

INDUSTRY COMMISSION

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

COMPANION PUBLICATIONS

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

Regulation and its review: 1996–97

This report focuses on how existing processes for regulation review and reform have been enhanced in the past year, the progress made in implementing these new requirements and the role of the Office of Regulation Review.

Trade and assistance review

The report contains the Commission's latest estimates of industry assistance and reviews major trends and developments affecting trade and assistance across all sectors of the economy.

Progress on microeconomic reform

This report discusses major developments and lists the microeconomic reforms reported as being implemented by Commonwealth, State and Territory governments during 1996–97.

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ABBREVIATIONS

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
APEC	Asia Pacific Economic Cooperation (Forum)
APS	Australian Public Service
ATO	Australian Taxation Office
BIE	Bureau of Industry Economics
COAG	Council of Australian Governments
EPAC	Economic Planning Advisory Commission
GATT	General Agreement on Tariffs and Trade
GBE	Government business enterprise
GDP	Gross domestic product
IC	Industry Commission
MFP	Multifactor productivity
NCC	National Competition Council
OECD	Organisation for Economic Co-operation and Development
ORR	Office of Regulation Review
PMV	Passenger motor vehicle
R&D	Research and development
SMEs	Small and medium-sized enterprises
TCF	Textiles, clothing and footwear
WTO	World Trade Organization

CHAPTER 1

The productivity imperative

Past efforts to improve Australia's productivity are bearing fruit. But there is scope to lift productivity and living standards even further. While productivity growth can involve job losses in some firms and industries, measures which constrain national productivity will retard economic growth and harm future employment prospects for Australia as a whole.

Australia has implemented some major economic reforms since the early 1980s and is in the midst of implementing others. They have allowed Australia to participate more effectively in the global economy and have heightened pressures for better performance across all industries and the public sector.

The ensuing national benefits have been considerable, but have not come without cost to some people. In the past year, as at other times, this has provoked strong resistance to reform from particular quarters, as well as advocacy of policies directed at the needs of particular firms and industries. This resistance has been accentuated by the persistence of unacceptably high unemployment.

It is critical that as a society we do not lose sight of the underlying goals of economic policy and that we carefully weigh arguments for policy initiatives, especially those which would inhibit growth in national productivity.

The ultimate objective of governments' economic policies is to enhance the living standards of the general community. There is considerable agreement about some of the means of achieving this, but differences exist in some areas about appropriate strategies. Some points of contention are discussed in the next chapter. This chapter discusses the overriding need to improve Australia's productivity.

PRODUCTIVITY UNDERPINS LIVING STANDARDS

Growth in living standards depends to a large extent on the productivity performance of our economy. Higher national productivity is a driver of higher national incomes. This translates not only into greater purchasing power for households, but also an improved capacity for society to provide effective healthcare, education and welfare support for its citizens.

Productivity growth has accounted for around one-half of the expansion in Australia's GDP over the past three decades. Growth in capital, the workforce and other resources explain the remainder. Productivity growth accounted for around two-thirds of the 80 per cent growth in per capita incomes over that period (IC 1997f).

Productivity could be even more important to Australia's future economic performance. One reason is that labour supply may not experience the sustained boost from immigration and rising rates of participation that characterised previous decades. Another is that capital flows are becoming increasingly 'footloose' internationally. Both intuition and empirical evidence suggest that the productivity performance of the whole economy is a key to attracting the international capital flows which Australia needs to secure growth, employment and rising real wages (IC 1993b, 1996c).

In a rapidly changing world, sustained productivity growth requires an adaptable economy in which resources can flow readily to where the best opportunities lie. This process involves both the creation of additional jobs and the loss of some existing ones. It is critical to national productivity in the broadest sense that potentially productive people do not suffer protracted unemployment.

The available evidence suggests that, while unemployment has risen to historically high levels in Australia and many other OECD countries, this is not the 'fault' of productivity growth. Indeed, taking a long-term perspective, unemployment has been highest when productivity growth has been weakest. In Australia and most OECD countries, rising productivity has been associated with a net expansion in jobs, as well as higher real incomes. However, similar rates of productivity growth have coincided with quite different unemployment and employment experiences. This suggests that other influences — such as demand conditions and labour market flexibility — have been at work (box 1.1).

Box 1.1: Productivity and jobs

In many people's minds the push for higher productivity is inevitably associated with job losses. Australian and international experience suggests that there is no necessary relationship — many other factors influence employment and unemployment outcomes.

Productivity has direct and indirect effects on jobs

Technological change and microeconomic reforms can mean doing more with fewer people in some industries but can create jobs in others. Workers in some firms may lose their jobs and have to find new ones, possibly acquire new skills and even relocate. Adjustment may be protracted. Over time, whole industries may reduce their workforces, even though productivity improvements enable an expansion in their output — the manufacturing sector is a case in point.

But such job losses are only part of the story. Growth in output and incomes made possible by productivity improvements creates jobs throughout the economy:

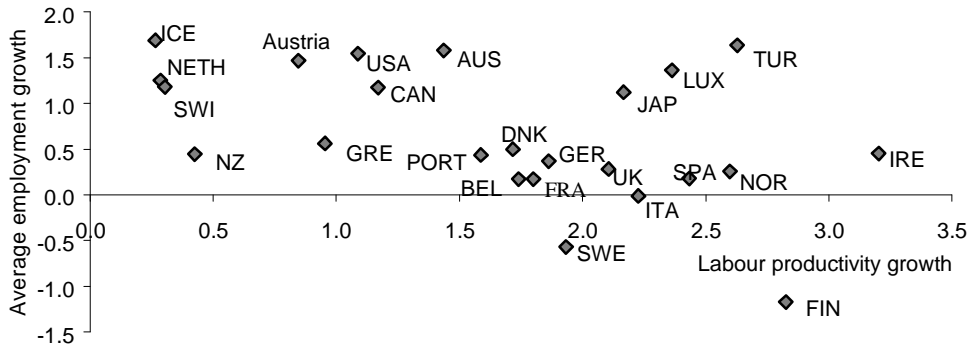
- Firms with good productivity performance will be more competitive in the (global) market place. This can lead to increased sales, allowing them to maintain or even increase employment.
- Other firms benefit when their input prices fall due to suppliers' productivity gains, and this allows them to maintain or expand output and employment.
- Productivity improvements, such as through outsourcing, create job possibilities elsewhere. For example, the scaling down of public sector employment has led to increased employment for external contractors, including the transfer of some public sector employees to the contractors (IC 1996a).
- Rising incomes and savings enable higher levels of investment (which generates employment) and increased government and consumer expenditure (which is directed increasingly towards employment-intensive services such as tourism, hospitality and community services).

Other factors contribute to employment outcomes

Comparisons of OECD countries suggest that reasons other than productivity growth — such as macroeconomic conditions and different institutional or regulatory arrangements in labour markets — also help to explain employment trends. High productivity growth has coincided with quite different employment experiences.

Box 1.1 (continued)

Labour productivity and employment growth in OECD countries, 1981 to 1994



Source: IC (1997f).

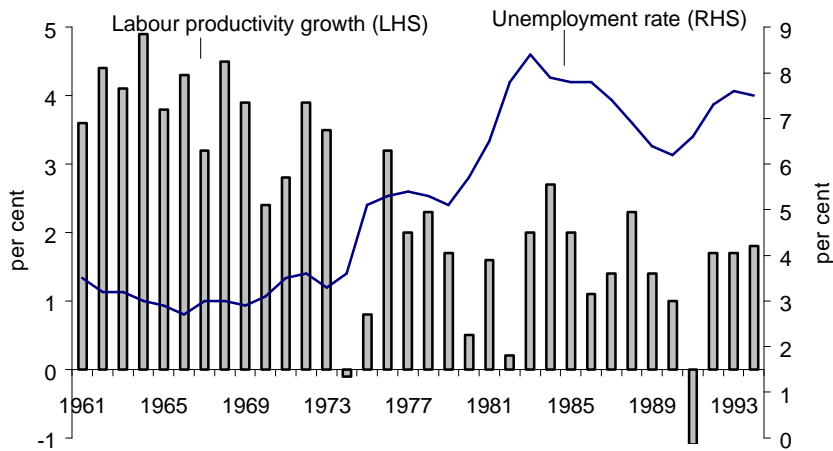
In surveying the evidence of the effect of technological progress on employment, the OECD (1994, p. 33) found:

‘Historically, the income-generating effects of new technologies have proved more powerful than the labour-displacing effects: technological progress has been accompanied not only by higher output and productivity, but also by higher overall employment’.

Internationally, unemployment was lowest when productivity grew most rapidly

While the experiences of individual countries differ, for the OECD as a whole, rising unemployment rates have coincided with *falling* productivity growth rates.

OECD unemployment rates and growth in labour productivity, 1961 to 1994



Source: Derived from OECD (1996).

Box 1.1 (continued)

Australia's productivity and employment have grown together

A comparison of productivity and employment growth rates over the last two decades reveals a range of outcomes by sector. For example, the transport, storage and communication sector increased its productivity by 3.3 per cent annually and employment by around 0.5 per cent annually. The manufacturing sector recorded productivity growth of 2.0 per cent a year, but employment declined on average by 1.6 per cent annually. For the market sector of the Australian economy as a whole, however, rising productivity (1.2 per cent annually) has coincided with average annual employment growth of 1.4 per cent (IC 1997f).

What seems clear is that attempts to constrain the forces behind productivity growth cannot provide an answer to Australia's pressing unemployment problems. Australia has tried unsuccessfully to use protection from international competition to retain jobs in uncompetitive sections of industry. Even very high import tariffs did not prevent employment levels falling in Australia's automotive and textile, clothing and footwear sectors, although they probably slowed the decline (figure 1.1). These sectors have had the slowest growth in output and the largest employment losses since 1968–69 (Gretton and Fisher 1997).

There is no easy or single answer to persistent unemployment. But the highest pay-offs are likely to be found:

- in labour market, education and training reforms which improve the employability of the workforce and remove impediments to labour force mobility;
- in reassessing the interaction between the tax and social security systems to improve work incentives; and
- in higher economic growth — which stems largely from improved productivity.

SCOPE TO IMPROVE AUSTRALIA'S PRODUCTIVITY PERFORMANCE

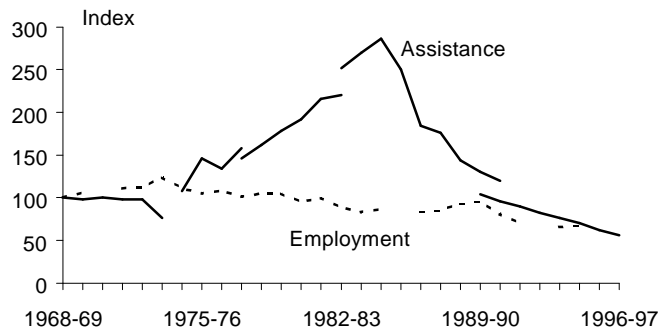
The best available evidence is that, at least until recent years, Australia's productivity performance has been modest. It has lagged behind that in most comparable countries even when high by Australian standards. While measurement and comparability problems can bedevil assessments (and

international comparisons in particular), Australia appears to have some way to go in achieving its productivity potential.

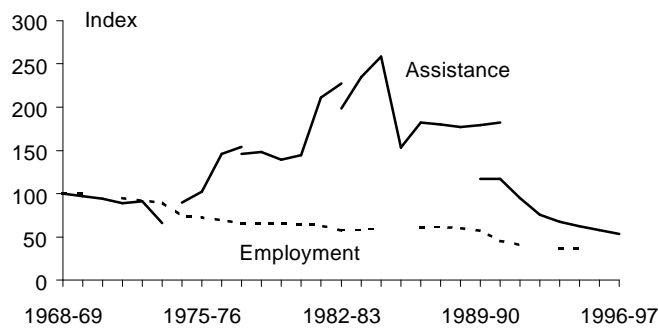
- A series of benchmarking studies of economic infrastructure industries point to significant performance gaps between Australian and world best practice, and between the best and worst Australian performers (BIE 1995a). For example, best practice labour productivity in the Australian aviation, electricity, telecommunications and rail freight industries was estimated to be around one-third to one-half of world best practice.

Figure 1.1: Protection does not prevent job loss

Motor vehicles and parts



Clothing and footwear



Note: Assistance as measured by the effective rate of assistance. Discontinuities in the assistance series reflect periodic rebasing of the estimates to account for changes in the structure of the manufacturing sector (IC 1995b). Employment data from ABS 8221.0. Motor vehicle and parts industry comprises ASIC 323 and ANZIC 281. Clothing and footwear industry comprises ASIC 24 and ANZIC 223, 224 and 225. Index: 1968-69 = 100.

Source: Commission estimates

- COAG benchmarking of government service provision (undertaken by the Commission) has revealed major variations across Australia in the cost and effectiveness of service delivery in education, health and community services (SCSP 1997a).
- International sectoral comparisons of labour productivity levels place Australia well below the best performing OECD countries. For example, measured labour productivity in Australia's manufacturing sector is around 30 per cent lower than that in the United States (IC 1997f, p. 74–5). Other comparisons show a wider gap (Pilat 1996).
- Companies operating around the world can benchmark their Australian operations accurately. The Commission has been told of one multinational company rating its Japanese manufacturing productivity at 100, US and UK operations at 85, and its Australian operation at between 65 and 70. Equipment down-time, absenteeism and poor internal communication, internal material shortages, work efficiency, and small-scale operation each accounted for around 5 percentage points of the Australian efficiency disability, with the remainder attributed to poor process and supplier quality.

There are signs, however, that the 1990s may represent a turning point. National productivity indicators are showing stronger and more sustained growth than could be expected on the basis of past recoveries from recession. For example, productivity was around 6 per cent higher three years after the trough in both the 1980s and 1990s recessions. It has continued to climb in the 1990s to be more than 10 per cent higher, whereas previously it levelled off (box 1.2). Improved productivity has provided room for the economy to grow faster, and in a more sustainable manner, without running into inflationary pressures and consequent interest rate rises.

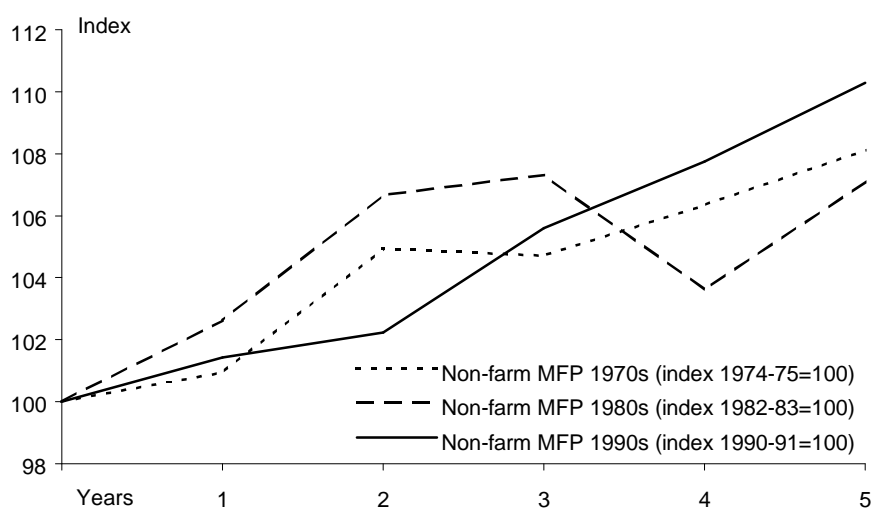
Australia's performance also has improved by international standards — productivity grew at twice the rate of many other OECD countries between 1989 and 1994.

The improvement in aggregate productivity reflects better performance across a range of sectors. The most notable performers have been: transport, storage and communication; electricity, gas and water; and manufacturing (IC 1997f, p. 48). For example, Australia Post's (total factor) productivity rose by 15 per cent in the four years to 1994–95 (SCGTE 1996, p. 132).

Box 1.2: Australia's productivity — encouraging signs

While not all the evidence is in, Australia's improved productivity performance in the 1990s would appear to reflect more than a recession-related recovery. Australia's rate of productivity growth is currently running at around 2 per cent or more a year, compared with an historical average of 1.5 per cent a year, and is approaching the historical highs of the 1960s and early 1970s (IC 1997f). Compared with the period after the 1970s and 1980s recessions, productivity growth has been stronger and more sustained.

Productivity performance following Australian recessions



Source: IC (1997f).

While technological change has been important, the period of improvement also follows a range of microeconomic reforms. These reforms have exposed Australian industries and government enterprises to increased competitive pressure, heightening incentives to be cost conscious, innovative and productive.

Greater competition in product and factor markets has meant that, compared with earlier years, there is an increased tendency for productivity gains to be distributed throughout the economy in the form of lower prices (box 1.3). Price reductions benefit consumers and user industries, and thereby stimulate the creation of additional jobs.

The microeconomic reform process has made significant inroads into the accumulated inefficiencies of the past. But much remains to be done, both in completing reforms under way — such as the National Competition Policy and tariff reform — and in tackling such important 'new' areas as

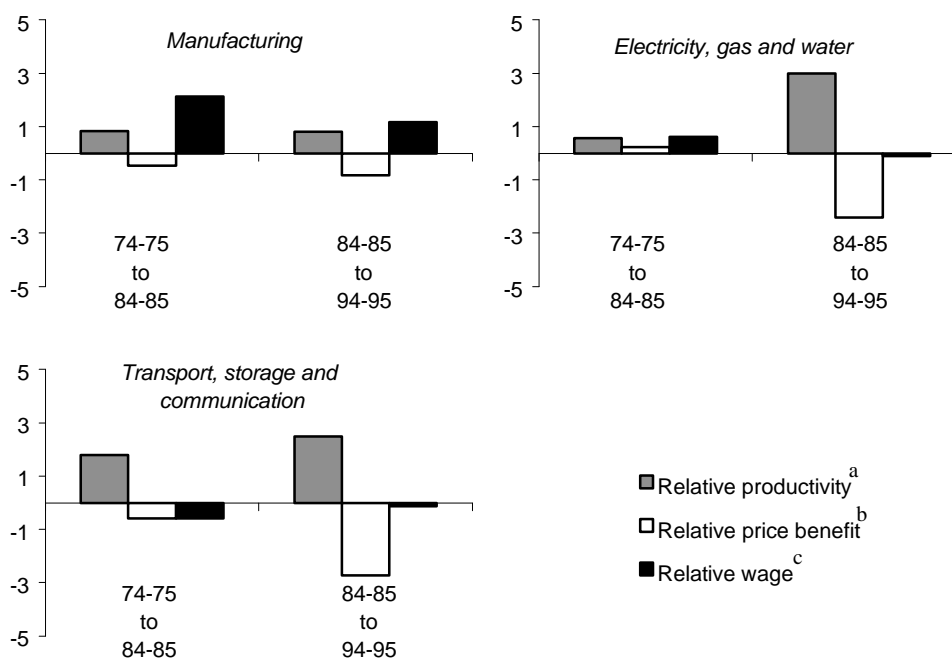
health and education. The 150 recommendations contained in the Commission's *Stocktake of progress in microeconomic reform*, if implemented (some already have been), would do much to close Australia's 'productivity gap', and to create a vibrant national economy underpinned by fair and efficient social programs (PC 1996a).

Box 1.3: Productivity, prices and wages

The community has an interest in seeing the benefits of productivity pass widely through the economy. Competition helps to ensure that the benefits flow to others in the form of lower prices, rather than just increasing the wages and salaries of managers and employees in the enterprises generating the productivity increases. While such increases would have their own flow-on effects, lower prices from competition are crucial to employment generation and rising real incomes, including for those in industries with limited scope to raise productivity.

Looking at the experience over the past two decades in three sectors which had relatively high productivity growth, it is apparent that more of the productivity 'dividend' came through lower prices in the latter period. That period was marked by heightened competitive pressures from microeconomic reform.

Relative growth in productivity, prices and wages in three sectors (percentage points)



a MFP growth (sector) *minus* MFP growth (market sector)

b Price growth (sector) *minus* price growth (economy)

c Average weekly earnings growth (sector) *minus* AWE growth (economy)

Source: IC (1997f).

CHAPTER 2

Industry policy in perspective

The most effective industry policy for Australia is one which concentrates on removing impediments to better performance across all sectors. More efficient labour markets, a better taxation system, improved economic and social infrastructure, and less regulatory red tape, are the main game. On this there is much common ground.

There is also a clear role for business programs — such as R&D support — which correct effectively for market failures. However, tariffs and much selective assistance at best merely shuffle jobs and investment, and detract from Australia's productivity performance. All industry assistance schemes should be assessed in terms of their potential to generate net economy-wide benefits.

A RESURGENT DEBATE

The past year has seen a resurgent debate about the future course of industry policy in Australia. One catalyst has been the need for a series of government decisions on special assistance arrangements for selected manufacturing industries (automotive, TCF and pharmaceuticals). Another has been the cut in subsidies to business through the Budget process (including reduced tax concessions for R&D) and the subsequent Mortimer review of business programs. Sustained high levels of unemployment and questioning about the benefits of past economic reforms also have been influential.

Debate has been stimulated further by perceptions of confusion and inconsistency in the approaches of governments to industry assistance. The decision to levy a 3 per cent duty on business inputs previously imported duty free under the tariff concession system is one example. The flirtation with free trade zones and competitive bidding among the States to attract

industry are other examples. Confusion has been exacerbated by the demise, at the Commonwealth level, of the political bipartisanship in favour of tariff liberalisation, a change in approach based partly on the flawed argument that a halt to liberalisation can enhance job security.

The nature of policies which bear on the allocation and performance of resources across industry — which is what industry policy is essentially about — is an important matter for public discussion. Indeed, the Commission sees the encouragement of such debate as integral to its role (see chapter 3). It is vital that such discussion be informed by a fuller understanding of the economy-wide consequences of particular proposals. The bottom line for industry policy is the continuing need to improve national productivity so as to raise the living standards of the community at large.

FOCUS ON MANUFACTURING

While there has been increasing recognition of the need to advance reforms with broad-ranging effects on economic performance (such as in taxation, labour markets and infrastructure), the recent debate has tended once again to focus on the needs of the manufacturing sector. Indeed, for many, the term industry policy is taken to mean *manufacturing* industry policy, rather than policy directed at industries in all sectors. This is curious, given that the manufacturing sector, while important, accounts for only 14 per cent of national output and 13 per cent of employment. It partly reflects a misperception that only manufacturing creates ‘real’ jobs, that it makes a special contribution to Australia’s prosperity, and that it is suffering from lack of support (box 2.1).

A feature of the recent debate has been calls for government to enunciate a ‘vision’ for future industry development. There are a variety of views (box 2.2). Some visions deserve wide support. For example, the ACM advocates:

the development of a sustainable, prosperous, innovative and internationally competitive manufacturing sector in Australia (ACM 1997, p. 3).

A more contentious point is how such high level visions are to be pursued in practice. Proposals range from the endorsement of further broad-ranging microeconomic reform, to governments setting industry growth targets or devising industry plans in partnership with what are called key or strategic manufacturing industries. Thus, the notion that Australian governments should be, and are capable of, picking ‘winners’ among industries and formulating effective industry-specific visions, continues to attract support.

It is obvious that any policy bearing on industry must be developed with an understanding of the circumstances of industry and what it takes for business to be internationally competitive. There are dangers, however, in focusing too narrowly on *particular* businesses or industries. As the Commission has shown in many inquiries over the years, government support for a particular firm or industry is typically paid for by other firms or industries and their employees, as well as by consumers or taxpayers — none of it voluntarily. This was illustrated by the opposite reactions of different industries and States to the Commonwealth Government's decisions on assistance to the automotive and TCF sectors.

A further consequence of policies which are perceived to provide favoured treatment for some firms or industries is that they encourage other industries to lobby for special treatment too. Such lobbying can be politically difficult to resist unless there is a sound rationale, clearly articulated, for differential treatment. Moreover this 'rent-seeking' activity, regardless of the outcome, represents a costly diversion of managerial effort from the proper business of the firm. This is now well understood in New Zealand where, according to the vice-chairman of the NZ Business Roundtable (Matthew 1997, p. 6):

Protectionist sentiment is virtually dead ... Recently all the major business organisations said 'thanks, but no thanks' to proposals by the coalition government to spend \$100 million on various forms of business assistance.

BACK TO THE FUTURE?

While few representatives of Australian industry these days would proclaim themselves protectionist — now a discredited concept worldwide — some have been advocating forms of assistance and approaches to trade liberalisation which would have similar effects. In particular, there have been calls:

- to halt or slow down reductions in trade barriers until other countries reciprocate;
- to link any further reductions in industry assistance to the pace of other microeconomic reform in Australia; and
- for more expenditure on business programs — including those directed at attracting foreign firms and expanding manufactured exports.

Box 2.1: Manufacturing in perspective

A competitive and prosperous manufacturing sector makes a valuable contribution to national wellbeing. That, however, does not mean that governments should ensure that manufacturing activity be kept above a certain share of GDP or total employment.

Much of the concern about the relative decline of manufacturing is based on misperceptions about its role in the Australian economy.

The level of manufacturing output is, in fact, more than twice as large today in real terms as it was three decades ago. But over the same period, manufacturing's *share* of national output fell from 26 per cent to 14 per cent, because other sectors — particularly services — have been growing faster. Employment in manufacturing (based on ABS Labour Force Survey data) has fallen from 1.2 million to 1.1 million people since 1966, a decline of 9 per cent. Over the same period, however, employment in other sectors doubled, from 3.6 million to 7.2 million.

Technological change and rising incomes, resulting in an increased demand for services such as health, education, transport, communication and entertainment, have been major factors contributing to manufacturing's declining share of output and employment.

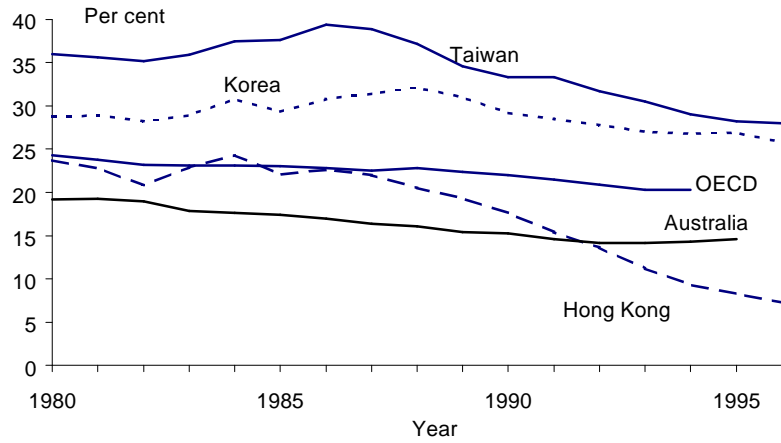
Relative decline in manufacturing activity is a common feature of economic progress in developed nations.

- The share of GDP accounted for by manufacturing in the OECD fell by 8 percentage points between 1970 and 1994 (see also Clark et al 1996).
- A similar trend is becoming evident in some of the more advanced East Asian economies, such as Korea and Taiwan. In Hong Kong, manufacturing's share of GDP fell by two-thirds to around 7 per cent in the last 15 years (see also Rowthorn and Ramaswamy 1997).

Service sector jobs have accounted for virtually all Australian employment growth over the past few decades. Just under half of these jobs have been part time. There is little support, however, for the claim that services sector jobs are somehow less valuable than those in manufacturing. Services jobs are not typically lower paid or lower skilled. Eleven of the 14 service industries recorded *higher* average hourly wages for full-time adult (non-managerial) employees than did manufacturing in May 1996.

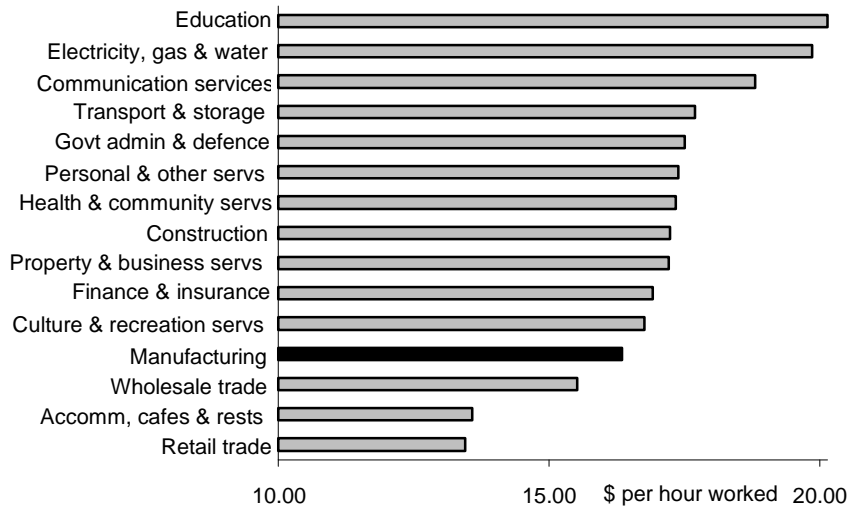
Box 2.1 (continued)

Share of manufacturing in GDP, selected countries



Source: International Economic Data Bank, Australian National University; OECD (1996); and for Australia, estimates derived from Econdata (ABS ASIC data for 1979–80 to 1982–83, ANZIC data thereafter).

Comparative wage rates in services and manufacturing, May 1996



Note: Average hourly earnings paid to full-time, adult, non-managerial employees.

Source: Derived from ABS 6306.0.

Box 2.2: Differing views on industry policy

Business Council of Australia

‘The opportunity should now be grasped to reverse the widely-held perception that official policy attitudes toward investment and industry are ad hoc, inconsistent and incoherent, occasionally antagonistic, and dominated by short-termism. It is essential that there be a more strategic and whole of government approach, which is forward looking, sets goals and targets, and is readily understood and supported by all arms of government.’ (BCA 1997, p. 9)

Australian Chamber of Commerce and Industry

‘Whilst it may not be appropriate in a democratic, free market society such as Australia to favour one firm over another, this should not preclude utilising policies allowing winners to “pick themselves”.’ (ACCI 1997, p. 16)

Australian Electrical & Electronic Manufacturers’ Association

‘Australia must “leap” from an incremental, hands-off industry policy approach to a long term “revolutionary” and internationally oriented approach incorporating a range of coordinated measures plus a series of incentives targeted to encourage investment in global industries.’ (AEEMA 1997, p. 7)

National Farmers’ Federation

‘Rather than establishing a “vision” for industry policy in Australia, policy makers should view industry policy as one part of an integrated and forward looking suite of policies including among others, macroeconomic and microeconomic policy, competition policy and tax policy.’ (NFF 1997a, p. 2)

BHP

‘The focus should be on establishing a framework conducive to investment across all industries. This framework must be outward-looking and internationally competitive. What industry needs is a lower investment cost base, greater investment certainty and infrastructure services that are efficient and responsive to customer needs. This vision and policy program should not be considered “industry” policy given the objective to improve performance across the economy.’ (BHP 1997, p. 2)

The first two proposals are largely to do with tariff policy, a topic more commonly associated with Australia's past than its future. They have attracted public attention in the context of assistance reviews for the automotive and TCF sectors, where tariffs remain relatively high. Most other import-competing industries operate with tariffs of 5 per cent or less. Nevertheless, acceptance of the proposals in policy would have wider ramifications for reform generally. It could also impinge on Australia's approach to reforming non-tariff barriers to trade, such as government purchasing preferences and restrictions on investment and trade in services.

This chapter therefore focuses on the above three propositions. It shows that, while they may be superficially attractive, they would be more likely to detract from than enhance Australia's productivity and living standards. The Commission then sets out its vision of an industry policy appropriate to raising the productivity of *all* Australian industries.

WOULD AUSTRALIA GAIN FROM RECIPROCITY?

The argument that Australia should abandon further reductions in its trade barriers until other countries reduce their barriers takes two overlapping forms.

- Some simply argue that Australia should wait until certain other countries catch up in their own liberalisation. The Government lent credence to this view in announcing that the reviews of assistance arrangements for the automotive and TCF industries in 2005 would take account of progress on market access.
- Others suggest a more active approach, with Australia using its remaining trade barriers to achieve liberalisation in foreign markets.

Some views and counterviews are in box 2.3.

Implicit in much of this is the notion that any liberalisation on Australia's part is a concession to others, offered at some cost to us. The presumption is that we need others' concessions to make our reforms worthwhile.

Such notions seem to misunderstand the nature of the gains from trade. Trade allows countries to specialise in the production of goods and services most suited to local conditions and to exchange those for other goods and services in a way that expands the community's consumption possibilities. Increased imports are not the price we pay so that Australia can increase its exports. On the contrary, we gain from trade because increased exports allow us to obtain cheaper and better imports.

Support for the reciprocity argument is bolstered also by perceptions that Australia has been at the forefront in lowering trade barriers and is now 'ahead of the pack'. Among OECD countries, however, Australia was a late comer to trade reform, and comparisons of the height and extent of Australia's trade barriers show a mixed picture (IC 1997c, IC 1997e, Snape 1997).

Box 2.3: Views on reciprocity

For:

'In principle ACCI believes there should be continuing efforts to reduce levels of protection and assistance to industry but this must be conditional upon comparable reductions in trading barriers ...' (ACCI 1997, p. 44).

'The Australian Government should ... not commit to further tariff reductions beyond 1996 levels until such time there is substantive evidence of other nations, particularly developing nations, reducing tariffs and non-tariffs barriers by the rate and to the level at which Australia has already reduced its own border protection over recent years.' (AEEMA 1997, p. 24)

'Australia should ... demand reductions in [automotive] tariff and non-tariff barriers from other APEC countries before reciprocating with further opening up Australia's automotive market.' (SA Government submission to IC automotive inquiry, p. 27)

'ACM recommends the Federal Government undertake bilateral negotiations with countries importing to Australia to ensure equal access for Australian manufacturers to their home markets ... where agreements cannot be reached for fair and equal access by the year 2000, the same import tariffs applying in the importing countries be adopted for goods entering Australia.' (ACM 1997, p. 38)

Against:

'Small countries like Australia have everything to gain from free trade. Any suggestion that our car industry should be a special case and temporarily be quarantined from tariff reductions is fraught with danger. Not only would Australia's international credibility be compromised but the invitation would go out to our trading partners to imitate the policy and identify their own "special case". For countries like Korea and Japan agriculture could come off the agenda and the loser would be Australia.' (NFF 1997b, p. 7)

'The Federal Government should make a general statement on the direction of tariff policy making it clear that tariff reform benefits Australians, *whether or not our trading partners adopt similar reforms at the same time* .' (MCA 1997, p. v)

The key question is whether — by waiting for other countries to take action or by negotiating deals of one kind or another — it is possible to produce a better outcome for Australia. The answer depends on:

- the cost to Australia of delaying further reform;
- the potential gains to Australia if other countries can be induced to liberalise faster; and
- the probability that other countries *can* be so induced by Australia.

SHOULD WE WAIT FOR OTHERS?

There is wide acceptance, including among advocates of reciprocity, that past unilateral tariff and other trade barrier reforms have benefited the Australian economy. Such reforms have reduced the cost of goods to both consumers and user industries, and brought about a reallocation of resources in favour of our more efficient industries, including exporters. Other industries have lifted their performance (including through R&D) to cope with increased competition. Moreover, as tariffs fell, the costs to business of inefficient infrastructure provision and rigid industrial relations regulations became clearer. Thus, tariff reductions have been a catalyst for much needed reforms elsewhere in the economy.

These benefits have not depended on other countries matching our actions. They have come about because reform of industry protection has improved the way we go about doing things *in Australia*.

Delaying further trade reform would prolong costs to Australian consumers and industries (box 2.4).

There would be, of course, additional benefits to Australia from sharing in growth in world trade when other countries reduce their protection barriers. But Australia's liberalisation will generally have more pervasive effects — and thus greater impact — on the Australian economy than will liberalisation by other countries. This is supported by empirical evidence. For example, McKibbin (1997) estimated that the consumption gain to Australia from APEC countries meeting their Bogor commitments to free trade would be 11 per cent above the gain from Australia meeting its own free trade commitment unilaterally. Extending this to most other countries yielded gains 17 per cent higher than if Australia alone reduced its trade barriers. In other words, more than four-fifths of the estimated gains to Australia from multilateral liberalisation come from its own action.

Box 2.4: Tariffs tax Australian consumers and industries

Tariffs are a tax which directly raise the price of imported goods. As such, they raise revenue for the Australian Government, but also allow domestic producers of similar goods to raise their prices. This places protected Australian industries in a better position to hold and attract resources, which in turn disadvantages less protected industries, especially exporters. Tariffs also increase prices to consumers and businesses which use tariff-protected inputs. One industry's output protection is another's input tax.

But this is not the full story — tariffs can have more deleterious effects on the dynamics that drive industry productivity.

- By cushioning industry from international competition, they can reduce the incentive for innovation and cost containment. For example, while not the only factor involved, soon after the Government's decision for a pause in the phase down on tariffs in the automotive industry, a number of automotive firms agreed to pay rises exceeding the Reserve Bank's wages growth benchmark.
- By demonstrating the potential pay-off from lobbying government, tariffs also can divert managerial energy from making their businesses more productive and competitive.

Economic modelling typically understates the costs of protection, because of the difficulty in capturing such dynamic effects. The true costs of protection are, nevertheless, probably lower in value than the implicit tax effects on consumers, because of the benefits to protected firms and the addition to government revenue. Yet those tax effects can place a sizeable burden on sections of the community.

- The Government's decision to hold automotive tariffs at 15 per cent between 2001 and 2005 will add an average of \$2100 to the cost of every passenger motor vehicle. The buyer of a light car such as a Diahatsu Charade will be taxed some \$1300, and for an upper medium car — such as a Honda Accord — almost \$4000. Businesses and their executives will carry most of the tax burden. Business is a major user of passenger motor vehicles — 75 per cent of new upper and medium sized cars are purchased by fleets.
- Similarly, the Government's decision to hold TCF tariffs at their 2001 levels until 2005 will cost purchasers of these products between \$800 million and \$1.4 billion a year. TCF tariffs also reduce the competitiveness of other Australian producers. For example, information from furniture manufacturers reveals that 1997–98 textile tariffs will raise the retail price of a mid-range three seat lounge from \$1300 to \$1450 (IC 1997e, p. 330).

Even relatively low tariffs can have significant effects. It is perhaps ironic that those arguing for a tariff pause also want to scrap the 3 per cent duty imposed on business inputs previously imported duty free under the Tariff Concession System.

The short-term unemployment and other adjustment costs which result from Australia's own liberalisation could be reduced if other countries also liberalised. If Australia waited for other countries to take the first step so as to lower adjustment costs here, however, this would delay the larger benefits from our own liberalisation.

Waiting for other countries to act — and so delaying the significant benefits of domestic reform — would make sense only if it encouraged others to liberalise faster and sooner. This does not seem likely. While trade is increasingly important to our economy, Australia is still a small player by international standards. It accounts for only 1 per cent of world trade and 6 per cent of APEC trade. Australia's influence is limited even in most individual products — only 3 per cent of Korean motor vehicle production and 1 per cent of Japanese vehicle production are exported to Australia.

Acceptance of the argument that Australia should wait for others would also raise practical difficulties. For example, would we tie our assistance reductions to what happens in APEC countries, a major APEC country, or elsewhere? Would we abandon general reductions in protection and rely only on product-by-product assessments of this kind for all industries? How would we take account of the fact that while some countries have higher protection than Australia, many others have lower levels? How would we account for non-tariff barriers?

ARE WE SQUANDERING 'NEGOTIATING COIN'?

Under the second, more traditional version of reciprocity, it is argued that Australia should defer reform and use its remaining trade barriers as leverage to gain preferential access to the markets of particular countries, or as negotiating coin in future rounds of multilateral trade liberalisation.

It is possible to imagine preferential deals beneficial to Australia — but also harmful ones. To be beneficial, bilateral deals would need to involve substantial trade creation, rather than the diversion of trade from more efficient world suppliers. A good deal would give Australian consumers access to the world's best and cheapest products and see high trade barriers reduced in areas where world-competitive Australian producers had real prospects of expanding their exports. An example might be to reduce our automotive assistance in exchange for preferential access to Japan's highly protected agricultural markets.

How likely though are such deals? As already noted, Australia has limited bargaining strength. If for domestic political reasons a country such as Japan was reluctant to abandon its agricultural barriers as part of global

trade negotiations, why would it do so merely to secure better access to the small Australian automotive market?

In any case, such deals would be challenged immediately in the WTO. Restricted product-by-product deals contravene the first article of the General Agreement, which requires members to extend reductions in trade barriers to all other members on an unconditional most-favoured-nation basis. (The only exceptions are concessions for developing countries and comprehensive customs unions or free trade arrangements, such as the Australia–New Zealand Closer Economic Relations Trade Agreement, consistent with the GATT/WTO requirements.)

Multilateral deals have greater potential. As the history of GATT negotiations has shown, however, a small country such as Australia acting alone has little bargaining power. In any case, unilateral action does not preclude Australia benefiting from multilateral trade negotiations. On the contrary, countries are given credit in the WTO for trade reforms already undertaken.

Australia is certainly not alone in acting unilaterally. Indonesia, Korea, Malaysia, Chile and Mexico were among over 70 countries which saw it as in their interests to reduce their trade barriers independently between 1986 and 1993, and which have benefited accordingly (GATT 1993). In July 1997 Indonesia announced unilateral tariff reductions on 1600 items, which will mean that over 60 per cent of all its tariff items will be between zero and 10 per cent (DFAT 1997b). The New Zealand Government has announced that, as part its strategy for supporting economic growth, it intends removing all remaining tariffs well within the 2010 APEC deadline, with a swift removal of vehicle tariffs from the year 2000 (Peters 1997).

THE BEST TRADE STRATEGY FOR AUSTRALIA

In sum, the most nationally productive strategy for Australia is to:

- continue reducing our trade barriers for domestic reasons; and
- encourage other countries to meet their existing commitments and to liberalise further.

That way we obtain domestic gains without jeopardising — indeed, we strengthen the prospect of — international gains.

The extent of liberalisation in our foreign markets will be influenced by the degree of awareness in those countries of the domestic costs of their protection. Thus Australia also should continue to support international initiatives — such as the PECC (1995) survey of impediments to trade and

investment in the APEC region — which help to make the domestic costs of protection more transparent. In contrast, Australia sends the wrong signal to its trading partners whenever it makes further domestic liberalisation conditional on other countries' trade policy actions and exempts key sectors from reform.

SHOULD TRADE REFORM DEPEND ON OTHER MICROECONOMIC REFORMS?

Many companies justifiably express frustration at the uneven pace of microeconomic reform. Those facing increased international competition from tariff reductions naturally want reform to encompass their inputs as well as their outputs. They are looking for more efficient infrastructure services, access to competitively priced materials, more flexible labour market arrangements, an improved taxation system and less regulatory red tape.

Some go on to argue that certain reforms — particularly reductions in tariffs — should be made conditional on faster progress in other parts of the reform agenda. For example, the ACCI (1997, p. 44) has argued that reductions in protection and assistance to industry must be conditional upon

the delivery of world's best-practice micro economic reform including fundamental tax reform.

Reforms in some areas can facilitate reform in others. For example, changes to Commonwealth–State financial relations would assist in addressing inefficiencies in State taxation and minimise disincentives for States to reform their government business enterprises (IC 1994).

It is desirable for reform to proceed on a broad front. That way, there will be higher aggregate benefits and a better chance that those who lose from one reform will receive offsetting benefits from others. A range of economic modelling illustrates that, while there are divergent results for individual industries, broadly based reform leads to an expansion in all sectors of the economy (IC 1997a, p. 44).

At the same time, there are good reasons against making further assistance reductions *conditional* on other reforms. The direct and indirect costs of protection (illustrated in box 2.4) mean that opening markets to greater international competition must remain a priority in raising national productivity. Further industry assistance reductions would directly benefit industry.

By exposing local firms to international competition, tariff reductions (along with foreign exchange and other financial market deregulation) have spurred reform in economic infrastructure and industrial relations. Thus, if assistance reductions were made dependent on other reforms, this could have an effect opposite to that intended — it could reduce pressure for such reforms.

While broad-based microeconomic reform can offset the pain for individual industries in adjusting to increased international competition, this is not, as some seem to infer, its main purpose:

the chemicals and plastics industry is dissatisfied with the rate of micro-economic reform which was supposed to have offset the effect of reduced tariffs (PACIA 1997, p. 6).

The purpose of reform is to increase national productivity and community welfare. Many reforms, such as increased competition and pricing reform in the electricity sector, clearly have lowered costs to businesses generally. But not all reforms involve cost cutting. Nor are they beneficial to all businesses. For example, movement to consumption-based pricing of irrigation water has involved price increases to achieve more efficient use of water and associated environmental gains, and higher levels of cost recovery to provide more appropriate returns to providers. While greater efficiency on the waterfront is needed to raise national productivity, it not only lowers costs for exporters but also lowers the cost of importation and increases competitive pressures on domestic industries.

Past reforms to industry assistance and in other areas, though incomplete, are benefiting industry and consumers alike (box 2.5). Further gains are in store. As the Prime Minister has observed, a wider appreciation of these benefits is important in sustaining support for further broad-based reform.

Box 2.5: Recent examples of the gains from reform

- The National Committee for Performance Monitoring of Government Trading Enterprises found that across 73 of Australia's major government trading enterprises in the electricity, gas, water, transport and communications industries: on average, real prices fell by over 5 per cent in 1995–96, continuing an uninterrupted trend of falling average real prices since 1991–92 of 15 per cent; customer satisfaction within most sectors is improving; average profitability showed a modest improvement in 1995–96 with significant increases in payments to governments; and the return on assets rose in 1995–96 (SCGTE 1997).
- An Australian Chamber of Manufactures survey of Victorian manufacturers who have availed themselves of the contestable electricity market shows average price reductions of over 10 per cent. In New South Wales, average business costs for electricity have fallen by 23 per cent in real terms since 1992–93 according to the Independent Pricing and Regulatory Tribunal.
- The real price of international telephone calls fell by 40 per cent between 1989 and 1995. The liberalisation of the telecommunications market in July 1997 offers the prospect that the average international call price from Australia could fall to as low as 47 cents per minute, well under half the estimated average price of \$1.11 in 1995–96 (IC 1997d).
- In aviation, the Commission has found that by allowing international code sharing, the cost to consumers of a standard economy airfare on international flights was estimated to have fallen on average by around \$200 per ticket (IC 1997b).
- A study by the Justice Research Centre (1996) found that deregulation of conveyancing services had contributed to a reduction of 17 per cent between 1994 and 1996 in the average fee charged by small law firms for residential conveyances in New South Wales.
- The 1997 Wallis Review of Australia's financial system found that although the scorecard is mixed, 'consumer choice has increased, the quality of services has improved and the aggregate cost of providing financial services has fallen since deregulation' (Wallis 1997, p. 594).
- Reductions in industry protection over the years have benefited consumers in terms of price, quality and choice. For example, the abolition of import quotas has seen the number of motor vehicle models available to Australian consumers rise from 69 in 1985 to 101 in 1995, and competitive pressure from imports has led to improvements in the quality of locally made vehicles (IC 1997c, pp. 31 and 70).

WHAT ROLE FOR SELECTIVE ASSISTANCE?

Several industry organisations have argued that governments need to increase or at least maintain expenditure on a range of business programs. For example:

Within the business sector there is not a homogeneous view on the role of business programs. ... [a] justification for intervention, restricted to correction of market failure and promotion of social equity goals, [is] too limited. The other factors motivating many business programs are to promote industry development and/or compensate for distortions caused by previous interventions. The reality is that many programs have a combination of all these elements (ACCI 1997, p. 52).

Manufacturing industry representatives are seeking measures targeted at increasing the productivity and competitiveness of industries in the manufacturing sector. The measures may be industry specific or directed to certain attributes such as export orientation. Some see this as part of a larger commitment by government to industry, which should encompass the development of vision statements, industry-specific plans and budgetary and other support measures such as partnership agreements, preferential purchasing arrangements and industry development arrangements.

Proposals for selective assistance of one kind or another also have been put to government by recent industry policy reviews. For example, the Goldsworthy report has advocated a raft of special incentives to attract information technology investments. The Mortimer Review of Business Programs, while eschewing the notion of selectivity, recommended among other things the establishment of a \$1 billion fund to provide tailored incentives packages to win foreign and domestic investment.

The question is whether selective measures are in the national interest as well as being in the interests of individual firms and industries. As the Minerals Council of Australia (1997, p. i) stated in its submission to the Mortimer Review:

Traditionally government actions impacting on the economic life of the community are justified on the grounds that they will lead to a 'better' outcome. Such actions on closer analysis can be at a real cost to the community unless there is (a) a market failure warranting government involvement and (b) the costs of such actions are less than the benefits. In the past business programs have often been put in place in an ad hoc manner without regard to the economic costs to the wider community.

Soundly-based and well implemented business programs can make a contribution to improving national productivity. The Commission (IC

1997a) has argued that, where business programs effectively overcome market failure, they can increase economic growth and community welfare. For example, there is a strong case for government support for business R&D to the extent that such assistance can generate significant additional spillover benefits to the community (IC 1995a).

At the same time, the justification for parts of the Commonwealth's \$3.4 billion business support program is questionable. For example, there is little evidence of widespread and significant spillover benefits to other firms from export market development activity which would be required to justify continuing firm-specific export assistance.

Business programs are selective by design and incidence, favouring investment and jobs in some businesses but not others:

- Almost 60 per cent of Commonwealth budgetary support to industry in 1996–97 was directed to manufacturing, with 25 per cent going to agriculture. This budgetary assistance nevertheless represents a higher share of output for agriculture (5 per cent) than manufacturing (3 per cent). The mining and services sectors receive considerably less budgetary support (IC 1997h).
- A major survey of around 6000 firms of all sizes found that 95 per cent of enterprises use no government program. Participation was lowest for small firms. Start-ups and younger firms tended to use programs less often than more established entities (IC/DIST 1997).
- Participants in the Commission's TCF inquiry pointed to instances where grants by the Textiles, Clothing and Footwear Development Authority to some firms forced other local competitors out of business (IC 1997e, pp. 273–4).

Notwithstanding the questionable nature of existing selective assistance measures, special investment incentives, export support and other assistance continue to be promoted in the current industry policy debate.

SHOULD WE BID FOR INVESTMENT?

Recent reports have urged the Australian Government to provide project-specific incentives to attract internationally mobile capital (Mortimer 1997, MTIA/EIU 1997, Goldsworthy 1997). The Commission has seen little analytical or empirical evidence that such an approach would have a net pay-off for the Australian economy. That said, the issues are complex and deserve closer examination.

One view is that such assistance is justified because other countries offer investment attraction subsidies. It is argued that without matching incentives, Australia would miss out on its share of global investment and the chance to maximise economic growth and employment opportunities.

Australians benefit when the increased resources available through foreign investment are used productively. However, the fact that other countries provide investment subsidies need not mean that Australia should do likewise. Selective investment incentives have to be financed by taxpayers and potentially impose costs on other Australian industries, thereby reducing their ability to secure investment. The political attractiveness of high profile projects also can lead governments to pay a high price for new investments.

The justification for selective inducements is not found simply in what other countries do. Rather it needs to be established that intervening in this way would bring net benefits to Australia. The likelihood of net benefits would be increased if particular projects drew largely on unemployed resources and required only temporary support. If the selected investments drew on labour skills and other resources that are in short supply, however, assistance would disadvantage market-driven investments which receive no special inducements. Another group of losers would be those established firms — locally owned and foreign — in direct competition with the favoured entrant. These circumstances would be likely to yield net costs rather than benefits for Australia.

Investment incentives also could compensate for continuing inefficiencies in Australia's infrastructure. But this is not an argument for selective inducements. They would leave those industries not so favoured carrying more of the burden of the inefficiencies. The only sure way of raising *national* productivity is to address infrastructure deficiencies directly. The provision of selective investment subsidies also may reduce pressures for more far-reaching structural reforms.

The more substantive economic case offered for subsidising certain projects is that, in principle, foreign investment may bring with it externalities for local industry — such as new technology and skills transfer. If these benefits are not appropriable by the investors themselves, a subsidy may be required for investment to occur on the necessary scale.

Even when it is possible that new foreign investment could bring external benefits, there are many potential difficulties which caution against participating in bidding contests. At a minimum, proposals need to be

subject to careful and transparent evaluation. The World Trade Organization (1996, p. 60) recently noted:

In a very simplified model of the world economy, where information is costless, there are no special interest groups and policy decisions are guided *only* by a desire to use resources more efficiently, a case could be made for using investment incentives. ... However, the situation in the real world, where competition for FDI [foreign direct investment] actually takes place is very different — so different, in fact, that the case for using investment incentives must be heavily qualified, if not totally rejected.

‘Tipping the balance’ to attract projects which will deliver net benefits to Australia requires a capability to overcome the inherent difficulties in identifying the presence of external benefits and quantifying them. This is a difficult enough task after an investment has been made, let alone in advance.

Where competition from other countries is intense, companies can play off one government against another, so that the cost of securing a project is bid up. The subsidies involved can be large. For example, Ireland (with the assistance of large income transfers from the European Union) paid \$200 million to secure an Intel chip fabrication plant (Goldsworthy 1997). Indeed, it is possible that the required subsidies could be so high as to eliminate any net benefit even where external benefits are present.

Governments are in a weak position in having to second guess the strategic behaviour of companies. Would a particular project locate in Australia without special inducements? If so, the subsidy would be just a transfer to investors without commensurate national benefits. Would projects, once established, remain here or, being footloose, threaten to leave in the absence of continuing incentives? The answers to such difficult questions will help to determine whether there is a national benefit.

There are other informational difficulties facing governments. The incentives provided by other countries are not always what they appear at face value. In many cases, business sees foreign government incentives as providing little more than an offset for infrastructure deficiencies and not a determining factor (IC 1996c, p. 60).

In reviewing the international experience with investment incentives, UNCTAD (1996, p. 77) drew the following conclusion:

Countries have now had several decades of experience in granting competitive incentives. This often frustrating experience is beginning to lead them to a better understanding that their long-term interests do not lie in short-term advantages gained through incentives, as demonstrated by their efforts to discourage incentive competition in regional integration

agreements. In the absence of any international action to limit incentives, some governments are searching for ways to curtail their own excessive granting of incentives.

The domestic experience of investment incentives also sounds a warning. State and Territory budgetary assistance to industry often involves competitive bidding for major investments and ‘events’. The Commission has found that this, at best, shuffles jobs between regions and, at worst, burdens tax and rate payers, reduces the competitiveness of Australian industry and the income of Australians as a whole (IC 1996e). The experiences of some States also illustrate the risks faced by governments which directly target firms to promote economic development. The Victorian Economic Development Corporation, abolished in 1993, is a well documented case which left taxpayers footing a \$111 million write-off.

The necessary challenge facing those proposing new investment initiatives or reviewing existing business programs is to identify which measures bring national benefits. Program design and delivery features are critical. A practical checklist of criteria for evaluating business programs, contained in the Commission’s submission to the Mortimer Review — and largely consistent with the findings of that review — is in box 2.6.

IS EXPORT ASSISTANCE JUSTIFIED?

One justification for maintaining assistance programs is said to lie in their contribution to export growth:

Clearly industries where sectoral programs are in place have shown better export performance than has manufacturing as a whole. These results contradict the conventional economic wisdom which asserts that government intervention will negatively affect market outcomes via distortions in resource allocation. The results also confirm that the judicious use of industry policy can improve outcomes for the nation (AEEMA 1997, p. 19).

Australia’s export success in fact has been very broadly based. Exports have grown, often quite rapidly from small bases, in manufacturing industries where assistance programs operate. However, more than 80 per cent of the contribution to recent growth in Australia’s merchandise exports derives from sectors with no industry-specific export assistance (box 2.7). Unprocessed and processed primary products have made the greatest contribution to export growth. With strong contributions from areas such as travel and educational services, Australia became a net exporter of services for the first time in 1995–96.

It is hardly surprising that export assistance can increase targeted exports. What is less obvious, however, is how much *additional* export growth can

be achieved through assistance and what the costs may be for unassisted

Box 2.6: Checklist for assessing proposed or existing business programs

Threshold questions

- Are there externalities, information deficiencies or policy impediments that warrant government involvement?
- Are there significant costs if nothing is done, and do they exceed the costs of government intervention?
- Is a business program the only, or the best, way to address the problem?

Design and delivery questions

If the answer to all of the above questions is yes:

- Does the program target the problem explicitly?
- Is its emphasis on supporting additional activity?
- Is the program open to any firm? If not, why not?
- Is there scope to reduce compliance costs without adversely affecting broad outcomes, or reducing the capacity of the managing agency to monitor the program?
- Does the program avoid duplication with other Commonwealth or State and Territory programs?
- Is the support provided to firms transparent?
- Does the program have clear eligibility criteria which avoid undue administrative discretion?
- Is there a requirement for public reporting of outcomes achieved and the beneficiaries of assistance?
- Does the program have a sunset clause and is there provision for independent, periodic review?
- Where the program involves a service to business, is delivery contestable and are users required to contribute to costs?

Source: IC (1997a)

Box 2.7: Exports and assistance

Industries receiving specific assistance have shown very high export growth over the last decade or so. For example, exports of telecommunications equipment and parts

grew annually by 40 per cent (in nominal terms) between 1986–87 and 1995–96.

Two questions arise:

- Is industry assistance responsible for Australia’s export success, as some have claimed, or is the reason for that success more broadly based?
- What has been the net effect on economic activity?

To assess the role of industry-specific assistance programs in the overall growth of merchandise exports, industries were grouped into four classes: those assisted by export facilitation schemes^a; partnership and targeted programs^b; ‘bounties’^c; and products without specific assistance programs.

Export growth and contribution by assistance groups

<i>Product group</i>	<i>Exports 1995–96</i>	<i>Share of total exports 1995–96</i>	<i>Trend annual growth 1986–87 to 1995–96</i>	<i>Contribution to growth 1986–87 to 1995–96</i>
	<i>\$m</i>	<i>%</i>	<i>%</i>	<i>%</i>
Export facilitation schemes ^a	3 134	4.3	14.1	5.6
Partnership/targeted programs ^b	2 695	3.7	26.0	6.1
‘Bounty’ programs ^c	2 485	3.4	15.4	4.7
No industry-specific program	63 914	88.5	7.1	83.5
Total merchandise exports	72 228	100	8.0	100

a PMV export facilitation scheme and TCF import credit scheme.

b Products in this group include: telecommunications equipment and parts; pharmaceutical products; aircraft and associated products; and office machines and automatic data processing equipment.

c Includes: ships; metal working machinery; machine tools and parts and accessories; photographic goods; and dairy products.

Source: Derived from DFAT (1997a).

Box 2.7 (continued)

While those groups receiving industry-specific export assistance grew at significantly faster rates than the unassisted group, their growth from small bases meant that they

contributed only around 15 per cent to the growth of Australian merchandise exports over the last decade. The vast majority of exports and export growth stemmed from industries without such assistance. These findings are consistent with earlier studies. The BIE (1995b, p. 95) found that 14 of the top 20 export industries (ASIC classes) did not receive substantial export assistance.

Indeed, many products without specific export assistance grew at rates at least as fast. For example: steel coils (trend annual growth of 65 per cent) outpaced telecommunications equipment (40 per cent); fish products (31 per cent) matched assisted assembled car exports (29 per cent); and lime, cement and stone products (23 per cent) matched assisted clothing and footwear exports (24 per cent).

It would be surprising if export assistance had not stimulated some export activity. However, the export growth rates presented in the table clearly overstate the contribution of export assistance schemes because other factors typically contribute to, or in some cases dominate, export success. For example, domestic machine tool producers diversified into export markets largely in response to rationalisation in traditional user industries (IC 1996b). Exports of machine tools grew threefold to \$69 million in the five years to 1994–95, while bounty assistance for high technology equipment fell by two-thirds and that for low technology equipment more than halved.

To establish whether the community is getting value for money requires, among other things, an estimate of the cost of each *additional* dollar of exports. The Commission's TCF inquiry found that, between the introduction of the Imports Credits Scheme (ICS) in 1991–92 and 1995–96, eligible exports grew by a total of \$2.3 billion at a cost to revenue of \$480 million (IC 1997e, p. 307). This suggests that each dollar of eligible TCF exports cost taxpayers 21 cents, even under the limiting assumption that all the additional exports were attributable to the ICS. Given the possibility that such exports would have grown without ICS assistance (as they did before the scheme began, and as TCF exports not eligible for the scheme did), the implied cost is probably a substantial underestimate. There must be doubt, therefore, that such export assistance has positive net economic benefits.

exports and import-competing production. Once again, it is the net effect on economic activity which is important (IC 1993a). The high budgetary cost for at least some export schemes casts doubts on whether selective assistance is a good investment from the community's viewpoint in those cases (box 2.7).

The broad-based nature of Australia's export growth suggests that factors operating to improve economy-wide performance — including reductions in tariffs which act as a tax on all exports — are more important explanators of improved export performance. Indeed, as work for the Australian Manufacturing Council showed, tariff reform can have major pay-offs for elaborately transformed manufactures — stimulating export growth by up towards 50 per cent in some cases (Yetton et al 1992, p. 53). The Commission's inquiry into the medical and scientific equipment industries found that as tariff protection was falling, the industries doubled their exports to \$750 million over the five years to 1994–95. The industries export five times as much of their output as does manufacturing as a whole (IC 1996f).

Efforts to improve the productivity of industry generally are likely to have a more certain and higher pay-off than ad hoc industry-specific assistance programs.

A PRODUCTIVE INDUSTRY POLICY

It is often said that Australia does not have an industry policy. This reveals a rather narrow and, in the Commission's view, mistaken appreciation of the policy requirements for productive industry development.

An industry policy worthy of the name must address the key policy-related determinants of industry productivity. A succession of surveys of senior business people has revealed that, for them, industry policy has much more to do with the basics of good economic governance than with selective inducements (IC 1996c).

An economic environment conducive to maximum industry productivity must include, in addition to sound fiscal and monetary policy:

- labour market regulation which facilitates flexibility and responsiveness within Australia's diverse enterprises and regions;
- education and training systems which can produce people with the mix of critical and applied skills that industry needs, and which facilitate the 'lifelong learning' necessary in the face of rapid change;

- a taxation system which can generate the revenue needed for government activities and social programs without distorting decisions on investment and work, or penalising production or trade;
- efficient, high quality infrastructure services — including transport, telecommunications and energy, all of which are critical determinants of industry performance in our large, remote country;
- competitive and efficiently regulated capital markets which provide access to debt and equity internationally at low cost;
- a regulatory framework which meets social, environmental and economic goals at least cost to business and the community generally;
- property rights which provide a secure foundation for investment and innovation;
- the removal of inappropriate barriers to competition both domestically and at our borders, as well as effective government participation in international forums directed at trade liberalisation in our foreign markets; and
- public support for research and innovation through basic research activities in universities, effective linkage mechanisms between the public and private sectors, and assistance to induce socially beneficial business R&D which otherwise would not be undertaken.

In other words, good industry policy amounts to a set of policies directed at creating an environment for *all* Australian industries which is conducive to wealth creation, job generation and rising living standards.

This broad interpretation of industry policy also helps to clarify some contentious issues.

- Firstly, it becomes apparent that governments are involved actively in industry policy, even if their actions in some areas are not labelled as such.
- Secondly, against the potential benefit to industry productivity from this suite of broad-ranging policies, the need for, and possible contribution of, selective assistance measures assume second or third order significance.
- Thirdly, since broad-ranging policies provide the environment in which productive industries can flourish, governments are right to ignore calls for ‘visions’ prescribing that particular industries or sectors attain a certain size or share of national output and be provided with whatever assistance is required to get them there.

It is thus of concern that the current debate on selective assistance measures appears to be diverting attention from the industry policy areas that matter most. While some progress has been made in these areas, there is a pressing need for further reform (PC 1996a, IC 1996d).

In many cases this is not just a matter for any one government alone. Indeed, in areas such as taxation reform, effective action will require a coordinated response with implications for intergovernmental financial relations. Another area where cooperation is needed is the 'beggar thy neighbour' schemes by which States have bid for businesses. In a recent inquiry, the Commission made a number of suggestions for mutually agreed disciplines (IC 1996e). From these perspectives, the Commission supports calls by peak industry bodies for greater 'coherence' and a 'whole of government' approach to reform.

Moreover, any set of policies directed at enhancing the environment for productivity and wealth creation in Australia must be applied consistently across sectors and over time. Lack of consistency not only gives confusing signals to business, which heighten uncertainty and inhibit investment in long-lived assets; it can also rekindle lobbying for 'me too' deals and ultimately undermine the whole reform process.

CHAPTER 3

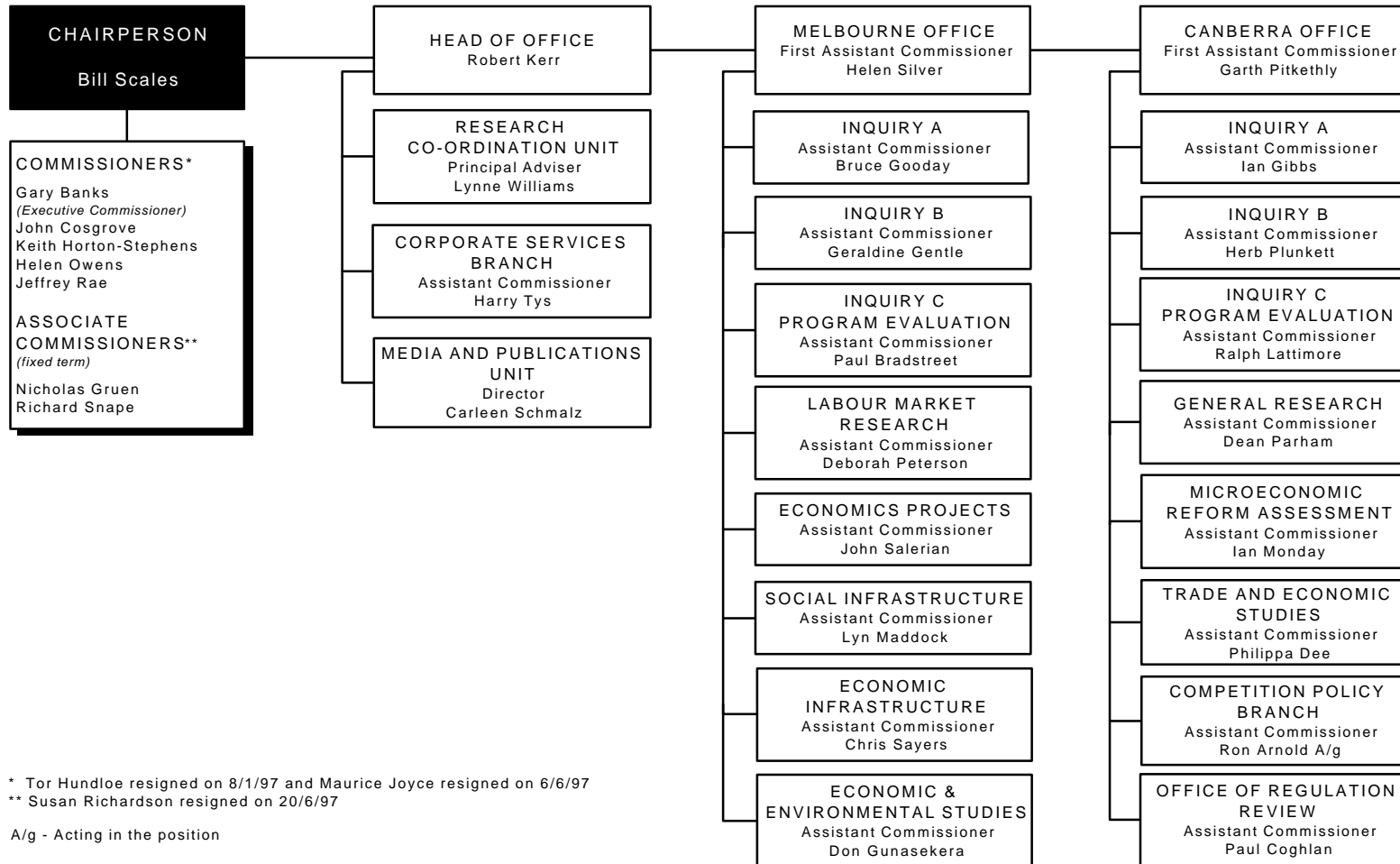
Role and operations of the Commission

The Government broadened the scope of the Commission's activities in 1996–97. The Commission achieved a high output notwithstanding the challenges of the administrative restructuring completed during the year. This chapter outlines the extensive range of activities undertaken by the Commission to encourage well-informed community debate and help governments lift Australia's productivity. It raises some issues to do with the effective use of the Commission's inquiry processes. It also provides an overview of corporate operations, details of which are provided in appendices.

The Industry Commission is the major independent review and advisory body on industry assistance, regulation and microeconomic reform for Australian governments. The Commission is an independent statutory authority operating under its own act of Parliament. The ambit of the Commission's charter is wide — encompassing agriculture, mining, manufacturing and services (including social services) — and its work covers broad issues which affect the community generally.

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 related work, including research. The Commission is also required to report annually on the performance of Australian industry and on developments in industry assistance and regulation.

Figure 3.1: Industry Commission structure and senior staff, 30 June 1997



* Tor Hundloe resigned on 8/1/97 and Maurice Joyce resigned on 6/6/97

** Susan Richardson resigned on 20/6/97

A/g - Acting in the position

In December 1996, consistent with its election platform, the Government introduced legislation to establish the Productivity Commission as an amalgamation of the IC, the Bureau of Industry Economics (BIE) and the Economic Planning Advisory Commission (EPAC).

The legislation is still before the Parliament. For this reason separate annual reports for the IC and EPAC are being submitted.

At the Government's request, the three organisations have amalgamated on an administrative basis in order to rationalise activities and achieve budget savings. That amalgamation is reflected in the Commission's current structure (figure 3.1).

YEAR IN REVIEW

For some years now, the contribution which the Commission makes to assisting governments in their endeavours to lift national productivity has extended well beyond its traditional inquiry function, and certainly beyond the tariff-related inquiries which captured so much public attention in 1996–97.

The scope of Commission activities was broadened again in the past year:

- Among initiatives to improve processes for reviewing new regulation and the stock of existing regulation, the Government expanded the role of the Office of Regulation Review (ORR) within the Commission. For example, since March 1997 the Government has required a Regulation Impact Statement for all reviews of existing regulation, as well as for proposed new regulation and proposed treaties involving regulation which directly affect business, or which have a significant indirect effect on business, or which restrict competition. Among other new functions, the ORR now advises the Assistant Treasurer — who has been assigned responsibility for regulatory best practice — on specific proposals from departments and agencies which do not meet adequately the Government's Regulation Impact Statement requirements. Further details are in appendix B and *Regulation and its review: 1996–97* (IC 1997g).
- In January 1997 the Treasurer commissioned research studies by the Commission into work arrangements in stevedoring and the black coal industry, with studies of meat processing and construction to follow. The studies are to highlight the benefits and costs of workplace arrangements — involving both workers and management, and formal and informal arrangements. (The coal study has since been incorporated into a broader Commission public inquiry, which began

in July 1997, on the international competitiveness of the Australian black coal industry.)

- The Commission continued the BIE's work in benchmarking the performance of Australia's economic infrastructure to help inform the community about significant performance gaps against domestic and international best practice. A study on electricity was released in September 1996 and the Commission began its benchmarking of the Australian waterfront and the provision of roads in February and March 1997, respectively.

During the year the Commission published research on a diverse range of industry and competition policy matters of national significance. It also made considerably more submissions to external review bodies than in previous years. Many of these reviews are at the cutting edge in the implementation of competition policy in Australia (box 3.1). In this way, the Commission has sought to support the competition policy agenda agreed by the nine Australian governments.

At the request of COAG, the Commission continues to monitor the performance of government trading enterprises and government service providers. Publication of the results is recognised as assisting public understanding of the performance of these important sectors of the economy (SCGTE 1997, SCSP 1997a). The first in a series of case studies was published examining the experience of three service providers which have undergone significant recent reform (SCSP 1997b). Documenting the experience with the implementation of reform provides insights for policy makers and managers in other jurisdictions.

The Commission also attempted to promote greater public understanding of industry policy issues through an extensive program of speeches and briefings by the Chairperson, Commissioners and senior staff, and appearances before parliamentary committees (appendix D).

Box 3.1: Commission inquiries, submissions, research and publications, 1996–97

Inquiries

Private health insurance	Implications of firms locating offshore
State, Territory and local government assistance to industry	Medical and scientific equipment industries
Automotive industry	Machine tool and robotics industries
Textiles, clothing and footwear*	Book printing
Ecologically sustainable land management*	

Other commissioned work

Australian Atlantic salmon	Review of national performance indicators for local government*
Work arrangements case studies*	

Submissions

Review of Business Programs	NCC National Access Regime
Sugar Industry Review Working Party	NCC rail declaration application
National Greenhouse Strategy	NSW dairy industry review
Review of Rural Adjustment Scheme	Australian Accounting Standards
Parliamentary review of federal road funding	ACCC National Electricity Market Code of Conduct Authorisation
GBE governance arrangements	ACCC telecommunications access pricing
Review of cross-media rules	ATO Internet and electronic cash project
Comparative performance monitoring for universities	ACCC's Distance Selling Code of Practice
Government service charters	Privacy protection
Review of the Government Procurement Agreement	

* In progress at 30 June 1997.

Box 3.1 (continued)

Performance monitoring for COAG/International benchmarking

Performance indicators for 73 of Australia's major government trading enterprises in the electricity, gas, water, transport and communications industries

Performance monitoring of government school education, public acute care hospitals, public housing, aged care, disability services, children's services, protection and support services, police, courts, and corrective services

Case studies of government service provision reforms

Electricity

Research publications

Market power in the national electricity market

International cooperation on competition policy

Compliance costs of taxation

Effects of GBE price reform

Australian manufacturing

Reform and the distribution of income

Sydney 4 & 5 star hotel market

Information industries

Impact of micro-reform on automotive firms

International telecommunications reform in Australia

Results of the 1995 Business Longitudinal Survey

Telecommunications economics and policy

Impact of mutual recognition

Community service obligations

Government procurement

Patterns of TCF trade within APEC

Informal equity investment

Energy efficiency for SMEs

Impact of international airline alliances

Conference/workshop proceedings

Equity, efficiency and welfare conference

1996 Industry Economics Conference

Changing labour markets

INQUIRY PROGRAM

In recent years the Commission's inquiry program has been wide ranging. At the start of the year, at the Government's request, its *Stocktake of progress in microeconomic reform* charted progress thus far (PC 1996a). The Commission also identified an agenda for further action and review across nine areas: labour markets and industrial relations; competition policy; economic infrastructure; education, health and community services; taxation; trade and industry assistance; resource access and the environment; regulatory reform; and government performance.

The inquiry into private health insurance extended the Commission's public inquiry processes into another complex area of social and economic policy. The current inquiry on ecologically sustainable land management is dealing with fundamental environmental issues which affect current and future generations.

For most of this year, however, the Commission's inquiry work was dominated by questions of tariffs, bounties and industry assistance — with major reviews of the highly protected automotive and TCF sectors, and of State and Territory assistance to industry.

EFFECTIVE USE OF INQUIRY PROCESSES

The Commission's transparent inquiry processes, independence, and economy-wide view facilitate decision making based on an informed public debate. The importance of public scrutiny of claims for preferential treatment was highlighted during the year as proposals to reduce industry assistance were debated.

The effective use of the Commission's public inquiry processes in furthering the Government's reform priorities depends on:

- maintaining a flow of references;
- announcing a challenging forward inquiry program around which stakeholders can plan their contributions; and
- effective handling of completed reports.

The Commission's resources can accommodate around six inquiries at a time, but only two references were on hand at the end of June. (In August 1997 the Commission received two new inquiry references — on black coal mining and telecommunications equipment, systems and services — and was requested to undertake a study on the export of government services.)

With the delay in the passage of the Productivity Commission legislation, the Government has yet to announce a new forward inquiry program for the Commission. A broad-based inquiry program and processes which ensure that the Commission's final reports can contribute to informed debate on policy choices will help to identify and deal with impediments to better performance across all sectors of the Australian economy.

Over the past 12 months, two issues have arisen in relation to the handling of the Commission's inquiry reports:

- Most reports were not being released within the statutory 25 parliamentary sitting days (table 3.1).
- Two reports — dealing principally with bounty assistance — were not released even though decisions on the bounties had been announced. This meant that the Commission's reports were not publicly available throughout the course of parliamentary and community debate.

A further matter relating to the effectiveness of the Commission's inquiry contribution concerns the appointment of part-time Associate Commissioners. The appointment of part-time Associates, on a case-by-case basis, is a longstanding practice. It allows the Commission to draw on outside expertise which can increase the Commission's analytical capability and understanding of the issues, as well as improving communication with stakeholders. The scope for such appointments to enhance the credibility of an inquiry also depends, however, on those appointments being consistent with the Commission's statutory obligations; in particular, to give primacy

Table 3.1: Inquiry reports completed in 1996–97

<i>Report</i>	<i>Date submitted</i>	<i>Maximum statutory release date^a</i>	<i>Date released</i>	<i>Sitting days overdue^b</i>
Machine tools and robotics	15–8–96	4–11–96	6–8–97	65
Firms locating offshore	30–8–96	7–11–96	13–12–96	17
Book printing	25–10–96	12–12–96	6–8–97	45
State, Territory and local government assistance	6–11–96	12–2–97	not released	38
Medical and scientific equipment	23–12–96	7–5–97	6–8–97	19
Private health insurance	28–2–97	17–6–97	10–4–97	0
The automotive industry	29–5–97	25–9–97	5–6–97	0

a Twenty-five parliamentary sitting days after the report is submitted.

b For reports not released at 30 June 1997, number of parliamentary sitting days overdue as of that date.

to the interests of the whole community over those of specific industries or groups.

During the course of the Commission's inquiries into the automotive and TCF industries, there was significant public debate about the Commission's use of formal economic models. The Commission's charter requires it to take into account the interests of those who stand to gain from greater competition and lower protective taxes, as well as those who might lose. Where appropriate, the Commission uses economic models to explore interindustry linkages and the wider impacts of policy proposals. Modelling is used to complement other analytical tools and information sources — not to supplant analysis and policy judgment (box 3.2).

Box 3.2: The role of economic modelling

The use of economic modelling has become a focus of recent debate on tariff issues and the benefits of microeconomic reform. Some of the criticism of modelling is based on a misunderstanding of why it is undertaken and the role it plays in policy formulation.

The Commission uses economic models to help understanding of the wider effects of policy changes. The interdependencies in complex modern economies mean that any evaluation of policy options must look beyond the direct effects of change on an industry to the impacts on other industries, employees, consumers, taxpayers and the community generally. To understand these relationships, the Commission relies on a range of information sources and analysis — including information from participants and government agencies, industry studies, surveys and the experience of other countries — and, where appropriate, economic models. Formal models provide a structured way of assembling information to provide the needed insights into economic interdependencies. They also provide a discipline on qualitative judgments. Their usefulness ranges from being merely illustrative to providing a sense of the order of magnitude and direction of the effects of policy changes.

Even the best models cannot provide all the answers. Modelling does not manufacture certainty out of the unknown. Dynamic efficiency gains and adjustment costs, for example, are typically not well captured by existing modelling technology and thus modelling results can understate and overstate, respectively, net benefits.

Because of such limitations, the Commission ensures that its modelling is subject to public scrutiny. This means spelling out assumptions explicitly, conducting sensitivity analysis, discussing the results at workshops and revising modelling in the light of feedback.

CORPORATE OVERVIEW

This section reports in summary form on a range of additional matters required to be addressed in annual reports. Further information is provided in appendices A to F.

ORGANISATIONAL DEVELOPMENTS

Key organisational developments during 1996–97 were:

- the restructuring of activities in both the Melbourne and Canberra offices (figure 3.1);
- the development of a draft corporate plan to reflect the Commission's broader roles;
- the departure of two Commissioners and one fixed-term Associate Commissioner in the second half of the year;
- a reduction of around 70 in the overall staffing of the three amalgamating agencies to just under 230 at 30 June 1997; and
- 43 officers accepted voluntary retirement packages associated with the amalgamation.

A summary of the financial and staffing resources of the Commission is shown in table 3.2. The table also includes estimates of staffing and expenditure levels in 2000–01 which are based on current knowledge of projected funding levels.

Appendix A provides further details of changes in the membership of the Commission, staffing, recruitment and separations, performance against equal opportunity targets and other organisational matters.

SOCIAL JUSTICE AND EQUITY

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

Firstly, 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.

Secondly, the transparency of its operations through 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.

Thirdly, 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 (box 3.3). In addition, the Commission's Access and Equity Plan sets out the processes to be followed to provide groups with special needs the opportunity to participate in Commission activities.

Fourthly, the Commission's Internet home page (<http://www.indcom.gov.au>) now provides access to most facets of the Commission and its work. Information is available on the Commission, its current inquiry and research program, publications, and graduate and general employment opportunities. Many publications are available in full from this site. The Commission's home page was accessed externally 70 000 times during the year.

Table 3.2: Staff and financial resources summary

	1995–96	1996–97	2000–01 projection
<i>Commissioners and staffing at 30 June</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>
Commissioners ^a	12	8	
Operative staff ^b	290	227	
Total	302	235	195
<i>Expenditure</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Salaries and allowances	19.0	16.0	
Administrative expenses	6.0	2.2	
Corporate expenses	4.5	5.1	
Other	0.5	4.0 ^c	
Total expenditure	30.0	27.3	19.7

Expenditure in this table is on a cash basis and includes the IC, BIE and EPAC. Further information is provided in table A.11. Estimates for 2000–01 are based on current knowledge of projected funding levels.

a Includes the Chairperson and fixed-term Associate Commissioners. As of 16 November 1996 the Chair-person of the Industry Commission has also been the Acting Commissioner of EPAC.

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

c Includes voluntary departure packages and salaries of staff awaiting departure.

Box 3.3: Assisting participation in Commission inquiries

In its inquiry into the textiles, clothing and footwear industries the Commission:

- visited the Australian Vietnamese Women's Welfare Association, the Springvale Indo-Chinese Mutual Assistance Association and the Association of Non-English Speaking Background Women of Australia;
- received submissions from Asian Women at Work Inc, the Association of Non-English Speaking Background Women of Australia, the Dale Street Women's Health Centre and the New South Wales Working Women's Centre; and
- included a message in Vietnamese and Chinese in the first inquiry circular, inviting views on policies affecting the industries and providing the telephone number of the Commission's translator service.

The Commission was careful to ensure appropriate opportunities for people in regional areas to participate in its inquiry on ecologically sustainable land management. In addition to extensive regional visits, round-table discussions were held in Bunbury, Cairns, Mildura, Alice Springs and Tamworth as well as capital city venues.

In its inquiry into private health insurance, the Commission encouraged families and individuals to write about their experiences in the medical and hospital system, and as health fund members. More than 75 letters were received.

INTERNAL AND EXTERNAL SCRUTINY

The Commission's work is subject to extensive external scrutiny as a result of its practice of releasing draft reports and discussion drafts for comment before finalising reports, and an extensive program of published research. Other developments in internal and external scrutiny in 1996–97 are reported in appendix A.

TRAINING AND PERFORMANCE PAY

As a research organisation, the Commission has a continuing commitment to training and development. Expenditure on training and development in 1996–97 represented a little under 3 per cent of the annual salary budget. The Commission made performance payments totalling \$188 900 to Senior Officer and Senior Executive Service staff. Further information on training and related matters is provided in appendix A.

PROGRAM PERFORMANCE

The Commission's role is to contribute to the wellbeing of Australians by providing high quality information, analysis and policy advice to Australian governments, and to the community, about ways of best using the nation's resources. It performs this role through commissioned projects, performance monitoring and benchmarking, regulation review, and general research. These activities are underpinned by corporate management and services.

Projects commissioned by the Government and related research constituted the principal Commission activities in 1996–97. An assessment of program performance across all activities is provided in appendix B. Key aspects of that review are:

- the continuation of performance monitoring of government service provision, the expanding range of the monitoring and its extension to include case studies on reform processes;
- the expanding role of the Office of Regulation Review in assisting the Government to meet its objectives of improved effectiveness and efficiency in regulatory practices;
- a wide range of research reports and submissions to other review bodies (see also appendix D);
- the need to reassess the role of performance monitoring of government trading enterprises given the introduction of other monitoring mechanisms and difficulties of information disclosure when there are private sector competitors;
- new activities for the Commission, such as case studies on work arrangements and benchmarking, only commenced during the latter part of the year — so it is not possible to assess outcomes as yet; and
- the development of supportive management and corporate services to enable the Commission to discharge its responsibilities efficiently and effectively.

OTHER CORPORATE MATTERS

Appendix A reports on developments relating to occupational health and safety, industrial democracy, use of the Employee Assistance Program, information technology, advertising and marketing research, consultancies, grants to other organisations and a Freedom of Information request received in the year.

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

Appendices

APPENDIX A

Staffing and management

This appendix provides information supporting the corporate overview in chapter 3 and additional information necessary to fulfil the parliamentary requirements for annual reports.

ORGANISATION STRUCTURE AND MEMBERSHIP

STRUCTURE

Last year's annual report referred to the Government's announcement, in March 1996, of the proposed formation of the Productivity Commission by merging the functions of the Industry Commission, the Bureau of Industry Economics (BIE) and the Economic Planning Advisory Commission (EPAC). It also referred to the Treasurer's request to the Chairman-designate, Mr Bill Scales, to form the Productivity Commission on an administrative basis by 30 June 1996, pending passage of the relevant legislation through the Parliament.

This year has seen the implementation on this basis of a new organisational structure (figure 3.1).

Overall staffing was reduced from a combined total of 290 at the beginning of the year to just under 230 at the end. Considerable management effort was devoted to selecting staff for the new organisation and dealing with the needs of former and continuing staff.

COMMISSIONERS

No new Commissioners were appointed during the year.

Mr Bill Scales was reappointed as Chairperson until 20 November 1997. The Government has announced Mr Scales as the Chairman-designate of

the proposed Productivity Commission. Mr Scales was also appointed Acting EPAC Commissioner for 12 months to 15 November 1997, in order to facilitate the merging of EPAC's functions into the new organisation.

Two Commissioners resigned in the year: Professor Tor Hundloe on 8 January 1997 and Mr Maurice Joyce on 6 June 1997.

Commissioner appointments as at 30 June 1997 are shown in table A.1.

Table A.1: Chairperson and Commissioners, 30 June 1997

	<i>Period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr W I Scales AO (Chairperson) (M)	21 May 1997	20 Nov 1997
Mr G R Banks (Executive Commissioner) (C)	19 Jun 1996	4 Jul 2001
Mr K J Horton-Stephens (C)	1 Mar 1994	28 Feb 1999
Mr J R Rae (M)	1 Dec 1992	30 Nov 1997
Mrs H J Owens (M)	8 Feb 1993	7 Feb 1998
Mr J H Cosgrove (C)	27 Jun 1995	26 Jun 2000

(M) denotes Melbourne based.

(C) denotes Canberra based.

ASSOCIATE COMMISSIONERS

No new fixed term appointments of Associate Commissioners were made during the year.

Dr Susan Richardson resigned on 26 June 1997.

Associate Commissioner appointments as at 30 June 1997 are shown in table A.2. Mr Nicholas Gruen resigned on 3 September 1997.

Associate Commissioners may be appointed for the duration of particular inquiries on a part-time basis. Appointments having currency during 1996–97 are shown in table A.3.

Table A.2: Associate Commissioners, 30 June 1997

	<i>Period of appointment</i>	
	<i>From</i>	<i>To</i>
Mr N J Gruen	19 Apr 1994	3 Sep 1997
Prof R H Snape	6 Feb 1995	5 Feb 2000

Table A.3: Associate Commissioners appointed to particular inquiries, 1996–97

	<i>Inquiry</i>	<i>Period of appointment</i>	
		<i>From</i>	<i>To</i>
Mr I E Webber AO	Automotive industry	22 Aug 1996	26 May 1997
Dr B J Kearney	Private health insurance	28 Oct 1996	28 Feb 1997
Mr P Brass	Textiles, clothing and footwear	23 Jan 1997	9 Sep 1997

STAFF

Staffing information by level, gender, employment status and location is provided in tables A.4 to A.7. The amalgamation on an administrative basis of the Industry Commission, the former BIE and EPAC was completed during the year. Staffing numbers for the consolidated organisation are shown for 1996–97, while for the previous year, numbers are shown separately for the Industry Commission, the BIE and EPAC.

Table A.4: Staff profile^a, 30 June 1997

<i>Level</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>	
Senior Executive Service Band 3	0	1	1	
Senior Executive Service Band 2	2	1	3	
Senior Executive Service Band 1	4	16	20	
Senior Officer Grade B	7	30	37	
Senior Officer Grade C	23	28	51	
Senior Info Tech Officer Grade B	1	0	1	
Senior Info Tech Officer Grade C	0	1	1	
Info Tech Officer Grade 2	0	3	3	
Senior Public Affairs Officer Grade 1	1	0	1	
Senior Professional Officer Grade C	1	0	1	
Professional Officer Class 2	1	1	2	
Research Officer Grade 2	0	5	5	
Administrative Service Officer Class 6	15	20	35	
Administrative Service Officer Class 5	9	12	21	
Administrative Service Officer Class 4	9	1	10	
Administrative Service Officer Class 3	21	4	25	
Administrative Service Officer Class 2	3	1	4	
Graduate Administrative Assistant	3	3	6	
Total	100	127	227	
Corresponding totals at 30 June 1996	IC	89	104	193
	Former BIE	29	46	75
	EPAC	10	12	22
	Total	128	162	290

a Excludes 23 inoperative staff at 30 June 1997, and 15 (IC) and 8 (BIE) at 30 June 1996.

Table A.5: Senior Executive Service staff^a by employment status, 30 June 1997

<i>Level</i>	<i>Status</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
Band 3	Permanent	0	1	1
Band 2	Permanent	2	1	3
Band 1	Permanent	4	14	18
Band 1 (HDA)	Temporary	0	2	2
Total		6	18	24
Corresponding totals at 30 June 1996	IC	4	13	17
	Former BIE	1	6	7
	EPAC	0	4	4
	Total	5	23	28

a Excludes 2 inoperative staff at 30 June 1997, and 1 (BIE) at 30 June 1996.

Table A.6: Staff other than Senior Executive Service^a by employment status, 30 June 1997

<i>Status</i>		<i>Female</i>	<i>Male</i>	<i>Total</i>
Full-time permanent		86	103	189
Full-time temporary		3	5	8
Part-time permanent		3	1	4
Part-time temporary		2	0	2
Total		94	109	203
Corresponding totals at 30 June 1996	IC	85	91	176
	Former BIE	28	40	68
	EPAC	10	8	18
	Total	123	139	262

a Excludes 21 inoperative staff at 30 June 1997, and 15 (IC) and 7 (BIE) at 30 June 1996.

Table A.7: Staff^a by level and location, 30 June 1997

<i>Level</i>	<i>Melbourne</i>	<i>Canberra</i>
Senior Executive Service Band 3	1	0
Senior Executive Service Band 2	2	1
Senior Executive Service Band 1	9	11
Senior Officer Grade B	18	19
Senior Officer Grade C	25	26
Senior Info Tech Officer Grade B	1	0
Senior Info Tech Officer Grade C	1	0
Info Tech Officer Grade 2	2	1
Senior Public Affairs Officer Grade 1	1	0
Senior Professional Officer Grade C	1	0
Professional Officer Class 2	2	0
Administrative Service Officer Class 6	20	15
Administrative Service Officer Class 5	14	7
Administrative Service Officer Class 4	7	3
Administrative Service Officer Class 3	15	10
Administrative Service Officer Class 2	4	0
Research Officer Grade 2	4	1
Graduate Administrative Assistant	5	1
Total	132	95
Corresponding totals at 30 June 1996		
IC	128	65
Former BIE	0	75
EPAC	0	22
Total	128	162

a Excludes the following inoperativestaff at 30 June 1997 — Melbourne 10, Canberra 13 and at 30 June 1996 — Melbourne 6, Canberra 9 (IC) and 8 (BIE).

SEPARATIONS

Staff departures during 1996–97 are shown in table A.8.

The Commission had 115 staff departures during the year (76 ex IC, 39 ex BIE), the highest component being 43 officers who accepted voluntary retirement packages associated with the amalgamation. Of the 34 departures for ‘other’ reasons, 32 were temporary staff completing their contracts.

Table A.8: Staff by level and reason for separation, 1996–97

<i>Level</i>	<i>Promotion</i>	<i>Transfer</i>	<i>Resignation</i>	<i>Retirement</i>	<i>VRP</i>	<i>Other</i>	<i>Total</i>
SES ^a	0	0	0	0	3	0	3
SO ^b B	1	3	1	0	9	3	17
SO C	1	4	4	0	6	0	15
SO A	0	0	0	0	0	0	0
SITOC ^c B	0	0	0	0	1	0	1
SPO ^d C	0	0	0	0	0	0	0
PO ^e 2	0	0	0	0	0	1	1
ITO ^f 2	0	0	0	0	0	0	0
ASO ^g 6	0	2	3	0	7	2	14
ASO 5	2	2	1	0	7	2	14
ASO 4	1	1	1	0	3	3	9
ASO 3	0	5	2	0	5	7	19
ASO 2	0	1	1	0	1	10	13
ASO 1	0	0	1	0	0	5	6
RO ^h 2	0	0	0	0	1	0	1
GSO ⁱ 8	0	0	0	0	0	0	0
GAA ^j	0	0	1	0	0	1	2
Total	5	18	15	0	43	34	115
Corresponding totals for							
1995–96 IC	9	21	29	1	0	27	87
Former BIE	2	3	5	0	0	0	10
EPAC ^k							

- a Senior Executive Service.
b Senior Officer.
c Senior Information Technology Officer.
d Senior Professional Officer.
e Professional Officer.
f Information Technology Officer.
g Administrative Service Officer.
h Research Officer.
i General Services Officer.
j Graduate Administrative Assistant.
k Separation figures not available.

RECRUITMENT

The Commission recruited 74 staff during the year. Of these, 22 females and 14 males were employed as full-time permanent staff. There were 15 females and 19 males employed on a full-time temporary basis for various periods. Three females and one male were employed on a temporary part-time basis.

Included in the recruitment were three female and three male Graduate Administrative Assistants.

EQUAL EMPLOYMENT OPPORTUNITY

The Commission continued to work with the Public Service and Merit Protection Commission (PSMPC) and staff association representatives to give effect to its *Equal Employment Opportunity Plan 1993–1996*.

The Commission's performance against its 1993–1996 Plan has been evaluated. Achievements included: the appointment of designated staff with responsibility for overseeing the implementation of the Commission's Equal Employment Opportunity (EEO) program; the establishment of an EEO Committee; the application of EEO principles in components of the recruitment and induction processes; specific training for senior managers; adherence to EEO principles in the provision of all training activities; the implementation of work and family friendly work practices; and the inclusion of EEO obligations and responsibilities in the assessment of individual performance.

Several female staff participated in the women-specific EEO courses on offer (Professional Development for Women and the Public Sector Management Course for women).

The First Assistant Commissioner of the Melbourne Office is the *Senior Executive Responsible for Equal Employment Opportunity* within the Commission. The Manager, Personnel Policy and Practices, an Administrative Service Officer Class 6, has day-to-day responsibility for these matters. Harassment contact officers exist in both the Melbourne and Canberra offices.

Table A.9 shows staff at 30 June 1997 according to EEO groups.

Table A.9: Staff by Equal Employment Opportunity groups, 30 June 1997

<i>Salary range^a</i>	<i>Gender</i>			<i>Aboriginal or Torres Strait Islander peoples</i>	<i>People with disabilities</i>	<i>NESB^b</i>	
	<i>Female</i>	<i>Male</i>	<i>Total^c</i>			<i>1st gen.</i>	<i>2nd gen.</i>
Above \$68 498 (includes SES)	7	28	35	0	3	1	2
\$55 172 – 68 497 (SO A, B & equiv)	11	32	43	0	1	0	4
\$47 592– 55 170 (SO C & equiv)	26	31	57	0	5	4	9
\$40 676 – 47 591 (includes ASO 6)	20	28	48	0	2	1	10
\$37 342 – 40 675 (includes ASO 5)	10	12	22	0	1	0	4
\$33 305 – 37 341 (includes ASO 4)	11	6	17	0	0	0	1
\$30 043 – 33 304 (includes ASO 3)	22	4	26	0	2	0	8
\$26 458 – 30 042 (includes ASO 2)	7	3	10	0	1	0	1
Below \$26 457 (includes ASO 1)	0	1	1	0	1	0	0
Total^c	114	145	259	0	16	6	39

a Abbreviations as in table A.8.

b Non-English speaking background (1st generation and 2nd generation).

c Includes 23 inoperative staff.

Source: Based on staff responses to voluntary EEO surveys. Staff may choose not to identify themselves in EEO groups.

Table A.10 shows staffing in EEO groups against year 2000 targets for EEO groups on an Australian Public Service (APS) wide basis. In a number of cases, the Commission already has achieved the targets set.

A successor to the 1993–1996 Plan will be developed during 1997–98.

Table A.10: Proportion of staff in Equal Employment Opportunity groups^a

<i>EEO Group</i>	<i>Industry Commission</i>		<i>APS^b</i>	
	<i>per cent at 30-6-96</i>	<i>per cent at 30-6-97</i>	<i>per cent at 30-6-96</i>	<i>Year 2000 target per cent</i>
Females				
– in SES	23.5	25	19	20
– in SO A, SO B or equivalent group	18.2	25	29	28
– in total staff	46.1	43.7	47.6	50
Aboriginal or Torres Strait Islander peoples in total staff				
	0	0	1.9	2
People with disabilities in total staff	2.1	5.7	4.2	5
People of non-English speaking background in total staff	13.5	17.2	14.4	15

a Based on staff responses to voluntary equal employment opportunity surveys.

b APS Staffing Statistics Report 1996 (PSMPC).

ORGANISATIONAL DEVELOPMENTS

Activities undertaken included:

- the development of a draft Corporate Plan which reflects the Commission's broadened role. Publication of the Plan is being deferred pending enactment of the legislation establishing the Productivity Commission;
- consolidation of office accommodation in Canberra from three to one location at Nature Conservation House, Belconnen;
- a review of the finance and human resource management information systems (MIS). A decision to replace the finance MIS has been taken, while replacement of the human resources MIS will be reviewed again in 18 months; and
- installation of video conferencing to enhance communication between the two offices of the Commission in Melbourne and Canberra. As well as saving on travel between the two cities, video conferencing provides an efficient environment for inter-office meetings. The

facilities are also being used for external communications such as remote public hearings and international links.

A comparative summary of staff and financial resources in 1995–96 and 1996–97 is provided in table A.11.

INTERNAL AND EXTERNAL SCRUTINY

The Commission initiated a number of reviews by external organisations during the year. They included:

- assessing compliance with government security requirements in respect of information technology systems and processes (Consultancy Services Unit of the Department of Finance);
- physical security of the Commission's premises in Melbourne and Canberra (Australian Protective Services); and
- finance and human resources management information systems (Coopers and Lybrand).

Recommendations from these reviews resulted in changes to increase compliance, security and administrative effectiveness.

In respect of the management information systems, the consultants examined the efficiency and effectiveness of the existing systems, and assessed the possibility of alternative solutions including 'clustering' with similar agencies or outsourcing the functions.

In-principle agreement has been reached to replace the existing finance system, subject to further assessment of alternative systems. This process is continuing with an expectation that a new system will be implemented during 1997–98. In respect of the human resources system, the review found that the existing system can meet foreseeable needs but should be reviewed again in 18 months.

In *Audit Report No. 19, 1996–97, Results of the 1995–96 Financial Statement Audits of Commonwealth Entities*, the Australian National Audit Office included the Commission in a group of organisations for which audit results were stated as being satisfactory and unqualified. The Commission established an Audit Committee from 1 July 1996 to review processes and practices, examine financial statements and advise on improvements.

Table A.11: Staff and financial resources summary

	1995–96				1996–97		
	IC	BIE	EPAC	Total	IC	EPAC ^d	Total
<i>Commissioners and staffing at 30 June</i>	<i>(No.)</i>	<i>(No.)</i>	<i>(No.)</i>	<i>(No.)</i>	<i>(No.)</i>	<i>(No.)</i>	<i>(No.)</i>
Commissioners (including Chairperson)	8	na	1	9	6	na ^e	6
Associate Commissioners (fixed term only)	3	na	na	3	2	na	2
Operative staff ^a	193	75	22	290	227	na ^f	227
<i>Expenditure</i>	<i>(\$m)</i>	<i>(\$m)</i>	<i>(\$m)</i>	<i>(\$m)</i>	<i>(\$m)</i>	<i>(\$m)</i>	<i>(\$m)</i>
Salaries and allowances							
Holders of Public Office ^b	1.3	na	0.1	1.4	1.3	0.2 ^g	1.5
Staff	9.6	4.1	1.1	14.8	11.2	0.9	12.1
Superannuation	1.8	0.8	0.2	2.8	2.2	0.2	2.4
Administrative expenses							
Inquiry (non-salary) expenditure	1.5	na	na	1.5	0.9	0.0	0.9
Other Program Expenditure	1.1	1.7	1.1	3.9	0.8	0.5	1.3
Corporate expenses							
Property operating expenditure	1.8	0.7	0.3	2.8	2.0	0.1	2.1
Other corporate expenditure	2.3	na	na	2.3	2.9	0.1	3.0
Other	0.5	na	na	0.5	3.4 ^c	0.6	4.0
Total expenditure	19.9	7.3	2.8	30.0	24.7	2.6	27.3

Expenditure in this table is on a cash basis.

na Not applicable.

a Those not absent from duty for 12 or more weeks

b Commissioners and Associate Commissioners.

c Includes \$3.2 million for the amalgamation process comprising voluntary departure packages and salaries of staff awaiting departure.

d Expenditure from EPAC appropriation.

e As of 16 November 1996, the Chairperson of the Industry Commission was also appointed as the Acting Commissioner of EPAC.

f One officer on long-term placement found a permanent departmental position in August 1997.

g Includes redundancy costs.

In addition, a number of in-house reviews were conducted, mostly in the personnel area. In particular, the Commission has adopted the recommendations regarding staff selection from the Management Advisory Board and Management Improvement Advisory Committee report, *Achieving Cost Effective Personnel Services*. The implementation of this initiative has reduced the time taken to complete staff selection exercises without compromising the integrity of selections. A benchmarking study of the library's interlibrary loan process largely confirmed the appropriateness of existing practices.

The Commission also conducted an internal review of the Performance Based Pay Scheme for staff at the senior officer and above level. The Working Group recommendations pertaining to training, the moderation process and the transparency of the process were all implemented for the 1996–97 round of assessments. In addition, the Working Group's report discussed broad parameters which might apply for performance-based pay in the new APS environment and this will assist in determining the Commission's position in light of ongoing reforms in the APS and, in particular, the new Public Service Act.

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

TRAINING AND DEVELOPMENT

The Commission's expenditure on training and development in 1996–97 represented a little under 3 per cent of the annual salary budget. A total of just under 1400 days of training and development were undertaken by 284 of the Commission's current and former staff. These measures do not include considerable on-the-job training or attendance at internal seminars.

A key initiative during the year was the development of a training and development framework for the Commission. The framework, *Training and Development: A Guidance Note for Commission Staff*, involved extensive staff consultation and is the basis for planning training and development activities which meet the needs of individuals and teams in the context of organisational goals.

Training priorities for the year included project management skills development for Commissioners and senior staff, development programs

for middle managers, and continuing computer training for staff at all levels.

Induction, for both graduates and staff generally, continued to feature prominently in the Commission's training and development program. New staff undergo a general induction program with one-to-one and group components, enabling staff to become familiar with the role, functions and operation of the Commission. Graduates undergo a 12 month program of formal and on-the-job training.

Other development opportunities provided by the Commission are the Studies Assistance Scheme for part-time study, Postgraduate Study Awards and Overseas Development Awards. During 1996–97, 35 staff participated in the Studies Assistance Scheme which reimbursed fees and related costs totalling \$16 500. Three staff participated in the Postgraduate Study Award scheme and one staff member was granted an Overseas Development Award. Direct expenditure for the two Award schemes was just under \$40 000.

This year the Commission was again able to offer work experience to year 10 and university students.

PERFORMANCE APPRAISAL AND PAY

Commission staff are required to have a workplan (ASO 1–6 and equivalent) or a formal performance agreement (SO C and above) in place for the year. Staff discuss with their supervisor their work objectives and outcomes, and evaluate these against agreed performance indicators. At the beginning of the cycle, staff discuss their training needs and prepare an Individual Development Plan. This is evaluated during the year and forms part of the final assessment. Mid-year reviews were completed in January and final assessments in June.

The Commission's Senior Officer and Senior Executive Service (SES) staff participate in the APS Performance Based Pay scheme. This provides for officers who achieve a rating of 4 or 5 (on a 5-point scale) to receive performance pay — at a rate of 8 to 10 per cent of base salary for a 4 rating or 13 to 15 per cent for a 5 rating.

The outcome for the Commission in 1996–97 was that 26 per cent of Senior Officers achieved a rating of 4 with payments totalling \$143 400, while 29 per cent of the SES achieved a rating of 4 with payments totalling \$45 500.

OTHER MATTERS

OCCUPATIONAL HEALTH AND SAFETY

The Commission's Occupational Health and Safety (OH&S) Committee met four times during 1996–97 and dealt with a range of issues including the finalisation of policies on first aid, rehabilitation and screen-based equipment eyesight testing.

In addition, the committee continued to address recommendations from the Planned Workplace Investigation Report conducted by Comcare at the Commission's Melbourne office in June 1996.

Specifically, a strategy paper addressing the report's recommendations on staff OH&S awareness was finalised and will result in a program of workshops across the Commission.

Contracted ergonomists have continued to assist the Commission in its proactive approach to early identification of potential workplace injuries and to raise staff awareness on safe work practices. The Commission has continued manual handling risk identification, assessment and control measures in work areas. Presentations emphasising safe manual handling practices were conducted in the Melbourne and Canberra offices and were well received by staff.

The Commission's insurance premium for workers' compensation for 1996–97 was 0.76 per cent of salaries expenditure, which compared with the average premium of 1.6 per cent for the relevant equivalent pool of APS agencies.

No formal OH&S investigations were conducted during the year and no Provisional Improvement Notices were served.

INDUSTRIAL DEMOCRACY

The Commission's formal consultative mechanism for industrial democracy is the Industry Commission Consultative Council. Membership of the Council is made up of representatives from Industry Commission Management and the Community and Public Sector Union. During 1996–97 no major industrial issues arose that affected Industry Commission staff. The Chairperson, together with senior management, regularly holds

meetings with staff to keep them informed of developments and answer questions.

EMPLOYEE ASSISTANCE PROGRAM

The Commission continued to provide access for staff to an Employee Assistance Program. This program 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.

Contracts were renewed during the year for another 12 months to Occupational Services of Australia in Melbourne and Industrial Program Services in Canberra.

Use of the service in 1996–97 was about the same as in the preceding year. Twenty-one people used the service in Melbourne, while the number in Canberra was eight.

CHIEF EXECUTIVE INSTRUCTIONS

With the impending repeal of the *Audit Act 1901* and the introduction of replacement financial legislation, including the Financial Management and Accountability Act, a requirement was identified to develop a complete set of *Chief Executive Instructions*. This exercise, which is expected to be completed early in 1997–98, is providing the Commission with an opportunity to review and update many of its administrative processes and procedures in line with identified better practices.

RECORDS MANAGEMENT

A comprehensive program of improvements in the area of records management is expected to provide significant benefits, both in the day-to-day management of written information, and in long-term access to archived material. The Commission will assess the adequacy of its record management software in the light of the current development by the Office of Government Information Technology of a shared systems suite for the Australian Public Service.

INFORMATION TECHNOLOGY (IT)

Continued application of the IT Strategic Plan (1996–1998) has resulted in further productivity improvements in a number of areas.

Desktop facilities have been upgraded to achieve a minimum hardware standard and an integrated and standardised suite of office software. The resulting system allows staff to share information and equipment more effectively and has reduced productivity loss due to incompatible software. The program of improvement includes a scheduled roll-over of hardware and careful evolution of software.

An IT security review was completed during the year by the Consultancy Unit of the Department of Finance. An outcome of the review was the development of an IT Security Plan which is now being implemented. System and data security will protect the availability and performance of the systems, promote data integrity and provide staff with a safe and secure technology work environment.

The Commission has commenced consideration of outsourcing its IT infrastructure and services. Following the guidelines of its own report *Competitive tendering and contracting by public sector agencies*, the Commission is developing a business case to assess the scope for competitive tendering and contracting. Outsourcing will be used if it is more cost effective, service requirements are not compromised and risk exposure is acceptable.

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 its views. Activities to publicise inquiries range from newspaper advertisements and the regular distribution of the IC Bulletin, to announcing key stages of inquiries by press release and inquiry circulars.

In 1996–97, a total of \$42 500 was paid to TMP Worldwide, the Commonwealth's master agency for classified advertising.

CONSULTANCIES

The Commission utilised the services of a range of consultants where it was considered efficient and cost effective to do so. A summary of the consultancies is shown in table A.12.

Table A.12: Summary of consultancies, 1996–97

<i>Purpose</i>	<i>No.</i>	<i>Contract amount (\$)</i>
Government commissioned projects	4	136 965
Performance monitoring/benchmarking	4	343 035
General research	1	15 000
Corporate services	7	176 269
	16	671 269

GRANTS

During the year the Commission made a number of grants or special payments. Such payments are made to organisations judged by management as being able to provide a worthwhile contribution to the Commission's objectives. The main payments were as follows.

Economic modelling: \$196 000 as the Commission's contribution to the Centre of Policy Studies at Monash University for the COPS/IMPACT economic modelling projects. In addition, the Commission was responsible for coordinating payment of approximately \$259 100 in matched funds on behalf of the Commonwealth.

Research sponsorships: \$40 000 to the Johns Hopkins University, USA, as the second of three annual instalments for the Australian component of the Comparative Non Profit Sector Project which aims to collect comparative data on non-profit organisations from a number of countries.

Consortium membership: \$18 900 for membership to the Global Trade Analysis Consortium based at Purdue University, USA. The Commission's contribution supports the development and updating of a publicly available database and model framework for multi-country trade policy analysis. It also gives the Commission early access to database updates, priority access to model training and input into the future direction of model and database development.

Conference sponsorships: \$10 000 to the Melbourne Business School for part sponsorship of the 1997 Industry Economics Conference and \$1000 to the Australian National University for the PhD Conference in Economics and Business.

Awards: \$500 to the top student, Master of Economics, at the Australian National University (Robert Jones Prize).

PUBLICATIONS AND SUBMISSIONS

Appendix E lists all publications and submissions to other inquiries and reviews prepared in 1996–97.

FREEDOM OF INFORMATION

The Commission received one application for documents during 1996–97 under the *Freedom of Information Act 1982*. The request sought access to information regarding temporary accommodation allowances paid to employees. This request was received on 10 June 1997 and was processed within the required time.

A statement encompassing formal reporting requirements is provided in attachment A.1.

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 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 provided in attachment A.2.

The contact officer for inquiries or comments concerning this report is:

Assistant Commissioner
Corporate Services Branch
Industry Commission
LB2 Collins Street East Post Office
MELBOURNE VIC 8003

Telephone: (03) 9653 2251

Facsimile: (03) 9653 2304

Inquiries about any Commission publication can be made to:

Director

Media and Publications Support

Industry Commission

LB2 Collins Street East Post Office

MELBOURNE VIC 8003

Telephone: (03) 9653 2183

Facsimile: (03) 9653 2199

ACCESS TO THE COMMISSION VIA THE WORLD WIDE WEB

The Commission has a home page on the Internet. The World Wide Web site address for the Commission is: <http://www.indcom.gov.au>.

The site provides access to most facets of the Commission and its work. Information is available on the Commission and its staff, the current inquiry and research program, publications, and graduate and general employment opportunities. Many publications are available in full from this site. The Commission's home page was accessed by external clients just under 70 000 times during 1996–97.

ATTACHMENT A.1

FREEDOM OF INFORMATION STATEMENT

The following information is provided in accordance with section 8(1) of the *Freedom of Information Act 1982*.

The role, functions and organisational structure of the 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. 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 on request to the public free of charge. Final reports are distributed, free of charge, to inquiry participants.

Documents available for purchase at Government Info Shops include:

- the Commission's annual report to Parliament;
- reports on matters referred to the Commission by the Minister; and
- many 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 9.00am and 5.00pm, Monday to Friday. Information and written requests for access to Commission documents under the *Freedom of Information Act 1982* can be made through:

Director
Finance and Office Services
Industry Commission
LB2 Collins Street East Post Office
MELBOURNE VIC 8003
Telephone: (03) 9653 2270
Facsimile: (03) 9653 2199

ATTACHMENT A.2

COMPLIANCE INDEX

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APPENDIX B

Program performance

The Commission's role is to contribute to the wellbeing of Australians by providing high quality information, analysis and policy advice to Australian governments, and to the community, about ways of best using the nation's resources.

It performs this role through government commissioned projects, performance monitoring and benchmarking, regulation review, and general research. These activities are underpinned by corporate management and services.

This appendix reports on program objectives for these activities, resource usage, and performance indicators. As some activities only commenced towards the end of 1996–97, their performance outcomes cannot yet be assessed.

GOVERNMENT COMMISSIONED PROJECTS

These are major tasks commissioned or explicitly sanctioned by Australian governments. The tasks encompass the conduct of public inquiries, program evaluations, task forces and major commissioned research projects. They typically involve extensive public consultation.

PUBLIC INQUIRIES

Objective

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

Resources

- Staff years — 55
- Expenditure — \$7.7 million

Performance indicators

The Commission aims to provide public inquiry reports which:

- are influential in shaping Commonwealth, State and Territory government microeconomic policy;
- respond fully to the terms of reference and are well informed, with clear analysis and recommendations;
- provide appropriate opportunity for participation by interested members of the community; and
- are timely and are conducted economically.

Information on these performance indicators is derived in a number of ways, including through feedback from governments, inquiry participants and others, the contribution to the public debate through the media and conferences, the extent of public participation, report completion dates and inquiry costs.

Performance

The Commission was engaged in nine formal public inquiries during 1996–97, of which the following seven were completed in the year:

The machine tool and robotics industries;

Implications for Australia of firms locating offshore;
Book printing;
State, Territory and local government assistance to industry;
Medical and scientific equipment industries;
Private health insurance; and

- *The automotive industry.*

The Commission's inquiry program in 1996–97 was less varied than in preceding years, in that industry assistance issues dominated. Nevertheless, the inquiry into private health insurance represented an extension of the Commission's inquiry processes to this important area of public policy. The Commission's examination of the reasons for, and the economic consequences of, decisions by firms to locate operations offshore raised issues relating to the taxation of international income, labour market and environmental regulation, and native title.

The Commission received terms of reference for four inquiries during the year, two of which — private health insurance and the automotive industry — were completed within the year. Inquiries on the textiles, clothing and footwear industries and on ecologically sustainable land management also were commenced in 1996–97. The inquiry program is summarised in table B.1.

Trends in inquiry activity and participation are shown in table B.2.

Assessment of how well the Commission has responded to the terms of reference for particular inquiries is subjective. Even more subjective is determining how influential the Commission's reports have been in shaping government policies, particularly because of lags between the release of reports and subsequent government action. For example, the then Government rejected the recommendations in the Commission's 1990 report on *Aids and appliances for people with disabilities* for greater contestability in the provision of free hearing services and for the government service provider to be corporatised. However, these reforms were announced in the 1996–97 Budget and given effect through legislation enacted in 1997.

Table B.1: Industry Commission inquiry program^a

Month	1995-96					1996-97												1997-98					
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N
<i>The machine tools and robotics industries</i>																							
<i>Implications of firms locating offshore</i>																							
<i>Book printing</i>																							
<i>State, Territory and local government assistance to industry</i>																							
<i>Medical and scientific equipment</i>																							
<i>Private health insurance</i>																							
<i>The automotive industry</i>																							
<i>Textiles, clothing and footwear industries</i>																							
<i>Ecologically sustainable land management</i>																							

a Shaded area indicates inquiry duration.

Table B.2: Public inquiry activity, 1993-94 to 1996-97

Indicators	1993-94	1994-95	1995-96	1996-97
References received	7	5	5	4
Issues papers released	8	5	5	4
Public hearings (sitting days) ^a	145	174	33	32
Industry visits ^b	660	941	568	375
Submissions ^b	1 495	2 082	1 329	774
Draft reports completed	8	6	5	6
Reports completed	8	7 ^c	5	7
References on hand (at 30 June)	7	5	5	2

a Excludes forums and round-table discussions.

b As distinct from hearing days, which are attributed to the year in which they occur, industry visits and submissions relate to inquiries completed in that year.

c Excludes the 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.

Various indicators suggest that the Commission's reports make a significant contribution to the public debate on policy issues and in shaping government policies. One such indicator is the extent to which the Commission's recommendations are accepted by government — a summary of the recommendations of recent Commission reports and of government responses is included in appendix D. Other indicators are the significant media coverage of most inquiries, and the many invitations to the Chairperson, Commissioners and staff to address or participate in conferences and similar forums.

This year, the difficulties of assessing the impact of the Commission's inquiry reports were compounded by a number of final reports not being released by the Government within the statutory tabling period. As noted in chapter 3, four of the seven inquiry reports completed in 1996–97 had not been tabled at 30 June 1997. At that date, the statutory tabling period for these reports had been exceeded by between 19 and 65 sitting days. This meant, for example, that the Commission's final reports on bounty assistance for book printing and the machine tools and robotics industries were not publicly available through the course of parliamentary and community debate on the Government's 1996 Budget decision to end these and other bounties. (These two inquiry reports were released on 6 August 1997.)

The Commission continued its practice of consulting widely with industry, government departments and agencies, unions, academia and the broader community in 1996–97. The number of visits conducted and public hearing days held are shown in table B.2.

The Commission continued to use round-table discussions as part of its public consultation process in inquiries. Well structured round-table conferences can be a useful complement to the traditional public hearings. They have the advantages of encouraging interaction among participants and often entail time and cost savings. Unlike open public hearings where a transcript of proceedings is taken and made available, participation in round-tables is typically by invitation and a public record of proceedings is not always taken. Details of round-table participants are, however, provided in inquiry reports. Twenty eight round-table discussions were held in the course of inquiries in 1996–97.

The Commission's performance in completing its inquiry reports within the stipulated reporting period improved markedly in 1996–97. Whereas delays were experienced in completing each of its inquiries in 1995–96, this year all inquiries, except one, were completed on or before their scheduled

reporting date. The Treasurer agreed to a two week extension of the reporting date for the automotive inquiry so as to allow time to evaluate the results of three separate modelling studies of the effects of proposed automotive tariff reductions which arrived late in the inquiry process.

The Commission endeavours to conduct its inquiries in an economical manner. For the inquiries completed in 1996–97, total costs (covering salaries, direct administrative expenses and an allocation for corporate overheads) ranged from \$320 000 for the book printing inquiry to \$1.7 million for the automotive inquiry (table B.3).

Table B.3: Total cost of public inquiries completed in 1996–97
(\$'000)

<i>Inquiry</i>	<i>Estimated total cost</i>
The machine tools and robotics industries	507
Implications for Australia of firms locating offshore	1 164
Book printing	320
State, Territory and local government assistance to industry	1 114
Medical and scientific equipment industries	981
Private health insurance	701
The automotive industry	1 709

The major administrative (non-salary) costs associated with public inquiries relate to: the Commission's extensive consultative processes with industry and community groups; publicising and conducting public hearings; and widely disseminating its draft and final reports. Details of direct administrative expenses for inquiries in 1996–97 are provided in table B.4. Comparisons of these costs for inquiries for the period 1993–94 to 1996–97 are in table B.5. Variations in the cost of inquiries arise from the extent and nature of public consultation, the number of inquiry participants, the complexity and breadth of issues, the need for overseas travel, printing costs and the duration of the inquiry.

Table B.4: Public inquiry direct administrative expenditure^a, 1996–97 (\$)

<i>Inquiry</i>	<i>Duration of inquiry</i>	<i>Travel</i>	<i>Printing</i>	<i>Consultants</i>	<i>Other</i>	<i>Total 1996–97</i>	<i>Total direct admin expenditure^b</i>
The machine tools and robotics industries	1/96 – 8/96	2 470	5 180	–	2 218	9 868	29 738
Implications of firms locating offshore	8/95 – 8/96	458	14 643	–	5 392	20 493	77 840
Book printing	1/96 – 10/96	4 160	8 294	–	3 503	15 957	25 026
State, Territory and local government assistance	10/95 – 10/96	28 295	34 555	–	13 244	76 094	182 612
Medical and scientific equipment industries	1/96 – 12/96	9 950	21 939	55 016	14 043	100 948	120 939
Private health insurance	9/96 – 2/97	49 470	31 770	–	23 438	104 678	104 678
Automotive industry	8/96 – 5/97	44 559	94 720	46 000	47 585	232 864	232 864
Textiles, clothing and footwear industries	12/96 – 9/97	56 439	30 340	21 562	15 067	123 408	
Ecologically sustainable land management	1/97 – 1/98	72 247	2 106	–	28 847	103 200	
General inquiry preparation and marketing		7 327	20 782	–	1 474	29 583	
Total		275 375	264 329	122 578	154 811	817 093	

– nil

a Includes all public inquiry (non-salary) expenditure acquitted in 1996–97, regardless of the commencement or completion date of the inquiry.

b Total non-salary expenditure for completed inquiries only.

Table B.5: Public inquiry direct administrative expenditure,^a
1993–94 to 1996–97 (\$)

<i>Expenditure item</i>	<i>1993–94^b</i>	<i>1994–95</i>	<i>1995–96</i>	<i>1996–97</i>
Travel	829 727	687 212	512 890	275 375
Printing	153 273	477 391	247 436	264 329
Consultants	245 790	340 917	160 362	122 578
Other ^c	454 316	443 002	302 086	154 811
Total	1 683 106	1 948 522	1 222 774	817 093

a Expenditure other than salaries and corporate overheads.

b 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 \$1819 of 1993–94 expenditure on the Committee of Inquiry into the Winegrape and Wine Industry, shown in table M4 as being ‘inquiry expenditure’. It is reported separately under ‘expenditure on independent research studies’ in table J.5 of the 1994–95 annual report.

c Includes other inquiry costs, such as advertising, venue hire, court reporters/transcription services and data acquisition.

CASE STUDIES ON WORK ARRANGEMENTS

Objective

- To provide information on the costs and benefits of selected work arrangements (formal and informal, worker and management) which either enhance or restrict productivity in workplaces and to identify impediments to the introduction of performance-enhancing work arrangements. This includes reporting on the incidence of these costs and benefits to key players such as firms and workers, and to the wider community.

Resources

- Staff years — 4
- Expenditure — \$0.4 million

Performance indicators

Work undertaken within this activity is judged by the comprehensiveness of the information provided on the costs and benefits of the workplace arrangements studied, and the timeliness and quality of the research.

Performance

As this is a new stream of activity for the Commission, it is too early to assess performance outcomes.

In January 1997 the Treasurer requested the Commission to commence, as soon as possible, case studies on work arrangements in the stevedoring, black coal mining, meat processing and construction industries. Priority was to be given to the first two of these. The request followed advice the Commission had provided in *Labour market benchmarking: recommended research program* (PC 1996).

The Commission began its study of stevedoring work arrangements in February 1997 and released a Research Issues Brief in May 1997. The objective of the study is to highlight the benefits and costs of selected stevedoring work arrangements (both worker and management, formal and informal) which either enhance or restrict workplace performance. The study will examine the incidence of these benefits and costs on key players, such as stevedoring firms, employees, users of stevedoring services, and the wider community, and will identify impediments to introducing productivity-enhancing work arrangements (consistent with social goals).

The Commission has undertaken targeted consultations with key industry participants and detailed discussions on work arrangements at selected stevedore workplaces.

Initially, the Commission intended to complete the stevedoring case study in December 1997. Under a revised timetable, a working paper will be released for public comment in December. It is expected that the final report will be publicly available in March 1998. The study will complement the international benchmarking of the Australian waterfront being conducted by the Commission.

The Commission began its study of work arrangements in black coal mining in March 1997. It had similar objectives to the companion study of work arrangements in stevedoring. The Commission had undertaken extensive industry consultations and was in the process of evaluating possibilities for in-depth studies of between four and six black coal mining workplaces when, in July 1997, the Commission received a reference on the Australian black coal industry. The Treasurer asked the Commission to report on the international competitiveness of the industry and to benchmark its performance against comparable mines in other countries and analogous metalliferous mines in Australia. The terms of reference also encompassed work arrangements. Consequently, the Commission's work

arrangements study has been incorporated in this broader public inquiry. The Commission is to report by 9 July 1998.

OTHER COMMISSIONED WORK

Objective

- To contribute to the development of public policy issues by undertaking studies which utilise the Commission's inquiry, analytical and modelling expertise, within an independent, transparent and economy-wide framework.

Resources

- Staff years — 5
- Expenditure — \$0.5 million

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 1996–97 under this activity were studies for the Commonwealth Government:

- on the potential effects of fresh and frozen North American 'wild caught' Pacific salmon imports on the performance of the Australian farmed Atlantic salmon industry and the Australian economy; and
- assessing the value and feasibility of national performance indicators for local government.

Both studies had extensions to their originally scheduled completion dates.

The Australian Atlantic salmon study, referred to the Commission on 12 September 1996, stemmed from a request by the Minister for Primary Industries and Energy to the Treasurer for the Commission to examine the possible economic and social impacts which could result if imports of uncooked, wild, adult, ocean-caught Pacific salmon from Canada and the United States were permitted. The Commission's study was separate from the scientific import risk analysis being undertaken by the Australian Quarantine and Inspection Service (AQIS).

Following the release of the Commission's working paper in November 1996, the Tasmanian Salmonid Growers Association requested extra time to respond and for discussions with the Commission. As a result, the Treasurer extended the reporting date by two weeks to 24 December, enabling the Commission to hold a round-table conference with the industry before finalising its report. The report was completed on 20 December 1996 and released on 7 January 1997.

On 20 December 1996 the Minister for Primary Industries and Energy announced that, as a result of AQIS's risk analysis, quarantine bans on the import of uncooked salmon products into Australia would be maintained. No response to the Commission's study is therefore expected.

The cost of this study was around \$455 800 after allowance for salaries, direct administrative expenses and for corporate overheads.

On 28 April 1997 the Treasurer requested that the Commission assess the value and feasibility of national performance indicators for local government. This study arose from a request by the Minister for Sport, Territories and Local Government. The Commission originally intended to report by 29 August 1997 but will be submitting its report by 10 October 1997 to allow for further public consultation. Details will be provided in the 1997–98 annual report.

PERFORMANCE MONITORING/BENCHMARKING

Objective

- To provide secretariat, report preparation and research services to Steering Committees established by the Council of Australian Governments in respect of monitoring the performance of government trading enterprises and developing performance indicators for government provided or sponsored services.
- To provide national and international comparisons of the performance of key Australian industries — primarily economic infrastructure and government services — to help inform the community about significant performance gaps. Other comparisons extend to institutional arrangements, such as the performance of Australia's labour market.

Resources

- Staff years — 19

- Expenditure — \$2.1 million

Performance indicators

The two secretariats work under the guidance of the respective Steering Committees. The Chairperson of the Industry Commission chairs both Steering Committees. 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

Performance monitoring of government trading enterprises

The work relating to government trading enterprises is summarised in SCGTE (1997). The report presents information on the performance of government trading enterprises using a broad range of financial and other indicators for the period 1991–92 to 1995–96.

This year's report was published in May, compared with June in the previous year. Improved efficiencies resulting from a new database system assisted in this earlier completion.

A survey of users of this year's report found that it has wide use in many organisations for monitoring, benchmarking, research and briefing purposes. Though the report is assisting the reform effort, its impact has diminished over time.

This year's report on government trading enterprises is the fifth produced by the Committee and it is now appropriate to take stock and review the project's initial objectives. When national performance monitoring commenced, most monitored government trading enterprises were under direct ministerial control and some operated as government departments. These days, central agencies have monitoring systems in place and some enterprises are subject to independent price reviews by regulators. Some government trading enterprises do not provide the Steering Committee with non-financial performance indicators, arguing that disclosure of commercially sensitive information would advantage potential private sector competitors.

The Steering Committee is currently examining the objectives of national performance monitoring and assessing the effectiveness of the current monitoring process.

Performance monitoring of government service providers

The Review of Commonwealth/State Service Provision was established by the Prime Minister, Premiers and Chief Ministers in July 1993. Its main tasks are to develop, and publish data on, agreed national performance indicators for key services delivered by governments in Australia and to analyse service provision reforms.

A second report on government service provision, *Report on Government Service Provision 1997*, was produced on time in February 1997. The performance information in this report was extended to include three new service areas — services for the aged, the disabled and children — in addition to government school education, vocational education and training, public acute care hospitals, public housing, protection and support services, police, courts administration, and corrective services. The Review is largely breaking new ground in developing a framework for measuring performance, identifying appropriate indicators within this framework and collecting comparable and consistently reliable data for these indicators. The Steering Committee is continuing to expand the scope of the review, improve the quality of indicators and improve data collection.

The performance information contained in the report was recognised by government agencies and the media as another important step towards improving the effectiveness and efficiency of government service provision. The report is being used widely as a resource in government departments across Australia. The Committee's monitoring work is being built on by State initiatives aimed at ensuring that their agencies are efficient and meet government policy objectives. Work undertaken by the New South Wales Treasury is an example (Carrington et al 1996).

The next report of the Steering Committee is planned for release in February 1998 and its coverage will be extended to include community housing, community health services and emergency services.

A first report on service provision reforms was released in June 1997. This report provided case studies of:

- the introduction of casemix funding in public hospitals in Victoria;
- the introduction of privately managed prisons in Queensland; and
- the restructure of the South Australian Department of Family and Community Services along purchaser/provider lines.

The report focused on how implementation choices were made and the implications of these choices for the reform objectives. It also documented

how all other States and Territories are implementing reforms in these areas.

The Steering Committee is planning a further five case studies for publication in September 1998.

International benchmarking

In September 1996 the Commission released *International benchmarking — Electricity 1996*, the third in a series of studies of Australia's electricity supply industry commenced by the BIE. The report refined and updated performance indicators reported in the BIE's 1994 analysis. International price indicators were updated by three years to 1995 and international comparisons of operating efficiency and productivity measures were updated to 1993–94. Where possible, 1994–95 data (the latest available at the time) for Australia were also reported.

Work on benchmarking the Australian waterfront and the government provision of roads commenced in 1996–97. Major outputs in these areas will be available in 1997–98.

REVIEW OF REGULATION

Regulation review matters are dealt with principally by the Office of Regulation Review (ORR) which is part of the Industry Commission. The activities of the ORR are covered in detail in a separate publication, *Regulation and its review: 1996–97* (IC 1997g).

Objective

- To improve the effectiveness and efficiency of legislation and regulations developed and administered by Commonwealth departments and regulatory agencies.

Resources

- Staff years — 12
- Expenditure — \$1.2 million

Performance indicators

A range of qualitative indicators is used to gauge performance:

- the influence and role of the ORR in developing national regulatory review strategies;
- the extent to which Commonwealth departments, regulatory agencies and Ministerial Councils are guided and assisted by the ORR;
- the number and scope of published reports, submissions and presentations on regulatory issues, and the impact they have on policy or on the regulatory environment; and
- the influence of the ORR on international efforts to improve the quality of regulation making.

Performance

A measure of the ORR's performance is the enhanced role it and the Commission have now been given by the Government to ensure that departments and agencies meet quality assurance requirements when developing regulation.

The ORR provides advice to departments and regulatory agencies on how to develop high quality regulation. The ORR also provides advice to the Cabinet on the quality of regulatory proposals put before it. During 1996–97 the ORR further assisted the process of regulation reform by seconding an officer to the Small Business Deregulation Task Force Secretariat, by participating in the interdepartmental committee developing the Government's response to the Task Force's report, and by seconding another officer to the team which drafted the Government's formal response.

As a result of its response in March 1997 to the recommendations of the Task Force, the Government now requires a Regulation Impact Statement (RIS) for all reviews of existing regulation, proposed new regulation and proposed treaties involving regulation which directly affect business, or which have a significant indirect effect on business, or which restrict competition. Departments and agencies are now required to consult with the ORR at an early stage in the policy development process. New activities for the ORR have included:

- developing early warning systems to notify the ORR of regulatory proposals in the 'pipeline';
- developing a new charter for the ORR;

- advising the Assistant Treasurer — who is now responsible for regulatory best practice — on specific proposals from departments and agencies which do not adequately meet the Government’s RIS requirements;
- producing a new document, *A Guide to Regulation*, which was endorsed by Cabinet in September 1997;
- developing further its training functions so that training for officials will be available on a more extensive and systematic basis;
- developing a draft set of performance indicators for compliance and making a benchmark assessment of compliance in 1996–97 so that, from 1997–98, the Commission can report annually on overall compliance with the Government’s mandatory RIS requirements for new and amended regulation (IC 1997g, chapter 2); and
- chairing an interdepartmental committee to examine certain aspects of quasi-regulation, including circumstances where it may be a viable alternative to government regulation. This committee, which is to report by 31 December 1997, will also consider the circumstances in which self regulation may be appropriate. The Government’s response to the committee’s views on this will be incorporated into a revised 1998 edition of *A Guide to Regulation*.

The ORR also has advisory, monitoring and compliance assessment functions in relation to the Commonwealth’s legislation review program. As required under the Competition Principles Agreement, this program is a mechanism for ensuring thorough assessment and reform of legislation which restricts competition, as well as legislation which is costly to business.

When the Government approved its Legislation Review Schedule in June 1996, it decided that draft terms of reference for reviews would be provided to the ORR for comment three months before the scheduled commencement date of the review and that the ORR would provide its comments on draft terms of reference to the responsible Minister and to the Treasurer. During 1996–97 the ORR:

- developed generic template terms of reference to assist in providing an analytical framework that took account of the Competition Principles Agreement and the Government’s RIS requirements;
- consulted with departments as terms of reference were developed and as consideration was given to the composition of review bodies;
- advised the relevant Minister and the Treasurer that the Commonwealth’s requirements for reviews and its obligations under

the Competition Principles Agreement had been met for all of the 18 reviews which commenced during the year; and

- reported on the progress of scheduled reviews and allied reform measures (details in IC 1997g).

Under COAG principles and guidelines, the ORR has a role in assisting Ministerial Councils and national standard setting bodies in the preparation of RISs and in advising whether they meet COAG requirements. In general, Ministerial Councils and national standard setting bodies have been slow to implement the COAG requirements. A key reason is that many agencies have certain legislative requirements within their own jurisdictions to prepare, typically less stringent, impact statements or assessments. The ORR has been working with some agencies — including the Australia New Zealand Food Authority — to address this issue so that the benefits of the RIS process can be more fully realised.

Developments in regulatory reform are ongoing, both in Australia and overseas. The ORR maintains contact with regulatory reform agencies in all States and Territories, and actively participates in COAG's Committee on Regulatory Reform. Monitoring regulatory reform developments in this way allows the ORR to assess their relevance to the Commonwealth. The ORR also maintains regular contact with the OECD's work of monitoring and promoting regulatory reform in its member countries. That work included the development of seven guiding principles which Ministers of the OECD member countries endorsed at their May 1997 meeting.

In line with the trend of recent years, the emphasis of the ORR's activities in 1996–97 shifted more strongly towards liaison, education and advisory work with government agencies, and away from research and publication. Details of the two information papers released and submissions made by the ORR in 1996–97 are provided in appendix D.

GENERAL RESEARCH

Objectives

- To provide high quality, policy-relevant information, analysis and advice to governments and the community generally on matters relevant to the Commission's charter.
- To provide objective reports which meet the statutory requirements under the *Industry Commission Act 1989* that the Commission report

on the performance of Australian industry and developments in assistance and regulation.

- To develop analytical frameworks and elicit information that improve the Commission's general capabilities to undertake research.
- To develop and use resources in an effective and efficient way.

Resources

- Staff years — 86
- Expenditure — \$10.2 million

Performance indicators

The following performance indicators are used to judge the performance of general research publications and related activities:

- influence on the microeconomic policies of the Commonwealth, State and Territory governments;
- the contribution to public debate;
- the number and scope of publications; and
- timeliness.

Performance

Although a major part of the Commission's research effort is directed towards externally determined projects — public inquiries and other commissioned research reports, performance monitoring and benchmarking studies reported on above — the Commission has a research capacity which it manages autonomously. The Commission also made tentative preparations for the establishment of an autonomous unit to administer the Commonwealth Government's competitive neutrality complaints mechanism pending passage of the Productivity Commission Bill.

In the first quarter of 1997 the Commission met a range of Commonwealth Government departments, peak national employer bodies, unions, community welfare and environmental groups to discuss current and future research. It also sought suggestions for research from State and Territory governments and state and territory peak employer bodies. Consultations with academics, Commissioners and staff also contribute to the identification of broad research areas. The major components of the Commission's forward research program were finalised in June as part of its work plan for 1997–98.

The output of the Commission's general research program in 1996–97 included:

- research to meet the Commission's statutory annual reporting obligations (*Annual Report 1995–96, Regulation and its review: 1995–96*);
- 20 research reports, encompassing Commission information papers, staff research papers and research published jointly with or for other agencies;
- 19 submissions to other review bodies; and
- three volumes of proceedings from conferences or workshops sponsored by the Commission (details in appendix D).

Some of this represented research to which resources had been committed before the IC, BIE and EPAC were amalgamated on an administrative basis.

Most of the Commission's research publications received media coverage, contributing to the public debate of policy issues.

CORPORATE MANAGEMENT AND SERVICES

This activity is directed at the efficient management and operation of the Commission. It is effected through strategic leadership and overall management, and the provision of a range of support services encompassing human resource management, finance and office services, information technology, library and information management, and media and publications support.

CORPORATE MANAGEMENT

Objective

- To achieve the efficient operation of the Commission through strategic leadership and overall management of the Commission's resources.

Resources

The Chairperson, Head of Office and support staff constitute the senior level of corporate management. They are assisted by a Management Committee which includes the Executive Commissioner and a number of SES officers.

- Staff years — 7
- Expenditure — \$0.8 million

Performance indicators

Performance indicators are the extent to which the Commission satisfactorily meets the broad goals of its draft Corporate Plan:

- to assemble and test the best available information, analysis and advice so as to deliver high quality policy assessments, research and advice to governments;
- to be attuned to the needs and priorities of government, consistent with the Commission’s charter and operating principles;
- to promote public understanding of factors shaping the performance of the economy, and ensure that all relevant groups have the opportunity to participate in Commission activities;
- to provide a stimulating, supportive and safe working environment, enabling Commission staff to apply and enhance their skills and realise their potential; and
- to efficiently and effectively manage the Commission’s people and resources.

Performance

A particular challenge during the year was implementing the Treasurer’s directive to establish the Productivity Commission on an administrative basis in preparation for the establishment of the Commission by Parliament. This involved a restructuring of the organisation and managing a significant reduction in staffing numbers.

The performance of the corporate management function is also indicated by performance outcomes for activities described elsewhere in this appendix.

CORPORATE SERVICES

Objective

- To provide effective and efficient services in support of the Commission’s key activities.

Resources

- Corporate services are provided by the staff of the Corporate Services Branch, the Media and Publications Section, and the Canberra Office Corporate Support Unit.
- Staff years — 42
- Expenditure — \$3.0 million

Performance indicators

Work undertaken within this activity is judged by:

- the contribution made to the key activities of the Commission;
- service quality and client satisfaction; and
- cost effectiveness of service provision.

Performance

The corporate services area contributed to the Commission's key activities by providing a range of support services in respect of human resource management, financial management, information technology, library and information management, office services and media and publications support. Other than the establishment of a video conferencing facility in the Melbourne and Canberra offices, there were no significant changes to the range of services provided during the year.

An assessment of service quality and client satisfaction relies largely on subjective judgments based on a range of feedback mechanisms and anecdotal evidence. Client surveys were undertaken in respect of human resources, finance, information technology and office services. Overall feedback indicates a good to high standard of service. Steps to minimise instances of less than satisfactory service were continued during the year.

The Commission continued to provide library services to the National Competition Council and its secretariat. Such services are governed by a range of service quality indicators, all of which have been met or bettered over the year.

Improving the cost effectiveness of providing corporate services is an ongoing challenge. In respect of information technology, the available evidence suggests that the cost of the Commission's infrastructure and services compares more than favourably with broader cost indicators. In

keeping with the Government's information technology outsourcing policy, performance assessment in this area is continuing.

Benchmarking by an external consultant of financial and human resources information management systems against 'best practice' surveys suggested that the Commission's finance functions are about average in cost, while human resources functions are well above average in cost. The report noted that the finding took no account of the scope and quality of services. The Commission is examining the cost effectiveness of the processes concerned.

APPENDIX C

Government commissioned projects

This appendix updates information provided in previous annual reports on the Commission's public inquiries and other projects commissioned by the Government. It includes terms of reference for new inquiries and principal findings and recommendations from reports which have been released, together with government responses to Commission reports.

The Commission commenced four inquiries and completed seven inquiry reports in 1996–97. In addition to the Government's request for a series of case studies on work arrangements, the Commission received terms of reference for two other projects, one of which was completed during the year. This appendix provides details of government responses to reports completed in 1996–97 and previous years. It also reports on commissioned projects received, reports released and government responses to reports since 30 June 1997.

This appendix is structured as follows:

- terms of reference for new government commissioned projects;
- reports released and government responses; and
- government responses to Commission reports from previous years.

Table C.1 summarises activity since the Commission's 1995–96 annual report and indicates where the relevant information can be found.

Table C.1: Stage of completion of commissioned projects and government responses to Commission reports

<i>Date received</i>	<i>Title</i>	<i>For terms of reference see</i>	<i>Stage of completion</i>	<i>Major findings/ recommendations</i>	<i>Government response</i>
8-12-94	Competitive tendering and contracting by public sector agencies	AR 94-95	Report no. 48 signed 24-1-96	AR 95-96	page 129
14-2-95	Packaging and labelling	AR 94-95	Report no. 49 signed 14-2-96	page 107	page 109
28-2-95	Tourism accommodation and training	AR 94-95	Report no. 50 signed 23-4-96	page 110	page 111
21-6-95	The pharmaceutical industry	AR 94-95	Report no. 51 signed 3-5-96	AR 95-96	page 105
31-8-95	Implications for Australia of firms locating offshore	AR 94-95	Report no. 53 signed 28-8-96	page 111	page 112
31-10-95	State, Territory and local government assistance to industry	AR 95-96	Report no. 55 signed 29-10-96	not yet released	na
29-1-96	The machine tools and robotics industries	AR 95-96	Report no. 52 signed 13-8-96	page 121	page 122
29-1-96	Book printing	AR 95-96	Report no. 54 signed 23-10-96	page 122	page 123
29-1-96	Medical and scientific equipment industries	AR 95-96	Report no. 56 signed 20-12-96	page 123	page 125
12-8-96	The automotive industry	AR 95-96	Report no. 58 signed 26-5-97	page 119	page 120
12-9-96	Australian Atlantic salmon: effects of import competition	page 113	Report completed 20-12-96	page 114	page 115
23-9-96	Private health insurance	page 115	Report no. 57 signed 28-2-97	page 116	page 117
9-12-96	The textile, clothing and footwear industries	page 125	Report no. 59 signed 9-9-97	page 126	page 128
17-1-97	Ecologically sustainable land management	page 101	In progress		
28-4-97	Review of national performance indicators for local government	page 102	In progress		
7-7-97	Export of government services	page 103	In progress		
9-7-97	Australian black coal industry	page 103	In progress		
9-7-97	Telecommunications equipment, systems and services	page 104	In progress		

TERMS OF REFERENCE FOR NEW PROJECTS

This section presents the terms of reference for commissioned projects received since the Commission's previous annual report which are in progress or for which the report has not yet been released.

Ecologically sustainable land management

On 17 January 1997 the Government referred ecologically sustainable land management in Australia for inquiry and report within 12 months. For the purposes of this inquiry, land used for agricultural or pastoral purposes includes both the land and associated vegetation, and ground and surface water including rivers, riversides and wetlands, whether publicly or privately owned and whether currently or potentially available for economic use.

In making its recommendations, the Commission is to improve the overall performance of the Australian economy while meeting the core objectives of the National Strategy for Ecologically Sustainable Development.

The Commission is to report on:

- the nature and appropriateness of the roles and contributions of Commonwealth, State, Territory and Local Governments and their agencies, and landowners, land managers and community groups to ecologically sustainable land management;
- the impact of regulatory, taxation and institutional arrangements on ecologically sustainable land management practices;
- the impact upon rural lands of urban encroachment, including the subdivision of land for hobby farms;
- the effectiveness of existing mechanisms, policies and programs relating to ecologically sustainable land management, including land and water resource policies;
- measures, including economic instruments, which could be taken to remove impediments to, or otherwise promote, the adoption of ecologically sustainable land management practices;
- the identification of adjustment issues, including groups benefiting from or disadvantaged by any measures flowing from proposed measures;
- the development of a set of guidelines that public sector managers, landowners, land managers and community groups can use to promote ecologically sustainable land management; and

- the regional impacts of its recommendations.

Where appropriate, the Commission is to report on implementation strategies and evaluation and monitoring criteria for its recommendations.

The Commission released its draft report on 15 September 1997 and will commence public hearings on 31 October 1997.

Review of national performance indicators for local government

On 28 April 1997 the Treasurer asked the Commission to review the value and feasibility of developing nationally comparable performance indicators for local government.

The Commission is to consider and advise:

- whether national performance indicators could be defined:
 - to provide a tool which would assist local government with benchmarking and continuous improvement programs; and/or
 - to provide a tool to assist the Commonwealth Minister to meet his statutory reporting obligations under the *Local Government (Financial Assistance) Act 1995*;
- if national indicators can be defined to meet these objectives, the value of producing and publishing such indicators, and the areas for which indicators might be developed;
- if there is demonstrable value in producing national indicators, how the development of such indicators could proceed to ensure meaningful results; and
- if national indicators cannot be defined, an alternative mechanism for reporting nationally on local government performance.

A written report was to be provided to the Treasurer, with a copy to the Commonwealth Minister for Sports, Territories and Local Government by 29 August 1997 (subsequently extended to 10 October 1997). Following its delivery to Ministers, the Commission is to make the report available to the public.

Export of government services

On 7 July 1997 the Commission received a request from the Treasurer to undertake a study into the export of government services, covering Commonwealth, State and Territory governments. The study is to assess existing activity by government departments, agencies and business

enterprises and the potential to develop government services as a commercially viable export industry.

The Commission is to report on:

- the emerging trends in global markets for the export of government services, particularly in the Asia–Pacific region;
- the international marketing environment including impediments to trade, and the effectiveness of government efforts to improve market access;
- the structure and competitiveness of the Commonwealth Government in terms of its own ability to develop government services as an export industry and in terms of its coordination of export activities with State and Territory governments;
- the scope for government to more actively engage in export activities, having regard to the nature of their systems which must be based within the policy framework of professionalism and accountability, and while continuing their core domestic activities;
- the scope for government to work in partnership with the private sector in pursuing export activities; and
- any measures which could be undertaken to facilitate the export of government services, implementation strategies for any suggested measures and the effect on government, industry, consumers and the economy in general of any suggested measures.

The Commission's report is to be submitted by the end of 1997, or earlier if possible, and is to be published.

Australian black coal industry

On 9 July 1997 the Treasurer referred the international competitiveness of the Australian black coal industry to the Commission for inquiry and report within 12 months. The Commission is to identify ways of improving the international competitiveness of the Australian black coal industry which are consistent with improving the overall performance of the Australian economy.

The Commission is to report on:

- sound, objectively determined benchmarks of productivity performance for Australian black coal mines, best practice in comparable international black coal mines and best practice in analogous Australian metalliferous mines, identifying the reasons for differences in productivity performance between the specified groups.

Components investigated are to include management, labour, machine performance and mine geology;

- cost components from the mine to the port for exported Australian black coal, including wages and other onsite mine costs, royalties, and infrastructure charges and comparison of the costs with those of overseas black coal mines and Australian metalliferous mines, with an explanation of the differences;
- safety arrangements and performance of Australian black coal mines, and how they compare with international counterparts and Australian metalliferous mines, recognising previous Commission work on occupational health and safety;
- work arrangements in the Australian black coal mines, compared with international counterparts and Australian metalliferous mines; and
- methods by which Australia's major competitors have implemented microeconomic reform in their black coal industries, the success of those measures, and their applicability to the Australian black coal industry.

The Commission is to report on implementation strategies for its recommendations.

Telecommunications equipment, systems and services

On 9 July 1997 the Treasurer referred the Australian telecommunications equipment, systems and services industries for inquiry and report within nine months. In making its recommendations, the Commission is to improve the overall economic performance of the Australia economy.

In particular, the Commission is to examine and report on:

- the current structure and competitiveness of the industries, drawing international comparisons where appropriate;
- local and global trends, and the likely effect on the Australian industry of:
 - technological change and the convergence of technology and corporate structures; and
 - transfer of technology and capital between different business sectors and nations;
- the effect of existing and proposed international trade agreements on the industries, both in Australia and internationally;
- any measures which could be undertaken to remove impediments to the industries' efficiency and development, including to Australian

exports, or otherwise contribute to the efficiency and development of the industries;

- the factors which are assisting and hindering the emergence of new high technology firms compared to other developed countries and any measures which could be taken to improve Australia's performance; and
- any structural imbalance within the industry contributing to the current account deficit and measures which could be taken to overcome the imbalance.

The Commission is to evaluate current government programs aimed at improving the industries' performance and report on ways in which that assistance could be better used to promote the long-term development of the industry and the economy. It is to report on implementation strategies for any measures it recommends and to have regard to the Government's decisions on the post-1997 regulatory arrangements and the Government's information industries policy initiatives.

REPORTS RELEASED BY THE GOVERNMENT

This section summarises the main findings and recommendations of commissioned reports which were released by the Government. It includes terms of reference for those projects commenced and completed in the year and, where available, government responses.

The pharmaceutical industry

Report signed 3 May 1996; report released and initial government response 10 September 1996 (details in IC 1996d).

The Minister for Industry, Science and Tourism announced the Government's final response to the report in April 1997 (Moore 1997a). The Government:

- accepted the Commission's recommendation that companies should have the option of taking their remaining Factor (f) payments as actual rather than notional price increases, but stated that this would not be feasible for all companies;
- rejected the recommendation that companies should have the option of delaying cost effectiveness analysis for two years to allow for the collection of costing data based on actual use, but would continue to consult with industry on cost effectiveness issues;

- rejected the recommendation that a data base of Australian and international pharmaceutical prices, volumes and market shares be established;
- had asked the Auditor-General to place a high priority on a scheduled efficiency audit of the Pharmaceutical Benefits Scheme (PBS) listing process giving particular attention to the issues raised by the Commission;
- would pursue the issue of complementary legislation to broaden the application of the Therapeutic Goods Act through both the Australian Health Ministers' Conference and the National Coordinating Committee on Therapeutic Goods;
- was undertaking initiatives in support of the Commission's recommendations to pursue greater harmonisation of international standards and data requirements, further agreements to exchange evaluation reports and undertake joint evaluations and, in certain circumstances, to utilise evaluation work undertaken in other countries by regulators with comparable standards and known expertise in a particular area;
- was not convinced that the recommendation to establish the Therapeutic Goods Administration as a Commonwealth statutory authority would provide any greater benefits than the current structure of a semi-autonomous business unit within the Department of Health and Family Services;
- had agreed to continue the existing range of drug scheduling options and to monitor the extent of pharmacist counselling and had initiated a further review to ensure that any prohibition on brand advertising of schedule 3 'pharmacist only' products only apply where merited; and
- noted the general agreement among the States and Territories on the recommendation that the scheduling of therapeutic goods become the responsibility of the Commonwealth Government under the Therapeutic Goods Administration.

In its interim response, the Government had signalled that it would not undertake a fundamental review of PBS policy or processes at this time. The Commission had suggested that, in this event, the Government could choose to introduce a Factor (f) type scheme as an interim measure. The Government announced it would:

- introduce a five year competitive scheme to start on 1 July 1999 which would partially offset the negative effects of the PBS on industry growth and development;

- pay price increases up to the average price applying in the European Union in return for production value added or R&D activities in Australia, or a combination of both;
- allow entitlements to be earned at the rate of 20 per cent of pharmaceutical production value added (measured against a three year moving average) and/or R&D activities (measured against a fixed average base in the three years to 1998–99);
- commit \$300 million to the new scheme over a five year period. Continuation of the new scheme beyond 2003–4 would be examined in 2003 on the basis of whether the PBS continued to impede the growth and development of the industry; and
- amend the Patents Act to provide an extension of term of up to five years for pharmaceutical patents and also to allow companies to undertake preparatory work on generic drugs to enable them to enter the market as soon as patents expire.

Packaging and labelling

Report signed 14 February 1996; report released 8 October 1996.

The Commission recommended that:

- the Commonwealth Government remove the tariff on tinplate and aluminium canstock from 1 July 1997;
- prices surveillance for wine bottles and medium to large glass food containers should continue;
- if the Commonwealth Government decides that the ACCC should continue oversight of glass or tinplate, the ACCC should report on prices to the domestic, secondary export and export markets, acknowledging that users who export face highly competitive markets;
- State Governments should allow for the private development of new landfill facilities (subject to the same rigorous environmental standards as public landfills) and new facilities should not proceed without the consent of host communities;
- State and local governments responsible for landfill charges should ensure that landfill users face the full social costs of disposal, including, where appropriate, allowance for loss of environmental amenity for host communities and insurance against future environmental contingencies — in most cases this would result in continuing increases in charges;
- in so far as is practical, waste disposal charges should be fed down to individual decision makers in the waste chain;

- State Governments should treat arrangements for the incineration of packaging and other non-toxic materials and their conversion to energy on their economic and environmental merits;
- a national inventory of waste management modelling tools should be prepared and the development and maintenance of a municipal waste management and recycling planning and decision modelling tool be funded;
- local government should not proceed with recycling schemes unless clear economic and/or environmental benefits have been established;
- decisions by governments to introduce a measure to reduce packaging waste going to landfill and/or to assist recycling should not be made unless clear economic and/or environmental benefits from such initiatives have been established;
- COAG should take action to ensure that the process undertaken by the Australian and New Zealand Environment and Conservation Council in the preparation of industry waste reduction agreements is consistent with established COAG principles regarding national standard setting and regulatory action;
- legislatures and regulatory agencies involved in setting packaging and labelling standards should consider drafting regulations in terms of specific objectives or outcomes which producers are required to satisfy, instead of prescriptive standards;
- the Commonwealth, through agencies such as the National Food Authority, should establish a procedure for the approval of model health claims;
- in accordance with the principles for regulatory action agreed to by COAG, the Trade Practices Amendment (Origin Labelling) Bill should not proceed until: the nature of the problem to be addressed had been identified; interested parties consulted; alternative regulatory and non-regulatory options considered; and the costs and benefits of those proposals addressed; and
- the Department of Industry, Science and Technology should, as part of its portfolio review of regulation, by July 1997: initiate action to remove the requirements contained in Regulations 8, 15, 15A, 15B, 17 and 20 of the Commerce (Imports) Regulations which contain prescriptive labelling requirements for a range of imported products; and in relation to each of the other regulations of the Commerce (Imports) Regulations, initiate action to remove any other requirements that do more than mirror the regulations applying to domestically produced goods.

Government response

The Government response to the report in October 1996 announced that it would consult with producers and downstream users before developing a final response to issue of competitive pressures on producers of tinsplate and aluminium cans (Costello et al 1996). On other matters:

- The Treasurer had previously announced that steel mill products (including tinsplate) and some glass containers would no longer be subject to price surveillance. The Commission had recommended continued price surveillance of glass containers in a more limited form.
- The Government considered that many of the packaging waste management issues raised by the Commission could be addressed under the Australian and New Zealand Environment and Conservation Council.
- Although it considered that performance-based regulations should be used whenever possible, the Government considered the existing capacity to set prescriptive labelling requirements, especially in relation to health and safety issues and in providing information to consumers, should remain.
- The Australia New Zealand Food Authority had released a paper setting out a conceptual framework and preliminary criteria for evaluating health claims for food products. It was also finalising a proposal on origin labelling for goods in general and would be shortly making a recommendation to the Australia New Zealand Food Standards Council.
- A working group would review customs regulations governing imported goods and report on proposed actions, including deregulation initiatives.

Tourism accommodation and training

Report signed 23 April 1996; report released 15 October 1996.

In addition to a range of findings on the tourism accommodation market, the streamlining and standardisation of approvals processes, taxation, the possible review of the mutuality principle as it applies to large clubs, profitability and investment relationships in the accommodation industry and the operation of tourism labour markets and training infrastructure, the Commission recommended that:

- the procedures and processes established by the Intergovernmental Agreement on the Environment be put in place immediately;

- the Australian Bureau of Statistics be asked to hasten the development of Tourism Satellite Accounts — data collected for this purpose would have a wide range of uses within both government and the private sector;
- the level of penalty rates specified in tourism awards be reviewed to ensure that they are no higher than is necessary to meet tests of fairness according to current social norms;
- the Commonwealth Government should encourage the Australian Industrial Relations Commission to provide skilled specialists to rewrite the tourism awards in a manner that is easy to understand and administer, and should encourage State Governments to do the same in their jurisdictions;
- the Commonwealth Government should encourage State Governments to initiate a review of State awards to ensure that they are up to date and inappropriate detail is removed;
- State Training Authorities in all States and Territories should be encouraged through the Australian National Training Authority Ministerial Council to adopt the Queensland model whereby training courses are recognised by industry recognition bodies with the State Training Authority retaining a power of veto over accreditation;
- an extensive review be undertaken within three years to quantify the costs and benefits of tourism training, drawing upon the monitoring and performance data compiled in the interim; and
- training funds be re-allocated to give greater emphasis to the use of Group Training Companies in the training of apprentice cooks.

Government response

In its interim response on the report, the Government announced that:

- the Australian Bureau of Statistics had been asked to assess the feasibility of developing Tourism Satellite Accounts linked to the National Accounts;
- it agreed in principle with the Commission's finding that there was no case for government intervention in the accommodation market;
- its workplace relations legislation would provide the tourism industry with more flexibility to address issues relating to penalty rates and awards; and
- arrangements under the Modern Australian Apprenticeship and Traineeship System would provide greater flexibility to deliver

tourism training which met the needs of employers, apprentices and trainees (Moore and Costello 1996).

In June 1997 the Minister for Industry, Science and Tourism announced a final response to the report, including that:

- the Government had committed \$700 000 towards developing a Tourism Satellite Account;
- tourism accommodation and training issues addressed in the report would be very useful in the development of the Government's National Tourism Plan; and
- the Government would pursue the Commission's recommendation that standards and approvals processes be rationalised by working with intergovernmental forums such as the Environment Ministers' Council (Moore 1997b).

Implications for Australia of firms locating offshore

Report signed 28 August 1996; report released 13 December 1996.

The Commission found that market demand-oriented influences — principally greater growth opportunities in offshore markets, benefits from locating in close proximity to users, and advantages of diversifying market risk by locating in a number of markets — are typically the most important determinants of Australian direct investment abroad in sectors other than mining. The prospective availability of mineral resources is usually the key determinant of Australian direct investment abroad by mining firms.

The Commission also found that offshore investment by Australian firms can be expected to increase national income and enhance the wealth of the Australian community, notwithstanding the fact that certain types of offshore investment may displace some domestic activity. For the majority of firms, Australian direct investment abroad complements exports and, in aggregate, it is also likely to enhance Australia's net export performance. In general, it is unlikely to reduce domestic investment. The economy-wide impact is likely to be positive, although it involves some adjustment pressures.

The main Australian government influences on Australian direct investment abroad include labour market regulation and on-costs, merger policy, and land access regulation, particularly native title issues. Important foreign government influences include taxation arrangements, other financial concessions and trade barriers. The Commission's findings and recommendations focused on these areas.

Government response

In its interim response to the report, the Government announced that:

- it agreed with the Commission's finding that the broad structure of Australia's international taxation system is appropriate and, while it is important that corporate taxation in Australia compare favourably with that in other countries, this should not be the sole objective of taxation policy;
- it agreed with the aim of negotiating a lower level of withholding tax on dividends remitted to Australia and was pursuing this in negotiations;
- it did not accept that the transfer pricing reporting requirements are excessive;
- it agreed with the Commission's finding that labour market regulation should not limit unnecessarily the capacity of employers to strike productivity enhancing agreements;
- in relation to environmental regulation, it supported the Commission's view that voluntary codes being developed by Australian industry, or international codes of practice, are likely to be more effective than a proposed government code of environmental conduct. The Government welcomed initiatives by industry to develop voluntary codes;
- its proposed amendments to the Native Title Act should address the majority of the Commission's concerns about uncertainty in access to land; and
- it supported the development of a Multilateral Agreement on Investment in the OECD; APEC remained the primary focus of its regional economic strategy on trade and investment issues; and it would be in a position to respond to the Commission's recommendation to have an investment agreement negotiated within the WTO following the Singapore Ministerial Meeting (Howard et al 1996).

Australian Atlantic salmon: effects of import competition

Reference received 12 September 1996; report completed 20 December 1996; report released 7 January 1997.

The Commission was requested to undertake a three month study of the potential effects of fresh and frozen North American 'wild caught' Pacific salmon imports on the performance of the Australian farmed Atlantic salmon industry and the Australian economy. Its analysis was to have

regard to the overall economic performance of the Australian economy and examine specifically:

- the potential effects of imports on Australian fresh and frozen salmon prices, as well as on investment, incomes and profits in the short and long term;
- the potential effects of imports on Tasmanian farmed Atlantic salmon regions, in particular employment, regional economic growth and other social impacts;
- whether there were any impediments to adjustment of the farmed Atlantic salmon industry, including the ability of the industry to diversify aquaculture operations;
- export market opportunities and impediments faced by the Australian farmed Atlantic salmon industry; and
- the scope of the Commonwealth, States and industry to improve the efficiency and international competitiveness of the Australian industry.

The Commission was also to take account of:

- the influence that current quarantine policy and WTO requirements would have on the level and impact of imports;
- Commonwealth and State policies towards the industry; and
- the views of stakeholders, including industry, input providers, processors, retailers and consumers.

Commission report

Key findings of the report were:

- Production and exports of the Australian Atlantic salmon industry had expanded rapidly since the industry commenced in the mid-1980s. Costs had fallen significantly as the industry developed.
- Fresh Australian Atlantic salmon received a price premium over other fresh salmon imports to Japan, mainly as a result of its high quality and largely chemical and disease free status.
- On average, fresh Atlantic salmon on the domestic market received a small premium above prices received from exports to Japan. This premium has been declining.
- The Tasmanian Salmonid Growers Association stated that, disease apart, the effect of imports would be minimal, and that the industry would not seek assistance under an industry restructuring program.

- Imports of fresh and frozen North American wild caught Pacific salmon would expand the range of products available to Australian consumers, but the benefit is likely to be small. Provided no new salmon diseases enter Australia, no major effect on Australian Atlantic salmon producers is likely. (The Commission had been advised to assume an absence of imported disease.)
- Any imports would be likely to be mainly high value frozen Pacific salmon. Imports would compete more strongly with medium priced fin fish and meat products than with fresh Atlantic salmon. Scope exists for cost reductions in the future which should permit adjustment to any likely competitive pressure from imports.
- The Tasmanian Government owned 51 per cent of the dominant supplier of smolts (young salmon). The rationale for continued government ownership was unclear. If the Government retained its ownership, it should be mindful of the competitive neutrality obligations of the Competition Principles Agreement.
- Competition and adjustment in the industry would be facilitated if the Tasmanian Government adopted a more open and transparent and less hands-on approach to industry regulation, and ensured that no unnecessary barriers to entry and expansion remain. Recent changes in regulations have removed some key potential barriers to entry, although much will depend on how the regulations are administered.
- Potential export market impediments include the availability and cost of air freight, the adequacy of cool storage facilities, and tariffs (particularly on smoked salmon) and quarantine restrictions in some foreign countries (including in New Zealand).

Government response

No response from the Commonwealth Government is expected. The Minister for Primary Industries and Energy announced on 20 December 1996 that, following a scientific assessment, the quarantine bans on the import of uncooked salmon products into Australia would be maintained (Anderson 1997).

Private health insurance

Reference received 23 September 1996; report signed 28 February 1997; report released 10 April 1997.

The private health insurance industry in Australia was referred for inquiry and report by 28 February 1997. The inquiry was to be conducted against the background of the Government's policy to retain Medicare, bulk billing

and community rating, and to provide financial incentives for families and individuals with health insurance.

In making its recommendations, the Commission was to aim to improve the overall economic performance of the Australian economy. It was requested specifically to report on:

- the current state of the private health insurance industry including its structure and efficiency;
- the cost pressures upon the industry, particularly: the impact of declining membership levels; increasing health care costs, including the relationship between private health funds and hospitals; usage of private hospitals; the impact of reforms allowing the setting of premiums for 100 per cent private cover; and the different costs to the industry of hospital beds in private and public hospitals;
- the most effective means of ensuring that contributors receive the maximum benefit from the Government's private health insurance financial incentives;
- options to encourage the emergence of innovative and price competitive products which cater for the varying needs of consumers;
- an appropriate regulatory framework within which funds should set reserves and premiums;
- any other measures which could be undertaken to remove impediments or otherwise contribute to the efficiency and development of a competitive industry; and
- the identification of groups which would benefit from, or be disadvantaged by, any measures which would flow from these options, regulatory or other measures and implementation strategies for the proposed measures.

The Commission was to have regard to: any recent substantive studies undertaken elsewhere; the economic and social objectives of government; relevant parts of the *Health Insurance Act 1973* and the *National Health Act 1953*; the Legislative Review provisions of the Competition Principles Agreement; the report of the Senate Community Affairs Legislation Committee on the private health insurance reforms; and reforms being developed in the COAG process.

The Government noted its intention that the Commission's recommendations be considered and a response announced as soon as possible. The Commission was not required to release a draft report.

Commission report

The Commission found that private health insurance has a significant but ambiguous position within Australia's health care system — a voluntary facility for private funding of hospital care and ancillaries, sitting alongside a compulsory tax-financed public system (Medicare) that is available to all. The Commission found this 'mixed' system to be in trouble: premiums were rising rapidly, fewer people could afford private health insurance and fund membership was falling. Consequently, demand pressure was growing on a public system beset by funding difficulties.

The Commission also found that the problems faced by private health insurance could not be separated from the system of health care financing and delivery as a whole. Within the limits of its terms of reference, the Commission made recommendations aimed at improving community welfare without getting in the way of wider and potentially more beneficial changes. In brief, these were measures designed to:

- reduce 'adverse selection' (good risks leaving private health insurance, bad risks coming and staying);
- facilitate the introduction of innovative products;
- enhance competition in the industry;
- improve the cost effectiveness of health care;
- alleviate other regulatory burdens;
- better meet consumer needs for integrated billing and information; and
- make private health insurance better value for consumers.

The Commission also recommended a broad public inquiry into Australia's health system. If the Government considered a broad strategic inquiry unmanageable, a number of specific inquiries should be undertaken focusing on such themes as financing issues, quality of health care and competitive neutrality.

Government response

On 10 April 1997 the Minister for Health and Family Services announced that the Government:

- was disposed to support the Commission's recommendation for the introduction of unfunded lifetime community rating — under which people entering insurance later would pay higher premiums than those who enter early — but, given the fundamental nature of the change,

the Government would conduct further analysis of the economic and other potential consequences;

- in relation to the following recommendations, supported the general principle subject to further review and/or negotiation:
 - changes in the price of health insurance products no longer to be subject to disallowance, monitoring or screening;
 - compulsory cover for rehabilitative and palliative care no longer to be required in every hospital insurance table;
 - the extension of maximum waiting times for conditions, such as obstetrics, commonly subject to ‘hit and run’ behaviour;
 - new reinsurance arrangements to be devised;
 - arrangements to be developed to allow ‘hostile’ takeovers of mutual health funds; and
 - funds no longer to be required to pay benefits for Nursing Home Type Patients at the acute rate for the first 35 days;
- supported Commission recommendations for:
 - compulsory cover for psychiatric care in every hospital insurance table to remain;
 - the existing restriction on no claim bonuses to be maintained;
 - national reinsurance not to be implemented;
 - the transition of a health insurance fund from a tax exempt to a taxable entity to be facilitated;
 - the separation of Medicare Private from the Health Insurance Commission to be given detailed consideration; and
 - reserve requirements to be changed; and
- did not support the Commission’s recommendations for:
 - community rating principles to be examined as part of a wider review of the health system;
 - community rating no longer to apply to ancillary cover;
 - rebates for ancillary insurance to be abandoned; and
 - smoother phasing provisions to be introduced in both the rebate and levy surcharge arrangements (Wooldridge 1997a).

The Minister, while judging that a broad inquiry into Australia’s health system was not needed, announced that this did not preclude a number of strategic studies of a more focused nature being undertaken.

On 19 August 1997 the Minister announced that the Government would:

- provide new incentives for fixed or known-cost medical agreements for procedures undertaken in private hospitals;
- create a new second-tier default benefit to apply where there was no contract between a private hospital and a health fund;
- maintain compulsory cover for in-hospital palliative care and rehabilitation in all tables with guaranteed cover, limited to care which meets appropriate hospital admission criteria and quality (to be reviewed in two years in conjunction with the scheduled review of compulsory cover for psychiatric care);
- extend the maximum waiting period for obstetrics from nine to 12 months and widen the pre-existing ailment rule to make ‘conditions’ subject to the same waiting periods as pre-existing illnesses;
- replace the existing provisions for Nursing Home Type Patients with benefits at an appropriate level and structure;
- restructure the Private Health Insurance Administration Council with a new board independent of the Department of Health and Family Services and the industry; and
- a range of other initiatives, including: the facilitation of aggregate billing arrangements and the transfer of funds to ‘for profit’ status; allowing changes to reinsurance arrangements to be made by disallowable instrument; and tightening the definition of health insurance business to reduce the potential for new products undermine the Government’s commitment to community rating (Wooldridge 1997b).

Decisions regarding unfunded lifetime community rating would be made following the completion of extensive modelling by the Minister’s department and consultation with the industry and health consumers. The issue of the treatment of private patients in public hospitals was being addressed through the renegotiation of the Medicare Agreements.

The automotive industry

Report signed 26 May 1997; report released 5 June 1997.

The Commission considered the industry’s case for continued special treatment and concluded that there were sound reasons for aligning the level of assistance to the automotive industry with assistance available to manufacturing industry generally. In brief, the Commission recommended that:

- from 1 January 2001 tariffs on passenger motor vehicles and components be reduced at the rate of 2.5 percentage points a year until 2004,

when the tariff would be at 5 per cent, the rate currently applying to most Australian manufacturing industries;

- tariffs on micro and light passenger motor vehicles be reduced to 5 per cent from 1 January 2001;
- the 15 per cent automatic duty free entitlement be retained, but be reviewed once tariffs fell to 5 per cent;
- in encouraging APEC members to translate their general resolution to liberalise trade in services into firm commitments, Australia strive to ensure that no preferential treatment be allowed to apply to automotive research and development services;
- governments implement broad ranging tax reform to improve the overall economic performance of the Australian economy — reform options should include consideration of a broad based consumption tax to replace the existing wholesale sales tax system; and
- the Government continue to strive for comprehensive trade and investment liberalisation in the APEC forum, and that it ensure the removal of barriers to trade in automotive products remained part of its APEC commitment to free and open trade by 2010.

In addition, the Commission also made recommendations on the transparency of State Government assistance to automotive firms, environmental issues, safety standards and the evaluation of labour market programs. The Commission also reported its findings on matters such as the export facilitation scheme, the productivity performance of the automotive industry and international trade issues.

The minority report of Mr Ian Webber recommended that:

- tariffs on passenger motor vehicles, original equipment and replacement components be maintained at 15 per cent until 2005, with a review to be held in, say, 2003 to consider post-2005 assistance arrangements for the industry;
- the export facilitation scheme be maintained unless and until it is ruled to violate Australia's obligations under the General Agreement on Tariffs and Trade. If untenable, the scheme should be replaced by arrangements with similar assistance effects;
- there be no concessional tariff treatment for micro/light cars; 2WD utilities be accorded concessional sales tax exemptions (with the exemption being partial to the extent that such vehicles are not confined to on-farm/off road use); and that private buyers of 4WD vehicles proved their eligibility for concessional tariff treatment by demonstrating the proportion of off-road use. The tariff on 4WDs

primarily for on-road use should be set at the prevailing tariff for passenger motor vehicles; and

- the wholesale sales tax on passenger motor vehicles be reduced in concert with the tariff so as to reach 15 per cent by the year 2000.

Government response

The Prime Minister, Treasurer and Minister for Industry, Science and Tourism announced on 5 June 1997 that:

- the existing schedule for PMV tariff phasing would continue through to 2000;
- from 1 January 2000 the tariff would be at 15 per cent and would remain at that level for the next 5 years;
- there would be no differentiation for micro/light vehicles — four wheel drive vehicles and light commercial vehicles would remain at 5 per cent;
- the Government would legislate forthwith to reduce the tariff to 10 per cent on 1 January 2005;
- there would be a review in 2005 which would take account of Australia's APEC commitments and progress on market access;
- a WTO-consistent program would be introduced to replace the Export Facilitation Scheme when it expired in 2000 and would run to 2005;
- the duty free allowance would continue at 15 per cent;
- the Government would introduce a market access strategy including the establishment of a new Automotive Trade Council, the appointment of a specialist trade access negotiator and a market development package worth \$20 million over four years; and
- there would also be an environmental strategy, including measures to phase out the use of leaded fuel by 2010 and the development of an industry code of environmental performance (Howard et al 1997).

The machine tools and robotics industries

Report signed 13 August 1996; released 6 August 1997.

The Commission's principal finding was that the bounty scheme for machine tools and robots did not appear to have had much effect on production and resource use, even when the bounty was high. Its most significant economic effect was to redistribute revenue from taxpayers to the industry, with little net benefit to the community as a whole.

The Commission recommended:

- the machine tools and robots bounty scheme should lapse on 30 June 1997;
- tariffs on those machine tool items in Schedule 3 to the Tariff that were set at zero should remain so;
- the tariff on parts falling to items 8466.10, 8466.20, 8466.30, 8466.93 and 8466.94 of Schedule 3 to the Tariff should be reduced to zero from 1 July 1997;
- the machine tools and robots bounty scheme by-law items 48, 49 and 55 of Schedule 4 to the Tariff should be rescinded from 1 July 1997; and
- duty free entry for robots and parts under by-law item 30 should be retained; the existing definition of a robot should be replaced with one commonly used in international trade.

Government response

On 6 August 1997 the Treasurer and the Minister for Industry, Science and Tourism announced that the bounty on machine tools and robots had ceased on 30 June 1997 (Costello and Moore 1997a). The Government had previously decided, in the context of the 1996–97 Budget, that the bounty would cease from 20 August 1996. The Government would be announcing its final response to other recommendations in due course.

Book printing

Report signed 23 October 1996; report released 6 August 1997.

The Commission recommended that:

- the printing of books in Australia not be assisted by bounty after the end of 1997;
- the book bounty not be replaced by any other form of assistance;
- the tariff on Australian directories and timetables be removed;
- telecommunications providers such as Telstra be free to determine, on a commercial basis, their own arrangements for the supply of directories to customers;
- the provisions of the *Copyright Act 1968* which preclude parallel imports of legitimate copies of printed books into Australia be removed;

- in international discussions on intellectual property matters, Australia's negotiators give adequate and full regard to the interests of users, by extending consultations with industry and business to include relevant users of intellectual property, both as inputs to business and as final consumers. Their interests should be incorporated into Australia's negotiating objectives with weight appropriate to Australia's position as a net importer of intellectual property;
- the Australian Government strongly oppose moves being discussed under the auspices of the World Intellectual Property Organisation to extend copyright protection into transmission and distribution, unless an appropriate expert and independent body indicates that to do so would clearly provide net benefits, taking into account the interests of users as well as producers; and
- relevant government agencies strongly pursue multilateral and bilateral negotiations to remove overseas trade barriers to Australian exports of books.

Government response

The Government had announced its decision to terminate the book bounty from 20 August 1996 in the 1996–97 Budget, in advance of the Commission finalising its report.

On 6 August 1997 the Treasurer and the Minister for Industry, Science and Tourism announced that the book bounty would cease on 31 December 1997 and that the Government would be announcing its final response to other recommendations in due course (Costello and Moore 1997a).

Medical and scientific equipment industries

Report signed 20 December 1996; report released 6 August 1997.

The Commission recommended that the Commonwealth Government should:

- On the conformance assessment of medical devices:
 - accredit eligible bodies in the public or private sector to assess the conformance of medical devices, their manufacturers and their sponsors, to the therapeutic goods legislation;
 - require bodies to demonstrate appropriate competencies if they wish to be accredited to assess conformance to the therapeutic goods legislation; and

- determine that the competencies to assess conformance to the therapeutic goods legislation are those referenced in the proposed Mutual Recognition Agreement on conformance assessment with the European Union.
- On the reorganisation of the Therapeutic Goods Administration (TGA):
 - separate conformance assessment of the TGA for medical devices from its core responsibilities for regulating medical devices and pharmaceuticals and assign those assessment activities to a commercially autonomous enterprise funded solely by client fees and charges;
 - assign the regulatory responsibilities of the TGA to a statutory authority with operational independence from the Department of Health and Family Services; and
 - require the regulatory authority to: maintain a register of medical devices and their sponsors; accredit conformance assessment bodies; audit the assessment bodies to ensure the validity of their assessments; conduct post-market surveillance of devices; and manage the recall of devices.
- Implement, as soon as practical, the provisions relating to medical devices in the proposed Mutual Recognition Agreement on conformance assessment between Australia and the European Union.
- On the regulation of medical devices:
 - implement the approach of the European Union to regulating medical devices by mandating in legislation the relevant essential requirements in the Directives of the European Union;
 - keep to a minimum any mandatory requirements for medical devices additional to those in the relevant Directives of the European Union and ensure that such requirements are consistent with the spirit of those Directives;
 - discontinue licensing manufacturers of medical devices; and
 - leave the regulation of therapeutic devices not covered by the Directives of the European Union to the Trade Practices Act.
- Reduce to zero the remaining tariffs on medical and scientific equipment in Chapter 90 of the Customs Tariff.

In addition, the Commission recommended that:

- To promote efficiency and transparency in their purchase of medical and scientific equipment, Australian governments should ensure that their procurement guidelines incorporate, as far as practicable, the

'best practice' guidelines recommended by the Commission in its 1996 report, *Competitive tendering and contracting by public sector agencies*.

- Each Australian Government should examine the adequacy of existing arrangements for ensuring that its public hospitals and agencies comply with its purchasing guidelines.
- The National Supply Group should review the different approaches by governments in the procurement of medical and scientific equipment with a view to achieving greater uniformity of policy and practice, including in the use of common use contracts, product and quality standards, environmental requirements and electronic commerce.

Government response

On 6 August 1997 the Government announced that it agreed in principle with the Commission's recommendations that best practice purchasing arrangements and public hospital compliance with purchasing guidelines be promoted and that there be greater uniformity across the States and Territories in their procurement policy. However, the Government signalled that many of the Commission's recommendations would require further consideration and consultation with industry before it made a response (Costello and Moore 1997b).

The textiles, clothing and footwear industries

Report signed 9 September 1997; Government response announced 10 September 1997; report released 18 September 1997.

On 9 December 1996 Australia's textile, clothing and footwear (TCF) industries were referred to the Commission for inquiry and report within nine months. The inquiry included early stage processing of raw materials, top-making and tanning and higher value-added manufacturing, including spinning, knitting, weaving, fabric and leather dyeing and finishing.

In making its recommendation on assistance arrangements for these industries post 2000, the Commission was to improve the overall economic performance of the Australian economy.

The Commission was to have regard to the Government's desire: to encourage the development of sustainable, prosperous and internationally competitive TCF manufacturing activities in Australia; to improve the overall economic performance of the Australian TCF industries; to provide good quality, competitively priced TCF products to the Australian

consumer; and its commitment to abide by Australia's international obligations and commitments.

The review and report was to have regard to the Legislative Review provisions of the Competition Principles Agreement.

The report was to include options, including a preferred option and implementation strategy, and the Commission was to consider: how the Australian TCF industries would evolve within a world trading environment through the next decade; APEC developments on market liberalisation; and the timing and extent of cost reductions from other microeconomic reforms.

So far as practicable, the Commission was to report on:

- emerging national and international market factors affecting the industries, including their current structure, rationalisation, competitiveness and support mechanisms by other countries, and barriers facing Australian exports, drawing international comparisons where appropriate;
- the advantages and disadvantages of Australia as an investment location for all phases of TCF industries, from R&D, training through to manufacturing, marketing, import substitution and export;
- the potential for further development of the TCF industries, including the scope for improving productivity and workplace practices;
- the impact of the current development arrangements, as well as regulatory and standards arrangements, on the structure, performance and competitiveness of the industries (with specific assessment given to the impact on small and medium-sized firms), and on Australian consumers, resource allocation and growth prospects generally;
- any measures which could be undertaken to remove impediments or otherwise contribute to the efficiency and development of the industries, including ways of reducing the regulatory burden on small and medium-sized firms;
- the identification of groups who would benefit, or be disadvantaged by, any proposed measures;
- the effectiveness of Australian research and educational infrastructure in providing design, engineering, production management and other skill capabilities; and
- the impact of its proposals on relative assistance between the TCF sectors.

Commission report

All Commissioners agreed that assistance arrangements after 2000 should involve a reduction of TCF tariffs to 5 per cent in order to bring the TCF industries into line with the general tariff rate for manufacturing and to prepare for free trade in APEC developed countries by 2010. It was further agreed that this tariff policy should be accompanied by transitional adjustment assistance. In brief, the recommendations of all the Commissioners were that:

- the policy adopted by the Government for these industries should be the last sectoral program to apply to them, and that the program for changes to assistance should be legislated and tariff reductions inscribed in Australia's APEC Individual Action Plan;
- eligibility for employment services should be separated from eligibility for social security benefits so that jobseekers who are not immediately eligible for benefits could gain immediate access to employment services (with other eligibility criteria still applying);
- information about English language and literacy programs should be improved;
- if there is a significant displacement of TCF workers in a non-metropolitan region with relatively high unemployment, assistance should be provided through the program of assistance for depressed regions;
- a national centre of excellence for TCF training should be established and scholarships introduced for study in world centres of TCF excellence;
- voluntary agreements should continue to be implemented to promote adherence to legal employment conditions for homeworkers;
- a TCF Technology Development Fund (of \$10 million over the life of the program) should be established;
- the Government should facilitate the establishment of an internet-based information network for TCF firms; and
- the Government should monitor foreign barriers to trade in TCF products and press for their removal.

Further, Mr Cosgrove and Professor Snape recommended that:

- a program of phased tariff reductions to 5 per cent by 1 July 2008 should be implemented without pause from 1 July 2001;
- TCF policy by-laws should be terminated as of 1 July 2008;

- the Overseas Assembly Provisions Scheme should be retained but in an expanded form, with discretionary elements removed; and
- the Import Credit Scheme should terminate as scheduled on 30 June 2000.

The alternative analysis of Mr Brass was that:

- there should be no further reduction in TCF tariffs in the period from 2000 to 2005;
- there should be an examination by the Department of Foreign Affairs and Trade of international progress in trade liberalisation in 2004, and if that examination returns a positive finding, TCF tariffs should be reduced to 5 per cent over the period 2005 to 2010;
- there should be a program of assistance to assist Australian TCF businesses to become competitive and to replace the Import Credit Scheme on a WTO-compatible basis;
- the value of the duty-free incentive under the Overseas Assembly Provisions should be increased; and
- anti-dumping protection should be enhanced.

Government response

The Prime Minister and the Minister for Industry, Science and Tourism announced on 10 September 1997 that:

- the existing schedule for TCF tariff phasing would continue through to 2000 and TCF tariffs would then be maintained at the same level from 1 July 2000 until 1 January 2005;
- the Government would legislate to reduce TCF tariffs on 1 January 2005 — to 17.5 per cent for clothing and finished textiles, to 10 per cent for cotton sheeting and fabrics, carpet and footwear and to 7.5 per cent for sleeping bags, table linen and footwear parts;
- action agendas would be developed with industry for wool, cotton, leather and fashion to identify what could be done to make more use of Australia's natural advantages in these areas;
- a TCF Investment Program, a \$10 million TCF Technology Development Fund and a TCF Market Development Program (with funding of \$2.5 million a year) would be established and \$10 million provided for a national centre of excellence for TCF training;
- the Overseas Assembly Program would be expanded to include conversion offshore of cut or uncut fabrics and leather into finished

goods and for some post-assembly operations to be undertaken overseas;

- the removal of anomalies in TCF by-laws and tariff concessions would be examined; and
- there would be a review in 2005 which would take account of Australia's APEC commitments and progress on market access (Howard and Moore 1997).

GOVERNMENT RESPONSES TO COMMISSION REPORTS FROM PREVIOUS YEARS

This section provides a summary of responses to Commission reports released before 1996–97, but not reported in previous annual reports.

Competitive tendering and contracting by public sector agencies

Report signed 24 January 1996; report released and interim response 18 June 1996 (details in IC 1996d).

In December 1996 the Minister for Finance announced that the Government would be seeking input to the development of guidelines to assist managers in the Australian Public Service to implement competitive tendering and contracting (Fahey 1996). After considering the Commission's report, the Government had decided that public service managers would be required to systematically review their responsibilities and assess the cost and effectiveness of those activities. As part of this ongoing review process, agencies would need to consider whether competitive tendering and contracting — or other performance improving tools — would enable better delivery of government services.

In May 1997 the Minister released two exposure drafts for public comment: *The performance improvement cycle: guidance for managers* and *Competitive tendering and contracting: guidance for managers* (Fahey 1997). Although responsibility for performance improvement would rest with agencies and their managers, a Contestability Unit in the Department of Finance was available to provide advice.

A review of the implementation and application of the guidelines will be conducted in 1998–99.

APPENDIX D

Research and other activities

The general research program of the Commission encompasses activities directed at promoting more informed community debate about the economic performance of industry, factors affecting industry performance, assistance and regulation affecting industry and related matters. This appendix provides details of research reports, conference proceedings and research submissions made to other review bodies. It also provides details of presentations given by the Chairperson, Commissioners and senior staff to conferences, parliamentary committees, and industry and community groups in 1996–97.

RESEARCH REPORTS

Compliance costs of taxation in Australia

Office of Regulation Review, Staff information paper, July 1996

The principal findings reported in this paper were that, while it is difficult to identify the sources or magnitude of such costs, it is evident that tax regulations impose large compliance costs on taxpayers. Further, these costs are regressive, affecting small taxpayers and businesses to a much greater extent (in relative terms) than large firms.

It was noted that the problem remains partly outside the scope of the Australian Taxation Office, as most of the sources of tax compliance costs are a consequence of the growing complexity of economic transactions, together with the structure of the tax system. While the range of government initiatives and processes that address taxation compliance costs was recognised, governments could do more to reduce such costs.

Since the report was published, and in response to the recommendations of the Small Business Deregulation Task Force, the Commonwealth

Government has set a requirement that changes to tax regulations be subject to analysis in the form of Regulation Impact Statements, which are to include assessment of compliance costs.

Energy efficiency for SMEs

BIE report 96/14, August 1996

This report assessed the extent to which there are energy saving opportunities in different sized firms. It explained why firms may sometimes relinquish opportunities for such savings, and how some existing energy saving programs run by government could be improved.

The report found that smaller firms are relatively intensive users of electricity but, overall, account for only a small share of the total energy used by the business sector. Data presented in the report suggest that there is considerable scope for small firms to become more energy efficient.

Mapping the information industries

BIE Staff information paper, August 1996

The information technology (IT) industries are among the fastest growing industries in developed countries. Technological change is rapid and product life-cycles are short. Convergence is profoundly affecting the structure and dynamics of these industries, and the associated infrastructure is emerging as one of the more important economic and social infrastructures for the twenty-first century.

Reflecting this, interest in information industries is high. But to successfully track and understand them, a framework is needed for ordering thoughts and data and for analysing their evolving structure. The report outlined the development of an integrated framework for analysing the information industries and their markets. The IT 'map' presented in the report focused on information processing and communications. It combined graphical and classificatory frameworks to create a tool for the collection, collation and analysis of IT data, and for explaining relationships between industries and market sectors.

The report also presented applications of the new IT map covering analysis of industry structure and performance, as well as various policy-based applications. Examples of the latter include an examination of the coverage of industry programs and regulations and performance benchmarking.

International benchmarking — Electricity 1996

BIE report 96/16, September 1996

This report was the third by the BIE on Australia's electricity supply industry. It compared the performance of Australia's state and territory based electricity supply systems against overseas systems. The report refined and updated performance indicators reported in the BIE's 1994 analysis. International price indicators were updated by three years to 1995 and international comparisons of operating efficiency and productivity measures were updated to 1993–94. Where possible, 1994–95 data (the latest available at the time) for Australia were also reported.

The report concluded that the Australian electricity supply industry improved its performance in absolute terms in several key areas between 1991–92 and 1994–95. However, these improvements, in most cases, were not sufficient to close the gap on the moving target of world best practice.

The report found that, while retail electricity prices were low in Australia compared with most OECD countries, our ranking in terms of industrial prices slipped from fourth in 1992 to fifth in 1995. However, the countries which offer lower average prices have predominantly hydro systems which are cheaper to run than Australia's predominantly thermal systems. Even so, a number of overseas utilities operating largely thermal systems offered lower industrial prices than the better performing Australian utilities.

There were substantial improvements in labour productivity in all Australian systems between 1992–93 and 1994–95. Despite these improvements, Australian systems still ranked well below the labour productivity performances of several overseas systems relying on thermal energy systems. Total factor productivity comparisons indicated that the Australian system was about 71 per cent as productive as the US investor-owned system in 1992–93 — the same relative gap as in 1989–90.

Productivity comparisons suggest there is scope for further improvements in Australia. Competition induced interstate trade via the national electricity market offers the greatest opportunity to improve productivity. Other areas where there may be scope to raise productivity include improved demand management strategies, more rigorous investment appraisals and greater use of tariff structures to promote better use of existing capacity.

International cooperation on competition policy: an Australian perspective

BIE report 96/15, September 1996

The report found that there are few international rules restraining anti-competitive behaviour by private firms whereas restrictions on anti-competitive actions by governments already exist in trade agreements administered by the WTO. This, combined with significant differences in competition laws and the strength of their enforcement between countries, has led to competition related disputes between countries. Strengthened international cooperation on competition policy could reduce the scope for competition related disputes. However, such cooperation is unlikely to succeed between countries which disagree about the relative importance of the various goals assigned to competition policy and while uncertainty about the likely net impact of competition law remains.

Stronger principles based competition agreements could avoid the use of anti-competitive industry and trade policies within Australia and could also reduce the adverse effects on the domestic economy of anti-competitive policies maintained by our trading partners. The report argued that the harmonisation of competition rules or the use of an international competition enforcement agency should not occur at a global level until there is a broad consensus on the issues involved.

GBE price reform: effects on household expenditure

Staff information paper, October 1996

This report examined direct and indirect expenditure by households on electricity and water, sewerage and drainage services. Indirect expenditure arises because firms include the expenditure on these services in the prices of the goods and services they sell to households. Price reforms in electricity and water, sewerage and drainage that reduce cross-subsidies from firms to households cut the cost of producing the other goods and services that households buy. In part, this offsets any direct price increases that households experience. Average national price changes from 1990–91 to 1994–95 were used to illustrate these effects. For electricity, the overall effect was a reduction in total household expenditure. For water, sewerage and drainage, it was an increase. These effects also vary with the level of income. The results of this study illustrated how considering only the direct effects of GBE price reform may overstate any negative impacts on household expenditure.

Reform and the distribution of income: an economy-wide approach

Staff information paper, October 1996

The effects of four microeconomic reforms — tariff reductions, reforms in the electricity and telecommunications industries, and increasing the competitive tendering and contracting of government services — on household incomes were modelled. The relationships between these reforms and changes in household incomes and economic structure were estimated in an economy-wide framework.

The analysis indicated that the income gains from the reforms modelled were fairly evenly distributed. Households in the middle and upper end of the income distribution gained relatively more than households in the two lowest income groups.

The analysis also showed that the effects of reforms can be offsetting. Although a reform may reduce employment in an industry, other reforms can generate offsetting employment gains within that industry.

A model of investment in the Sydney four and five star hotel market

Staff information paper, October 1996

This study was undertaken in support of the Commission's inquiry into Tourism Accommodation and Training. It comprised a model of a regional hotel market that accounted for the long term nature of hotel investment and an application of the model to examine the growth in the number of rooms available in 4 and 5 star hotels in Sydney from 1987 to 1994.

The study found that three factors could contribute to an explanation of the rapid increase in the number of 4 and 5 star hotel rooms from 1988 to 1992 relative to demand:

- forecasts of demand growth based on historic demand growth were stronger than the demand growth that actually occurred;
- the lag between hotel construction and hotel opening precluded an immediate market correction to the unrealised demand forecasts; and
- the general investment climate was overly optimistic as evident in the rapid appreciation of real estate values in Sydney and the strong Australia-wide investment in new fixed capital.

Automotive case study: micro reform — survey of impacts on firms

BIE report 96/17, October 1996

This report provided firm level insights into the impact of microeconomic reform on the automotive industry over the period 1988 to 1995. The report examined firms' perceptions of changes in the level of domestic competition since 1988, the significance of microeconomic reform in shaping these changes and the responses by firms to these changes.

Tariff reductions, along with other changes to assistance arrangements, increased competition in the domestic market. These forced the industry to substantially rationalise its operations. They were also an important catalyst for surviving firms to seek ways to reduce costs, improve product quality and increase productivity. Consumers have benefited from the wider choice of models now available and from a significant improvement in the quality of locally produced vehicles.

The passenger motor vehicle manufacturers and component producers indicated that the positive effects of microeconomic reform on their activities had not offset the negative impacts on them of assistance reductions. However, the industry had to a large extent met the competitive pressures associated with assistance reductions. In the context of the broader reform agenda, motor vehicle manufactures and component producers, as a group, highlighted the importance of pursuing further reforms in the areas of industrial relations and input taxes and on-costs.

The changing of Australian manufacturing

Staff information paper, December 1996

This report presented a broad-ranging review of the performance of Australia's manufacturing sector over the last 20 to 30 years. The report found that, while manufacturing production has grown in absolute terms, its share of economy-wide output and employment declined steadily over the last thirty years. However, many OECD countries experienced similar declines in the significance of their manufacturing sectors.

The internal structure of Australia's manufacturing sector has also been changing, with structural change in employment and production accelerating over the 1980s compared with the 1970s. Trade data, in particular, provide tangible evidence of a fundamental change in the way

the Australian manufacturing sector operates. Between 1984–85 and 1994–95 the manufacturing sector's export propensity rose from 16 to 25 per cent. Imports of manufactured goods as a percentage of domestic sales also increased, from 26 to 35 per cent over the same period.

The changes have been accompanied by improvements in manufacturing's labour productivity and total factor productivity. Nevertheless, it is too early to make definitive judgments about whether Australian manufacturers as a group have significantly lifted their productivity performance in recent years — including whether they have improved their performance relative to other OECD countries.

The report also explored a number of common misperceptions about manufacturing and its capacity to generate economy-wide growth in employment, exports, productivity, research and development and value-added. It concludes that these notions do not of themselves provide a basis for providing selective government assistance to the manufacturing sector.

WTO Agreement on Government Procurement — potential implications for Australia of accession

BIE report 96/18, December 1996

The report argued that the removal of discriminatory government procurement practices which are inconsistent with the WTO Agreement on Government Procurement (AGP) is likely to have a positive impact on domestic output, consumption and exports in Australia. Furthermore, external discipline on State and Commonwealth purchasing practices could lead to a more integrated domestic economy, with greater transparency within Australia.

Membership of the AGP is likely to provide Australian exporters with assurance of greater access to government procurement markets abroad. Some \$500 billion to \$800 billion annual value of government procurement worldwide would be covered by AGP rules and disciplines. However, the report highlighted a number of weaknesses in the AGP which encourage bilateral, sector specific reciprocity as the means for opening government procurement markets. The report also found that discriminatory Commonwealth Government procurement programs — such as the two-envelope tendering requirements and endorsed supplier arrangements — are incompatible with the AGP.

Assessing the potential for market power in the national electricity market

Staff information paper, December 1996

Because of transmission costs, transmission losses, limited transmission capacity and the small number of power stations in some regions, the

introduction of the national electricity market in southeastern Australia may result in spatial oligopolistic markets in the short to medium term.

The report applied spatial-intertemporal equilibrium theory, using non-linear programming, to analyse the incentives that exist for ETSA Generation to exert its market power in the South Australian region of the national market. Specifically, imperfect competition and detailed electricity production and consumption activities were incorporated into the spatial-intertemporal equilibrium models pioneered by Takayama and Judge. The result indicated that, in the short term, there is an incentive for ETSA Generation to exert market power. Further, splitting ETSA Generation into separate businesses would not significantly reduce this incentive. The model was also used to explore the use of vesting contracts to reduce market power in the short run, and the impact of new entry of regional generators in the long run.

Impact of mutual recognition on regulations in Australia: a preliminary assessment

Office of Regulation Review, Information paper, January 1997

Based in part on the results of a survey, the findings reported in this report were that mutual recognition is enhancing the movement of people in registered occupations. In some occupations and sectors it has led to the development of national standards. As to the sale of goods, mutual recognition has enhanced interstate trade, particularly in food products, by removing regulatory impediments to such trade. No evidence was found that mutual recognition has resulted in an unacceptable lowering of standards for either occupations or goods.

Community service obligations: policies and practices of Australian governments

Information paper, February 1997

This report was based on submissions by the Commission to parliamentary committee inquiries into Aspects of the National Competition Policy Reform Package.

The report reviewed progress made by governments in implementing new approaches to community service obligations (CSOs) and found:

- Australia governments have adopted a commonly agreed definition of CSOs;

- several governments have established programs to identify CSOs systematically;
- in principle, most governments accept that CSOs should be costed at avoidable cost and should be funded directly from consolidated revenue;
- several CSOs are now provided under contract, in some cases by private sector firms; and
- some jurisdictions have adopted, or are in the process of adopting, programs for monitoring their CSOs.

The extent of progress in reviewing and reforming CSO policies, however, varied considerably across jurisdictions. Governments in New South Wales and Victoria had made considerable progress in implementing comprehensive CSO regimes, while those in Queensland, Western Australia, Tasmania and the Australian Capital Territory were in the process of implementing CSO reform programs. The South Australian Government had only just begun the reform process. At the Commonwealth level, the reform process seemed to have stalled in a number of areas.

A portrait of Australian business: results of the 1995 Business Longitudinal Survey

A joint Industry Commission/Department of Industry, Science and Tourism publication, March 1997

This is the first statistical report associated with the Business Longitudinal Survey (BLS), produced jointly with the Department of the Industry, Science and Tourism and with the aid of the Australian Bureau of Statistics. The BLS is a longitudinal survey of firms, intended to collect information on around 6000 firms over five years. The report has more than 250 tables of data on the characteristics, intentions and performance of firms, categorised by firm size, industry and age.

Telecommunications economics and policy issues

Staff information paper, March 1997

This report examined whether the new regulatory framework which was to take effect from 1 July 1997 would allow price restructuring and more benefits from increased competition. The report estimated that with modest price restructuring, economy-wide efficiency gains of \$300 million a year are possible with no change in Telstra's operating profit. However, the report noted that the regulatory price caps on a range of Telstra charges

limit the scope to achieve this outcome. The report also examined the access regime that would operate from 1 July and found that a price of 2.5 cents per minute for access to the local network would be consistent with lower call prices, without undermining the viability of existing carriers.

The report identified problems with Telstra providing access to its rivals as well as to itself — inefficient and inconsistent use of the local exchange network, and the potential for anti-competitive conduct and retail product market collusion. While regulation may have a role, splitting off the local network under independent ownership would be the best approach to all three problems.

Informal equity investment: small business research program

Information paper, April 1997

This research report examined the size and nature of the informal equity market in Australia. A survey revealed that the informal equity market, while somewhat smaller than formal venture finance in Australia, is still a highly significant source of capital. The report found that services which matched potential investors (the ‘angels’) with firms needing capital seemed to be evolving well in Australia, and that there was little need for government involvement.

Patterns of textile, clothing and footwear trade within APEC, 1990–94

Research report, May 1997

This report examined trends in textiles, clothing and footwear (TCF) exports and imports for nearly all APEC’s member economies, focusing on the early 1990s. The report mapped out the significant shift in the pattern of global TCF production and exports over the past few decades. This shift, from developed to developing countries, has been driven by changes in cost structures, notably for labour inputs.

The report found that Australia’s TCF industries will benefit from further trade liberalisation arising from APEC and World Trade Organization agreements. However, improved market access, in itself, does not guarantee commercial success in foreign markets. To prosper in this new business environment, firms will need to improve their competitiveness to take advantage of emerging opportunities in markets for differentiated higher quality products.

The study was commissioned by the former Textiles, Clothing and Footwear Development Authority and was completed for the TCF Branch of the Department of Industry, Science and Tourism and the TCF Advisory Board.

The economic impact of international airline alliances

Information paper, May 1997

Alliances between international airlines for the provision of airline services have grown substantially in recent years, both in Australia and overseas. Many of these alliances have incorporated the practice of code sharing which involves one airline selling seats on a flight operated by another airline. Analysis undertaken suggests that, on Australian international routes, alliances involving code sharing may have led to a fall in standard economy airfares of about \$200. This translates to an average saving to passengers of about 10 per cent. Concerns about the potential market power available to airlines through alliances will be greatest when there are barriers to entry. At present, these barriers include restrictions in air service agreements on ownership and control of airlines and on capacity, and restricted access to airport infrastructure such as landing and take-off slots.

International telecommunications reform in Australia

Staff information paper, June 1997

This research report examined the level of prices paid by Australian consumers for international calls, in the light of the legislative regulatory reforms to be implemented from 1 July 1997. It found that while Australia's international call prices compared favourably with many other OECD countries, domestic consumers were paying substantially above the resource costs of providing these calls. Based on 1995–96 data, this gap — measured on average at five times the cost — was estimated to be reducing Australia's economic efficiency by \$375 million annually.

The report discussed domestic and international telecommunications reforms needed to lower international call prices and improve economic efficiency. Domestic reforms from 1 July are expected to lower prices substantially towards costs by facilitating greater competition with other suppliers of overseas calls. There would be additional benefits through lower outgoing call prices from reform of the international accounting rate system. Multilateral issues behind such reform were discussed in the light of the WTO Agreement on Basic Telecommunications. The report concluded that Australia should pursue telecommunications reforms

unilaterally, but that an effective domestic competition policy would be needed to safeguard against foreign carriers behaving anti-competitively in Australia and limiting the benefits of such reforms.

CONFERENCE/WORKSHOP PROCEEDINGS

The Industry Commission conference on equity, efficiency and welfare

August 1996

In November 1995 the Industry Commission held a conference to explore the relationships between equity, efficiency and welfare in Australia. This volume reports the proceedings of the conference.

In recent years the Commission has been asked to examine significant issues in which interactions between equity and efficiency objectives and the operation of the welfare system are central concerns. These have included inquiries into workers' compensation, pharmaceuticals, public housing and charitable organisations. (The BIE and EPAC have also considered policy options in human services areas.) This work brought equity considerations into sharp focus and raised fundamental questions about the appropriate form of government participation in these policy areas. In particular, questions arise about the adequacy of markets and market-type mechanisms in establishing appropriate incentives in the supply and demand for human services such as education and health. The conference was aimed at increasing the Commission's understanding of the theoretical and practical perspectives on such matters.

1996 Industry Economics Conference

January 1997

The fifth Industry Economics Conference was hosted by the BIE and the Centre for Economic Policy Research at the Australian National University and was held on 4–5 July 1996. The theme of the conference was *Law and Firm Behaviour*. The invited papers presented at the conference and the accompanying discussion are presented in this report on the conference proceedings. The invited papers covered a number of issues including: privatisation and the proper scope of government; contracting out in Australia; mergers; non-monetary exchange within firms and industry; and infrastructure access.

The aim of the conference was to bring together leading researchers and policy makers in the field of industry economics to discuss their current work, to examine emerging ideas and methodologies, to establish and extend communication channels and to encourage further research.

The 1996 Conference featured papers from eleven invited speakers and 31 papers contributed by other speakers. The Conference attracted over 90 participants.

Changing labour markets: prospects for productivity growth — workshop proceedings

May 1997

The Industry Commission workshop held in February 1997 examined critical issues surrounding labour markets in Australia. The workshop brought together many of Australia's leading labour market and industrial relations specialists, as well as practitioners from a range of government agencies, industry, union and community groups. Issues covered in the papers and discussions included the distribution of work in Australia, the supply and demand for labour, unemployment, labour market programs, labour market regulation, industrial relations, the role of collective organisations and the New Zealand labour market.

While the Commission has previously examined labour market issues in its inquiries and when researching the performance of Australian industry, the Government has asked it to play a greater role in providing well researched and independent advice in this area. The outcomes of the workshop provided an important input into the development of the Commission's labour market research program.

SUBMISSIONS

IC submission to the Sugar Industry Review Working Party

September 1996

The Sugar Industry Review was established by the Commonwealth and Queensland Governments to provide advice on Queensland sugar legislation and the import tariff. The Review was one of the first regulation reviews under the Competition Policy Principles Agreement signed by the Commonwealth and all State and Territory Governments in April 1995.

The Commission's submission called for:

- the repeal of the land assignment system in Queensland for sugar growing;
- the introduction of competition in the marketing of Queensland sugar; and
- the removal of tariffs on raw and refined sugar.

The Commission found that the land assignment system was too cumbersome and inflexible to accommodate a fast growing industry like sugar. This was demonstrated by shortages in milling capacity which now threaten the industry's continued expansion. The Commission found that the introduction of competition in the marketing of sugar would give marketers the incentive to achieve the highest returns for Queensland sugar and to minimise costs. It would also reduce domestic sugar prices, stimulate competition in sugar milling, and encourage the development of an export oriented refining industry in Australia.

The Sugar Industry Review Working Party reported to the Commonwealth and Queensland Governments in November 1996 and recommended:

- retention of statutory marketing of Queensland sugar;
- continuation of the assignment system with some minor modifications; and
- abolition of the sugar tariff from July 1997.

The Commonwealth and Queensland Governments accepted the recommendations of the Working Party.

ORR submission to the Australian Taxation Office Internet and Electronic Cash Project

October 1996

The project was designed to examine the potential impact of the Internet and related technologies such as electronic cash on compliance with existing tax laws. The ORR considered that, as the regulation of electronic commerce is at an early stage, the Taxation Office should take into account the wide range of economic and social impacts that electronic commerce may have on the community. The likely effect of any new regulations on the development of this sector and on the effectiveness of regulations made by other agencies was also considered an important issue. The ORR drew attention to the desirability of using a Regulation Impact Statement framework and to consider and measure compliance costs in the assessment of the desirability, feasibility and options for regulating electronic commerce through the tax system.

IC submission to the Mid-term Review of the Rural Adjustment Scheme

November 1996

The Commission's submission to the Review Committee focused on the efficient adjustment of resource use by the agricultural sector. The Commission found little evidence that the overall contribution of the Rural Adjustment Scheme (RAS) to economic efficiency was positive. There were significant doubts about the appropriateness of the interest rate subsidies, re-establishment grants and exceptional circumstances components of the scheme. There were also doubts concerning the balance between public and private benefits of the training grants component of the scheme.

ORR submission to the Issues Paper on the Review of Cross-media Rules

November 1996

This submission to the Department of Communications and the Arts noted that in reviewing cross-media ownership rules, there should be a clear statement of the problems being addressed by the rules. These include having a competitive industry, as well as ensuring that there is sufficient diversity of opinion in the media. Accordingly, the submission concluded that, while barriers to entry into the media may be removed because of competition policy, this may not result in the optimum level of diversity in opinion and culture as judged by the Government.

ORR submission on the Attorney General's Discussion Paper *Privacy protection and the private sector*

November 1996

The discussion paper proposed, amongst other things, legislative change to extend the existing scope of privacy protection to the private sector. In response, the submission considered that, as the proposal might impose considerable compliance costs on businesses (such as direct marketers), a Regulation Impact Statement should be prepared. The ORR also highlighted the potential for regulatory duplication if consideration was not given to the draft Distance Selling Code of Practice also being developed in this area.

IC submission to the draft *Principles and guidelines for developing a charter* prepared by the Government Service Charter Taskforce

November 1996

This submission noted that the Commission supported initiatives which:

- enhance accountability for outputs and outcomes thereby shifting the focus from inputs and compliance with process; and
- encourage agencies to focus on clients.

The wide dissemination of information to clients on the performance of an agency, both in terms of efficiency and effectiveness, can play an important role.

However, the submission noted that such initiatives can impose significant costs. High levels of consultation can be particularly costly, both for an agency and its stakeholders. The administration and compliance costs of generating and disseminating information can be large. Consequently, it is important to ensure that any initiatives do not mandate unnecessarily complex or comprehensive reporting requirements on agencies. The information disseminated should be relevant and easily understood by the agency's clients or their representatives.

Charters can directly improve accountability to clients, and thereby indirectly enhance accountability to taxpayers. In some situations, it may be appropriate therefore to revisit the continued need for other, often costly, accountability mechanisms.

IC submission to the National Supply Group Review of the Government Procurement Agreement 1991

November 1996

The Commonwealth, State and Territory governments and the New Zealand Government signed the Government Procurement Agreement in 1991. This submission to the National Supply Group argued that it should:

- reaffirm the core principles of:
 - parties providing equal opportunity and treatment no less favourable than that accorded their domestic products and suppliers, and
 - value for money as the primary determinant of procurement policy; and

- amend the Agreement so as to allow Australia to comply with the World Trade Organization's Agreement on Government Procurement without threat of challenge by other member countries.

IC submission to the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform inquiry into federal road funding

January 1997

This submission focused on ways of ensuring that future investment in roads, and the delivery and operation of those roads is efficient. It discussed: the requirements for effective investment appraisal and, in particular, the need for good benefit–cost analysis; the contribution that the private sector can make to meeting Australia's future road needs; the role of road user charges in guiding road investments; and the current division of responsibility for road delivery across the different levels of government. The submission also made some general observations on the adequacy of Australia's road network. The Standing Committee is to finalise its report by the end of November 1997.

IC submission to the National Competition Council on the National Access Regime: a draft guide to Part IIIA of the Trade Practices Act

January 1997

The Commission commented on the National Competition Council's (NCC) draft guide to the National Access Regime covered by Part IIIA of the Trade Practices Act. Under this new Part, a third party can seek access to significant infrastructure through a number of avenues, two of which — declaration and certification — depend upon recommendations to the Minister by the NCC. The Commission found that, if declaration and certification recommendations were determined along the lines suggested in the NCC's Draft Guide, there could be an unwarranted widening of the scope for mandating access to infrastructure services. Mandating access to non-natural monopolies (which was possible under the NCC's Draft Guide) could cast doubt on future returns and stifle new investment. This could have the perverse effect of reducing competitive pressures, thus undermining competition policy objectives. The Commission also noted that, while access regulation can be an extremely useful pro-competitive tool, it can also impose costs on infrastructure providers and should be used sparingly.

IC submission to the Review of Governance Arrangements for Commonwealth Government Business Enterprises

February 1997

The Commission's submission provided a guide to its considerable work over recent years on issues relating to government business enterprises including ownership, the corporate environment for government business enterprises, competitive neutrality, and performance measurement, monitoring and evaluation.

ORR submission to the ACCC's draft Distance Selling Code of Practice

February 1997

The draft code sought to improve the quality of distance selling practices in Australia by establishing a voluntary code of conduct for distance sellers. The submission noted that the proposal should be developed within a Regulation Impact Statement framework, in accordance with Council of Australian Government guidelines, and provided comments in this regard.

IC submission to the ACCC National Electricity Market Code of Conduct Authorisation

February 1997

The submission addressed a number of issues arising during the ACCC's authorisation process. Specifically, the Commission:

- argued that further structural reform, rather than the Code itself, is a more appropriate tool for addressing concerns about ineffective competition in the national electricity market;
- supported a *gross pool* trading system (in which all electricity is traded), rather than a *net pool* (in which electricity sold under contract is excluded), at least until the market matures;
- supported the full disclosure of generator bid and projected assessment of system adequacy information; and
- favoured public disclosure of information regarding distribution network prices, including information on operational performance of distribution businesses, in the interests of transparent regulation.

IC submission to the Review of Business Programs

February 1997

The Commission's submission to the Mortimer Review looked at the various rationales for government business programs and the criteria that programs should meet. It argued that some of the Commonwealth's \$3.4 billion per year program support to industry boosts economic growth and promotes community welfare. But it also concluded that the justification for, and effectiveness of, a number of programs is questionable. The submission argued that future business programs should: promote the interests of the community rather than of particular firms or sectors; be the best way of addressing significant market failures or policy impediments; and be transparent and include requirements for effective public reporting, monitoring and periodic review.

IC submission to the ICESD on the National Greenhouse Strategy

April 1997

Greenhouse response measures based only on 'no regrets' policies do not appear sufficient to enable Australia to meet its international emission abatement commitments. This highlights the long-term challenges associated with mounting an effective greenhouse response strategy. There is a need to consider market-based instruments, such as tradeable permits, as part of Australia's long-term greenhouse response strategy. The key components of the current greenhouse 'no regrets' policies encourage polluting firms to seek opportunities to improve the efficiency of energy use. This tends to benefit them by lowering operating costs and raising profits. One effect of these favourable impacts of potential energy efficiency gains is to increase economic activity, so that the initial energy and emission savings realised are likely to dissipate. Ongoing emission reductions will require measures which extend beyond current commercial opportunities for improving energy efficiency. Greater use of market-based instruments has the potential to achieve favourable economic and greenhouse outcomes in the long term at least cost.

IC submission to the ACCC draft guide *Access Pricing Principles — Telecommunications*

April 1997

The Industry Commission commented on the ACCC draft guide, *Access Pricing Principles — Telecommunications*. The draft guide outlined the approach that the ACCC proposed to adopt when considering access pricing issues under Part XIC of the Trade Practices amendment (Telecommunications) Bill 1996.

The Commission's comments related to the scope and comprehensiveness of the draft guide, to the detail of proposed methodology and to the role of the ACCC. Some of the comments drew on the staff information paper *Telecommunications Economics and Policy Issues* and the Commission's submission to the National Competition Council on the National Access Regime.

The Commission argued that the scope and comprehensiveness of the draft guide could be improved by:

- providing a better justification for adopting a total service long-run incremental cost basis in determining access prices; and
- better elaborating the proposed costing approach, including the treatment of congestion and technological obsolescence, and the cost estimation procedure.

The Commission also noted the potential conflict of interest in the ACCC's role as both regulator and arbiter of access disputes. Given the statutory specification of these roles, the Commission suggested that internal separation of the two roles may be the best available course.

IC submission to the National Competition Council on Specialized Container Transport's Declaration Application

May 1997

The Commission discussed a range of issues relevant to the National Competition Council's (NCC) consideration of Specialized Container Transport's (SCT) application for declaration of the Sydney–Broken Hill railway service. SCT sought access to track of the government-owned Rail Access Corporation of NSW so as to provide an interstate rail service between Sydney and Perth.

The Commission found some *prima facie* evidence to support a claim that, in the provision of Sydney–Broken Hill railway track services, the rail

infrastructure covered by SCT's declaration application was a natural monopoly. The Commission also found that the potential for access to promote competition was most significant in the transport of bulk freight in the Sydney–Broken Hill transport corridor and the transport of specialised freight particularly suited to rail transport. In other markets (inter and intra-state non-bulk and interstate bulk), the potential benefits of access were limited as the market was already competitively served by a variety of transport modes.

The Commission also discussed issues relating to the effectiveness of the NSW Rail Access Regime. The pricing flexibility provided under the Code was consistent with efficient pricing and access outcomes. However, the Commission had concerns that the Code provided the Rail Access Corporation with some flexibility to pursue monopoly strategies and did not explicitly incorporate measures to ensure that it pursued efficiency improvements. The Commission also noted that the resolution of a range of issues associated with the broader reform of the NSW rail industry (for example, asset valuation) was necessary in order to improve the prospect of successful access negotiations.

The regulatory impact of the Australian Accounting Standards Board — an Office of Regulation Review submission to the Corporate Law Economic Reform Program

May 1997

Accounting standards and associated guidelines of the Australian Accounting Standards Board have a wide impact — on companies, shareholders, potential shareholders, creditors and government.

This submission concluded, based on a qualitative assessment, that the overall benefits of accounting standards can be expected to exceed their costs. They improve information flows, facilitating the movement of capital within the economy. While market forces will result in some disclosure anyway, the quality and quantity of such information is likely to be less in the absence of a system of centrally created accounting requirements.

But for individual accounting standards there are no formal legislative or policy mechanisms to demonstrate that the benefits outweigh the costs. Nor do existing mechanisms show whether the proposed standard is the most effective way to improve information flows. Passage of the Legislative Instruments Bill 1996, the coverage of which includes accounting standards, will help redress these shortcomings.

Comparative performance monitoring for universities — a submission by the Chairperson of the Steering Committee for the Review of Commonwealth/State Service Provision

June 1997

The Steering Committee currently compiles performance information on school education and vocational education and training. Consideration of reporting on university performance has been deferred pending the outcome of the Review of Higher Education Financing and Policy. The submission to the Review drew attention to the main insights which might be relevant to performance monitoring in the university sector:

- performance monitoring should be linked directly to service outcome objectives;
- comparative performance monitoring is most effective where there is responsibility and accountability but no competitive market pressure: here, resulting ‘yardstick competition’ can provide some pressure for improved performance;
- the performance monitoring process is likely to work more effectively when it:
 - tackles data issues iteratively,
 - makes any assumptions and qualifications transparent, and
 - is managed independently of service providers but takes advice from them;
- it is helpful to develop a framework for outcome indicators; and
- the context in which services are delivered needs to be taken into account in interpreting reported performance.

IC submission to the New South Wales Dairy Industry Review

June 1997

This submission looked at the benefits and costs of New South Wales regulation of the supply and pricing of drinking milk. These regulations are being reviewed under the requirements of the Competition Principles Agreement.

The Commission found that the regulatory restrictions on competition in milk production increase the retail price of milk by up to 20 cents per litre. It also found that the regulations do not provide offsetting benefits to the community which would justify their continuation in the future.

Table D.1: Speeches and presentations by the Chairperson, Commissioners and senior staff, 1996–97

<i>Organisation</i>	<i>Topic</i>	<i>Date</i>
Chairperson		
Federation of Automotive Products Manufacturers	Australian automotive industry	July 1996
Economic Society of Australia, Canberra Branch	Productivity Commission	Aug 1996
Department of Finance (Commonwealth)	Government services provision	Sept 1996
Office of the Public Service Commissioner (Vic)	Performance monitoring	Sept 1996
Fifth Annual Microeconomic Reform Conference	National performance	Sept 1996
NZ Business Roundtable	Workers' compensation	Sept 1996
ANZ Business Council	Policies for productivity reform	Sept 1996
Maribyrnong City Council seminar	State, territory and local government assistance to industry	Oct 1996
Metal Trades Industry Association of Australia	Competition policy	Oct 1996
IIR Conference	Community service obligations	Nov 1996
Senate Industry Committee meeting	Work of the Commission and the automotive inquiry processes	Dec 1996
Committee for Economic Development of Australia	Policies for productivity reform	Jan 1997
SBC Warburg	Industry policy	Mar 1997
Australian Quality Council	Quality management and productivity	Apr 1997
Western Melbourne Regional Economic Development Organisation	Australia's competitiveness	May 1997
Commonwealth Regional Directors Network of SA	Performance monitoring and benchmarking	May 1997
Monash Alumni Global Business Connections Group Meeting	Internationalising Australian firms	May 1997
Australian Chamber of Manufacturers - Ballarat Branch Meeting	Tariff reform	June 1997

WA Chamber of Commerce and Industry/Aust Institute of Company Directors	Structural reform	June 1997
Commissioners:		
International Banks and Securities Association CEO's Economic Forum (Gary Banks)	Microeconomic reform	July 1996
Ecotourism Association of Australia (Tor Hundloe)	Tourism training in Australia	July 1996
Research School of Pacific and Asian Studies, ANU (Richard Snape)	Trade discrimination	July 1996
Australian Automotive Association Land Transport Seminar (Gary Banks)	Microeconomic reform	Aug 1996
Crawford Fund for International Agriculture Research (Gary Banks)	Rural R&D policy	Aug 1996
Australia-Japan Research Centre (Richard Snape)	Europe, East Asia and APEC	Aug 1996
BCA/MCA Fifth Annual Microeconomic Reform Conference (Richard Snape)	Productivity and microeconomic reform	Sept 1996
BCA/MCA Fifth Annual Microeconomic Reform Conference (Gary Banks)	Regulatory reform and national productivity	Sept 1996
MITI Research Institute International Symposium (Richard Snape)	Japanese economy	Sept 1996
APMA/PMAA Annual General Meeting (Helen Owens)	IC pharmaceutical industry report	Sept 1996
DFAT Workshop on Trade and Competition Policy (Gary Banks)	Introductory remarks	Sept 1996
Dept of Housing and Regional Development Seminar (John Cosgrove)	State Assistance Draft Report	Sept 1996
Center for Economic Policy Research, Stanford University, California (Richard Snape)	Agreements covering services trade	Sept 1996
Textile and Fashion Industries of Australia 1996 Annual Conference (Keith Horton-Stephens)	IC TCF inquiry	Oct 1996

Table D.1 (continued)

<i>Organisation</i>	<i>Topic</i>	<i>Date</i>
Department of Defence 1996 Commercial Support Program Seminar (Keith Horton-Stephens)	Competitive tendering and contracting	Oct 1996
APEC Study Centre (Richard Snape)	World trading arrangements	Nov 1996
Abbott Tout/Deloitte Touche Tohmatsu (Maurice Joyce)	IC pharmaceutical industry report	Nov 1996
Pharmacy Practice Foundation of the University of Sydney Seminar (Maurice Joyce)	IC pharmaceutical industry report	Dec 1996
APEC Study Centre (and others) Conference on International Trade, Education and Research (Richard Snape)	Trade in services	Dec 1996
World Bank Foreign Investment Advisory Service, Bangkok (John Cosgrove)	Outward foreign direct investment	Dec 1996
Pacific Economic Cooperation Council, Singapore (Richard Snape)	Progress towards liberalising trade	Dec 1996
KPMG Competition Policy and Health Seminar (Helen Owens)	Private health insurance inquiry	Dec 1996
Committee for Economic Development of Australia (Gary Banks)	Private health insurance	Jan 1997
Sydney Tariff Board Roundtable (Richard Snape & staff)	IC approach to modelling	Feb 1997
Southern Cross University Roundtable (Gary Banks)	Higher education review	Feb 1997
ACCI General Council Meeting (Richard Snape & staff)	Tariffs and microeconomic reform	Mar 1997
Economic Society of Australia (Vic Branch) Bert Kelly Commemorative Lecture (Richard Snape)	Tariffs	Mar 1997
Australia-Japan Research Centre Gaiko Forum (Richard Snape)	APEC	Apr 1997
University of Melbourne Medical Faculty (Helen Owens)	IC private health insurance report	Apr 1997
Over fifties Focus (Helen Owens)	IC private health insurance report	May 1997

Minter Ellison/CEDA (Helen Owens)	Australian health system	May 1997
Economic Intelligence Unit CEO forum (Gary Banks)	Productivity Commission and industry policy	May 1997
Commonwealth Senate Finance and Public Administration References Committee (Keith Horton-Stephens & staff)	Competitive tendering and contracting	May 1997
UTS Dept of Engineering Workshop (Maurice Joyce)	Engineering studies development	May 1997
Japanese Embassy and DFAT (Richard Snape)	Trade relations	May 1997
APHA Victorian Branch (Helen Owens)	IC private health insurance report	June 1997
Consumer Law Centre/CIRCIT Seminar (Helen Owens)	IC private health insurance report	June 1997
Senate Economics References Committee Forum on Promoting Australian Industry (Gary Banks & staff)	Industry policy	June 1997
Senior staff:		
House of Representatives Standing Committee on Transport, Communications and Micro-economic Reform: Inquiry on Australia Post's Rural and Remote Mail Services	Postal policy	July 1996
Australia-Japan Research Centre	International competition policy	July 1996
Senate Committee on Foreign Affairs, Trade and Defence: Inquiry into DIFF	Development Import Finance Facility	Aug 1996
Major Mail Users of Australia Annual Meeting	Postal policy	Oct 1996
DFAT Trade Relations Committee	Microeconomic reform and the role of the Commission	Oct 1996
House of Representatives Committee on National Competition Policy	Community service obligations	Dec 1996
Centre for Corporate Public Affairs	Reform priorities	Feb 1997
Australian Dairy Industry Council Forum	Microeconomic reform	Mar 1997
NCOSS Conference	Microeconomic reform	Mar 1997

APPENDIX E

Publications

This appendix provides a list of reports, papers and submissions completed in 1996–97, including those issued by the Bureau of Industry Economics and the Economic Planning Advisory Commission while being amalgamated with the Industry Commission.

ANNUAL REPORTS

Copies of annual reports can be obtained from the Government Info Shops.

- Industry Commission Annual Report 1995–96 (September 1996)
- Economic Planning Advisory Commission Annual Report 1995–96 (September 1996)
- Regulation and its review: 1995–96 (September 1996)

COMMISSIONED PROJECTS

Draft reports

Draft reports can be obtained from the Industry Commission during the course of an inquiry or project.

- State, Territory and local government assistance to industry (18 July 1996)
- Book printing (1 August 1996)
- Medical and scientific equipment industries (16 September 1996)
- Australian Atlantic salmon (Working paper, 21 November 1996)
- Private health insurance (Discussion draft, 18 December 1996)
- The automotive industry (20 December 1996)
- The textiles, clothing and footwear industries (30 June 1997)

Final reports

Copies of final reports can be obtained from the Government Info Shops upon release by the Government, except for the salmon study () which is available only from the Commission .*

- The machine tools and robotics industries, Report no. 52 (13 August 1996)
- Implications for Australia of firms locating offshore, Report no. 53 (28 August 1996)
- Book printing, Report no. 54 (23 October 1996)
- State, Territory and local government assistance to industry, Report no. 55 (29 October 1996), *not yet released by the Government*
- Medical and scientific equipment industries, Report no. 56 (20 December 1996)
- Australian Atlantic salmon: effects of import competition, Research project (20 December 1996)*
- Private health insurance, Report no. 57 (28 February 1997)
- The automotive industry, Report no. 58 (26 May 1997)

RESEARCH REPORTS

Unless otherwise indicated, copies of research reports can be obtained from the Government Info Shops. Those marked () can be obtained only from the Commission.*

- Compliance costs of taxation in Australia, ORR staff information paper (July 1996)*
- Energy efficiencies for SMEs, BIE report 96/14 (August 1996)
- Mapping the information industries, BIE staff information paper (August 1996)
- International cooperation on competition policy: an Australian perspective, BIE report 96/15 (September 1996)
- International benchmarking — Electricity 1996, BIE report 96/16 (September 1996)
- GBE price reform: effects on household expenditure (October 1996)*
- Reform and the distribution of income: an economy-wide approach (October 1996)*

- A model of investment in the Sydney four and five star hotel market (October 1996)
- Automotive case study: micro reform — survey of impact on firms, BIE report 96/17 (October 1996)
- The changing of Australian manufacturing (December 1996)
- WTO Agreement on Government Procurement — potential implications for Australia of accession, BIE report 96/18 (December 1996)
- Assessing the potential for market power in the national electricity market (January 1997)*
- Impact of mutual recognition on regulations in Australia: a preliminary assessment, ORR information paper (January 1997)*
- Community service obligations: policies and practices of Australian governments (February 1997)
- A portrait of Australian business: results of the 1995 business longitudinal survey, Joint IC/DIST report (March 1997)
- Telecommunications economics and policy issues (March 1997)
- Informal equity investment (April 1997)
- Patterns of textile, clothing and footwear trade within APEC, 1990–94 (May 1997)
- The economic impact of international airline alliances (May 1997)
- International telecommunications reform in Australia (June 1997)

CONFERENCE/WORKSHOP PROCEEDINGS

Copies of the first two publications are available only from the Commission and copies of the third from the Government Info Shops.

- The Industry Commission conference on equity, efficiency and welfare, Melbourne, 1–2 November 1995 (August 1996)
- 1996 Industry Economics Conference, Canberra, 4–5 July 1996 (January 1997)
- Changing labour markets: prospects for productivity growth, Melbourne 20–21 February 1997 (May 1997)

PERFORMANCE MONITORING

Copies of these publications are available only from the Industry Commission which acts as the Secretariat for the relevant COAG Steering Committees.

- Report on government service provision 1997 (February 1997)
- Government trading enterprises performance indicators 1991–92 to 1995–96, Volume 1: Report (May 1997)
- Government trading enterprises performance indicators 1991–92 to 1995–96, Volume 2: Data (May 1997)
- Reforms in government service provision: case studies (June 1997)

SUBMISSIONS

Requests for copies of submissions should be made to the Industry Commission.

- IC submission to the Sugar Industry Review Working Party (September 1996)
- ORR submission to the Australian Taxation Office Internet and Electronic Cash Project (October 1996)
- IC submission to the Mid-term Review of the Rural Adjustment Scheme (November 1996)
- ORR submission to the Issues Paper on the Review of Cross-media Rules (November 1996)
- ORR submission on the Attorney General's Discussion Paper *Privacy protection and the private sector* (November 1996)
- IC submission to the draft *Principles and guidelines for developing a charter* prepared by the Government Service Charter Taskforce (November 1996)
- IC submission to the National Supply Group Review of the Government Procurement Agreement 1991 (November 1996)
- IC submission to the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform inquiry into federal road funding (January 1997)
- IC submission to the National Competition Council on the National Access Regime: a draft guide to Part IIIA of the Trade Practices Act (January 1997)

- IC submission to the Review of Governance Arrangements for Commonwealth Government Business Enterprises (February 1997)
- ORR submission to the ACCC's draft Distance Selling Code of Practice (February 1997)
- IC submission to the ACCC National Electricity Market Code of Conduct Authorisation (February 1997)
- IC submission to the Review of Business Programs (February 1997)
- IC submission to the ICESD on the National Greenhouse Strategy (April 1997)
- IC submission to the ACCC on Access Pricing Principles — Telecommunications (April 1997)
- IC submission to the National Competition Council on Specialized Container Transport's Declaration Application (May 1997)
- The regulatory impact of the Australian Accounting Standards Board — an Office of Regulation Review submission to the Corporate Law Economic Reform Program (May 1997)
- Comparative performance monitoring for universities — a submission by the Chairperson of the Steering Committee for the Review of Commonwealth/State Service Provision (June 1997)
- IC submission to the New South Wales Dairy Industry Review (June 1997)

INDUSTRY COMMISSION BULLETIN

The bulletin provides information on the Commission's work program and is available from the Commission.

Issue 11, July 1996; Issue 12, May 1997

EPAC REPORTS

EPAC reports are now available only through the Government Info Shops, except the last publication which is available from the Commission.

- Future labour market issues, Commission paper no. 12 (July 1996)
- Child care task force interim report: future child care provision in Australia (July 1996)
- Budget priorities for 1996–97 and beyond: submissions from business and the community (July 1996)

- Child care task force interim report: commissioned studies (August 1996)
- Future child care provision in Australia: task force final report (November 1996)

APPENDIX F

Financial statements

This appendix presents the audited financial statements for the Industry Commission for 1996–97. The statements have been prepared on an accrual accounting basis.

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Industry Commission
REVENUES AND EXPENSES

for the year ended 30 June 1997

	<i>Note</i>	<i>1997</i> \$'000	<i>1996</i> \$'000
NET COST OF SERVICES			
Expenses			
Employees	2(a)	15,586	17,576
Suppliers	2(a)	6,103	6,887
Depreciation	5	858	267
Net losses from sale of assets	2(a)	83	20
Total expenses		22,630	24,750
Revenues from independent sources			
Sales of goods and services	2(b)	118	667
Net gains from sales of assets	2(b)	-	9
Total revenues from independent sources		118	676
Net cost of services		22,512	24,074
REVENUES FROM GOVERNMENT			
Appropriations used for:			
Ordinary annual services		27,007	22,357
Other services		538	344
Resources received free of charge from other departments	2(b)	51	45
Total revenues from government		27,596	22,746
Operating surplus/(deficit) before extraordinary items		5,084	(1,328)
Net expense from extraordinary items			
Restructuring	13	(36)	(1,498)
Operating surplus/(deficit)		5,048	(2,826)
Accumulated results at 1 July		(3,786)	(960)
Accumulated results at 30 June		1,262	(3,786)

The above Statement should be read in conjunction with the accompanying notes.

Industry Commission
ADMINISTERED REVENUES AND EXPENSES
for the year ended 30 June 1997

	<i>Note</i>	<i>1997</i> \$'000	<i>1996</i> \$'000
REVENUES			
Other	2(c)	8	24
Total revenues		8	24
Net contribution to government		8	24
TRANSFERS			
Cash to Commonwealth Public Account		(8)	(24)
Net change in administered assets		-	-
Accumulated results at 1 July		-	-
Accumulated results at 30 June		-	-

The above Statement should be read in conjunction with the accompanying notes.

Industry Commission
ASSETS AND LIABILITIES

as at 30 June 1997

	<i>Note</i>	<i>1997</i> \$'000	<i>1996</i> \$'000
DEBT			
Other	7	70	80
Total debt		70	80
PROVISIONS AND PAYABLES			
Employees	8 (a)	4,767	7,595
Suppliers	8 (b)	694	473
Total provisions and payables		5,461	8,068
EQUITY			
Accumulated results	9	1,262	(3,786)
Total equity		1,262	(3,786)
Total liabilities and equity		6,793	4,362
FINANCIAL ASSETS			
Cash		20	105
Receivables	4	2,946	5
Total financial assets		2,966	110
NON-FINANCIAL ASSETS			
Infrastructure, plant & equipment	5	3,561	3,959
Intangibles	5	27	-
Other	6	239	293
Total non-financial assets		3,827	4,252
Total assets		6,793	4,362
Current liabilities		2,160	5,263
Non-current liabilities		3,371	2,885
Current assets		3,205	402
Non-current assets		3,588	3,960

The above Statement should be read in conjunction with the accompanying notes.

Industry Commission
STATEMENT OF CASH FLOWS
for the year ended 30 June 1997

	<i>Note</i>	<i>1997</i> \$'000	<i>1996</i> \$'000
OPERATING ACTIVITIES			
Cash received			
Revenues from government		24,136	22,404
Sales of goods and services		91	637
Total cash received		24,227	23,041
Cash used			
Employees		(18,566)	(16,208)
Suppliers		(5,797)	(6,851)
Total cash used		(24,363)	(23,059)
Net cash from operating activities	12	(136)	(18)
INVESTING ACTIVITIES			
Cash received			
Revenues from government		495	297
Proceeds from sales of plant and equipment		62	41
Total cash received		557	338
Cash used			
Purchase of plant and equipment		(506)	(292)
Total cash used		(506)	(292)
Net cash from investing activities		51	46
Net (decrease)/increase in cash held		(85)	28
Add cash at 1 July		105	77
Cash at 30 June		20	105

The above Statement should be read in conjunction with the accompanying notes.

Industry Commission
ADMINISTERED STATEMENT OF CASH FLOWS
for the year ended 30 June 1997

	<i>Note</i>	<i>1997</i> \$'000	<i>1996</i> \$'000
OPERATING ACTIVITIES			
Cash received			
Other	2 (c)	8	24
Total cash received		8	24
Cash used			
Cash to CPA		(8)	(24)
Total cash used		(8)	(24)
Net cash from operating activities		-	-
Add cash at 1 July		-	-
Cash at 30 June		-	-

The above Statement should be read in conjunction with the accompanying notes.

Industry Commission
SCHEDULE OF COMMITMENTS
for the year ended 30 June 1997

	<i>1997</i>	<i>1996</i>
	<i>Note</i>	
	<i>\$'000</i>	<i>\$'000</i>
OTHER COMMITMENTS		
Operating leases	9,720	11,280
Other commitments	300	335
Total other commitments	10,020	11,615
Total commitments	10,020	11,615
BY MATURITY		
One year or less	1,536	1,980
From one to two years	1,151	1,264
From two to five years	3,489	3,365
Over five years	3,844	5,006
Total commitments	10,020	11,615

The above Statement should be read in conjunction with the accompanying notes

Industry Commission
TRANSACTIONS BY FUND
for the year ended 30 June 1997

		<i>1996-97</i>	<i>1996-97</i>	<i>1995-96</i>
	<i>Note</i>	<i>Budget</i>	<i>Actual</i>	<i>Actual</i>
		\$	\$	\$
CONSOLIDATED REVENUE FUND				
RECEIPTS				
Miscellaneous		33,000	7,704	24,233
Section 35 of Audit Act 1901		431,000	158,306	676,396
Total receipts		464,000	166,010	700,629
EXPENDITURE				
Expenditure from annual appropriations:				
Appropriation Act No. 1	2(b)	26,025,000	24,789,490	23,377,033
Audit Act 1901 (section 35)		431,000	-	-
Total expenditure		26,456,000	24,789,490	23,377,033
TRUST FUND				
Trust Account (Commonwealth activities):				
Receipts	10	56,000	103,634	102,948
Expenditure			-	-
Total receipts		56,000	103,634	102,948
Total expenditure			-	-

The above Statement should be read in conjunction with the accompanying notes.

Industry Commission

Notes to and forming part of the Financial Statements for the Year Ended 30 June 1997.

Note	Description
1	Summary of Significant Accounting Policies
2	Items of Expenses and Revenues
3	Act of Grace Payments and Waivers
4	Financial Assets
5	Infrastructure, Plant and Equipment and Intangibles
6	Other Non-financial Assets
7	Debt
8	Provisions and Payables
9	Equity
10	Receipts and Expenditure of the Trust Fund
11	Remuneration of Executives
12	Cash Flow Reconciliation
13	Restructuring
14	Services Provided by the Auditor-General
15	Average staffing
16	Contingencies

Note 1. Summary of Significant Accounting Policies.

1 (a) Commission Objectives.

The Commission's objective is to improve Australia's overall economic performance by providing independent, public advice to Australian governments on industry matters and micro economic policy issues, and involve and inform the community on relevant issues. The Commission operates as a single program.

1 (b) Restructure of Administrative Arrangements.

In March 1996, the Government announced its intention to restructure administrative arrangements and merge the Industry Commission, the Bureau of Industry Economics and the Economic Planning Advisory Commission (EPAC), pending Parliamentary consideration of legislation to create the Productivity Commission. The Industry Commission and the Bureau merged on 11 March 1996.

The Economic Planning Advisory Commission ceased separate administrative operations on 15 November 1996. The Industry Commission undertook certain EPAC functions which were paid from EPAC appropriations.

1 (c) Basis of Accounting.

The financial statements are required by section 50 of the Audit Act 1901 and are a general purpose financial report. The financial statements have been prepared in accordance with *Guidelines on Financial Statements of Commonwealth Departments* issued by the Minister for Finance for reporting periods ending on or after 30 June 1997. The Guidelines require compliance with Australian Accounting Standards, Accounting Guidance Releases issued by the Australian Accounting Research Foundation and other relevant mandatory professional reporting requirements and have regard to Australian Statements of Accounting Concepts.

The financial statements have been prepared on an accrual basis, and in accordance with the historical cost convention. Except where stated, they do not take account of changing money values.

The continued existence of the Commission in its present form is dependent on government policy and continuing appropriations by Parliament for its administration and program activity.

1 (d) *Change in Accounting Policy.*

Appropriations

Appropriations for departmental operations other than running costs are recognised as revenue to the extent that the appropriations are spent.

From 1 July 1996, the Guidelines require that amounts received as appropriations for departmental running costs operations are to be recognised according to their nature under the Running Cost Arrangements. Under these arrangements, the Commission receives a base amount of funding by way of appropriation for running costs each year. The base amount may be supplemented in any year by a carry-over from the previous year of unspent appropriations up to allowable limits, as well as by borrowings at a discount against future appropriations of the base amount. The repayment of a borrowing is effected by an appropriate reduction in appropriation actually received in the year of repayment.

The Commission now recognises:

- as revenue an amount equal to the base funding spent in the year or carried over to the next year; and
- as a receivable, an amount equal to the amount of unspent appropriation carried over to the next financial year.

Previously, an amount equal to the running costs appropriation received was credited as revenue. This change in policy means that the carry-over from 1995-96 of \$804,000 is recognised as revenue in 1996-97 in addition to the carry-over for 1996-97.

1 (e) *Rounding.*

Amounts have been rounded to the nearest \$1,000 except in relation to the following items:

- Transactions by Fund and associated notes;
- Act of grace payments and waivers; and
- Remuneration of executives.

Totals are the rounded sums of unrounded figures.

1 (f) *Employee Entitlements.*

All vesting employee entitlements (including annual leave and long service leave) are recognised as liabilities.

The provision for annual leave reflects the value of total annual leave entitlements of all employees at 30 June 1997 and is recognised at the nominal amount.

Long service leave is recognised and measured at the present value of estimated future cash flows to be made in respect of all employees at 30 June 1997. In

determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account. The determination of current and non-current portions is based on past history of payments.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken by employees is less than the annual entitlement for sick leave.

1 (g) Superannuation Payments.

Staff of the Commission contribute to the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. Employer contributions have been expensed in these financial statements.

No liability is shown for superannuation in the Assets and Liabilities as the employer contributions fully extinguish the accruing liability which is assumed by the Commonwealth.

1 (h) Taxation.

The Commission's activities are exempt from all forms of taxation except fringe benefits tax.

1 (i) 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 (j) Prepayments.

Prepayments consist of amounts paid by the Commission in respect of goods and services which have not been received at 30 June 1997.

1 (k) Cash.

Cash includes notes and coins held and deposits held at call with a bank or financial institution.

1 (l) Asset Capitalisation Threshold.

Infrastructure, 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.

Inventories are expensed in the year of purchase.

1 (m) Measurement of Assets.

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Assets acquired as a consequence of restructuring administrative arrangements are recognised initially at the amount at which they were recognised in the transferor department's accounts immediately prior to restructuring.

1 (n) Depreciation of Non-current Assets.

All non-current assets having a limited useful life are depreciated systematically over their estimated useful lives to the Commission 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
Infrastructure, plant and equipment	
Leasehold improvements	10 years
Plant	10 years
Furniture	10 years
Office equipment	5 years
Computer hardware	5 years
Intangibles	
Computer software	5 years

1 (o) *Operating Leases.*

Operating lease payments are charged to Revenues and Expenses on a basis which is representative of the pattern of benefits derived from the leased assets.

1 (p) *Creditors.*

Creditors consist of amounts which were due to be paid by the Commission for goods and services received on or before 30 June 1997, but which were unpaid at that date.

1 (q) *Insurance.*

In accordance with Government policy, assets are not insured and losses are expensed as they are incurred.

1 (r) *Bad and Doubtful Debts.*

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 (s) *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 (t) *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 (u) *Departmental Items.*

Departmental assets, liabilities, revenues and expenses are those which are controlled by the Commission, including:

- infrastructure, 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.

The purposes of the separation of administered and departmental items is to enable the assessment of administered efficiency of the Commission in providing goods and services. Administered items are distinguished from departmental items by separate statements for the Revenues and Expenses, the Assets and Liabilities and by shading in the notes.

1 (v) *Lease Incentives.*

Lease incentives taking the form of 'free' leasehold improvements are recognised as debt. The debt is reduced by allocating lease payments between rental expenses and the reduction in debt.

1 (w) *Comparative Figures.*

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the financial statements. Comparative figures include all Bureau of Industry Economics balances at 30 June 1996 and revenue and expenditure balances from 11 March to 30 June 1996.

Note 2. Items of Expenses and Revenues.

The aggregate amounts shown in the Revenues and Expenses include the following classes of expenses and revenues:

2 (a) Expenses - Departmental Items.

Employee Expenses

	<i>1997</i>	<i>1996</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Remuneration (for services rendered)	15,564	15,006
Separation and redundancy	22	2,570
	15,586	17,576

In 1995-96, in conjunction with the administrative restructure, the Commission announced a reorganisation and offered severance packages to excess staff. An expense of \$2,570,000 was recognised. Excess staff departures occurred during 1996-97 and severance payments were made from that year's appropriations.

Supplier Expenses

	<i>1997</i>	<i>1996</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Supply of goods and services	4,797	5,598
Operating lease rentals	1,306	1,289
	6,103	6,887

Losses from sale of assets

	<i>1997</i>	<i>1996</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Non-financial assets		
Infrastructure, plant and equipment	83	20

2 (b) Revenues - Departmental Items.

Revenues from Independent Sources

	<i>1997</i>	<i>1996</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Sale of goods and services	118	73
BIE user charges	-	594
	118	667
Net gains - sale of non-financial assets	-	9
	118	676

Revenue from Annual Appropriations

The following items of revenue were included in the aggregate amounts for Appropriations shown in the Revenues and Expenses.

	<i>1997</i>	<i>1997</i>	<i>1996</i>
	<i>Appropriation</i>	<i>Actual</i>	<i>Actual</i>
	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
Appropriation Acts Nos 1 and 3			
Division 678 Industry Commission			
Running Costs			
(Annotated Appropriation)	26,396,000	24,582,823	23,033,033
Other Services			
Contribution to Impact/Cops project	538,000	206,667	344,000
	26,934,000	24,789,490	23,377,033
Represented by Annual Appropriations			
Act No 1	26,025,000	24,789,490	23,377,033
Act No 3	478,000		
Section 35	431,000	-	-
	26,934,000	24,789,490	23,377,033

Resources Received Free of Charge

The following resources received free of charge from other Agencies have been recognised in the Revenues and Expenses:

	1997	1996
	(\$'000)	(\$'000)
Department of Finance services	10	6
Financial statement audit fee	41	39
	51	45

The following resources received free of charge are not recognised as the costs cannot be measured reliably:

Australian Archives - Storage and disposal facilities.

2 (c) Revenues - Administered Items.

Miscellaneous Receipts

	1997	1996
	(\$'000)	(\$'000)
Other receipts	8	24

Note 3. Act of Grace Payments and Waivers.

3 (a) Act of Grace Payments.

No Act of Grace payments were made during the reporting period.

3 (b) Waiver of Rights to Payment of Moneys.

No waivers of amounts owing to the Commonwealth were made pursuant to subsection 70(c) of the Audit Act 1901.

Note 4. Financial Assets.

Receivables

	<i>1997</i>	<i>1996</i>
	(\$'000)	(\$'000)
Appropriations	2,914	-
Industry Commission staff	9	-
less Provision for doubtful debts	-	-
	9	-
Goods and services	23	5
less Provision for doubtful debts	-	-
	23	5
	2,946	5

Following a change in accounting policy (see note 1 (c)), as of 1 July 1996 the Commission recognises as a receivable, an amount equal to the amount of unspent appropriation carried over to the next financial year. The balance at 30 June 1997 also includes the unspent appropriation for EPAC (\$1,044,000) which has been transferred to the Industry Commission's appropriation for 1997-98.

Of the total amount outstanding as at 30 June 1997, the following amounts were *overdue* (ie. unpaid after 30 days from date of issue of the debit advice) for the periods shown below:

	<i>1997</i>	<i>1996</i>
	(\$'000)	(\$'000)
Less than 30 days	1	1
30 to 60 days	1	-
	2	1

Note 5. Property, Plant and Equipment and Intangibles.

Item	Leasehold Improvements (\$'000)	Other, infrastructure, plant and equipment (\$'000)	Total infrastructure, plant and equipment (\$'000)	Intangibles (\$'000)	Total (\$'000)
Gross value (at cost)					
As at 1 July 1996	3,504	3,113	6,617	-	6,617
Additions	181	309	490	16	506
Restructure	-	187	187	27	214
Disposals	(212)	(666)	(878)	(22)	(900)
Other movements	2	26	28	26	54
As at 30 June 1997	<u>3,475</u>	<u>2,969</u>	<u>6,444</u>	<u>47</u>	<u>6,491</u>
Accumulated depreciation/amortisation					
As at 1 July 1996	887	1,771	2,658	-	2,658
Restructure	-	92	92	19	111
Disposals	(197)	(544)	(741)	(14)	(755)
Charge for reporting period	344	507	851	7	858
Other movements	-	23	23	8	31
As at 30 June 1997	<u>1,034</u>	<u>1,849</u>	<u>2,883</u>	<u>20</u>	<u>2,903</u>
Net book value as at 30 June 1997	<u>2,442</u>	<u>1,120</u>	<u>3,561</u>	<u>27</u>	<u>3,588</u>
Net book value as at 1 July 1996	2,617	1,342	3,959	-	3,959

At 1 July 1995 the useful life of computer equipment was reassessed and increased from three to five years. As a consequence, depreciation was recalculated and a write back adjustment of \$469,731 was processed in the 1995-96 Revenues and Expenses.

Note 6. Other non-financial assets.

	1997 (\$'000)	1996 (\$'000)
Prepayments	239	293

Note 7. Debt.

	<i>1997</i>	<i>1996</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Lease incentive	70	80

Note 8. Provisions and Payables.*8 (a) Liabilities to employees.*

	<i>1997</i>	<i>1996</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Salaries and wages	167	118
Leave	4,546	4,842
Superannuation	23	14
Staff redundancies	22	2,570
Other	9	51
	4,767	7,595

8 (b) Suppliers.

	<i>1997</i>	<i>1996</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Trade creditors	677	457
Operating lease rentals	17	16
	694	473

Note 9. Equity.

	<i>1997</i>	<i>1996</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Opening balance at 1 July	(3,786)	(960)
Operating result	5,048	(2,826)
Balance at 30 June	1,262	(3,786)

Note 10. 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.

Purpose - Payment of costs in connection with services performed on behalf of other governments and non-departmental bodies. Legal authority - Audit Act 1901 Sect. 60.

	<i>1997</i>	<i>1996</i>
Services for other governments and non-departmental bodies	(\$)	(\$)
Opening balance	124,186	21,238
Receipts	103,634	102,948
	227,820	124,186
Expenditure	-	-
Closing balance	227,820	124,186

Transactions under the head of trust relate to incapacity payments to current employees in accordance with determinations made, and funds issued, by COMCARE.

Note 11. Remuneration of Executives.

The amounts of fixed remuneration and performance pay received/receivable by Holders of Public Office and Senior Executive Service officers are as follows:

	<i>1997</i>	<i>1996</i>
Fixed remuneration	<i>No.</i>	<i>No.</i>
Under \$100,000	10	15
\$100,000 to \$110,000	6	9
\$110,000 to \$120,000	8	3
\$120,000 to \$130,000	6	1
\$130,000 to \$140,000	-	2
\$140,000 to \$150,000	2	5
\$150,000 to \$160,000	2	1
\$160,000 to \$170,000	2	-
\$170,000 to \$180,000	2	1
\$200,000 to \$210,000	1	-
	39	37
Aggregate amount of fixed remuneration of executives shown above	\$4,184,654	\$3,471,393
Aggregate amount of performance pay paid during the year to executives shown above	\$186,713	\$102,318

The number of executives includes those employed part time, for part of the year, or on an acting basis.

Note 12. Cash Flow Reconciliation.

A reconciliation of net cash provided by operating activities to net cost of services is shown below:

	<i>1997</i>	<i>1996</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
Net cost of services	(22,512)	(24,074)
Revenue from government for operating activities	27,101	22,449
Depreciation and amortisation	858	267
Loss on sale of assets	83	11
Stocktake adjustment	(23)	-
Assets expensed on restructure	13	-
Decrease in provision for doubtful debts	-	(5)
(Increase)/decrease in financial assets	(2,941)	32
Decrease/(Increase) in non-financial assets	54	(5)
(Decrease)/Increase in provisions and payables	(2,980)	1,382
Increase/(Decrease) in creditors	221	(16)
Decrease in debt	(10)	(10)
Decrease in unearned income	-	(49)
Net cash provided by operating activities	(136)	(18)

Note 13. Restructuring.

During 1996-97, the Industry Commission assumed responsibility for the assets and liabilities of the Economic Planning Advisory Commission (EPAC) as part of restructuring of administrative arrangements. EPAC reports separately all revenues and expenses for the year. EPAC's unspent appropriation for 1996-97 has been transferred to the Industry Commission's appropriation for 1997-98 and has been disclosed as an asset to the Commission as at 30 June 1997.

During 1995-96, the Commission assumed administrative responsibility for the Bureau of Industry Economics from 11 March 1996.

In respect of the operations assumed, the following assets and liabilities were recognised at the date of transfer:

	<i>1997</i>	<i>1996</i>
	(\$'000)	(\$'000)
Assets		
Receivables	-	1
Infrastructure, plant and equipment	116	223
Inventory	-	31
Other	-	20
	116	275
Liabilities		
Creditors	-	(11)
Provisions	(152)	(1,713)
Other	-	(49)
	(152)	(1773)
Net liabilities assumed	(36)	(1,498)

Included in the \$116,000 above were assets with a written-down value of \$13,000 which were below the Commission's capitalisation threshold of \$2,000 and were expensed on transfer.

Note 14. Services Provided by the Auditor-General.

Financial statement services are provided free of charge to the Commission. The fair value of the services was \$41,500 (1995-96 \$39,000). No other services were provided by the Auditor-General.

Note 15. Average staffing.

The average staffing level is in respect of all employees of the Commission.

	<i>1997</i>	<i>1996</i>
	<i>No</i>	<i>No</i>
Average staffing level	234	224

The average staffing in 1996-97 includes staff transferred to the Commission from EPAC (5) as of 1 July 1996. The average staffing for 1995-96 includes staff transferred from BIE for the period 11 March to 30 June 1996 (24 asl).

Note 16. Contingencies.

To the best of its knowledge, the Commission was not exposed to any unrecognised liabilities which would have any material effect on the financial statements.

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