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Council of Australian Governments' Communique 25 February 1994

The Council of Australian Governments today held its third meeting, in Hobart. The Council, comprising the Prime Minister, Premiers and Chief Ministers and the President of the Local Government Association, had wide ranging discussions aimed at increasing co-operation among all spheres of government in the national interest. The key objectives of the Council's deliberations were to assist in bringing about a more competitive and integrated national market, and more efficient and effective arrangements for the delivery of services in areas of shared responsibility.

This Communique sets out the agreed outcomes of those discussions.

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National Agenda for Micro-Economic Reform

The Council agreed on the need to accelerate and broaden progress on micro-economic reform to support higher economic and employment growth on a sustainable basis. Accordingly, it has agreed to pursue a more extensive micro-economic reform agenda and to establish a standing committee of senior officials

to manage this continuing agenda of micro-economic reform.

This Working Group has been asked to report to the next Council meeting with detailed proposals for further reform.

The Council agreed to the principles of the competition policy articulated in the Hilmer Report.

The Council agreed:

1. any recommendation or legislation arising from the Hilmer Report being applicable to all bodies, including Commonwealth and State government agencies and authorities;
2. that the Trade Practices Commission and the Prices Surveillance Authority be merged to form the basis for the Australian Competition Commission. The Australian Competition Commission would also have new powers. Commonwealth, State and Territory Governments are to develop the detailed arrangements for the establishment of this body, including the process for State and Territory participation in the appointments process;
3. State, Territory and Commonwealth Governments will also commence work jointly on the new legislation with the aim of considering it in August;
4. State, Territory and Commonwealth Governments will establish by report to the next Council meeting, the practicalities of applying the Hilmer Report;
5. the Commonwealth will consider assistance to the States and Territories for loss of monopoly rents and the process for managing adjustment; and
6. it was recognised that the broadened application of the Act will require changes to some existing State and Territory regulatory arrangements and business practices. A two-year transitional period has been recommended by the Hilmer Report, and officials will explore how to provide the States and Territories with a capacity beyond this period to authorise or exempt, temporarily, particular conduct, practices or arrangements on a case by case basis.

The Working Group on Micro-economic Reform has also been asked to report to the next Council meeting with detailed proposals for further reform of:

- the maritime sector, with the objective of enhancing its international competitiveness and contribution to improving our national trading performance; and
- the legal profession, with the objective of removing

constraints on the development of a national market in legal services, and developing other efficiency enhancing reforms.

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Water Resource Policy

The Council considered a report from the Working Group on Water Resource Policy, chaired by Sir Eric Neal, outlining a strategic framework for the efficient and sustainable reform of the Australian water industry. The report had been commissioned by the Council at its June 1993 meeting.

The report noted that, while progress is being made on a number of fronts to reform the water industry and to minimise unsustainable natural resource use, there currently exists within the water industry:

- approaches to charging that often result in commercial and industrial users of water services, in particular, paying more than the costs of service provision;
- major asset refurbishment needs in rural areas for which, in general, adequate financial provision has not been made;
- impediments to irrigation water being transferred from low value broad-acre agriculture to higher value uses in horticulture, crop production and dairying;
- service delivery inefficiencies; and
- a lack of clear definition concerning the role and responsibilities of a number of institutions involved in the industry.

The report also noted that there is a number of issues and deficiencies involving water and the wider natural resource base that require the attention of governments. These include widespread natural resource degradation which has an impact on the quality and/or quantity of the nation's water resources.

The Council endorsed the strategic framework proposed by the Working Group and agreed to its implementation. Queensland, South Australia and Tasmania agreed to the broad principles but had concerns on the detail of the recommendations. The framework embraces pricing reform based on the principles of consumption-based pricing and full-cost recovery, the reduction or elimination of cross-subsidies and making subsidies transparent. The framework also involves the clarification of property rights, the allocation of water to the environment, the adoption of trading arrangements in water, institutional reform

and public consultation and participation.

Implementation of the strategic framework is expected to result in a restructuring of water tariffs and reduced or eliminated cross-subsidies for metropolitan and town water services with the impact on domestic consumers of water services being offset by cost reductions achieved by more efficient, customer-driven, service provision.

In the case of rural water services, the framework is intended to generate the financial resources to maintain supply systems should users desire this and through a system of tradeable entitlements to allow water to flow to higher value uses subject to social, physical and environmental constraints. Where they have not already done so, States are to give priority to formally determining allocations or entitlements to water, including allocations for the environment.

Environmental requirements are to be determined on the best scientific information available and will have regard to the inter-temporal and interspatial water needs required to maintain the health and viability of river systems and groundwater basins. The Council also agreed where significant future irrigation activity or dam construction is contemplated, that in addition to economic evaluations, assessments will be undertaken to ensure that the environmental requirements of river systems can be adequately met.

Because the changes flowing from the framework are extensive and far reaching in their implications, the Council considered that a five to seven year implementation period will be required. Part of this process will involve governments consulting the community on aspects of the framework. The speed and extent of water industry reform and the adjustment process will be dependent on the availability of financial resources to facilitate structural adjustment and asset refurbishment. The detailed decisions of the Council in relation to water resource policy are at [Attachment A](#).

The Council has asked the Working Group on Water Resource Policy to prepare a report for its first meeting in 1995 on progress in implementing the framework with further reports to be prepared annually on progress over the succeeding four years.

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Free and Fair Trade in Natural Gas

The Council received a report from the Working Group on Gas

Reform on Progress Toward A Pro-Competitive Framework for the Natural Gas Industry, within and between Jurisdictions. The report noted that the benefits of free and fair trade in gas would be facilitated by further developments aimed at stimulating a more competitive framework for the gas industry.

Such an approach would allow gas consumers and producers in any State or Territory to buy or sell in any other State or Territory on normal commercial terms. The report concludes that the arrangements would lead to the best possible use of Australia's gas resources and the lowest possible prices for gas consumers. The report also concludes that a consistent, national approach characterised by free trade will also stimulate the gas industry by increasing the market area into which gas can be sold and facilitate exploration and the development of production, transmission and distribution facilities.

The Council noted that the main features of a national framework characterised by free and fair trade would be:

- no legislative or regulatory barrier to both inter- and intra-jurisdictional trade in gas;
- third-party access rights to both inter- and intra-jurisdictional supply networks;
- uniform national pipeline construction standards;
- increased commercialisation of the operations of publicly-owned gas utilities;
- no restrictions on the uses of natural gas (e.g. for electricity generation); and
- gas franchise arrangements consistent with free and fair competition in gas markets and third party access.

It was accepted that there may be a need for some government oversight of retail gas prices in the absence of fully competitive markets in gas. The need for transitional arrangements in some States was also acknowledged.

The Council noted that existing contractual and regulatory regimes in the gas industry arose from past industry, regional development and market objectives. The Council also noted that many of these contracts will expire within the next 10 years and, given the nature of the industry, negotiations will begin shortly for the next round of contracts. The Council noted that contracts entered into prior to the enactment of any complementary gas industry legislation would, for the duration of those contracts, not be subject to that legislation, The Council considered, however, that it was necessary to define the competitive and regulatory environment in which future contracts would operate, so that participants in the gas industry could ensure that all future

contracts between producers and consumers for the supply of gas were consistent with the framework agreed for free and fair trade in gas.

The Council agreed that future arrangements for the gas industry, while not necessarily taking full effect for several years, need to be settled within the next two years. Such a timetable is compatible with the scheduled introduction of the national competitive electricity market from 1 July 1995.

The Council agreed on a broad set of principles to ensure third-party access to pipelines, and asked the Working Group on Gas Reform to report, by the next Council meeting, on the implementation of these principles in order to achieve free and fair trade in natural gas by 1 July 1996.

The Council's detailed decisions in relation to free and fair trade in natural gas are at [Attachment B](#).

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Progress Report on Electricity Reform

In relation to reform of the electricity industry relevant Heads of Government:

1. Noted the progress which has been made since their June 1993 meeting to fulfil their commitment to have the necessary structural changes in place to allow the implementation of a competitive electricity market from 1 July 1995 including:
 - substantial progress in Victoria and Queensland in the structural separation of generation, transmission, system control and distribution elements and the commitment by New South Wales to form a separate incorporated transmission subsidiary to Pacific Power as the first step in separation of transmission in that State;
 - the commitments by New South Wales and Victoria to review before 1 July 1995 the structure of the generation sectors in their States;
 - the commencement by the National Grid Management Council (NGMC) on 1 November 1993 of a market trial in all participating States which should spread the market culture and provide prospective market participants with experience in the use of market instruments;
 - the memorandum of understanding between New

- South Wales and Victoria which reflects the agreement by both States to develop a process for coordinating reform activities by 1 March 1994 in order to meet the objectives of competitive interstate trade by 1 July 1995;
- the agreement between officials of New South Wales and Victoria of a statement (for negotiations with the Commonwealth) of principles for the reform of the Snowy Scheme; and
 - development by the NGMC for circulation early in 1994 of a discussion paper on demand management issues in a competitive electricity market.
2. Agreed to the principles for a national competitive electricity industry of a uniform approach to network pricing and regulation, and to the principle of a form of vesting contracts for managing the transition to the competitive market. With regard to network pricing, this applies to such things as common asset valuation methodologies and rates of return as well as cost reflective and uniform pricing methodologies. With regard to vesting contracts, the timing and maturity profile of these contracts will be determined after further financial analysis, with the aim of completing the transition process by no later than 1 July 1999.

In the context of regulation, Governments agreed to the following proposals by the NGMC for a regulatory framework for the electricity industry which reflects the decision of the Council on the Hilmer Report recommendations:

(a) that the regulatory approach for the competitive national electricity industry be a framework encompassing a code of conduct which is consistent with overall national regulation with some State regulation, where required, subject to the following principles:

- a national regulator for market conduct;
- a code of conduct which, following endorsement by governments, would be subject to authorisation by a national regulator with oversight for three areas covering: network pricing; pool rules, operation and system control; and network connection and access. Oversight will include pricing surveillance, at either State or national

level, of non-competitive generation market segments;

- a national advisory body (which could be the NGMC or its successor) to provide governments with the information on the monitoring/oversight of a code of conduct for planning of future system developments;
- State regulation for franchise customer pricing, the environment and safety;

(b) that national regulation of market conduct be undertaken by a general body like the Trade Practices Commission or its successor;

(c) that where national pricing oversight is undertaken, a general body like the Prices Surveillance Authority or its successor be utilised;

(d) that development of the code of conduct be by the NGMC in collaboration with a wide cross-section of electricity market participants and that subsequent administration of the code after authorisation be through the NGMC or its successor;

(e) that the national regulator which authorises the code of conduct be the Trade Practices Commission or its successor, noting that if after experience with the use of a general regulator, further benefits are identified for the option of creating an industry-specific regulator to oversight the codes of conduct, this option could be further explored;

(f) that in the short term, recognising that reforms are occurring at different speeds in different jurisdictions, individual Governments may (where necessary) seek to put in place transitional regulatory arrangements that are consistent with the regulatory framework outlined in recommendation (a);

(g) that, recognising the timeframe commitment for the introduction of a national competitive market, the existing and transitional regulatory arrangements begin to be phased out from 1 July 1995, and be replaced by the new regulatory framework as soon as practicable as competition in the national electricity market commences; and

(h) that a task force be established consisting of representatives from key regulatory agencies and policy

areas, as well as specialists that have been contributing to the NGMC process, to report on the implementation issues identified in the NGMC Regulatory Arrangements Report, with the aim of having in place the new regulatory framework for 1 July 1995.

3. In relation to system security, agreed to confirm their commitment to the concept of inter-jurisdictional merit order commitment and dispatch and interstate sourcing of generation where cost-effective, noting that the Electricity Supply Industry code of conduct (see above) will ensure that each jurisdiction is fairly treated in the provision of an agreed level of system reliability.
4. Agreed that a fundamental review of the NGMC should be deferred until after the commencement from 1 July 1995 of the competitive market but that in the interim there be a review of the NGMC by Senior Officials, for completion by 1 July 1994, clearly delineating the Council's role, in particular, its relationship with the Senior Officials' Working Group.
5. Asked the NGMC to report to the relevant Heads of Government out of session in time for governments to consider in advance of the next Council of Australian Governments meeting on:

(a) options and desirability for reducing the initial 10MW threshold for customers permitted to participate in the competitive electricity market (noting that Victoria has considered lowering this threshold to 50KW by 1998);

(b) options for an appropriate uniform and cost reflective grid pricing mechanism; and

(c) progress towards uniform pool arrangements and any necessary refinements to market trading and associated arrangements in light of a review of the results of the market trial.

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Regulatory Reform

Mutual Recognition

The Council noted progress with implementation of the principles of mutual recognition for goods and occupations embodied in mutual recognition legislation and the associated Intergovernmental Agreement. The Council also noted that preliminary discussions between Australia and New Zealand

about the possibility of a Trans-Tasman mutual recognition scheme had commenced.

Vocational Education, Employment and Training Advisory Committee (VEETAC)' s Report on the Reiew of Partially Registered Occupations

The Council noted progress with jurisdiction' s consideration of the Vocational Education, Employment and Training Advisory Committee (VEETAC) Report on the Review of Partially Registered Occupations. The Council reaffirmed that a national approach to the treatment of partially registered occupations (i.e. those occupations which are registered in some States and Territories but not in others) is a matter of high priority.

The Council agreed that all jurisdictions should decide on their responses to the VEETAC Report by 30 June 1994 in time for a report on this matter to be submitted to the next Council meeting scheduled for August 1994. They requested the development of a paper which addresses governments' responses to the recommendations of the VEETAC Report for release at that meeting.

Process for National Standards Setting

The Council considered the need for reform of some of the processes and outcomes of national standards setting in Australia. They requested that the following tasks be undertaken in time for consideration at the next Council meeting scheduled for August 1994:

- (i) development of a set of principles to be applied by Ministerial Councils when jurisdictions are considering the development of national standards;
- (ii) development of a proposal for a national standards impact assessment process;
- (iii) development of a proposal for monitoring the appropriateness of proposed national standards;
and
- (iv) an examination of the need to adopt procedures to encourage compliance with national standards which are feasible and commensurate with the level of risk.

Commonwealth-State Roles and Responsibilities

The Council did not have the opportunity to conclude its consideration of the report from the Working Group which it established at its previous meeting to identify those functional areas which exhibit inefficiencies in existing intergovernmental arrangements and where progress could be made in clarifying the roles and responsibilities of governments. It agreed that this should be the main item on the agenda for the meeting of the Council in August 1994.

The Council did, however, agree that in some areas a clear allocation of functional responsibility to one level of government may be appropriate. In other areas, where roles and responsibilities are shared, the Council considered it may be more appropriate to delineate roles and responsibilities of the different levels of government within and across particular functional areas in order to produce more efficient and effective service delivery, eliminate overlap and duplication, minimise imposts on the economy and enhance accountability. The Council agreed that the overriding objective should be to improve outcomes for clients and value for money for taxpayers.

The Council noted that the practice of tied grants has sometimes led to duplication and confusion of roles and responsibilities between the States, Territories and the Commonwealth. The Council acknowledged that any review of Commonwealth/State roles and responsibilities should include consideration of tied grants with a view to reducing their incidence.

The Council noted that, while arrangements would vary across programs, in areas of shared responsibility the Commonwealth's interest will most often be at the area of broad, jointly agreed, strategic goals, involving program planning and a concern for achievement of program performance and outcomes for clients. The States would share an interest in these matters and generally would have primary responsibility for program implementation and management. The Council also noted the view by the States that Commonwealth involvement in operational management should be reduced to the greatest possible extent, consistent with ensuring that agreed national objectives are met.

Against this background, the Council agreed to the following action in a number of functional areas identified for review or further examination.

Public Housing

The Council agreed that Commonwealth, State and Territory Housing Ministers and the Commonwealth Minister for Social Security should bring forward to the meeting of the Council scheduled for August 1994, an initial report considering:

- the recommendations of the Industry Commission Report on Public Housing; and
- the scope for reforms in public housing arrangements to meet the objectives agreed by the Council at its June 1993 meeting.

School Education

The Review of Commonwealth and State Service Provision, chaired by Mr Bill Scales of the Industry Commission, is to be asked to give priority to the development of information on educational outputs and outcomes, if appropriate using the Australian Council for Educational Research to provide assistance in this area, and to provide a report. It was further agreed that in the light of this report, the Ministerial Council on Employment, Education, Training and Youth Affairs should provide advice to the Council on further action.

Child Care

The Commonwealth is to commence discussions with States and Territories in March-April 1994 to collect data and identify possible areas for reform within the general area of child care, and provide a report for consideration at the next Council meeting in August 1994.

Health

Health Ministers will be asked to report to the next Council meeting scheduled for August 1994 on the consequences for the overall allocation of roles and responsibilities in the health area of work they have already initiated.

Community Services

The Commonwealth-State Steering Group reviewing the efficiency and effectiveness of the Home and Community Care (HACC) Program will be asked to provide a report on progress for the next Council meeting scheduled for August 1994. Health and Community Services Ministers will also be asked to provide a report to that meeting identifying program rigidities, and legislative and administrative impediments, affecting the

attainment of national objectives in community services areas.

Health and Community Services

The Council agreed that, in the light of the reports due in August 1994 in the Health and Community Services area, it would consider at its next meeting the need for an overarching review on the scope for further reforms aimed at a more integrated and administratively efficient system in the health and community services area.

Labour Market Programs

The Council agreed that any consideration of this issue should await the Commonwealth Government's response to the Discussion Paper 'Restoring Full Employment'.

Working Group on Commonwealth-State Roles and Responsibilities

The Council agreed that the Working Group, which it established in June 1993, should have a continuing role in monitoring and assessing current reviews, and in considering areas for possible future reviews. In undertaking these functions, the Working Group should continue to have regard to the criteria and objectives agreed at the Council's meeting in June 1993.

Review of Commonwealth and State Service Provision

The Council received a preliminary progress report from Mr Bill Scales, the chairman of the Review of Commonwealth and State Service Provision. The Council noted that the review will have two components: the collection and publication of quantitative performance indicators to allow comparisons of efficiency; and the compilation and assessment of relevant service provision reforms that have been implemented or are under consideration by Commonwealth and State Governments.

The Council also noted that considerable progress is expected by Mr Scales in the coming months, and called for a further report to its next meeting.

Asian Language Development

The Council noted the importance of the development of a comprehensive understanding of Asian languages and cultures to the enhancement of Australia's economic interests in the Asia-Pacific region. The Council agreed that Asian languages

development is a matter of national importance, requiring urgent and high level attention at a national level.

The Council noted with concern the decline in the proportion of Australian high school graduates studying a second language over recent decades.

The Council therefore welcomed the release of the report of the Working Group on Asian Languages and Cultures and its recommendations for a strategic framework for the implementation of a comprehensive Asian languages and cultures program in Australian schools.

The Council also welcomed the Working Group's recommendation that State and Territory Governments endorse the 1991 Commonwealth White Paper target of having 25 per cent of Year 12 students studying a second language. Governments would aim to achieve that target through a 10 year strategy, starting in the 1996 school year comprising the programs outlined in the report. Governments also supported the Working Group's proposal that students between year 3 and year 10 be required to study a second language (Asian or European) while noting that certain governments had this particular element of the strategy under review.

The Council endorsed the strategy's emphasis on the importance of a significant expansion in the study of the languages of Australia's principal economic partners in East Asia; Japanese, Modern Standard Chinese, Indonesian and Korean. The Council agreed with the report's emphasis that this could best be achieved by the combination of programs recommended in the report: enhanced language programs as part of the regular curriculum of schools; immersion programs; and an optional subsidised year 13 spent 'in country' in the relevant country in Asia for a small number of the best year 12 language graduates.

In achieving the strategy's overall objective, the Council also endorsed the continued importance of European and community languages. Community languages in particular represent an important element of Australian multiculturalism.

The Council endorsed the Working Group's recommendations so that implementation of the comprehensive Asian languages and cultures program in Australian schools as contained in the report could commence in 1995. This would need to be given effect in the 1994-95 budget cycle of governments.

Housing and Urban Development

The Council noted a set of objectives to provide the basis for a shared national perspective on housing and urban development issues. The Council also requested a report to its next meeting on further work on two of the key national objectives: coordination in urban development; and pricing and charging policies for urban infrastructure.

The Housing and Urban Development National Objectives and details of further work are at [Attachment C](#).

National Environment Protection Council

All jurisdictions, apart from Western Australia, agreed to introduce legislation to establish the National Environment Protection Council (NEPC). When established, the NEPC will make environmental protection measures that will apply across participating jurisdictions in the areas of air, water, noise, hazardous wastes, motor vehicle emissions and recycling. Western Australia did not agree to participate in the NEPC.

Jurisdictions confirmed the importance of effective and timely implementation of all aspects of the Intergovernmental Agreement on the Environment. The Council asked officials to give priority to the following matter and to report on progress by the Council's next meeting:

- for accreditation, for the Commonwealth purposes, of State processes such as those undertaken by the New South Wales Natural Resource Audit Council and the Victorian Land Conservation Council, where this will lead to reduction in duplication of the collection and analysis of data required to support land use decisions.

Reports on the Implementation of the National Strategies for ESD and Greenhouse Response

The Council noted summary Reports on the implementation of the National Strategy for Ecologically Sustainable Development (ESD) and the National Greenhouse Response Strategy and agreed to their public release.

National Strategy on Violence Against Women

The Council noted that all jurisdictions had made progress in implementing the National Strategy on Violence Against Women, most notably in raising community awareness, providing crisis services and effecting legislative changes.

The Council agreed that a working group of officials be

established to survey government responses to the Strategy; report to the next meeting on aspects of the Strategy which could further form a national approach; and make recommendations on adopting a national approach in such areas.

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Timing of Future Meetings

The Council agreed to a proposal which establishes a more regular timetable for future meetings of the Council of Australian Governments. Specifically, the Council agreed that jurisdictions should plan on the assumption that the Council will aim to meet on the third Friday of February and August each year, and that at each meeting, the Council will settle on a specific date for its next meeting.

The Council also agreed that consistent with these proposals, the date for its next meeting should be Friday, 19 August 1994.

In determining these arrangements it was recognised that on some occasions it would be necessary to vary the times of meetings, including because of elections.

Attachments

- Attachment A - Water Resource Policy - [HTML](#)
- Attachment B - Free and Fair Trade in Gas - [HTML](#)
- Attachment C - Housing and Urban Development National Objectives - [HTML](#)

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