

**GOVERNMENT RESPONSE TO THE
PRODUCTIVITY COMMISSION REPORT ON
THE IMPACT OF COMPETITION POLICY
REFORMS ON RURAL AND REGIONAL
AUSTRALIA**

August 2000

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The interests of rural and regional communities are an important consideration in the development of Government policies. Many of our rural industries are highly competitive internationally and comprise a significant proportion of our economy. The Government's prime focus in assisting Australia's regions to realise their potential has been to deliver sound macro and microeconomic management of the Australian economy.

However, questions had been raised about how rural and regional Australia was being affected by National Competition Policy (NCP). With this in mind, the Government asked the Productivity Commission to report on the impact of competition policy reforms on rural and regional Australia. The Commission was asked to examine the economic and social impact of competition policy and related infrastructure reforms introduced at the Commonwealth, State and local government levels, and to identify measures to increase the flow of benefits or mitigate any transitional costs arising from the implementation of competition reforms in these areas.

The Commission's Report is a comprehensive examination of NCP and provides a strong endorsement of this policy. The Commission found that, in addition to benefiting the Australian economy overall, NCP benefits rural and regional Australia as a whole, with both consumers and the business sector benefiting from reforms. The Commission's modelling of selected NCP reforms estimates that these will continue to provide a sustained increase in Australia's income and in the living standards of Australians.

The Government welcomes the evidence of benefits to rural and regional Australia. Large users of electricity in country Australia have enjoyed significant reductions in usage charges. Real gas prices have fallen by 22 per cent on average and the extension of the gas network has created opportunities for new and existing businesses in rural Australia. Rail reforms have produced significant benefits, particularly for users in country Australia, with national freight rates falling 16 per cent in real terms, and port authority charges have declined by 23 per cent – these provide a considerable benefit given the significance of mining and agricultural exports to rural communities. Competition in telecommunications has seen long-distance call prices fall by 25 per cent. At the same time, the number of retail postal facilities in rural and remote Australia has increased and more flexible retail trading hours have been of net benefit to consumers and appear to have increased employment, including in country Australia.

The Productivity Commission found that many parts of rural and regional Australia are growing, with increased employment and raised living standards. Regional Australia's population has increased in the past three decades and maintained its share of the total population. The decline of population in some regional areas largely reflects non-economic factors such as demographics and changing lifestyle preferences. The Commission noted that the early effects of competition reforms have favoured metropolitan areas more than regional areas, and believed that there is likely to be more variation in the incidence of benefits and costs among country regions than in metropolitan areas. However, as the benefits of competition reforms continue to flow through the economy, the Commission anticipates that virtually all regions will gain through increased income as a result of NCP reforms.

Communities in rural and regional Australia are being affected by a range of influences, such as the long-term decline in global commodity prices, technological innovation and changing consumer preferences. Though NCP is just one factor, the Commission describes it as having become a scapegoat for some of the effects of these broader influences on rural and regional Australia.

Similarly, the Commission also found that NCP was not responsible for a range of (state) government policies that were the cause of concern in regional areas. These included: asset sales and privatisation, compulsory competitive tendering, contracting out, removing community service obligations, local government amalgamations, and reductions in welfare or social services.

The Government endorses the thrust of the Commission's recommendations, which are directed at improving the way in which NCP is implemented, and believes that measures adopted will increase community understanding of NCP, and improve its implementation and operation, ensuring that the full benefits of reform are realised across the whole country.

In large part the implementation of NCP is the responsibility of State and Territory governments. The Prime Minister will write to Premiers and Chief Ministers, asking them to consider the issues raised in the Report and the recommendations.

In addition, the inter-governmental agreements forming the basis of NCP are being reviewed this year. The review is being conducted by an inter-governmental Working Group, including a local government representative, in accordance with terms of reference agreed by Heads of Government. The Commonwealth, the States and the Territories will be able to consider a number of the Report's recommendations in the light of the Working Group's Report.

The following are the Commonwealth Government's official responses to the Commission's recommendations.

REPORT RECOMMENDATIONS

Recommendation 1

All governments should take steps to ensure that the information they provide about their National Competition Policy undertakings is:

- accurate in terms of both its content and relationship to other policies; and
- publicly available in a readily accessible form and is provided to those implementing, and those most likely to be affected by, National Competition Policy reforms.

Government Response

The Government will continue to make available all information on the Commonwealth's undertakings under NCP, and provide detailed information on how NCP interacts with related policies.

The Commonwealth publishes a detailed annual report outlining its progress implementing the range of NCP reforms. For example, in relation to the legislation review programme, the report identifies terms of reference, the nature of public consultation undertaken, the availability of the review report and its main recommendations and the Government's response. Forthcoming reviews are also identified.

In addition, the NCC's assessments of the performance of governments in meeting NCP reform commitments are publicly available.

The Government agrees with the Productivity Commission's finding that NCP is sometimes incorrectly blamed for difficulties faced by communities in rural and regional Australia. The

Government believes that access to accurate and detailed information on the issues will improve the operation of NCP by increasing community understanding and encouraging informed discussion.

The Commonwealth will raise this issue with the States and Territories with a view to proposing that full information be made available to those who implement NCP reforms, and to ensuring that the benefits of NCP are not clouded by the incorrect attribution to NCP of unrelated policy decisions.

Recommendation 2

All governments should publish and publicise guidelines which:

- outline the purpose and scope of the ‘public interest’ provisions of the Competition Principles Agreement; and
- provide guidance on how the provisions should be interpreted and applied.

The common set of basic principles for application of the ‘public interest’ test which is intended to be developed jointly by governments also should be published and disseminated widely.

Government Response

The *Competition Principles Agreement* (CPA) establishes that jurisdictions are free to consider a broad range of factors in examining various reform options. In addition to efficient resource allocation, these issues include those associated with employment growth, regional development, the environment, consumer interests, welfare and equity. This provides for the full range of benefits and costs to be considered in establishing whether a particular course of action will provide a net benefit to the community as a whole. This process essentially embodies the public interest test.

This flexibility provides for Governments to apply a different emphasis to particular factors contained within the public interest test depending on the particular circumstances they may be addressing.

The Commonwealth notes that the National Competition Council (NCC) released a publication entitled *Considering the Public Interest under the NCP* in November 1996. The Centre for International Economics and the NCC subsequently released guidelines for NCP legislation reviews in February 1999. However, other jurisdictions have also prepared their own documentation. For example, Queensland released comprehensive public benefit test guidelines in October 1999.

The inter-governmental review of the NCP agreements is considering the application of the public interest test established by the relevant clauses of the CPA.

Recommendation 3

Governments should require major legislation reviews to go further than simply determining compliance or otherwise with National Competition Policy principles. Reviews should be based on genuine public input, be conducted in a transparent manner, outline the likely distribution of costs and benefits, and inform interested parties why and how reform, or maintenance of the status quo, will lead to superior outcomes and performance than the alternatives.

Government Response

The Government agrees with the Commission's recommendation. Reviews need to be both comprehensive and accessible to those who are affected by outcomes. This will require that both positive and negative impacts of proposed NCP reforms on regional communities continue to be assessed and identified in the application of the public interest test to which all NCP legislative reviews are subject.

Improved community understanding will assist in ensuring that reviews are based on genuine public input. In turn, open and transparent reviews will help inform the community of the nature and effects of the NCP reforms.

Public awareness of and participation in a review is crucial to the success and ultimate acceptance of a review's findings. Accordingly, the Office of Regulation Review's model terms of reference for legislation reviews specify that the terms of reference should be made publicly available, and include requirements to advertise the review in newspapers, to consult with key interest groups and affected parties, to specify a reporting date (depending on the complexity of issues to be considered), and to publish the findings of the review.

The Commonwealth Government now requires that Cabinet submissions seeking to implement new policies and programmes include a Regional Impact Statement. This has helped to identify potential adverse impacts on regional areas. The Commonwealth will encourage the States and Territories to adopt similar assessment processes.

Recommendation 4

In the case of reviews of anti-competitive legislation, which may have significant impacts extending across jurisdictions, the benefits and costs should be weighed in terms of the interests of Australians as a whole.

Government Response

The Government agrees with the Commission's recommendation. The Government considers that costs and benefits should be identified on a national basis. At the Commonwealth level, there is a requirement for a national public consultation process in relation to legislation review processes. This provides for contributions from all interested parties, including other jurisdictions.

Furthermore, a national outcome can be encouraged through the use of inter-jurisdictional review processes.

The Competition Principles Agreement already provides that where a review raises issues with a national dimension or effect on competition (or both), the party responsible for the review will consider whether the review should be undertaken on a national (inter-jurisdictional) basis. Where

this is considered appropriate, other interested parties must be consulted prior to determining the terms of reference and the appropriate body to conduct the review. National reviews do not require the involvement of all jurisdictions.

Considerable work is already undertaken through the COAG Committee on Regulatory Reform (CRR) in relation to identifying and ensuring consistency of outcomes for those reviews with national implications. The CRR has been charged by Heads of Government to coordinate any NCP legislation reviews that have national or cross-jurisdictional impacts. This provides for a consistent review process and, at a minimum, a sharing of information between jurisdictions conducting similar reviews.

For example, national reviews have been, or are in the process of being conducted, in relation to mutual recognition agreements, agricultural and veterinary chemicals legislation, pharmacy legislation, food acts, drugs, poisons and controlled substances legislation and the regulation of architects.

Recommendation 5

The National Competition Council should no longer be asked to conduct legislation reviews.

Government Response

The establishment of the National Competition Council (NCC), and its role and functions, was agreed by the Commonwealth, the States and the Territories in the 1995 Competition Principles Agreement. The Commonwealth notes that the conduct of legislation reviews by the NCC may overlap with the Council's more significant function of advising the Commonwealth Government on jurisdictions' compliance with NCP obligations.

The review of the NCP inter-governmental agreements is required to examine the need for, and operation of, the NCC, including the roles the NCC should undertake and its relationship with the Council of Australian Governments.

The Commonwealth has decided that no further legislation reviews will be referred to the NCC pending consideration of this matter by the inter-governmental review of the NCP agreements.

Recommendation 6

At this juncture, there should be no across-the-board extension of the National Competition Policy target dates.

Government Response

The 1995 Agreements established an ambitious and far-reaching reform programme. Within the broad targets of the Agreements, each jurisdiction has had flexibility to schedule its own programme of legislation reviews.

The Commonwealth notes that where original timeframes for NCP-related reforms have proven not to be feasible, COAG has agreed to new timetables – for example,

to provide for full implementation of the national electricity market, and for water, gas and road transport reforms.

The Government is committed to maintaining the benefits of effective competition reform and therefore does not favour an across-the-board extension of NCP target dates. It will consider whether there should be some adjustment of NCP target dates in the light of the review of the inter-governmental agreements.

Recommendation 7

All jurisdictions should ensure that their regulatory agencies responsible for the oversight of National Competition Policy-related reforms are subject to periodic independent review to ensure that they are performing appropriately.

Government Response

As noted in the response to Recommendation 5, the NCP inter-governmental review is examining the need for, and operation of, the NCC, including the roles the NCC should undertake and its relationship with COAG.

The Commonwealth also notes that regulatory agencies such as the Australian Competition and Consumer Commission and the NCC are subject to ongoing scrutiny through annual reporting requirements and regular Parliamentary scrutiny.

As most of the recently established regulatory and prices-oversight agencies are State or Territory bodies, the Commonwealth will draw this issue to the attention of the State and Territory Governments.

Recommendation 8

All benefit–cost studies of major new water infrastructure investments should be publicly available and clearly identify the nature and magnitude of any social and environmental benefits and costs.

Government Response

The Commonwealth supports this recommendation. The requirement for a public statement of all costs and benefits, and likely distributional impacts, associated with a particular proposal will encourage rigorous assessment processes, effective reform and greater public understanding of the underlying policy objectives.

It is noted that the recently revised COAG water reform framework establishes that jurisdictions are to conduct robust independent appraisal processes to determine economic viability and ecological sustainability prior to investment in new rural schemes, existing schemes and dam construction. Jurisdictions are to assess the impact on the environment of river systems before harvesting water.

In assessing jurisdiction performance in meeting this commitment, the NCC requires that policies and procedures be in place to robustly demonstrate economic viability and ecological sustainability of new investments in rural schemes prior to development. Furthermore, the economic and environmental assessment of new investment must be opened to public scrutiny.

The COAG water reform framework seeks to establish a consistent, integrated and transparent assessment process. While implementation of the agreed reforms is essentially a matter for the States and Territories, the Commonwealth will seek to facilitate this objective, consistent with the agreed reform agenda.

The Commonwealth notes that it is not an objective of the COAG water reform agreement to prevent the States and Territories from making investments in new water infrastructure, and that there may be sound economic and social reasons for doing so. In such cases, the justification for such investment must be transparent.

Recommendation 9

Governments should rely principally on generally available assistance measures to help people adversely affected by National Competition Policy reforms. The effectiveness of these measures should be kept under review.

Government Response

The Government is committed to ensuring that those who are adversely affected by change, regardless of whether it is as a result of policy decisions or other factors such as technological change are given the assistance required to adjust to this change. It agrees, in principle, that generally available assistance measures are the most appropriate form of assistance.

General assistance measures have a number of advantages. They allow all those adversely affected by changed circumstances to be treated equally; they allow the net effects of reforms to be addressed; they concentrate on those in genuine need; and they support individuals and families rather than a particular industry. They are also generally widely understood and already in place.

However, the Government acknowledges that there is a need to keep these measures under review. Where general assistance measures are not considered effective the Government will consider specific adjustment assistance to facilitate change, as discussed in the response to Recommendation 10 below.

Recommendation 10

Where governments decide that specific adjustment assistance is warranted to address any large, regionally concentrated costs, such assistance should:

- facilitate, rather than hinder, the necessary change;
- be targeted to those groups where adjustment pressures are most acutely felt;
- be transparent, simple to administer and of limited duration; and
- be compatible with general 'safety net' arrangements.

Government Response

The Government agrees with the Commission's recommendation. Though the costs of a reform may be concentrated, this should not prevent its implementation if it would nevertheless be in the

public interest. NCP properly requires that reform measures involve a net benefit to the community as a whole.

Adjustment assistance should be aimed at helping individuals make the transition to the new environment, smoothing the path for the adoption and integration of the reforms, and not at maintaining the status quo or hindering or distorting the desired outcome. The gains from competition reform will be fully realised only where resources can effectively move to activities where they can be used more productively.

Assistance that facilitates change can play a significant role in ensuring that the net benefits of reform are fully realised. The Government therefore endorses the general principles identified by the Commission.