and terms under which firms in the computer hardware, software and related service industries can access finance, including venture capital;
- the current structure and competitiveness of the computer hardware, software and related service industries, including an identification of strengths and weaknesses, drawing international comparisons where appropriate;
- the taxation treatment of computer hardware, software and related service industries and Australian standards for the production of computer hardware and software;
- the potential for further development of the computer hardware, software and related service industries, including the scope for further value adding, investment, exports and import replacement;
- any measures which could be undertaken to remove impediments or otherwise contribute to the efficiency, growth and internationalisation of computer hardware, software and related service industries, in ways that are consistent with efficient resource use in the economy;
- the identification of groups who would benefit or be disadvantaged by such measures; and
- the effects on the computer hardware, software and related service industries, and the economy in general, of any measures recommended by the Commission.

Without limiting the scope of this reference, the Commission was requested to include:

- an evaluation of government programs aimed at improving industry performance, including the computer bounty and the scope to improve the efficiency of program delivery through better co-ordination within and between governments;
- without disclosing material provided in confidence, examples of past successes and failures in the computer hardware, software and related service industries, both in Australia and elsewhere, by way of case studies or other means.

The Commission was also asked to:

- report on any relevant implementation strategies;
- take account of recent substantive studies undertaken elsewhere; and
- have regard to the established economic, social and environmental objectives of governments.

COMPETITIVE TENDERING AND CONTRACTING BY PUBLIC SECTOR AGENCIES

Competitive tendering and contracting by public sector agencies was referred to the Commission for inquiry and report by 8 December 1995. The reporting date has since been extended to 31 January 1996.

The Commission is to report on:

- the nature, extent and scope of contracting out by Commonwealth, State and local governments and their agencies;
- the costs and benefits of contracting out, taking into account factors such as the impact on government bodies with respect to value for money, quality of service and accountability, and the existing legal framework;
- the impact of contracting out on the ability of funding agencies to maintain an informed and responsive view of changes in the nature and structure of demand for the services they fund;
- the implications for employees and their terms and conditions of employment arising from contracting out;
- mechanisms or processes for the provision of internal (or in house) tendering;
- the effectiveness of existing mechanisms for contracting out, including any barriers to the cost effective use of contracting out; use of benchmarking, including quality of service indicators; and improving incentives for market testing;
- any measures which could be taken to promote the more cost effective use of contracting out, in ways that are consistent with the principles of efficient resource use in the economy;
- the groups who would benefit from or be disadvantaged by such measures;
- implementation strategies for those measures; and
- the development of a set of indicative principles for public sector managers to use in assessing the scope for contracting out.

The Commission is also requested to:

- consider and report on the impact of contracting out on the capacity of governments to seek overall efficiency in urban development as distinct from efficiency solely within individual service sectors;

- take into account, in reporting on the scope for contracting out in the health sector, the Government's commitment to providing patients with public access and identify the financial flow and taxation implications where the return to a private investor in health facilities is reliant solely, or in large part, on government contracts;
- report on examples of past successes and failures of contracting out, by way of case studies or other means;
- take account of any recent substantive studies undertaken elsewhere; and
- have regard to the established economic, social, environmental, public administration and regulatory reform objectives of governments.

PACKAGING AND LABELLING

Packaging and labelling industries were referred to the Commission for inquiry and report by 14 February 1996. The Commission is to report on:

- the efficiency of the Australian industries supplying packaging and labelling for downstream industries (including the food processing industry and the commercial and industrial packaging industry), with particular attention to plastics, steel and aluminium cans, paper and cardboard, glass and composite materials sectors, and assess the implications of full social cost pricing to these industries;
- the international marketing conditions for the packaging and labelling industries, including any barriers facing imports into Australia or exports from Australia;
- the current structure and competitiveness of these industries, including an identification of strengths and weaknesses, drawing international comparisons where appropriate;
- the identification of any impediments to effective competition, and measures which could be taken to remove these;
- the regulatory conditions affecting the packaging and labelling industries, and their impact on the industries' performance and structure;
- the appropriateness (including environmental costs and benefits) of current arrangements for waste minimisation, recycling and waste disposal in the packaging and labelling industries;
- any measures which could be undertaken to remove impediments or otherwise contribute to the efficiency and development of the

packaging and labelling industries, in ways that are consistent with the principles of efficient resource use in the economy; and

- the identification of groups who would benefit or be disadvantaged by such measures; and the effects on industry, the environment, and the economy in general, of any measures recommended by the Commission.

The Commission is also requested to:

- take account of recent substantive studies undertaken elsewhere; and
- have regard to the established economic, social and environmental objectives of governments.

TOURISM ACCOMMODATION AND TRAINING

Tourism accommodation and training was referred to the Commission for inquiry and report by 28 February 1996. The Commission is to report on:

- the structure and competitiveness of Australia's tourist accommodation providers and associated services, including an identification of strengths and weaknesses, drawing on international comparisons where appropriate;
- impediments to access to capital for industry investment;
- the appropriateness and adequacy of existing training facilities and programs and how these could be improved;
- local cost structures and how they compare with competing destinations;
- the effect of industrial awards and agreements on costs and flexibility;
- the impact of institutional, regulatory and taxation measures of governments;
- the level and effectiveness of any government support measures for tourism accommodation and training;
- any measures which could be taken to remove impediments or otherwise contribute to the long term development of the tourism accommodation sector and tourism training needs;
- the groups who would benefit from or be disadvantaged by such measures;
- examples of past success and failure in the industry, both in Australia and elsewhere, by way of case studies or other means; and
- implementation strategies for its recommendations.

The Commission is also requested to:

- avoid duplication of any recent substantive studies undertaken elsewhere; and
- have regard to the established economic, social and environmental objectives of governments.

PHARMACEUTICAL INDUSTRY

The pharmaceutical industry was referred to the Commission for inquiry and report by 9 March 1996. The Commission is requested to:

- aim to improve the overall economic performance of the pharmaceutical industry, encompassing the prescription drug sector and the over-the-counter sector, and the overall performance of the Australian economy;
- report, separately for the prescription drug and over-the-counter sectors where appropriate, on:
 - emerging national and international market trends affecting the industry including its current structure, rationalisation and competitiveness, drawing international comparisons where appropriate;
 - the strengths and weaknesses of the industry in Australia, based on international comparisons;
 - the advantages and disadvantages of Australia as an investment location for all phases of pharmaceutical activity, from R&D through to manufacturing and export and in doing so report on programs in other countries designed to create a favourable environment for industry;
 - the potential for the industry to capture a greater share of the global pharmaceutical market, especially of the rapidly growing markets in our region, and impediments to achieving the potential;
 - the impact of current institutional and regulatory measures, including the Factor f Scheme, the Pharmaceutical Benefits Scheme (PBS) and National Medicinal Drug Policy, on industry structure, performance, international competitiveness, resource allocation and growth prospects;
 - the effectiveness of the current link between Australian universities, research institutions and pharmaceutical companies, including the commercialisation of new products, particularly by small and wholly Australian-owned pharmaceutical companies;

- any measures which could be undertaken to remove or compensate for impediments or otherwise contribute to the efficiency, growth or export development of the industry;
- long term policies to provide certainty and continuity for investment in pharmaceutical research and development, manufacturing and exports;
- the identification of groups which would benefit from, or be disadvantaged by such measures and policies; and
- the implementation of proposed measures, including the impact of changes to current arrangements;
- having regard for both the prescription drug and over-the-counter sectors;
 - identify and quantify the economic contribution of the Australian pharmaceutical industry;
 - evaluate the effectiveness and efficiency of the Factor f Scheme, including, quantifying the benefits of Factor f Scheme assistance; and
 - identify the overall gains to the economy, including the pharmaceutical industry, if the policies recommended are implemented.

The Commission is also requested to:

- take account of, but not make recommendations in relation to, the PBS and the supply of pharmaceuticals under the PBS;
- take account of any recent substantive studies, and document examples of past success and failures in the industry, both in Australia and elsewhere; and
- have regard to the established economic, social, health and environmental objectives of government and the effect of those objectives on the industry.

IMPLICATIONS FOR AUSTRALIA OF FIRMS LOCATING OFFSHORE

The implications for Australia of firms locating offshore were referred to the Commission for inquiry and report by 31 August 1996. The Commission is to report on:

- the key factors affecting decisions of firms to locate offshore; in particular the institutional, regulatory or other arrangements subject to

influence by government in Australia or overseas, which lead to inefficiencies in location decisions;

- the short and long term implications for Australia with particular attention to employment levels, national income, export performance, taxation and the treatment of repatriated profits and the industry base;
- the short and long term costs and benefits to Australia arising from offshore location decisions;
- the effect of firms locating offshore on Australia's economic and other links with other countries;
- the policies which might enhance domestic skilled employment, value adding activities and production;
- examples of past successes or failures of firms locating offshore; and
- implementation strategies for any recommended measures.

The Commission is also requested to:

- take account of recent substantive studies undertaken elsewhere;
- have regard to the established economic, social, environmental, public administration and regulatory reform objectives of governments; and
- aim to improve the overall economic performance of the Australian economy in making its recommendations.

GOVERNMENT RESPONSES TO COMMISSION REPORTS FROM PREVIOUS YEARS

This subsection provides a summary of the formal responses to Commission reports released prior to 1994–95 which have been provided by the Government since the Commission's previous annual report.

WORKERS' COMPENSATION IN AUSTRALIA

On 14 November 1994 the Commonwealth Government announced that the Commonwealth's preferred approach is to work with the States and Territories in implementing the findings and recommendations of the Commission's report, but that it has not proved possible to gain acceptance of this approach (Johns 1994).

The Commonwealth has examined its options for progressing workers' compensation reform, including the implementation of national reform, on a unilateral basis. The establishment of a nationally available scheme

which applies a uniform compensation package across all jurisdictions was the preferred approach of the Commission.

The Government had previously (23 May 1994) referred Occupational Health and Safety to the Industry Commission for inquiry and report by 23 May 1995 (subsequently extended to 4 September 1995).

HORTICULTURE

On 29 November 1994, the Government announced a program designed to revitalise the citrus industry (Collins 1994b). Elements of the program include:

- a market diversification program, to be funded at a cost of \$9 million over five years, to assist industry efforts to reduce reliance on the juice concentrate sector and to increase sales of fresh fruit and fresh fruit juice, with a focus on exports;
- taxation of all fruit and vegetable juice products containing at least 25 per cent juice at the concessional 11 per cent wholesale sales tax rate; and
- termination of the local content rule to encourage adjustment in industries currently benefiting from the measure, particularly citrus growers.

The Government also announced:

- an extension of a taxation write-off on expenditure on all new horticultural plantations;
- removal of the export trading powers of the Australian Horticultural Corporation (AHC);
- funding for the AHC of \$4.5 million over the next four years;
- funding of \$0.5 million for the Horticultural Policy Council for a further two years; and
- funding of \$0.595 million as the Commonwealth's contribution to the tri-State Fruit Fly Strategy.

The marketing strategy and taxation write-offs were the key components of the Government's response to the Commission's report. The Government rejected the Commission's proposal that the partial sales tax exemption for fruit and vegetable beverages be removed, that is it determined that such beverages should be taxed at 11 per cent rather than 21 per cent.

MEAT PROCESSING

On 11 December 1994, the Government announced new statutory arrangements for the meat and livestock industry (Collins 1994c). The main thrust was to provide the industry with greater responsibility for its own affairs, operating in a less regulatory environment, and eventually evolving to a non-statutory environment. The legislation establishing the statutory bodies is to sunset at 30 June 1998, with a review to commence not later than 1 July 1997.

Key components of the new arrangements include:

- the establishment of a new Meat Industry Council (MIC) to succeed the Australian Meat and Livestock Industry Policy Council — a task of which is to commercialise some existing Australian Meat and Livestock Corporation (AMLC) programs, including AUS-MEAT;
- repeal of AMLC's trading and shipping powers; and
- revised arrangements for board membership and selection, corporate planning, funding and accountability for the AMLC and the Meat Research Corporation.

The Government's focus on increased commercialisation of AMLC programs such as AUS-MEAT is consistent with the Commission's recommendation that the scope for moving the AMLC significantly further in the direction of financing individual projects by direct charges to beneficiaries, with concomitant reductions in general levies, be investigated.

THE TOBACCO GROWING AND MANUFACTURING INDUSTRIES

On 13 December 1994 the Government announced a package of measures aimed at facilitating adjustment by the Australian tobacco growing industry towards international competitiveness (Collins et al 1994). The package also addressed the social and economic pressures arising from deregulation of the industry.

The main elements of the package, which embodies all key measures within a proposal submitted to the Government by growers and manufacturers were:

- all imports of tobacco leaf, manufactured tobacco and tobacco products to be free of customs duties as from 1 January 1995;

- the Local Leaf Content Scheme and the Tobacco Industry Stabilisation Plan to cease from 1 January 1995;
- the Australian cigarette manufacturers to make a \$10.8 million contribution to the tobacco growing industry, to ensure continuity of Australian supply and assist in the achievement of the highest quality at the lowest possible cost;
- the governments of the tobacco growing States of Queensland, Victoria and New South Wales to make payments for restructuring approximately matching the manufacturers' contribution;
- for future purchases of tobacco leaf, manufacturers will enter into long-term contracts negotiated commercially between individual grower groups and manufacturers which satisfy the requirements of the *Trade Practices Act 1974*;
- the Commonwealth and the governments of the three tobacco growing States will not impose any new or additional taxes specifically to finance adjustment in tobacco growing areas; and
- wider regional issues, including those arising from tobacco industry restructuring, to be addressed through existing government programs.

The Government emphasised that the package represented the final instalment of assistance for tobacco industry adjustment.

Other measures were the winding up of the Australian Tobacco Marketing Advisory Committee on 1 July 1995 and the establishment of a new Tobacco Research and Development Corporation to replace the Research and Development Council.

The Commission had recommended that the tariff on imported tobacco leaf and tobacco products be set at 25 per cent (on termination of the Tobacco Industry Stabilisation Plan and the Local Leaf Content Scheme) phasing to a long-term rate of 5 per cent over seven years.

J3 INDEPENDENT STUDIES FOR OTHER AGENCIES

This section describes the independent studies undertaken by the Commission for other agencies which were completed in 1994–95, including a summary of the main findings and recommendations of each project. It also outlines the terms of reference for studies received since 30 June 1995.

AUSTRALIAN GAS INDUSTRY AND MARKETS

Released 6 March 1995

This study of the Australian gas industry was conducted in response to a request from the Trade Practices Commission (TPC) for an independent assessment of the economic implications of changes in the industry since 1986, when the TPC authorised arrangements for joint venturers in the South Australian Cooper Basin to jointly negotiate the price and terms on which they sell gas to the Australian Gas Light Company. The report formed an input into the TPC's review of that authorisation.

Taking the view that, in the absence of identifiable reasons to the contrary, vigorous competition is a powerful safeguard of economic efficiency, the study focused on the implications of recent developments in the Australian gas industry for the enhancement of competition in the production, distribution and use of gas.

The Commission found that major sections of the Australian gas industry are characterised by monopolies or near monopolies in each of production, transmission and distribution. It identified several changes which have occurred recently, or are in prospect, which provide the basis for gains in efficiency. These include reforms to the structure and operation of gas and electricity utilities, a commitment to free trade between States, a commitment to access regimes for transmission and distribution, the expiry of long-term gas supply contracts, the relinquishing and reallocation of exploration leases and technical changes affecting the demand for and the supply of gas. Within this framework, the issues which are most important in determining whether effective producer competition will occur are the effectiveness of access regimes for creating a contestable market, horizontal integration both within and between basins (which has the potential to inhibit competition), the commitment of governments to implementing free trade between the States and existing long-term supply contracts (which may prevent new producers from supplying distributors and end users).

THE GROWTH AND REVENUE IMPLICATIONS OF HILMER AND RELATED REFORMS

Released 10 March 1995

At its meeting of 19 August 1994, COAG considered a package of reforms based on the Independent Committee of Inquiry into national

competition policy. As part of its considerations, COAG requested the Industry Commission to assess the benefits to economic growth and revenue which might arise from implementing these reforms. The Commission was asked to provide quantitative estimates of:

- what the gains will be, in terms of economic growth (specifically GDP) and increased revenue;
- who will gain, in terms of revenue to the Commonwealth and to the State, Territory and local governments in aggregate; and
- who will contribute, in terms of reform by the Commonwealth Government and the State, Territory and local governments in aggregate.

The Commission was also requested to provide information on the timing of benefits, the sensitivity of results to key assumptions and comparisons with the results of other relevant studies.

The Commission found that a national approach to competition policy and microeconomic reform is very important for Australia's economic future, with the Hilmer and related reforms likely to provide significant benefits to consumers and firms, and increases in government revenue arising from faster economic growth. While acknowledging the limitations of its economic modelling and the sensitivity to a range of assumptions, the Commission estimated that:

- reforms by the Commonwealth are projected to contribute \$4 billion to Australia's GDP, while reforms at the State, Territory and local government level are estimated to contribute \$19 billion (a long run annual gain in real GDP of 5.5 per cent or \$23 billion);
- consumers should gain by \$9 billion, equivalent to \$1500 expenditure a year for each household; and
- both the Commonwealth and State/Territory Governments should receive significant revenue gains, with Commonwealth revenues rising in real terms by \$5.9 billion and State/Territory revenues by \$3.0 billion in the base case.

WINEGRAPE AND WINE INDUSTRY IN AUSTRALIA

This investigation, undertaken by an independent Committee of Inquiry for the Commonwealth Government, had its origins in an agreement between the industry and the Government in October 1993. That agreement, which followed a Commonwealth Government decision

(announced as part of the 1993–94 Budget) to increase the wholesale sales tax on wine from 20 per cent to 31 per cent. Subsequent negotiations resulted in the higher level of sales tax applying only for the period to 20 October 1993, after which sales tax on wine was reduced to 22 per cent, with annual two percentage point increases to 26 per cent by 1 July 1995. The Government also provided a package of assistance measures for the winegrape and wine industry.

The Committee of Inquiry was chaired by Mr Bill Scales, Chairperson of the Industry Commission. The other Committee members were Mr Brian Croser (Executive Chairman of Petaluma Limited) and Professor John Freebairn of Monash University. The Commission provided secretariat support to the Committee.

The terms of reference for the inquiry required the Committee to consider the industry's development potential, with particular regard to exports and the effect of taxation and cash grants on the industry. Matters to be taken into consideration included: the current structure and competitiveness of the industry; the contribution of the industry to the national and to regional economies; and impediments to growth and means of overcoming any such impediments. The inquiry was also required to take account of the effects on the industry, consumers and the economy in general of any measures recommended.

The Committee released a draft report for public comment in March 1995. The final report was sent to the Government at the end of June 1995. As yet, the final report has not been released by the Government.

TERMS OF REFERENCE — NEW INDEPENDENT RESEARCH

This subsection presents the terms of reference for two independent studies being undertaken for other organisations which have been received by the Commission since 30 June 1995.

REPORT ON THE IMPLICATIONS FOR THE NATIONAL ELECTRICITY MARKET OF NEW SOUTH WALES GENERATION OPTIONS — DOES PACIFIC POWER HAVE MARKET POWER?

The Commission was requested to undertake a review of the electricity generation industry in New South Wales to determine the implications for

competition of the market power that could be exercised by Pacific Power operating as a single entity.

In undertaking this review, the Commission was to have regard to the consistency of Pacific Power's market position in the electricity generation sector with:

- the principles for structural reform of public monopolies contained in the Competition Principles Agreement; and
- the operation of a competitive national electricity market.

In relation to its assessment of market power in the electricity generation industry, the review was to specifically examine (but without limitation) the ability of Pacific Power to:

- set prices for the market for significant periods of time to increase revenue or profit without engendering actions by customers or competitors which cause it to lose market share;
- force an allocation of capacity on to the market so that more efficient plant is kept idle and less efficient plant operates for significant periods of time;
- drive out competitors that are more efficient; and
- prevent entry of new capacity that is more efficient.

The review was to assess whether likely patterns of usage and capacity constraints of major interconnectors would contribute to the extent of Pacific Power's market power in relation to consumers in New South Wales or relevant regions within the State.

The review was also to consider the implications for electricity consumers and competition of alternative structures of the electricity generation industry in New South Wales, including the trade-off between benefits from a competitive generation sector and the costs associated with the possible loss of economies of scale and scope.

The Commission was requested to report within 45 days of receiving the terms of reference. Some details on the Commission's findings are provided in Chapter 3.

RESEARCH PROJECT INTO THE PIG FARMING, PIGMEAT AND PROCESSED PIGMEAT INDUSTRIES

The Industry Commission was requested to undertake a study of the effects of pigmeat imports on the performance of the domestic pig

farming, pigmeat and processed pigmeat industries and on the overall performance of the Australian economy.

In undertaking this study, the Commission has been asked specifically to examine:

- the effects of imports on pigmeat prices, investment, incomes, and profits in the domestic industries; and
- the effects on Australia of government assistance provided by other countries to their pigmeat industries.

The Commission is also to take account of Commonwealth and State Government policies towards the industries.

The Commission has been requested to report by 31 October 1995.

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Financial statements

This appendix presents the audited financial statements for the Industry Commission for 1994–95. The statements have been prepared on an accrual accounting basis.

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Industry Commission

OPERATING STATEMENT
for the year ended 30 June 1995

	<i>Note</i>	<i>1995</i>	<i>1994</i>
		\$'000	\$'000
NET COST OF SERVICES			
Expenses			
Employee expenses	2(a)	15 405	13 111
Other administrative expenses	2(a)	9 420	9 839
Total expenses		24 825	22 950
Revenues from independent sources			
Section 35 receipts	2 (b)	137	154
Total revenues from independent sources		137	154
Net cost of services		24 688	22 796
REVENUES FROM GOVERNMENT			
Parliamentary appropriations used for:			
Ordinary annual services (a)	2(b)	22 567	24 190
Other services	2(b)	437	589
Liabilities assumed by government	2(b)	1 596	1 889
Resources received free of charge	2(b)	50	10
Total revenues from government		24 650	26 679
(Excess) of net cost of services over revenue from government		(38)	3 883
Accumulated (expenses) less revenue at beginning of reporting period	11	(922)	(4 806)
Accumulated (expenses) less revenue at end of reporting period	11	(960)	(922)

ADMINISTERED EXPENSE AND REVENUES

Administered expenses		nil	nil
Administered revenues			
Miscellaneous Receipts	2(c)	140	187
Total administered revenues		140	187

(a) Appropriation Act No. 1 excluding Section 35 receipts.

Industry Commission

STATEMENT OF ASSETS AND LIABILITIES

as at 30 June 1995

	<i>Note</i>	<i>1995</i>	<i>1994</i>
		\$'000	\$'000
CURRENT ASSETS			
Cash	4	77	77
Receivables	5	4	6
Other	6	289	336
Total current assets		370	419
NON-CURRENT ASSETS			
Leasehold improvements	7	2 944	2 274
Property, plant and equipment	7	819	1 205
Total non-current assets		3 763	3 479
Total assets		4 133	3 898
CURRENT LIABILITIES			
Creditors	8	540	470
Provisions	9	1 696	941
Other	10	364	308
Total current liabilities		2 600	1 719
NON-CURRENT LIABILITIES			
Provisions	9	2 403	3 101
Lease Incentive		90	nil
Total non-current liabilities		2 493	3 101
Total liabilities		5 093	4 820
NET LIABILITIES	11	960	922
ADMINISTERED ASSETS AND LIABILITIES			
Administered assets			
Receivables	5	nil	4
Total administered assets		nil	4

Total administered liabilities	nil	nil
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Industry Commission

STATEMENT OF CASH FLOWS

for the year ended 30 June 1995

	<i>Note</i>	<i>1995</i>	<i>1994</i>
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Inflows:			
Parliamentary Appropriations		23 004	24 779
Section 35 receipts		136	115
Total cash inflows		23 140	24 894
Outflows:			
Salaries and related expenditure		12 974	12 204
Administration and property		9 105	9 737
Total cash outflows		22 079	21 941
Net cash provided by operating activities	16	1 061	2 953
CASH FLOWS FROM INVESTING ACTIVITIES			
Inflows:			
Disposal of non-current assets		26	48
Total cash inflows		26	48
Outflows:			
Purchase of non-current assets		1 087	2 980
Total cash outflows		1 087	2 980
Net cash used in investing activities		(1 061)	(2 932)
Net increase in cash		nil	21
Cash at beginning of reporting period		77	57
Cash at end of reporting period		77	77

CASH FLOWS FROM ADMINISTERED TRANSACTIONS

Inflows:

Miscellaneous Receipts	144	414
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Outflows:

nil	nil
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Net cash inflows from administered transactions

144	414
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Industry Commission

STATEMENT OF TRANSACTIONS BY FUND

for the year ended 30 June 1995

<u>1993-94</u>		<u>Note</u>	<u>1994-95</u>	<u>1994-95</u>
<i>Actual</i>			<i>Budget</i>	<i>Actual</i>
\$			\$	\$
<i>Consolidated Revenue Fund</i>				
RECEIPTS				
413 630	Miscellaneous		4 051 000	143 901
162 342	Section 35 of Audit Act 1901		150 000	162 148
575 972	Total receipts		4 201 000	306 049
EXPENDITURE				
	Expenditure from annual appropriations:	2 (b)		
24 941 468	Appropriation Act No. 1 Appropriation Act No. 3		28 863 000	23 166 635
24 941 468	Total expenditure		28 863 000	23 166 635
<i>Trust Fund</i>				
	Trust Account (Commonwealth activities):	14		
38 934	Receipts		19 000	125 090
38 948	Expenditure		19 000	105 278
38 934	Total receipts		19 000	125 090
38 948	Total expenditure		19 000	105 278

Industry Commission

Notes to the financial statements for the year ended 30 June 1995

Note 1 Summary of significant accounting policies

1 (a) *Reporting entity*

The financial statements disclose information about all the resources controlled by the Commission. In this context resources controlled means those resources that the Commission is able to deploy to meet its objectives.

In addition, the Commission administers, but does not control, some resources on behalf of the Commonwealth. It is accountable for the transactions involving those administered resources, but does not have a discretion in relation to their deployment. For those resources, the Commission acts only as an agent of the Commonwealth.

The administered transactions and balances are disclosed as part of the relevant financial statements.

1 (b) *Basis of accounting*

The financial statements have been prepared in accordance with the *Financial Statements of Departments* issued by the Minister for Finance in March 1995 which require compliance with relevant Statements of Accounting Concepts, Australian Accounting Standards and other mandatory professional reporting requirements.

The financial statements have been prepared on an accrual basis, are in accordance with the historical cost convention and do not take account of changing money values, except where stated.

1 (c) *Rounding*

Amounts have been rounded to the nearest \$1 000 except in relation to the following items:

- Statement of Transactions by Fund
- Act of grace payments, waivers and write-offs

- Remuneration of executives
- Expenditure from Annual Appropriations, and
- Receipts and expenditure of the trust fund.

Totals are the rounded sums of unrounded figures.

1 (d) *Employee entitlements*

All vesting employee entitlements (including annual leave and long service leave) are recognised as liabilities.

Long service leave is calculated having regard to the probability that long service leave will in the future either be taken or have to be paid. Long service leave has been calculated on this basis using probability factors against pro-rata entitlements calculated for all employees.

The determination of current and non-current portions is based on past history of payments.

1 (e) *Superannuation payments*

The liability for superannuation payments (other than the productivity contribution) is assumed by the Commonwealth. The notional value of employer contributions for the year is recorded as part of employee expenses and an equal amount is recorded as part of 'liabilities assumed by government' (revenue) in the Operating Statement. The amounts have been calculated as 16.1% (1994 - 19.1%) of total salary and allowances for superannuation purposes of all CSS and PSS members employed by the Commission.

1 (f) *Taxation*

The Commission's activities are exempt from all forms of taxation except fringe benefits tax.

1 (g) *Foreign currency*

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date.

Currency gains and losses are not recognised in the financial statements as the Department of Finance assumes responsibility for the Commission's foreign currency exposure. The net amount of such gains and losses is not considered material to the Commission's operations.

1 (h) *Prepayments*

Prepayments consist of amounts paid by the Commission in respect of goods and services that have not been received at 30 June 1995.

1 (i) *Asset capitalisation threshold*

Property, plant and equipment consist of items having an individual cost/value over \$2 000. Items costing less than this amount are considered to be immaterial and their cost is expensed as incurred.

Land and buildings does not include rented property which the Commission does not control. Property rental liabilities are disclosed in Note 13.

1 (j) *Valuation of non-current assets*

Non-current assets are valued at the cost of acquisition, less accumulated depreciation. Computer equipment includes computer software.

1 (k) *Depreciation of non-current assets*

All non-current assets having a limited useful life are systematically depreciated over their useful lives in a manner which reflects the consumption of the service potential embodied in those assets. Depreciation is provided for on a straight-line basis, using rates which are reviewed annually. Major depreciation periods are:

<i>Asset Class</i>	<i>Total useful life</i>
Land	not applicable
Buildings	not applicable
Leasehold improvements	10 years
Plant	10 years
Furniture	10 years
Office equipment	5 years
Computer hardware	3 years

1 (l) *Creditors*

Creditors consist of amounts which were due to be paid by the Commission for goods and services received on or before 30 June 1995, but which were unpaid at that date.

1 (m) *Insurance*

In accordance with Government policy, assets are not insured, and losses are expensed as they are incurred.

1 (n) *Receivables*

A provision is raised for any doubtful debt based on a review of all outstanding accounts as at year end.

Bad debts are written-off during the year in which they are identified.

1 (o) *Resources received free of charge*

Resources received free of charge are recognised as revenue where the amounts can be reliably measured. Use of those resources is recognised as an expense.

1 (p) *Administered transactions*

All running costs are charged as Departmental expenses (including expenses directly related to administered assets).

1 (q) *Administered items*

Administered assets, liabilities, revenues and expenses are those which are controlled by the government and managed by the Commission in a fiduciary capacity.

1 (r) *Departmental items*

Departmental assets, liabilities, revenues are those which are controlled by the Commission, including:

- computers, plant and equipment used in providing goods and services;
- liabilities for employee entitlements;
- revenues from running cost appropriations (or from other appropriations for resources used in providing goods and services);
- revenues from user charges and profits on asset sales deemed to be appropriated pursuant to section 35 of the Audit Act 1901; and
- employee expenses and other administrative expenses (including contracting out) incurred in providing goods and services.

Note 2 Items of expenses and revenues

The aggregate amounts shown in the Operating Statement and the Program Statement include the following classes of expenses and revenues:

2 (a) Expenses - departmental items

Employee expenses

	<i>1995</i>	<i>1994</i>
	(\$'000)	(\$'000)
Salaries	12 751	11 586
Administrative expenses	722	800
Net movement in provisions for recreation leave/long service leave	(396)	(1 426)
Provision for staff redundancies	452	nil
Performance pay	280	262
Employer contribution for employee superannuation	1 596	1 889
	15 405	13 111

Other administrative expenses

	<i>1995</i>	<i>1994</i>
	(\$'000)	(\$'000)
Administrative expenses	6 652	6770
Legal services	20	37
Property operating expenses	2 311	2 443
Contribution towards the further development of the IMPACT project	237	378
Contribution towards the development of economy-wide modelling at Monash University	200	211
	9 420	9 839

Depreciation expense

	<i>1995</i>	<i>1994</i>
	(\$'000)	(\$'000)
- leasehold improvements	265	137
- property, plant and equipment	621	572

Bad and doubtful debt expense

	<u>1995</u>	<u>1994</u>
	(\$'000)	(\$'000)
Change in provision for bad and doubtful debts	2	nil

2 (b) *Revenues - departmental items*Revenues from independent sources

	<u>1995</u>	<u>1994</u>
	(\$'000)	(\$'000)
Profit on sale of non-current assets	8	37

Parliamentary appropriations

Details of appropriations and expenditures relating to each division, sub-division and item included in the total amounts shown for annual appropriations in the Statement of Transactions by Fund are as follows:

<u>1993-94</u>		<u>1994-95</u>	<u>1994-95</u>
Actual		Appropriation	Actual
(\$)		(\$)	(\$)
Appropriation Act Nos. 1 and 3			
Division 675 Industry Commission			
24 352 468	1. Running Costs (Annotated Appropriation)	29 123 148	22 729 635
	3. Other Services		
378 000	01. Contribution towards the further development of the IMPACT Project	260 000	237 000
211 000	02. Contribution towards the development of economy-wide modelling at Monash University	216 000	200 000
24 941 468	Total Appropriation Act Nos. 1 and 3	29 599 148	23 166 635

1995-96 Budget funding for the Commission under Appropriation Acts 1 and 3 totals \$21 163 000.

Carry-over

	<u>1995</u>	<u>1994</u>
	(\$'000)	(\$'000)
Unexpended Running Costs funds <i>carried-over</i> from the previous financial year in accordance with the agreed running cost arrangement with Department of Finance	1 238	1 176

Liabilities assumed by Government

	<u>1995</u>	<u>1994</u>
	(\$'000)	(\$'000)
Liability for employee superannuation	1 596	1 889

Resources received free of charge

	<u>1995</u>	<u>1994</u>
	(\$'000)	(\$'000)
Accounting and budgetary services in the form of the computerised Finance ledger and payroll services provided by the Department of Finance	11	10
Financial statement audit by the Australian National Audit Office (\$35,000 paid in respect of 1993-94).	39	nil

2 (c) *Revenues - administered items*Miscellaneous receipts

	<u>1995</u>	<u>1994</u>
	(\$'000)	(\$'000)
Sale of house purchased from staff	133	154
Other receipts	7	33
	140	187

Note 3 Act of grace payments, waivers and write-offs*3 (a) Act of grace payments*

	<u>1995</u>	<u>1994</u>
	(\$)	(\$)
Payments made during the financial year in accordance with directions given under Section 34A(1) of the Audit Act 1901	nil	nil

3 (b) Waiver of rights to payment of moneys

	<i>1995</i>		<i>1994</i>	
	<i>Number</i>	<i>Amount</i> (\$)	<i>Number</i>	<i>Amount</i> (\$)
Amounts waived pursuant to subsection 70C of the Audit Act 1901	nil	nil	nil	nil
Amounts waived pursuant to other legislation	nil	nil	nil	nil

3 (c) Amounts written-off

	<u>1995</u>	<u>1994</u>
	(\$)	(\$)
Amounts written-off under Section 70C(1) of the Audit Act 1901:		
(i) Losses or deficiencies of public moneys	nil	nil
(ii) Irrecoverable amounts of revenue	nil	nil
(iii) Irrecoverable debts and overpayments	nil	nil
(iv) Amounts of revenue, debts, or overpayments, the recovery of which has been determined to be uneconomical	nil	nil
(v) The value of lost, deficient, condemned, unserviceable or obsolete stores	115 804	2 279
Amounts written-off under other legislation:	nil	nil

The amounts written off in 1994-95 at cost had a written down value of \$1 271.

3 (d) *Losses and deficiencies etc in public moneys and other property*

	<u>1995</u>	<u>1994</u>
	(\$)	(\$)
Action taken during the financial year under Part XIII A of the Audit Act 1901	nil	nil

Note 4 Cash

The Commission held the following cash balances as at 30 June:

	<u>1995</u>	<u>1994</u>
	(\$'000)	(\$'000)
Cash Advances (Petty Cash, Travelling Allowance, Corporate Credit Card)	77	77
Collections of Public Moneys (CPM)	nil	nil
	77	77

The cash balances are represented by:

<i>1993-94</i>		<u><i>1994-95</i></u>
<i>Cash</i>		<i>Cash</i>
<i>Advances</i>		<i>Advances</i>
(\$'000)		(\$'000)
2	Cash on hand	2
75	Cash at bank	75
77		77

The amounts shown above for *Cash advances* and for *Cash at bank* at 30 June 1995 include the following amount:

- \$ 15 048 held at the Reserve Bank to facilitate the settlement of the Commission's Australian Government Credit Card account with the Westpac Banking Corporation (1994 — \$15 033).

Note 5 Receivables*5 (a) Departmental items*

As at 30 June, amounts in the following classes were due to be received by the Commission pursuant to an arrangement made under Section 35 of the Audit Act 1901:

	1995		1994	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Industry Commission staff	7			1
less Provision for Doubtful Debts	<u>5</u>	2		
Other departments		2		1
Trade debtors			6	
less Provision for Doubtful Debts		nil	<u>3</u>	3
		4		6

Of the total amount of \$4 407 outstanding as at 30 June 1995, the following amounts were *overdue* (ie unpaid after 30 days from date of issue of the debit advice) for the periods shown below:

1993-94	1994-95			
	(\$'000)	IC staff (\$'000)	Other depts (\$'000)	Trade debtors (\$'000)
.. Less than 30 days		nil	nil	nil
.. 30-60 days		nil	nil	nil
.. More than 60 days		1	...	nil
1		1	...	nil

5 (b) Administered items

Amounts in the following classes were due to be received by the Commission for payment to the Commonwealth Public Account as at 30 June:

	<i>1995</i>	<i>1994</i>
	(\$'000)	(\$'000)
Industry Commission staff	nil	1
Other departments	nil	2
Trade debtors	nil	..
	nil	4

<u><i>1993-94</i></u>	<u><i>1994-95</i></u>		
(\$'000)	<i>IC staff</i>	<i>Other depts</i>	<i>Trade debtors</i>
	(\$'000)	(\$'000)	(\$'000)
2 Less than 30 days	nil	nil	nil
.. 30-60 days	nil	nil	nil
1 More than 60 days	nil	nil	nil
3	nil	nil	nil

Note 6 Other

	<i>1995</i>	<i>1994</i>
	(\$'000)	(\$'000)
Prepayments	243	191
Residential houses purchased from Industry Commission staff	46	145
	289	336

During 1994-95 the Commission purchased 1 flat from a staff member who was compulsorily transferred to Melbourne as part of the Commission's re-location.

As the Commission intends to re-sell this flat within 12 months of 30 June 1995, this property have been recognised as current assets and shown as *Other*.

Refer also to Note 12 for additional information concerning the acquisition of these properties by the Commission.

Note 7 Property, plant and equipment

	<u>1995</u>	<u>1994</u>
	(\$'000)	(\$'000)
(i) Land and buildings at cost	nil	nil
(ii) Leasehold improvements at cost	3 345	2 411
less accumulated depreciation	401	137
Net book value	2 944	2 274
(iii) Property, plant and equipment at cost	2 775	2 823
less accumulated depreciation	1 956	1 619
Net book value	819	1 205
Total at cost	6 120	5 234
less accumulated depreciation	2 357	1 755
Net book value	3 763	3 479

Flat purchased from staff member has not been included above as this property has been recognised as a current asset. Refer also Notes 6 and 12 for additional information concerning the acquisition and sale of these properties by the Commission.

A reconciliation of opening and closing balances is shown below:

	<u>1995</u>	<u>1994</u>
	(\$'000)	(\$'000)
Leasehold improvements		
<i>Opening value 1 July 1994 (at cost)</i>	2 411	nil
<i>add assets purchased during 1994-95 (at cost)</i>	934	2 411
<i>less assets disposed during 1994-95 (at cost)</i>	nil	nil
<i>Closing value 30 June 1995 (at cost)</i>	3 345	2 411
Property, plant and equipment		
<i>Opening value 1 July 1994 (at cost)</i>	2 823	3 603
<i>add assets purchased during 1994-95 (at cost)</i>	255	569
<i>less assets disposed during 1994-95 (at cost)</i>	303	1 348
<i>Closing value 30 June 1995 (at cost)</i>	2 775	2 823

Note 8 Creditors

The total amount owed to creditors at 30 June is as follows:

	<u>1995</u>	<u>1994</u>
	(\$'000)	(\$'000)
Trade creditors	482	442
Other creditors	58	28
	540	470

Note 9 Provision for employee entitlements*9 (a) Current liabilities*

	<u>1995</u>	<u>1994</u>
	(\$'000)	(\$'000)
Annual leave (including leave bonus)	936	647
Long service leave	308	294
Staff redundancies	452	nil
	1 696	941

9 (b) Non-current liabilities

	<u>1995</u>	<u>1994</u>
	(\$'000)	(\$'000)
Annual leave (including leave bonus)	454	779
Long service leave	1 949	2 322
	2 403	3 101

Note 10 Other

Amounts owed as employee entitlements are as follows:

	<i>1995</i>	<i>1994</i>
	(\$'000)	(\$'000)
Performance pay (including lump sum superannuation contributions)	280	262
Salaries and wages	84	46
	364	308

Note 11 Net liabilities

Accumulated operating results:

	<i>1995</i>	<i>1994</i>
	(\$'000)	(\$'000)
Net liabilities at 1 July	922	4 806
Increase in net liabilities resulting from operations	38	3 883
Net liabilities at 30 June	960	922

Note 12 Land held for sale or re-sale

During 1994-95 the Commission purchased 1 flat from a staff member compulsorily transferred to Melbourne as part of the re-location of the Commission. Refer also Note 6 for additional information concerning the acquisition and sale of residential properties by the Commission.

The following information relates to this property which is held for re-sale:

	<i>1995</i>	<i>1994</i>
	(\$'000)	(\$'000)
Total cost of acquisition (exclusive of any surveys, roads and drainage and other developmental expenses)	46	145
Total cost of developmental expenses capitalised	-	-
Total amount of rates, taxes or interest and any other amounts capitalised	-	-

Note 13 Agreements Equally and Proportionately Unperformed

The Commission has entered into the following agreements which are equally and proportionately unperformed as at 30 June 1995:

1993-94		Due for Payment				Total
		Not later than 1 year	1-2 years	2-5 years	Later than 5 years	
(\$'000)		(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
nil	Capital expenditure	158	nil	nil	nil	158
41	Administrative expenses	77	2	4	nil	83
472	Contribution to economic modelling at Monash University	135	135	135	nil	405
15 132	Operating leases (property)	1 047	1 035	3 272	6 158	11 512

Note 14 Receipts and expenditure of the trust fund

This section discloses details of each Head of the Trust Fund and Trust Account for which the Commission is responsible.

The information shown provides a break-down of the information relating to the Trust Fund contained in the Statement of Transactions by Fund.

<u>1993-94</u>		<u>1994-95</u>
Actual		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 -		
1 440	Cash balance at 1 July 1994	1 426
38 934	Receipts	125 090
40 374		126 516
38 948	Expenditure	105 278
1 426	Cash balance at 30 June 1995	21 238

Transactions under the head of trust relate to incapacity payments to current employees in accordance with determinations made, and funds issued, by COMCARE.

Note 15 Remuneration of executives

The amounts of fixed remuneration and performance pay received/receivable by all the Commission's holders of public office and senior executive service officers are as follows:

	<i>1995</i>	<i>1994</i>
	<i>Number</i>	<i>Number</i>
Fixed remuneration		
under \$100 000	17	14
\$100 000 to \$110 000	1	4
\$110 000 to \$120 000	3	1
\$120 000 to \$130 000	nil	2
\$130 000 to \$140 000	1	1
\$140 000 to \$150 000	5	7
\$150 000 to \$160 000	1	nil
\$170 000 to \$180 000	1	1
Total fixed remuneration	\$3 106 710	\$3 040 646
Performance pay	\$104 000	\$97 500

Total fixed remuneration is for all executive officers of the Commission and it should be noted that the total in last years statement of \$2 069 446 was only in respect of executives receiving over \$100 000.

Note 16 Cash reconciliation - cash flow statement

A reconciliation of net cash provided by operating activities to excess of net cost of services over revenue from government is shown below:

	<i>1995</i>	<i>1994</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Net cost of services	(24688)	(22 796)
Parliamentary appropriations used for:		
Ordinary annual services	22 567	24 190
Other services	437	589
Liabilities assumed by government	1 596	1 889
Resources received free of charge	50	10
Depreciation	886	709
Profit on sale of non-current assets	(8)	(37)
Incentive from lessor	(10)	nil
Decrease in receivables (increase 1993-94)	2	(3)
Decrease in other (assets)	46	70
Increase in creditors	70	113
Increase in provisions (decrease 1993-94)	57	(1 426)
Increase in other (liabilities) (decrease 1993-94)	56	(358)
Net cash provided by operating activities	1 061	2 953

Note 17 Guarantees and undertakings

The Industry Commission had not given any guarantees or undertakings as at 30 June 1995 (1994 — Nil).

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