

# 3. Impacts on Urban, Rural and Regional Communities

## 3.1 Overview

There is little evidence to date on the relative effects of NCP reform on urban and rural and regional Australia. Monitoring these relative impacts is particularly difficult at present, given that NCP implementation is still in its early stages. The Productivity Commission is currently investigating this issue, and their review into the *Impact of Competition Policy Reforms on Rural and Regional Australia* is expected to provide important evidence on this matter.

The issue of competition policy and its effects on rural and regional communities has been the subject of considerable anxiety in the community. The concerns include fears that competition policy will cause a loss of services to the bush, that farmers will not be able to market their produce through co-operatives, that the prices of farm inputs like water will rise, that job opportunities will dry up and that any benefits from competition will go mainly to city people and big business. The Hawker Committee expressed particular concern in this regard in the case of rural and remote communities (Hawker 1997).

Some of these concerns do reflect uncertainty as to the potential impact of NCP in such areas as the reform of statutory marketing arrangements and water reform. But other concerns, such as the erosion of rural services, are more closely linked to changes in the Australian economy which have been taking place over recent decades, causing much social dislocation. Much of this hardship stems from declining business opportunities in rural communities caused by falling world

prices for agricultural commodities, improvements in farm productivity, and a population drift towards larger regional centres and the cities. Closures of banks, for instance, are commercial decisions which reflect dwindling commerce in many rural and remote areas, and have little or nothing to do with NCP.

But clearly, a number of areas of NCP are likely to have particular impacts on rural and regional communities. Many of the reforms offer substantial benefits to these communities – for example, the new water trading arrangements and the impacts of reform on reducing rail freight charges, energy costs and prices of imported farm equipment and fertilisers.

Sometimes, however, due to differences in scale between business activities in rural and urban areas, the benefits of reform may weigh more strongly in favour of urban communities enjoying access to markets with vigorous competition. And in some cases, particular regions or industries in rural areas may be directly exposed to the reform process, creating the potential for a considerable burden of costs.

As the Council acknowledged in evidence to the Hawker Committee during its review of the Council's 1996-97 Annual Report, these issues:

can only be tackled by governments dealing with universal service obligations and community service obligations. That is part of the ongoing regulation that will be required in any deregulatory regime to ensure that ... all Australians, wherever they live, should continue to receive an essential service and receive it at a fair price (as reported in Hawker 1998).

At the same time, the reform framework is designed to take account of these costs. The NCP public interest safeguards are designed to allow the costs and benefits of reform – including the impacts on individuals, regions and particular industries – to be weighed openly and rigorously to ensure that reform is in the interests of the community as a whole. This can sometimes require a delicate balancing of interests, but the reform framework is designed to ensure that the interests of all parties are considered, with any trade-offs made explicit. Where reform is found to be justified, but the distribution of costs and benefits weighs unfairly on a particular region or community, there is a case for governments to consider

compensatory measures – for example, through policies on regional development and the provision of well-targeted community service obligations.

Section 3 of this paper examines five key interfaces between NCP and rural and regional communities:

- local government reform (section 3.2);
- the review of legislation governing statutory marketing arrangements (section 3.3);
- the review of other anti-competitive legislation affecting the provision of services in rural and regional Australia (section 3.4);
- water reform (section 3.5); and
- reforms affecting the provision of services such as energy, rail freight, imported farm equipment, vehicles, and fertilisers in rural and regional Australia (section 3.6).

In each case, NCP can bring about certain costs for rural and regional communities. But if properly applied, the reforms also offer them significant benefits.

## 3.2 Local government reform

Local government is the closest level of government and hence highly visible to the community when it comes to implementing competition policy – especially in rural and remote areas.

Local government reform was well underway in several States prior to the implementation of NCP. One of the most significant changes has been the use of competitive tendering and contracting (CTC), most notably in Victoria.

The NCP package does not require the use of competitive tendering. However, two NCP reforms *are* required at the local government level – competitive neutrality and the review of anti-competitive legislation and regulation – provided the benefits of reform outweigh the costs. Concerns have been raised regarding the implications of competitive neutrality reform for local governments in rural and remote communities.

The competitive neutrality reforms include corporatisation of the larger government-owned business units, and applying full cost pricing to goods and services provided by significant local government businesses. The Hawker Committee noted concerns that such measures may result in unacceptable price increases for rural services, and that rural service providers may not be able to compete with service providers based in larger regional markets – resulting in an erosion of community capital and employment opportunities in outlying areas. These risks were thought to be heightened where a council puts its services to competitive tendering (Hawker 1997).

The Council has emphasised that while competitive tendering is not required under NCP, it can be one (of many) ways of implementing competitive neutrality. The implications of reform for local communities should be considered in assessing whether to apply such reforms, however – the public interest test set out in clause 1(3) of the CPA identifies that “economic and regional development, including employment...” should be taken into account. In its 1996 publication *Considering the Public Interest under the National Competition Policy*, the Council noted that this should encompass the implications for local communities:

In considering the relative merits of in-house and external provision, it is appropriate to examine factors in addition to the relative cost of in-house and external provision. One consideration is the value of keeping workers employed in a local region. Another is the convenience of having people readily available to provide a service (NCC 1996a).

For example, if a local government runs a tender for its waste collection services, the selection process should factor in such matters as the likely cost savings to ratepayers, the effect on service quality, environmental impacts and the impact on local commerce and employment. The Hawker Committee noted that the NCP public interest test provides adequate scope to recognise the special needs of small and isolated communities.

The Council reiterated this point in its 1997-98 Annual Report:

... there are often significant public interest considerations associated with local governments, particularly in remote locations. In these areas, regional development and employment factors may mean that the social and economic cost of introducing competitive neutrality may outweigh benefits arising from increased competition between public and private providers.

This may sometimes point to reform being contrary to the public interest in remote areas. But this is a matter which should be put to objective assessment to determine the merits of the argument, rather than being the subject of an automatic exemption.

While the adoption of competitive neutrality principles can pose some potential costs for rural and regional communities, it is important not to lose sight of the potential benefits. An outcome of NCP reforms is likely to be cost savings in service delivery, providing scope for reduced user charges, rates relief and a greater pool of funds for investment and other local priorities. Such results can assist local government in reconciling the community's expectations of improvements in welfare, recreation and community services in times of constrained revenue raising capacity.

As an example, the Noosa Council in Queensland recently ran a 'build and operate' tender for waste water services, following a twelve month period of community consultation. The Noosa Council found that this approach was the best way to minimise risk given its intention to use leading edge technology – about which the council staff had little knowledge – to minimise potential environmental damage. The Noosa Council commissioned an independent costs estimate prior to inviting bids, and finally selected a tender that delivered significant cost savings to the local community:

We commissioned independent costs estimates prior to inviting bids. The capital cost was estimated at \$25 m - \$26 m. We're paying (the service provider) \$23 m. The estimated operating cost at full capacity was \$2.3 m per annum, We will be paying \$1.3 m. Experience in both Australia and overseas has shown that savings such as these are not unusual... (Playford 1998).

The Noosa Council also offered adjustment assistance to ‘in house’ staff:

We offered our (existing operations) staff options for relocation within the organisation with retraining if appropriate or employment with the successful bidder.

While reform provides the opportunity to improve the effectiveness of service provision, there may be additional benefits. The reform of council regulations that are unnecessarily stringent offers scope to reduce business costs and can improve the ability of the local area to attract private investment. This may encourage economic activity in the local region and expand job opportunities.

Competition reform may also improve the quality of council governance by helping to identify the true cost of providing services, including community service obligations. The Council of Capital City Lord Mayors has argued that this provides for a superior information base that can be expected to lead to more focussed debates about community priorities and the best use of council resources (CCCLM 1996). It also encourages a shift away from artificially low prices for goods such as water, which in the past has encouraged wasteful overconsumption, environmental degradation, and investments that do not recover their cost.

Under the NCP framework, governments and independent reviews will often recognise that reform offers a net benefit to the local community, while still imposing certain costs. Under the NCP framework, such an outcome would point to proceeding with reform. The Hawker Committee argued the need for innovative thinking in the approach to competitive neutrality in rural areas to allow councils to retain skills and expertise, ownership of infrastructure equipment and so on:

For example, options for doing this include phasing in tendering over time; councils in a region specialising and sharing services etc.’ (Hawker 1997).

It should be emphasised that NCP is not a ‘one size fits all’ approach. The framework takes account of the great diversity in Australian local government units – in terms of size, organisational structure and service responsibilities – by conferring considerable discretion on governments as to how reform should be implemented in the best interests of the community.

In Victoria, for example, compulsory competitive tendering preceded the NCP changes. It required a phased shift towards 50% of all local government expenditure being subject to competitive arrangements. According to the Ballarat City Council, this process was used in conjunction with local government amalgamations as a driver of cultural change towards ensuring that ratepayers receive best value for money. The approach includes defining areas of services vital to the local council, targeting areas of expertise with which to develop new businesses and aggressively compete outside the local area (and hence generate new employment opportunities in the local area), and identifying areas of service which should be outsourced or be market tested. Janet Dore, CEO of Ballarat City Council notes that “the results have been varied, but predominantly positive.”

Ms Dore also believes that the reforms are likely to lead to changes in the structure of work forces and industrial relations:

The industrial relations impact of competitive tendering is continuing to evolve whereby umbrella Enterprise Agreements are likely to be replaced by Local Work Agreements to reflect the particular needs of Business Units. Clearly the requirements for Garden and Parks crews with respect to work practices, hours and offsets will be different from those of the Home Care service (Dore 1998).

The approach to local government reform in Queensland has been more gradual, with a shift towards commercial principles matched by measures to restrict the erosion of jobs and community capital in local areas. This is a particularly important issue for Queensland, where local governments are responsible for more services than they are elsewhere in Australia.

Queensland has adopted an approach akin to ‘commercialisation’ of local government business activities, with ‘in-house’ service providers receiving training and skills upgrades to put them in a competitive position with external contractors prior to the use of tendering processes. This approach is sharpening the efficiency of service provision, and promoting the retention of jobs. The funding for this adjustment package comes as part of a series of targeted transfers from the State Government over five years, totalling up to \$150 million.

Part of the package is tied to training and assistance initiatives to bring local governments and their employees up to speed on principles of commercialisation and full cost pricing. For example, the Gold Coast City Council in 1998 ran a series of training courses – conducted both in-house and externally – covering topics that included ‘internal service level agreements,’ ‘full cost pricing training,’ ‘business planning,’ ‘people management,’ and ‘contract management and tendering.’

Queensland’s approach offers the potential for better value for money in local government services, while providing council staff with appropriate adjustment assistance. Given the size of Queensland’s local government sector, the shift towards greater use of competitive tendering and commercialisation without going through this up-skilling process could have led to harsh unemployment pools being created in parts of the State. By going through this process, however, this risk has been minimised.

Another approach to minimising the costs of reform lies in the *timing* of implementation. The Council recognises that local governments in rural and remote areas are likely to have a narrower skills base than those in urban areas and larger regional centres. For this reason, there may be advantages in setting priorities such that reform is applied to larger local government bodies ahead of smaller ones. In this way, smaller local government bodies can adopt models which have already been developed, rather than having to ‘reinvent the wheel.’

### 3.3 Reviewing legislation governing statutory marketing authorities (SMAs)

An area of the legislation review program with direct relevance to rural communities is the review of statutory marketing arrangements (SMAs). The review of SMAs is important because arrangements underpinning them are prima facie anti-competitive. Typically, they include centralised marketing boards with powers to compulsorily acquire or vest the entire crop, set quality grades and prices, and act as the single seller of the acquired product on either or both the domestic and export markets. In short, producers can sell their product only to the marketing body and customers can buy the product only from the marketing body.

Proponents of SMAs argue that the arrangements offer the following benefits:

- maximising grower income;
- stabilisation of prices, production and/or producer income;
- achieving price premiums based on market power, particularly in export markets;
- achieving economies of scale in marketing; and
- countervailing the market power of buyers and corrupt international markets.

Some critics argue that reforming SMAs is skewed against rural communities, offering benefits to urban dwellers – through cheaper farmgoods – while imposing significant costs on the rural farming communities exposed to reform.

But freeing up compulsory marketing structures can offer significant potential benefits to *both* rural and urban communities, including:

- freedom for primary producers to choose how, when and to whom they sell their crops, and freedom to negotiate sale prices;
- greater control by farmers over their production, marketing and risk management decisions;
- reduction in the share of a farmer's income soaked up in administration costs;
- greater incentives and opportunities for individual farmers and rural communities to undertake more innovative marketing and to invest in higher-value post-farm production;
- potential growth in industries which are major consumers of agricultural products such as food processing; and
- benefits to consumers through wider choice of supplier.

At the same time, there is a evidence to suggest that the perceived benefits of SMAs may be overstated – a number of important agricultural industries have prospered *without* statutory marketing monopolies (see Box 11).

For anti-competitive arrangements to be retained, it must be demonstrated that the benefits to the whole community, including primary producers, from each restriction outweigh the costs of that restriction and that the benefits to the community cannot be achieved without the restriction.

Assessment of the costs and benefits of restrictions on competition imposed by SMAs need to be considered on a commodity-by-commodity basis. For example, whether an SMA can exercise enough market power to obtain price premiums on export markets will depend partly on Australia's relative significance as a producer. And where price premiums exist, these may be due to factors other than market power – for example, marketing strategies or economies of scale in transport.

## Box 11 Agricultural industries without statutory marketing monopolies

Some of Australia's large agricultural industries have SMAs acting as monopoly sellers on domestic or export markets. However, many agricultural industries have developed and prospered in the absence of these types of marketing arrangements. Some examples are provided below.

### Cotton

Australian raw cotton is marketed under a competitive market system.<sup>10</sup>

- Exports, which today account for more than 90 percent of the total cotton crop, have risen from less than 6000 tonnes in 1976-77 to over 310 000 tonnes (or \$760 million) in 1995-96.
- Average returns in the cotton industry have been substantially higher than in most other agricultural industries over the past decade.
- Cotton growers have survived and prospered through achieving economies of scale and applying sophisticated production technologies and marketing strategies.

### Winegrapes and wine

Australian winegrape and wine industries are largely free from statutory marketing arrangements.<sup>11</sup>

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<sup>10</sup> The Queensland Cotton Board operated as a statutory marketing authority in Queensland until 1989, at which time the industry was deregulated (with producer support) bringing it in line with New South Wales.

<sup>11</sup> The one exception is in the Murrumbidgee Irrigation Area in New South Wales, where the Wine Grapes Marketing Board has the capacity to act as a single seller of grapes from the region. Following a review of these arrangements, the Board's vesting power is to be extended until 31 July 2000 and then cease. The Australian Wine and Brandy Corporation administers export licensing arrangements and labeling standards, as well as undertaking some generic industry export promotion.

### Box 11 Winegrapes and wine ...cont

Wine exports have increased from just 11 million litres in 1985-86 to 194 million litres (or a record \$813 million) in 1997-98. Expectations are for continued strong export growth.

Export success has been achieved through focused brand development, strong distribution relationships, the use of high technology and, more recently, a greater emphasis on higher margin red wines.

### Red meat

In 1997, a producer-owned company, Meat and Livestock Australia, was established to undertake most of the research, development and promotion activities previously carried out by two statutory authorities, the Australian Meat and Livestock Corporation and the Meat Research Corporation.

As before, there are no single desk marketing arrangements under the new arrangements.

Annual beef production is valued at around \$4 billion, with sheep and lamb production valued at around \$150 million and \$420 million respectively. Exports of meat and livestock totalled \$3.4 billion in 1995-96.

*Sources:* ABARE (1996), NFF (1998), ACIL (1998).

At the same time, allowing an SMA to control export and domestic markets to extract higher export prices can impose costs on domestic consumers. For example, a monopoly desk allows opportunities to manipulate *both* export and domestic markets, and the capacity to short supply domestic consumers and extract monopoly prices. This tendency is reinforced where import restrictions apply on the domestic market. A likely consequence of extracting price premiums on domestic markets above and beyond prices which can be earned on export markets is the loss of processing and value-adding activities overseas – and the

loss of potential industries and jobs that could otherwise have been kept in Australia, often in rural communities.

Recent independent reviews into SMAs indicate that there is no single best approach to marketing agricultural goods. The reviews to date have proposed a range of approaches to reform, targeted to the circumstances of each industry, with benefits to both rural communities and consumers generally.

For example, recent reviews of marketing arrangements for *rice* and *sugar* recommended retaining a single marketing board's exclusive right to trade the commodity on *export* markets – where this can help boost farmers' incomes. At the same time, these reviews have recommended measures to ensure that *domestic* customers are not disadvantaged – and that investment and jobs in the Australian food processing industry are not discouraged.

However, a review of *barley* marketing found that farmers and consumers would benefit most by giving farmers freedom of choice as to how they sell their crops on both local and export markets.

The Council has endorsed each of these approaches. In fact, the Council's focus relates primarily to the review *process* rather than the specific outcomes in each case. Given the potential for a range of vested interests in the outcome of a review, it is important that reviews of marketing arrangements be independent and rigorous to ensure that the findings are objective and take account of costs and benefits of reform from the interests of the community as a whole – including primary producers, consumers and rural communities. In this way, it becomes possible to look at ways of achieving the maximum benefit for both rural *and* urban communities.

It should be noted that where a review recommends the removal of compulsory marketing arrangements, farmers may develop voluntary arrangements for collective marketing. The Trade Practices Act imposes no barriers to collective marketing on export markets, while primary producers can apply to the ACCC for authorisation of voluntary collective marketing arrangements on the domestic market.

## 3.4 Reviewing other anti-competitive legislation

While the review of SMAs is of direct relevance to rural communities, several other areas of legislation and regulatory review also raise issues – such as reviews of legislation affecting the provision of services by the professions, retail services such as petrol and newsagencies, and essential services such as post and telecommunications.

There are widespread concerns that reforming legislation governing the supply of services such as petrol and newsagencies may result in an expansion of services in larger regional centres at the expense of small businesses in outlying rural and remote communities – with adverse implications for social cohesion in these communities.

These are legitimate concerns that should be taken into account in cost-benefit assessments of whether reform is in the public interest.

In considering this issue, it is important to consider whether the loss of services in small communities is the result of NCP – or whether it reflects wider issues of demographic change and economic change which has been affecting rural Australia over several decades. As noted earlier, the loss of particular services in some rural communities is closely linked to dwindling populations and declining business opportunities stemming from a long-term decline in commodity prices and improvements in farm productivity. Another factor has been shifting preferences towards shopping in larger regional centres, where prices for many products are often lower than in outlying rural areas.

It is true that regulatory reform can sometimes be one factor contributing to the loss of particular services in small communities – for example, regulatory reform in the supply of petrol may result in the closure of some petrol stations in outlying communities, with supply becoming more centralised in larger regional centres. This is likely to result in cheaper petrol in the bush – due to the economies of scale available in more centralised supply. However, it may also impose socio-economic

costs in terms of the loss of a valued service or shop which provides both commerce and a focal point for a small community.

In some cases, an NCP review may find that socio-economic costs of this kind outweigh the community benefits of reform – such as cheaper services – suggesting that reform should not proceed.

In other cases, reform may still be found to confer a net community benefit – despite imposing socio-economic costs on particular regions or communities. For example, it may be found that there are better ways to address the socio-economic costs of dwindling populations and loss of commerce in the bush than to block NCP reform. After all, NCP is about reducing costs for people in the bush – and failure to implement may only aggravate the disadvantages already facing rural communities.

Instead it may be more appropriate for governments to consider the use of policies more specifically targeted at the kinds of socio-economic concerns discussed above – for example, through the provision of well-targeted community service obligations, and rural and regional development policies structured to develop value-adding industries in rural communities.

While acknowledging that some reforms may impose socio-economic costs on rural communities, there is also evidence that regulatory reform of such areas as legal services and optometry can *improve* access to these services in rural areas – for example, by removing overly rigid regulatory barriers to the supply of these services.

For example, the decline in rural populations has threatened the availability of services such as solicitors, physiotherapists and optometrists in many communities. But regulatory reform, such as removing the monopoly enjoyed by lawyers over conveyancing<sup>12</sup>, has reduced conveyancing fees and promoted greater access to conveyancing services.

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<sup>12</sup> In States and Territories other than Queensland.

The Victorian Government has informed the Council that as a result of deregulation in that State, a number of professional services in rural areas are now becoming cheaper and more accessible. For example, a Victorian review into barriers to entry in optometry has resulted in professionals with a narrower band of qualifications gaining the right to conduct certain services – such as eye testing – that were previously limited to optometrists. The result is that people in rural communities will gain access closer to home to a number of services that once required travel to a large regional centre.

The Council's approach to the impacts of reform on different segments of the community is reflected in its recent review of the *Australian Postal Corporation Act 1989*. The main focus of the Council's considerations was directed at how Australia Post's social responsibilities can be maintained and strengthened, while maximising the benefits from competition. The Council viewed the social objectives as fully justified and dismissed options for increasing competition which compromised these objectives.

In accord with this approach, the Council's report contained twelve recommendations to maintain or increase services to rural areas and strengthen guarantees that those services be maintained (see Box 12).

### Box 12 Some of the Council's recommendations for postal services

The Council's recommendations on postal services reform included the following matters:

- retention of Australia Post's obligation under law to deliver letters throughout Australia;
- retention of the uniform rate for postage for household mail;
- better definition of Australia Post's letter delivery obligations above the standard of reasonableness in the legislation;

### Box 12 ...cont

- a plain english service charter to make Australia Post's CSO obligations clear to the general public;
- independent monitoring of the delivery of CSOs to ensure Australia Post meets its obligations;
- measures to better monitor Australia Post's delivery performance standards, particularly in rural and remote areas;
- guaranteed continued funding for CSOs;
- more options for people to obtain a delivery service to the property in cases where they currently receive a service to the post office in the closest town;
- monitoring the new Rural Delivery Frequency Guide Formula to ensure it operates equitably;
- better reimbursement for people working in more remote locations who deliver post office services through community postal agencies;
- fairer community voting processes for changes in services; and
- abolition of annual fees in relation to private bags and locked bags.

## 3.5 Water reform

Another significant element of NCP for rural communities is water reform. At first glance, the traditional approach of subsidising water prices for households and irrigators appears to have assisted rural communities – irrigated land currently produces a quarter of Australia’s agricultural output and sustains employment in dozens of rural towns (*Australian Financial Review*, 18 August 1998).

But the cost has been high, with many of the costs being borne by rural communities themselves. Overconsumption of ‘cheap’ water has contributed to a range of environmental problems. As the demand for water has risen, governments have built more dams and allowed increased diversions from rivers – but with water charges not covering costs, water authorities have lacked sufficient funds for maintenance. The outcome is deteriorating water quality in parts of the country, salinity problems in many farming areas such as the Murray-Darling Basin, stressed rivers, with outbreaks of blue-green algae and damage to native fish populations and local ecosystems. South Australia has suffered particularly badly, with its main water source – the Murray – having become degraded and depleted by over-consumption in upstream states. Clearly, the era of cheap water is no longer sustainable.

The water reforms seek to halt the degradation of this natural resource through a framework based on principles of economic and ecological sustainability. The rural water reforms are being phased in over a seven year period, to give rural businesses and communities plenty of advance notice and time to plan and adjust. The reform process also requires significant involvement of farmers and rural communities.

A central reform is the shift towards full cost recovery in rural water pricing by 2001. This will result in some water charges being increased, to encourage people to economise on their usage and to provide more funds for maintenance. Bulk water prices are increasing the most in states like New South Wales, where prices have traditionally been far lower than in neighbouring states, arguably giving their farmers an unfair competitive advantage.

While the reforms will impose pain on some rural communities, *failure* to implement the reforms would involve much higher costs – degradation of our rivers coupled with a deterioration in water quality to the point where the demand for water cannot be met, rising salinity in groundwater and soils in farming areas, continued depletion of fish stocks and so on. The reform measures aim to safeguard the sustainability of water resources and ensure that water infrastructure will be properly maintained. At the same time, governments should consider the need for adjustment assistance to help irrigation farmers adjust to the changes. As noted earlier, NSW recently announced a comprehensive water adjustment package (see section 2.2) addressing these issues.

An important benefit for farmers is likely to flow from a new system of secure water allocations and permanent trading in water. Caps on total water diversions will address environmental issues, while trading will allow farmers to sell some or all of their water rights to others who can use the resource more effectively – for example, a farmer may not own land suited to growing high value-added crops, and may get a better price by selling part of their entitlement to another farmer with more suitable land characteristics.

Conversely, farmers who believe they could make extra profits in their area or industry by buying extra water allocations will be able to do so.

In essence, water trading will encourage a shift away from crops which use a lot of water for poor returns, towards higher value added crops and sustainable wealth generation in rural communities.

An indicator of the potential for water trading to improve farm sector profitability can be gleaned from the differences in returns per megalitre of water between different farm outputs. At present, more than 40 per cent of irrigation water goes to low value pasture activities.

Work by the Murray Darling Basin Commission for 1993-94 found that average gross margins per megalitre ranged from about \$100 and \$120 for soybeans and lucerne respectively, through \$180 and \$200 for rice and wheat, \$550 for tomatoes and over \$1000 for winegrapes. The top margin was over \$5000.

These figures suggest that water transferred out of broad-acre cropping into winegrapes or stonefruit, for example, will boost rural profitability. There is not infinite scope for doing this of course – for example, the cost of water is not the only factor determining the profitability of a crop. But the substantial increase in wine exports in recent years, up 25 percent in volume terms in the last year alone to a record \$813 million, gives an indication of what can happen.

In the past, water rights were permanently attached to land and thus could not be traded or shifted. This prevented farmers from responding to new market opportunities, impeded productivity, prevented more fertile soils from being brought into production, and worked to lock in rural poverty. As the competition policy reforms are introduced, these problems can be overcome.

Governments are presently at various stages in introducing intrastate trading regimes. In those States where trading exists, the benefits are significant. In the Victorian horticulture and dairying industries alone, the projected benefits of intrastate water trade are about \$50 million a year in additional agricultural output.

Trading *between* States is also being introduced. While early implementation problems are currently being ironed out, interstate trade has the potential to provide further significant benefits to the rural economy. For example, the Murray Darling Basin Commission is presently conducting a trial trading project between NSW, Victoria and South Australia that will be extended to include irrigation districts. The first permanent interstate trade was finalised in September 1998 – a 249 megalitres transfer between a citrus orchard in Wentworth, NSW to a grape enterprise in Nangiloc, Victoria. The citrus farm was using up to eight megalitres of water an acre, but the Nangiloc development will use only 2.5 megalitres per acre (*The Age*, 21 September 1998).

Interstate trade will bring substantial benefits – especially in drought years. Traded water would help preserve the highest value crops, which would be of national as well as State and regional benefit.

## 3.6 Other NCP reforms

While local government reform, regulatory reform and water reform all offer the potential for significant benefits to rural communities, the rural sector is also poised to benefit from a number of other NCP reforms:

- energy reform has delivered cuts in power bills of 25 to 30 per cent for some businesses covered by the national electricity reforms. Meanwhile, gas haulage prices in Western Australia will fall by 19 per cent, and by up to 60 per cent in NSW by the year 2000 (NCC 1998a). To date, the bulk of these benefits have been reaped by large industrial consumers. But with the phased energy reform timetable now underway, small businesses and households, including rural co-operatives and farmers, will soon have access to cheaper electricity and gas.
- rail reform is delivering cheaper freight rates. For example, rail freight rates in Western Australia have fallen by around 42 percent in real terms since deregulation in 1991-92, and by around 13 percent in Queensland. Meanwhile, rail freight rates for the Perth - Melbourne route fell by 40 percent, and service quality and transit times improved, following the introduction of competition in 1995. Rail services overall are about 11 per cent cheaper in real terms compared to 1991-92 (NCC 1998a, SCNPMGTE 1998).
- port authority service prices fell by 23 percent in real terms between 1991-92 and 1996-97 (SCNPMGTE 1998).

The Commonwealth Government's tariff reduction program is another example of the potential benefits of open trade to rural communities. Tariff reform has led to cheaper costs for imported farm machinery, vehicles, spare parts and fertilisers, improving the competitiveness of primary producers. At the same time, the shift towards freer trade internationally has improved market access for Australian exporters, creating opportunities for maintenance or growth in rural incomes.

