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SENATE

SELECT COMMITTEE ON THE SOCIO-ECONOMIC
CONSEQUENCES OF THE NATIONAL COMPETITION
POLICY

**Reference: Socio-economic consequences of the national competition
policy**

TUESDAY, 18 MAY 1999

PERTH

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SENATE
SELECT COMMITTEE ON THE SOCIO-ECONOMIC CONSEQUENCES OF THE
NATIONAL COMPETITION POLICY

Tuesday, 18 May 1999

Members: Senator Quirke (*Chair*), Senators Coonan, Lightfoot, Margetts, McGauran, Mackay and Murray

Senators in attendance: Senators Lightfoot, Margetts and Quirke

Terms of reference for the inquiry:

To inquire into and report on the National Competition Policy, including:

- (a) its socio-economic consequences, including benefits and costs, on:
 - (i) unemployment,
 - (ii) changed working conditions,
 - (iii) social welfare,
 - (iv) equity,
 - (v) social dislocation, and
 - (vi) environmental impacts;
- (b) the impact on urban and rural and regional communities;
- (c) its relationship with other micro-economic reform policies; and
- (d) clarification of the definition of public interest and its role in the National Competition process.

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Committee met at 9.03 a.m.

AUSBURN, Mr Paul, Board Member, Pilbara Development Commission

MARTIN, Mr Dennis, Head, Projects and Infrastructure, Pilbara Development Commission

SINCLAIR, Ms Anne, Principal Policy Officer, Pilbara Development Commission

CHAIR—Are you people familiar with how these committees function?

Mr Martin—We have the documents in front of us telling us what the process is.

CHAIR—Good. There is a two-page spiel here that I do not want to have to do. Basically it says what our terms of reference are, which I am sure you are familiar with. The other one is to say that you can feel free to say what you like here because your evidence is covered under parliamentary privilege and that means that you are immune from prosecution. With that, I now welcome the witnesses before us this morning.

We do prefer all evidence to the committee to be given in public but, should you at any stage wish to give part of your evidence or answers to specific questions in private, you may apply to do so and the committee will consider your request.

I invite you to make an opening statement and, at the conclusion of your remarks, I will invite committee members to ask you questions. I will introduce the people around the table. I am John Quirke, the Chair of the committee. Senator Ross Lightfoot, the Deputy Chair, is here also. Senator Dee Margetts is here. Also, we have Senator Alan Eggleston who is observing the proceedings here this morning. Did you hear all that?

Mr Martin—Loud and clear.

CHAIR—You are from Belfast, Dennis?

Mr Martin—Lately. Born in Cork, brought up in Belfast.

CHAIR—That is fine. You are from both sides of the border. If you or any of the witnesses would like to make an opening statement, for the sake of *Hansard*, before you start to speak, could you say your name so that we can make sure that we get a proper recording of the whole thing. Over to you.

Mr Martin—Prior to the hearing today, the Pilbara Development Commission made a contribution to the Regional Development Commission's submission that you received about where National Competition Policy was perceived to affect regional Australia and, in this case specifically, the Pilbara. That was what you might call tripartite in that we hosted two sessions of meetings in the Pilbara with the Productivity Commission under the chairmanship of Professor Sloane. Those two hearings involved local business, local authorities and community representatives. The third leg of this is that we made a specific presentation to

the ACCC on the question of fuel in the Pilbara as opposed to Perth and Western Australia. It was part of the full inquiry into LPG prices in the state.

Lastly, we made a submission on petrol prices in the Pilbara directly to the Regional Development Commission. So there are, if you like, four components of where the commission had sat or where it has participated in providing inputs relative to national competition policy, if that is a reasonable introduction.

CHAIR—Thank you very much. Would the other witnesses like to make a statement?

Mr Ausburn—I am interested in this because I have operated a business in Karratha since 1976, and later in Hedland and Carnarvon. I have seen what big business and deregulation of trading hours, et cetera, has done to smaller businesses in the Pilbara and regional areas. I think it is about time governments stopped the downsizing of small businesses and the closure of small business by regulation, and protected small operators, not just doing anything and everything that is wanted by major businesses, like the national three in the retail trade and the major fuel companies.

We are also seeing what fly-in fly-out has done to the development of the regional area, how it has made the regional area not a place for big businesses. They just fly people in, they earn money and take their money down to Perth, where I suppose it is easier for governments. That is probably where I am coming from.

CHAIR—Thank you, Paul. Anne, do you have anything to add to this?

Ms Sinclair—No, thank you.

CHAIR—Senator Margetts, would you like to ask a few questions?

Senator MARGETTS—I understand a number of the issues in relation to LPG prices. You are probably aware of the fact that I helped to push that along. In relation to national competition policy, what has been the source of information on that policy in the Pilbara? How much is understood about the mechanisms, the processes and so on of national competition policy?

Mr Martin—I would like to try to answer that question, but I am not quite clear what you are asking. We have had a plethora of information on it over the last six to nine months. What specifically are you seeking to get an answer to?

Senator MARGETTS—A number of witnesses have said to us that they are very concerned about the general move towards privatisation, corporatisation, downsizing, outsourcing and so on, and they see that that is not separate or cannot be separated from the actual legislative changes that occurred in 1995 under national competition policy. Part of what has been mentioned by witnesses such as the Chamber of Commerce and Industry—and I guess it is a general criticism that they have made—is that people do not really understand what national competition policy is and that it is so good for them, and that the criticisms are based on a lack of understanding of what national competition policy actually is.

You said you have had a number of pieces of information over the last nine or so months. Was there much coming to you before that? It was 1995 that the legislation went through. Did you understand much of it before then? It is not a criticism—I am just trying to find out.

Mr Martin—Anne can give her views as well, but in my view—and I am a bit shorter in terms of the time I have been here—it appeared to be somewhat out of the blue, at relatively short notice. It did not appear to me as if it was a process in terms of those responsible for economic development in the region—and you can take that as covering politics in state parliament and federal parliament. I do not think there were ever specific warning signs of what the implications would be until it got closer to the point of reality up here in terms of economic rationalism, I guess, 12 months ago.

Senator MARGETTS—What kind of particular issues that came under national competition policy were specific to the Pilbara? What kinds of pressures or deadlines did you have to respond to under the national competition policy process?

Ms Sinclair—A paper was put together by the Regional Development Council. That was in about August last year. The Pilbara Development Commission had been aware that there was information around about the national competition policy because local government in the region had had a number of quite extensive workshops and had information about how they now had to operate under national competition policy. The Pilbara Development Commission had been involved on the edge of those workshops. But those things were before Dennis and I had joined the Pilbara Development Commission. In terms of actually bringing people together to talk about it, August last year was really the first time, I understand, that people in the Pilbara were aware that this was an issue that now needed to be addressed.

Originally, in preparing for that submission, we brought together a number of business people. Then people certainly started to talk about how they had started to feel the impact of national competition policy. There were some specific examples, which are in that submission that the Regional Development Council put to you, that were raised in those consultations that the Pilbara Development Commission held.

Senator MARGETTS—For the purposes of today's hearing, because we would like to ask some further questions, can you outline what those main issues were?

Ms Sinclair—They were mainly from small business people in the town who talked about contracts. There is a specific one relating to cleaning, where a cleaning contractor had been doing work on, I think, a 10-year contract.

Senator MARGETTS—Is that with the Australian defence forces?

Ms Sinclair—It was issues like that, where they had always been involved in that contract and they received no notification that there was any change intended.

Senator MARGETTS—We heard evidence on that yesterday. Other issues that came up?

Ms Sinclair—Other issues—and again they are documented—were in relation to the detention centre, where a consortium of businesses in Port Hedland had tendered for the provision of food to the centre. My understanding from the people who gave us that information was that they had worked on looking at creating jobs and so on. Again, that particular contract went interstate and it went to much larger organisations who had much better access to services like freight and so on.

The people in the region can see the broader issue, that, okay, on a national basis that is more competitive. But in terms of a commitment to ongoing support for regional Australia, those sorts of things had a huge impact because there was a loss of jobs and because jobs were not created. But there were also some other spin-offs that could have come out of that, like perhaps that could have brought more food buying power into the region, and those sorts of issues, which just seem to be overlooked under the terms of national competition policy.

Senator MARGETTS—What is the situation with your local hospital? Do you know what the contractor situation is for supplying meals to your hospitals and to other services like that?

Ms Sinclair—No, I am not aware of that.

Mr Ausburn—I want to cut in on something that Anne was just saying; I do not think it has been said strongly enough. The national competition policy has not taken any consideration whatsoever of the implications of regional development. It has looked at the dollar value, the economics of it, but never at the social impact of the unemployment and the downsizing of industries in the regional areas for the saving of a dollar. As Anne said, the detention centre is a typical example: it was going to be \$1.2 million worth of work in Port Hedland. That is a fair amount of local injection of money to the local industries in Port Hedland. That never happened; it went to wherever it went—to the eastern states, I think it was, from memory.

It is fine for governments just to look at the dollar value on it, but it is about time they started looking at the social and structural aspects of the regional areas. We are 1,200 miles away from Perth and nobody is really giving us a fair chance to compete on a level playing field. They are looking at the dollar value, but they are not looking at the region itself.

Senator MARGETTS—Do you know how much higher the local quote was? Does anyone know what that differential was between the price quoted by the local contractors and that large national body that got the contract?

Mr Ausburn—No, nobody in the room does, but whether it is a dollar value or not, you are not comparing apples with apples if you are only looking at the dollar value.

Senator MARGETTS—The reason I am asking is because it came up in the hearing yesterday that there is supposed to be a policy that there should be a 10 per cent tolerance for local contractors. That obviously does not cover all the potential multipliers that a local contractor might provide for your community, but there is supposed to be a tolerance of around 10 per cent for local contractors recognising the benefits of that. So I was curious as to how far different the local quote might have been.

We are also aware of the fact that sometimes large contractors can get the whole state wide detention centre contract and they are able to carry losses in particular areas. You mentioned the local council: were there specific instances where the council's programs, policies or by-laws needed to be changed that you know of?

Mr Ausburn—I was on local government going back three years when some of these initial meetings were starting to be held. One of the major issues—you talked about natural gas earlier on—was on fuel price levies in the Pilbara, and this is something that the CSSA has been running with for many years. The price of a litre of petrol in Port Hedland is about 86c. In Perth I think you will find it is about 70c or 71c—I am guessing.

The interesting fact is that the first port of call for the majority of fuel into Western Australia from Singapore is either Derby, Port Hedland or Dampier, which means in theory that our fuel should be cheaper, and the local government has been pushing that for many years to no avail. The fuel companies say, 'That is just the way it is. You do not take the volume'. But the volume has got nothing to do with it. In sea miles, we are still 1,000 miles short of Perth, so the costs should not be any higher than Perth. Even if it is only at the port of Dampier, it should be equal to that of Perth. But it is not for some reason, whether it is policy, government inaction or the big companies making more profit out of the regional areas. These are issues that could make a huge savings to businesses in the regions, but everybody is just totally ignoring it and overlooking it.

Senator MARGETTS—So if I am reading you correctly—and please correct me if I am paraphrasing incorrectly—the way the Trade Practices Act is administered by the ACCC, it does not seem to protect you on what you think are undue high prices in instances like gas and fuel, but it does seem to require some changes in other areas which may detrimentally affect the regional, social and other aspects of the Pilbara. Is that what you are saying?

Mr Martin—The ACCC have taken a stand with regard to the LPG question, largely because it is clear that the dilemma that has been caused by the vertical integration process is controlled by two companies in Perth. They have grasped the metal on that, although obviously we are still waiting for that report.

You are aware, from what you are already involved in, that you are looking at so many cents in Melbourne against 32c in Perth and against 58c in Port Hedland. That tells you what control can do. The question of the prices is one that probably is going to be too big for anyone to take on. I have had feedback from Treasury on this because I did the paper to the Regional Development Commission on this one.

The situation is that deregulation, as it has happened, and the proposed changes to the prices and franchises act, effectively means that some companies, as the leases mature, are taking control of every fuel station from Perth—with a few exceptions—and Kalgoorlie right through. It will effectively end up controlled by two companies as the leases mature. The question of deregulation is a nonsense in the Pilbara because how in goodness could anyone compete? To attempt to stand-in as a freestanding operator in the fuel business from Kalgoorlie through to the Northern Territory border would be economic suicide.

Senator MARGETTS—The problem there is that there are no effective laws in relation to anti-trusts, monopolies or oligopolies. Is that what you are saying?

Mr Martin—What I am saying is that, when I spoke to the Treasurer's office on this six months ago, they said, 'We realise what you are saying with regard to deregulation and, by definition, National Competition Policy, and where it philosophically sits.' The response that we got was, 'We know it will not do you any good, but it is not going to do you any more harm than you are already undergoing'. That really means that the thing does not have the influence or people listening who are prepared to recognise that deregulation means actual monopolies and cartels in remote locations, but they do not seem to be able to do anything about it.

Senator MARGETTS—I might defer to some of my colleagues and come back later because we have a bit of time and it is an interesting line that we are developing.

CHAIR—Before we start, could I seek the indulgence of the senators. Is it all right if Senator Eggleston wants to ask a question?

Senator LIGHTFOOT—That is fine.

CHAIR—If you feel you want to join in, Senator Eggleston, it is the view of the committee that that is all right.

Senator LIGHTFOOT—I have some questions and maybe you could weave anything you have to say—

Senator MARGETTS—Could I say that, having been at the end of those mikes, even rattling paper and cups cuts out the mike.

CHAIR—Dennis, we are wondering whether you are speaking too close to the mike? It is omnidirectional, if that is the right word. It is breaking up here. It is voice actuated, so it is taking half a second or so before your voice comes in each time you pause. It might be that, if you speak back from the mike, it will be better. Are you receiving us loud and clear?

Mr Martin—Yes.

Senator LIGHTFOOT—Firstly, is there any aspect to the NCP that is working? Is there any saving grace for NCP that you could tell the commission you would like to be retained and can embrace?

Mr Ausburn—As you say, I have operated small businesses in the Pilbara for nearly 20 years. I have not seen any advantages for the Pilbara whatsoever. It think it has been horrific for the regional areas.

Senator LIGHTFOOT—You have also worked in and have an interest in Carnarvon. Has it worked in Carnarvon at all?

Mr Ausburn—I would be guessing, Senator. I have not seen any indications. The majority of my business operations are in the Pilbara. I do run a business down there, but it is an arm's length business. The businesses in the town of Carnarvon say that it has just come out of its worst summer period for many years. In terms of what is driving that, I really do not have an answer. Port Hedland is much the same. Karratha is very much the same. I can definitely say that it has affected the regional area, right across, for the last two or three years, excluding Port Hedland when they had the contractors in town. Definitely Carnarvon and Karratha, and the whole region, have been going back. I put that down to a fair few factors: the fly in-fly out, the FBT and the national competition act for a bit. The FBT is having an effect where local governments have to pay FBT on housing and have to increase the rates. There are a myriad of things that are making life more difficult and more expensive in the Pilbara, in this region anyway.

Senator LIGHTFOOT—So you are saying that fringe benefits tax and fly in-fly out are directly linked? In other words, if you remove the fringe benefits tax, does that necessarily mean that people would become more established? Would workers stay in Karratha, Port Hedland and other areas of the state if FBT were removed? Is that what you are saying?

Mr Ausburn—Most definitely. I am quite disappointed in Reith. The Chamber of Commerce set up a meeting with him in Perth.

Senator LIGHTFOOT—Was that Peter Reith?

Mr Ausburn—Yes. He took on board the fact that we had put a fairly heavy presentation to him about the effect of FBT on small business. His reply to that was that, if the tax came through, they were going to remove the FBT on the mining industry.

Senator LIGHTFOOT—If the GST tax came through?

Mr Ausburn—Yes, then they would remove the FBT on the mining industry, which is fantastic for the mining industry—but it puts small business another 10 miles behind the game. It is hard enough for small businesses to keep staff when big carrots are being offered; for example, family airfares to Perth twice a year, airconditioned houses, et cetera. The list is endless. Small business cannot compete against that.

Then Peter Reith comes out and says he will remove FBT for the mining industry, which they have already done for the pastoral divisions. That is great for them. But everybody in government appears to forget that small business employs somewhere between 75 and 80 per cent of the people in this country. For some reason, we just keep on getting kicked in the guts.

Senator LIGHTFOOT—I understand what you are saying and I empathise with you. What about the larger picture with respect to the consumer in areas like Karratha, Port Hedland, Carnarvon, Derby, Kununurra, et cetera? Is there any evidence that the consumer is better off with the advent of big business? Obviously there is a cost to small business, but is there any evidence that, because of the purchasing power of big business, the consumer is better off?

Mr Ausburn—Yes, there is. The products in the major supermarkets like Coles and Woolworths are cheaper than the smaller businesses can afford to sell them for. Naturally enough, if you have a look at the Pilbara's price surveillance, you will see that in Roebourne and in the smaller towns a basket of goods is more expensive. But is it the job of government to allow competition to the extent of unemployment? Or should there be a balance, where employment and the social factors must be looked at?

We have crime and social problems on the increase Australia wide. That just happens to coincide with the deregulation and the breakdown of Sunday trading, for one, and extended trading hours, for one. Up here it is more so the case than in the cities. I think Perth is about the only one that has not got deregulated trading hours to a certain extent. To go on with that, we have regulation of trading hours in Perth that looks after the trading hours for the major supermarkets. In Perth I think they are allowed to operate from six to six.

There is no regulation here in the Pilbara or above the 26th parallel. So we have a stupid situation in Karratha and in Port Hedland, where we have two supermarkets that are operating from five in the morning through to midnight. They are not only operating those hours, which small businesses cannot compete with, but also starting to introduce more and more lines that small business supermarkets used to carry. It has come to the stage where people do not need to shop when the shopping centre is open. They can go into the shopping centre whenever they want and pretty well buy anything they want at any time. If the government thinks that is a good thing for the public, then it is being very short-sighted. In the long run, when there are no small businesses keeping bigger businesses honest, the service will deteriorate and the prices will go up.

Senator LIGHTFOOT—Paul, is that more something that has been brought about by the deregulation of trading hours, which is a state responsibility, rather than the national competition policy?

Mr Ausburn—More than likely, Senator. It is not a deregulation of trading hours; it is an anomaly in the state of Western Australia. We have never had any regulation above the 26th parallel. It needs to be looked at. Whether you say that it is a state issue or a national issue is irrelevant. We are all part of the Australian business community, and we are not being protected or looked after in the same way that other parts of the state and other parts of the nation are.

Senator LIGHTFOOT—So, as a spokesman for small business or even just as a spokesman for your own small businesses, Paul, are you suggesting then that the state ought to look at the re-regulation of trading hours above the 26th parallel?

Mr Ausburn—I most certainly do, Senator. I brought this to the attention of Peter Foss when he was the Minister for Fair Trading. He said, 'There are no laws above the 26th parallel, and I do not think the state government will ever introduce any because that is not competition.' Unfortunately, I still say that governments, state and federal, are seeing a short-term solution which is going to cause a major long-term problem.

Senator LIGHTFOOT—Paul, do you think that your colleagues understand the reason for the national competition policy and the ramifications and the benefits of it?

Mr Ausburn—I would have to suggest that some do, but I would not think that the majority would.

Senator LIGHTFOOT—Where does that fault lie, Paul? Does that lie with the lack of an education process? If it is a Commonwealth initiative, then it rests with the Commonwealth.

Mr Ausburn—The fault lies with nobody other than the fact that small businesses are very busy. We were going to have Gloria Sweetland here as well. She has a small business, but she is possibly too busy to get away.

It is fine for bigger businesses to sit back and say, 'Make time.' Because of the competition that small businesses are finding themselves against and their smaller profit margins, the harder it is to achieve the goal and the Australian dream of owning your own business. From my business perspective, it is getting harder and harder to make that dream come true because of the three major players in the bigger picture—Coles, Woolworths and Franklins. You can even go into the McDonald's scenario, which has just opened up in Karratha and in Port Hedland. They have national buying power to buy their products cheaper than any small business would ever dream of.

The typical example—which I can quote figures on—goes back at least 12 months. We used to stock coke in our stores, which we bought from the state Coca-Cola distributorship. At the time, we were buying cartons of cans of coke at \$23.30. We went into Woolworths next door and bought the same amount of cans for \$13 off the shelf. So people come to my store and see me selling cans of cool drink for three times as much as they can go into Coles or Woolworths and buy them for, and they assume that we, the small business, are ripping them off. We approached Coca-Cola with this and they said, 'It's tough luck. You buy millions of cartons like Coles and Woolworths do, and you'll get the same price.'

Senator LIGHTFOOT—What about an extrapolation of that driving out of small business? Is there any evidence that you could give the committee that prices have risen once small business has been driven out by larger companies?

Mr Ausburn—No. At this stage that has not happened.

Senator LIGHTFOOT—Do you think that scenario is possible?

Mr Ausburn—Naturally enough, the scenario of a monopoly situation is possible. We see it quite often on current affairs programs in Sydney, where they do price checks on a chain of supermarkets. There was an example on a current affairs program within the last month-and-half of a supermarket where they had a greengrocer. A product was being sold by a Woolworths store or a Franklins store, or whatever it was, at least a dollar a kilo cheaper than the identical product of a Franklins three kilometres away where there was no competition with that supermarket. Where there was a greengrocer in the shopping centre, the supermarket was 50 cents or a dollar cheaper than the greengrocer until that greengrocer went broke.

Senator LIGHTFOOT—What about the national competition policy? Does what you have just said mean that the prices between the outlying areas of the Pilbara, about which you speak with some experience, are getting closer to the prices in the metropolitan area now, allowing for transport costs?

Mr Ausburn—In the main chain supermarkets?

Senator LIGHTFOOT—In the major chains.

Mr Ausburn—Yes, one would have to agree. That is a fact.

Senator LIGHTFOOT—What about the NCP? Is it saleable in the Pilbara? If it is saleable, what does it mean to people? Does it mean that it is driving out small business and that, generally speaking, small business are opposed to it but that, if the education process were to get down to mums and dads and the consumer, they would probably agree with the NCP? Or do you think there is such a feeling against the demise of small business in major areas like Karratha-Port Hedland that ordinary folk, if I could describe them as that, would be opposed to the destruction of small business?

Mr Ausburn—Going back to the scenario of mums and dads, as you put it, if they were educated to see the benefits in the short term of how much better it would be, they would jump at the opportunity. I go back to my belief—though there is no evidence to say it—that, once you drive out your small businesses, the prices will go up. It is inevitable.

Senator LIGHTFOOT—Just let me change tack for a while. Do you have reticulated gas in Karratha-Port Hedland?

Mr Ausburn—You are joking, aren't you?

Senator LIGHTFOOT—I take that as a negative, but I had to ask it for the sake of *Hansard*. Isn't Karratha-Port Hedland adjacent to one of the biggest natural gas reserves in the world?

Mr Martin—The answer to your question is obviously yes, but we can help you out a little bit further on that. We have reconvened a task force in the Pilbara Development Commission inside the last month to revisit the question of reticulated gas for both Karratha and Port Hedland in the light of the changes to the legislation that are currently going through both houses of state parliament. The first meeting of that task force is scheduled for mid-June. I am on the executive of it and it is chaired by Graeme Rowley from Hamersley Iron. Our first meeting is taking a presentation from the Office of Energy, post a change in the legislation.

Senator LIGHTFOOT—How do you see the NCP applying to giving you cheaper gas prices? Or do you see it as of no benefit to operate under the guidelines of NCP deregulation? Do you see the reticulation of the two towns of Karratha and Port Hedland being imminent or hastened? Or do you see it with no positive benefit whatsoever?

Mr Ausburn—My understanding of the reticulation cost of Port Hedland and of Karratha is that it is a user-pays scenario. The cost of putting the reticulation onto the two towns and the amount that the company that put them on would recoup is just non-viable. I cannot see that ever happening with the way the user-pays set-up is structured.

Mr Martin—Just to try to answer you a bit further, we will not know what we are looking at, in terms of potential costs, now that the legislation is going to change to allow private operators. I am sure you must be cognisant of the fact that the only information that has ever been forthcoming from that has been probably the one source that would have been responsible for the reticulation. That is the main reason for revisiting the whole question of feasibility of reticulation. The change in the legislation has prompted us to look at it. The second factor influencing it is our understanding of the increasing technology relative to the use of reticulated gas in the area of refrigeration and, specifically, airconditioning.

Senator LIGHTFOOT—What about the generation of electricity? Has that been changed over to natural gas yet or is that still operating on diesel?

Mr Ausburn—Power stations in the Pilbara are gas operated.

Senator LIGHTFOOT—So there is some benefit there. Has that been reflected in a retreat in some of the prices per unit?

Mr Ausburn—Not that I am aware of. There have been no reductions in power costs.

Senator LIGHTFOOT—So you have a commodity that is, by any measure, considerably cheaper as a medium for generating electricity that is replacing a commodity that is more of a pollutant and yet there has been no reflection in the reduction of unit costs to either business or domestic users.

Mr Ausburn—Even in the morning where they used to have a split tariff, it has been taken away from businesses here in the Pilbara. I think if you operate your businesses down in south Geraldton you can get a reduction from 19c down to 5c to operate your businesses in those hours. My understanding is that it has even been removed here in the Pilbara.

Senator LIGHTFOOT—So you are paying one standard high rate for your use of electricity with no benefit during off-peak or off-base load hours.

Mr Ausburn—We are paying 19c a unit.

Senator LIGHTFOOT—So that is a 19c a unit flat with no reduction either after midnight or at off-peak hours?

Mr Ausburn—I know that we used to have an off-peak but I have been told by business—I have not checked it myself, but it is easy enough to check—that it has been removed because of the user-pays scenario. Western Power here in Port Hedland has to make profits and it was unprofitable overall to do it.

Senator LIGHTFOOT—I just have a couple of questions to go. With respect to one of the longest privately owned railways in the world, the Hamersley line—and you mentioned Mr Graeme Rowley, who is in charge of the Hamersley rail in the Pilbara—what are the chances of the use under the NCP guidelines of the Hamersley railway line?

Mr Martin—I am not entirely up to speed with what is going on directly between the mining companies and government on that issue. I think Anne may have something she would like to say on that.

Ms Sinclair—I did have discussions with Graeme Rowley on this issue when we were preparing our submission. I am aware that Hamersley, when the Productivity Commission was here, had their own submission.

My understanding is that at this stage they are still saying that they are not interested in being involved. As Dennis said, that is something that Hamersley have been running separately from the submission of the PDC, the Pilbara Development Commission. But they certainly were prepared to comment initially saying they were extremely concerned and saw that as impinging on things like commercial confidentiality and so on. But I am sure those issues have been raised separately somewhere else.

Senator LIGHTFOOT—What about the longer Mount Newman line of BHP? Does that fall in the same category, that there may be some ‘confidentiality’ reasons why it should not be open to other users?

Ms Sinclair—Yes. That is our understanding, Senator.

Senator LIGHTFOOT—Does that also apply to the much smaller Robe River line as well?

Mr Ausburn—From a small business perspective—maybe my naivety comes through—I find it amazing that a government that does not own the project or own the line can step in and suggest that somebody else uses something that is not their infrastructure. It is like the government making legislation that allows somebody else to come in and run my bakehouse the hours that I am closed. I find it quite offensive that the government even thinks that they should have the right to use somebody else’s infrastructure, no matter what it be.

Senator LIGHTFOOT—As I recall the state agreement, the enabling act with respect to Robe River, Hamersley and Mount Newman, they were obliged under that particular agreement initiated by Sir Charles Court way back in the 1960s. I do not think it is a matter of the government forcing a company to open up its business in a way which you say could be extrapolated to, say, a bakehouse. It was part of the agreement set up by Sir Charles 30 years ago—or longer—that directed that those companies ought to open up their line at an appropriate time. If there is some reason why they should not because of maintenance or because of competition or because of any other reason, I am sure that would be validly of concern.

But, Dennis, I wonder if it is practicable for you to come back to the committee with something that is more advanced than what we have here this morning with that evidence. I

think national competition policy with respect to the agreement, if I am correct, would be the part that dictates to it, and not the national competition policy alone that dictates they open up their mine. I wonder whether Mr Graeme Rowley would be obliging enough to come back to the committee with respect to an update on that dual or multiple use of those lines.

Mr Martin—I am quite happy to raise that, Senator, for you.

Senator LIGHTFOOT—Thank you very much. Apart from saying that, there seems to be at least some antipathy towards the national competition policy. None of you speakers who have kindly contributed to this morning's debate have come up with any positive effect—and I am not saying that that is my view necessarily—that you see national competition policy contributing to the benefit of the Pilbara and your region in any way. I do not want to put words into your mouth, but is that correct?

Mr Martin—I will help you this way. You focused yourself somewhat on the retail sector relative to potential benefits. Paul has already flagged to you what the implications are downstream. If you take that specific retail sector out of the equation, particularly when you look at things that have already been covered like LPG, like petrol, which have in fact ended up being the opposite—cartels or monopolies, the fly-in, fly-out, which is destroying residential opportunities in the Pilbara—it is hard to see where there is any segregation between national competition policy and regional economic development. It is difficult other than that one area of retail selling, as far as I can see.

Senator LIGHTFOOT—But that was negated, I understand, on the hypothesis at least—if not evidence—that the retail sector would climb back, that the higher prices would climb back once the smaller competition was eliminated.

Mr Martin—With respect, Senator, that confirms my views that you will get an interim glitch, a comparable Perth situation, but once everyone is removed other than the two or three operators, you are again left to market forces in a remote area. There will be no protection. It confirms what I am saying. Nothing can flow and benefit the two other areas I have referred to with regard to fuel, except vulnerability.

Senator LIGHTFOOT—Could I thank you very much, Dennis, for the time you have spent with Anne, Paul and me.

CHAIR—No-one has mentioned the services provided in terms of telecommunications up your end of the world. Do you have mobile phones up there?

Mr Ausburn—We have mobile phones that operate within a 20-kilometre radius of Port Hedland and within a 40-kilometre radius of Karratha and nothing in between, which is a gap of roughly 200 kilometres.

CHAIR—Are they digital services?

Mr Ausburn—Yes, they are digital services.

CHAIR—Who provides those services? Are they provided by Telstra or are Vodafone and Optus up there as well?

Mr Ausburn—Just Optus and Telstra operate in the region.

CHAIR—What is the general view of the hardline services provided to residents up there and to businesses in terms of telecommunications?

Mr Martin—The commission has received federal funding through RTIF to put the Internet into the remote parts of the region that do not have it, and it will be at local call rate. The geographical percentage that we discussed with regard to Telstra's universal service obligations still apply. Territorially, 95 per cent of the Pilbara would be without telecommunications and five per cent would have telecommunications. Therefore, the remote areas still have the same problems. That is not the equation on population, of course.

Senator MARGETTS—Do you have any trouble attracting rural doctors to Port Hedland?

Mr Ausburn—I believe that all regional areas, West Australia wide, have much the same problem. Going back over 18 months, I know that Karratha has had a major problem in getting private doctors in the town. We have a very modern hospital in Karratha with no residential doctor, which is quite ludicrous when we have got such major industry onshore and offshore with the possibility of burns with gas and so on. I am just guessing but I think there are two residential doctors operating at the Hedland hospital. As to private practitioners in Hedland, I am unsure; I have lived in Hedland only for the last four months. But I know that in Karratha we have had major problems over years getting doctors to regional areas.

Senator MARGETTS—Rural doctors have cited national competition policy restrictions on cooperative medical services and collective bargaining with local hospitals as deterrents to providing regional services. Perhaps your residential doctors might fit into that. Have you had any discussions on those kinds of issues?

Ms Sinclair—No, we have not. We invited a broad cross-section of people to come and talk to us, but doctors did not. Either they were too busy or they did not see it as an issue.

Senator MARGETTS—Has the Pilbara Development Commission been involved in reviews of legislation undertaken by the state government? Some that spring to mind are the indicative reviews of the state agreement acts and perhaps any other reviews that may have taken place under national competition policy. Has your organisation been asked to give its opinion on such things, for instance, as the review of the state agreement acts? That was initiated under the National Competition Council, but it would have taken place from the Western Australian Commerce and Trade.

Mr Martin—I think the work that was done in regard to the regions on that particular matter was covered by Commerce and Trade through the arm of the Department of Resources Development. I believe that any work was carried out through them.

Senator MARGETTS—That is interesting because of some of the issues. They were indicative acts. They just picked out three indicative acts to find out whether or not the special arrangement between government and big business created problems for small business and other competitors in the community. I imagine there would be quite a few people in Port Hedland, in Karratha and in the general community who might have some information about the impacts of the special arrangements with big business or the impacts on them operating as a business.

Mr Martin—Paul may wish to comment on that, but it is my opinion that, while certain processes and exercises take place in regions like the Pilbara on matters like this, the question is about the impact with regard to big businesses and the dialogue with them. To give you an example of that, we are currently working on something that involves Senator Eggleston with regard to fringe benefits tax. That is in relation to small business specifically, which Paul has consistently referred to. In that case, the question of the alleviation that came through for the mining sector was something that was done way above any discussion on a local basis—that is, a regional basis—such as in the Pilbara. It was outside of our control, if I could put it that way.

Senator MARGETTS—What kind of information has been available about the process of any of these reviews? Can I assume that, for instance, if I am talking about the review of state agreement acts, which of course people in the Pilbara probably know more about than most people in Western Australia, how aware are you of the process that these pieces of legislation are being reviewed by? What impacts are there likely to be on your area?

Mr Martin—I think it would be fair to say that, in terms of the dialogue that takes place, the CEO here would be in dialogue with Commerce and Trade.

Senator MARGETTS—Right. That seems quite extraordinary, I guess. I know that, as a politician, I have a lot of trouble getting on top of where those kinds of reviews are as well. I guess I assumed that at least your kinds of entities would be asked for opinions or you would be asked to network and get opinions on the impact of the way certain kinds of state agreement acts operated. I think Goldsworthy Iron Ore was one of the agreement acts. I would think people in Port Hedland would probably have an opinion on how those kinds of things operated.

Is it fair to say that, on things like national competition policy, Port Hedland has mainly had contact with the Department of Resources Development and not necessarily had much direct contact with the National Competition Council or the ACCC? I know you mentioned that you have had contact with the ACCC over the gas crisis inquiry, but is it fair to say that you have not had much direct contact with either the ACCC or the National Competition Council on other aspects of national competition policy?

Ms Sinclair—I think that would be fair to say. It was not until we put together the paper for the Regional Development Commission that we became aware of the National Competition Council. The only sort of public information that has been available and that has provided an opportunity for people in the region to have a say was with the visit by the Productivity Commission. Before that, I think it was something that, for most people, was just experiential, in the sense that it was impacting on them and they were starting to talk

about it. When the Pilbara Development Commission said they were putting together this submission and, subsequent to that, the Productivity Commission visited, a lot of people, locally, came out of the woodwork to talk about it.

If I could just go on with that in terms of some of the issues that Senator Lightfoot was raising—and it has been touched on by both Dennis Martin and Paul Ausburn—about what we can do to assist people to understand the benefits of national competition policy or to better inform them about its impact, I think it just goes back to the fact that it is people's experiences. The bottom line is that there are a lot of people in the region who really like living in the region, who want to go on living in the region and who want their children to grow up in the region, and they want good facilities.

The sorts of impacts that people have seen have made them very anxious in that, as soon as decisions are made on things like national competition policy, companies and small business are pushed into making decisions and perhaps five workers have to leave the town. I understand that, if you are looking at Sydney, five workers is not very many, but in a place like Port Hedland it is. It can mean 20 people moving out of the town and that has an impact on your health and education services and on other community infrastructure. It is very important for the town to be a good place for people to live.

Although that has been at the bottom of what Dennis and Paul have been saying, I think it needs to be actually stated, because that is what it is about. It is about the quality of life in the region—but that is not to overlook the economic issues. However, that is still the point where people are mostly coming from in their response to something like national competition policy.

Senator MARGETTS—There is a question here about whether governments should factor in regional impacts when considering tendering out. You have quite clearly answered that today in a number of different ways, but what methods or mechanisms do you think governments ought to use to change policies like national competition policy, or the way the act operates, or the way decisions are made within the act, so that they can factor in the impacts on regional areas, especially in remote and regional places like those in Western Australia? What mechanisms do you think they should be using in making those kinds of decisions?

Mr Martin—That is probably one of the best questions that I have heard this morning in that it links to what I think is a tripartite arrangement. It makes no sense to look at national competition policy unless it has got a major input from the decision makers responsible for regional economic development on a state by state basis. They have got to be linked and that linkage—it has got to involve linkage—has to involve the specific hubs of the communities in those regions. So that makes it a four-way hub.

State, local and federal government regional development responsibilities are central developments inside the specific regions that are affected. If you look at something that has an overall benefit for the good of Australia and say that you are still trying to deal with regional development, and yet you do not factor it into the equation, you have got a problem. It does not work.

CHAIR—I thank Senator Margetts and all our witnesses this morning. We will close off this particular part of the hearing now. Again, I thank all the witnesses.

Proceedings suspended from 10.09 a.m. to 10.30 a.m.

FISHER, Mr Eliot Russell, Chief Executive Officer, Shire of York

CHAIR—Welcome. We do prefer all evidence to the committee to be given in public but, should you at any stage wish to give part of your evidence or answers to specific questions in private, you may apply to do so and the committee will consider your request. I invite you to make a brief opening statement and at the conclusion of your remarks I will invite committee members to ask you questions.

Mr Fisher—Thank you for inviting me to address you this morning. I will touch briefly on the area that I come from. The Shire of York is approximately 100 kilometres east of Perth in the Avon Valley. It is the oldest inland town in Western Australia, with a population of about 3,200. It currently enjoys a growth rate of around six per cent, which, compared with the region which is growing at 0.3 per cent and a state growth of 1.6 per cent, shows you that it is a reasonably viable and exciting place in which to live.

Our rate revenue is about \$1.2 million and our total revenue in fact is about \$3.4 million. We are about 68 per cent autonomous, which means that we are still enjoying federal assistance grants and raising money from our own resources. The traditional agricultural base of the land, which was grain and sheep, is changing with the lifestyle of smaller blocks with more intensive and diverse agriculture. The area has a number of fairly low socioeconomic groups within it and there are quite a few welfare participants. The median age of those in the area is 34, which is a bit older than those in most areas.

The problems that we are facing in local government in the country, particularly in the Avon region from which I come, have been discussed at length with chief executive officers, mayors and shire presidents for some time. To that end, we have actually had a number of meetings which have included our state politicians. We are suffering all the same changes in the area that you have probably heard about extensively from the Western Australian Municipal Association and others. It is fair to say that we have lost two banks; we have suffered losses as a result of the changes to the main roads operation, the network contracts and so forth; and, without labouring the point, all of the things that you have heard about from other country authorities are affecting us.

The issues that I want to mention that concern me greatest are these. The first one is the proposal inherent in the national competition policy that, at the end of the day, the user will pay. It is simply not possible to achieve that, and I suspect cross-subsidisation will stay for as long as we have welfare support within our society. This poses a couple of problems to local authorities. The sort of problem that it poses to us is the difficulty of charging realistic fees and charges for our services and actually recouping those costs. There is, no doubt, plenty of room for structural reform in the way we do business, and some of those things are already being addressed. But, at the end of the day, it does not matter how much rationalisation we do of equipment or our methodology of work, we will still need to address those things as regards the people who do not have the capacity to pay.

The second thing is that most of us are quite confused about national competition policy in the bush. We get glossy pamphlets and we get people releasing information from the city which tells us that national competition policy is here and how we should implement it. We go to seminars on it when we can. But there is nobody actually actively helping us to deal

with national competition policy, to put things into perspective, to take the benefits from it or to address the shortcomings of it as they affect rural Australia. We feel confused about it and many of my colleagues have probably adopted the view that it is just too hard and hope it will go away in due course. However, I think it is fair to say that it will not just go away. We need to develop systems to at least take away the confusion and to assist us to take the benefits of it and to address the disbenefits.

I suppose the next problem we get is that we face the issue of who is going to pay for that. Most country shires, like mine, are about 68 per cent autonomous, which is a ratio which gives some indication of whether or not you are self-supporting—I could give you the way that is worked out later on. If we are not able to fully fund our own operations at this time, any adverse impact on that in the future will make it worse. If we lose people from our area—and we are in a healthy position—it will reduce the services we can provide and reduce the viability of those services.

The compensation payments we got this year were about \$3,500, which was nice but would in no way address the sort of work that is needed to realistically tackle national competition policy in the local council. We are being told that structural reform is the way to go in Western Australia. One of the things about structural reform and the amalgamation of local authorities is that it will reduce representation. There are no guarantees that it is going to have a beneficial effect on the people that live in the country.

The other great problem we face is trying to do something about developing our centres. Regional development is all the go and has been for years in Western Australia. There is a report called *Country Towns—A Future or Funeral?*, which came out in the late eighties—and I am sure you have probably seen it or your staff certainly could have seen it. One of the issues that came out in that report, which was written nine or 10 years ago, is that it said things like:

If services are not maintained in country areas, more people will drift to the city creating further demand for physical and social infrastructure. . . . Social problems such as family breakdown, street kids, and crimes against the person, will multiply.

They were telling us that 10 years ago and I can assure you that is exactly what has happened in Western Australia.

The other thing that they said at the time is that economic development is the essential catalyst for retaining people in and attracting people to country areas. The evolving situation sees a large number of towns starting to be affected, particularly when no resources other than rural activities exist to maintain employment. They are exactly the sorts of problems that we are facing. The problem is that we do not have the ability with our own resources, even with the best intentions in the world—and we do have an economic development committee which meets and attempts to track things. We cannot give any benefits like they have in other parts of the world to get these industries started.

In October 1996, *Global Incentives for Regional Industry* was published by our regional development council in Western Australia. One of the things that they were asking in this was about what happens in other countries. What happens in other countries is that to get

country towns up and running they are given enormous incentives. In Portugal, for example, I think the capital grants are in the 70 per cent mark.

I do not think that anybody in rural Western Australia expects a handout, and I do not think that any local authority wants that. What we do need is to be given the tools to address some of the things that we need to address. Some of these things are: being able to sustain ourselves; being able to develop our areas so that we are self-sustaining; being able to address the issues of national competition policy; and being given some help to understand those implications. By and large, we need to build some strength into our communities so we can survive and we need to at least address the importance of some of the things that are happening on a global level.

Senator MARGETTS—You mentioned the several meetings. Were you at that hustings last year in Northam?

Mr Fisher—I do not know if it was called the hustings—

Senator MARGETTS—Probably not.

Mr Fisher—but there were certainly a number of senators available at that meeting, and I think you were there as well.

Senator MARGETTS—I was indeed. The reason why I am referring to that is that, if I recall—and the shire of Northam kindly sent through the list of questions for us to deal with later—there were 20 questions that were asked by various shires throughout the wheat belt area. I think 14 out of 20 of those actually related to issues of privatisation, headworks charges and elements of the implementation of national competition policy. I was surprised; that is an extraordinary level of concern within your wheat belt area. If I am not mistaken, there was not a great deal of actual knowledge of national competition policy within the shires at that stage. Would that be a fair assumption?

Mr Fisher—That is true, and that is part of what I alluded to. I do not believe that sufficient effort has been made to make us aware of the implications of it.

Senator MARGETTS—We heard this morning from Port Hedland that the Western Australian Municipal Association has conducted some information seminars. Have any of those happened within your area?

Mr Fisher—To my knowledge, the only place where that occurred was in Perth, and I attended it. It was about 18 months ago. I am sad to say that after having conversations with my colleagues, we felt that it was not as helpful as it may have been and, certainly, it did not really address the practical issues. The issue is: how do people handle this in their own small local authority where the only guy who is going to concentrate on it is probably the chief executive officer, because nobody else has the time?

Senator MARGETTS—The information that came out about headworks was very interesting, but in this document you also mentioned ‘global incentives’. Is it possible to either leave us with a copy for the committee to look at or get one to us at a later stage?

Mr Fisher—You are welcome to my copy; I am sure that they will give me another one.

Senator MARGETTS—Who has the Shire of York been dealing with on this issue of competition policy at a state or federal level, apart from attending that seminar which you said was about 18 months ago?

Mr Fisher—The only people who I have had discussions with are the Western Australian Municipal Association. I must admit that when I knew that I was going to address the committee, I rang them and asked to see their submission. I also rang the Wheatbelt Development Corporation. I have also been in touch with our local member of parliament, Max Trenordan from Avon. So I have talked to these people about it, but the only other documentation I have had are things like the clause 7 statement which has come from the Department of Local Government and Treasury.

Senator MARGETTS—Are there particular deadlines looming for your council that you are going to have to make decisions on very soon?

Mr Fisher—No, it is quite not like that because we can address the issues that are contained in the clause 7 statement, and they are administrative issues really—reviews of various documents. The real issue to me is: what is going to happen to our community? Ours is better than most—we are growing. Quite a few of the others that surround me and where my colleagues come from are not and they are really feeling the pain. It would probably have been more apt for somebody from that sort of community to come and talk to you than me because we will survive. We have gone out and set up an economic development committee and we are pursuing every avenue to bring in industry, but these places are just withering on the vine in some cases.

Senator LIGHTFOOT—I will be very quick because of the constraints of time. Do you see any merits in the national competition policy?

Mr Fisher—Absolutely.

Senator LIGHTFOOT—Could you explain those merits?

Mr Fisher—I think the thing is that this country has had war between protectionism and free trade since the early days. One of the things is in regard to national issues. We do have to address the fact that we have to be competitive in a global market. My basic issue is not the fact that we have a national competition policy; it is in the implementation of it in certain areas. We cannot apply it across the board without due regard to some of the other issues like social capital. One of the things that worries me is—

Senator LIGHTFOOT—But is that within the realm of your responsibility in respect of your ratepayers?

Mr Fisher—I think it is in the greater sense because, at the end of the day, local government has a right and, I think, a responsibility to act as the advocate of its ratepayers. Bear in mind too that lots of our ratepayers do not understand these issues. So somebody in the local area has to stand up and say, 'This is important. I need to do something about it—

raise awareness—and be conscious of it.’ But I did not look at this just from the point of view of the ratepayers. I looked at it from the point of view of somebody who lives in rural Australia and feels a responsibility.

Senator LIGHTFOOT—Would your ratepayers and your councillors agree with you?

Mr Fisher—My councillors do. I have talked to them at length. I have tried to raise awareness of this in the local press. I have been asked to report back on the subject. But, with the greatest of respect, many of my councillors, who are elected by the people, probably do not understand the ramifications of national competition policy.

Senator LIGHTFOOT—Do you think the implementation of the NCP will be a cost on your \$3 million-odd aggregated budget? In other words, is it going to affect your bottom line in a negative sense?

Mr Fisher—No, probably not ours. The thing is that because I have been trying to address the shortcomings as they impact on us, I think it is not. Also, I think that we are in a fairly unique position because of our geography and some other things. No, I do not think it is going to affect ours particularly.

Senator LIGHTFOOT—But when you say ‘ours’ you are implying that it is going to affect other local government authorities.

Mr Fisher—I do believe that it is.

Senator LIGHTFOOT—What makes York so unique that it is not going to affect it?

Mr Fisher—York is a historic town. It is one of the five classified historic towns in Australia, so people like to come in, buy old houses and do them up. The sort of people that come and do that are reasonably wealthy so it does not really matter to them if they spend that sort of money. That sustains a lot of our local activity.

The other thing is that we have 40,000 people come through our old gaol and courthouse every year. You cannot park in the main street of York at weekends because of the tourist influx. We are on the tourist route south and that sort of thing, so we are on the main line and we benefit greatly from that. But, if you are not on that main line, then you do not enjoy those benefits, and that is an issue.

Senator LIGHTFOOT—So you are implying it would cost some of your Beverley and Northam neighbours if the implementation of it was forced upon them?

Mr Fisher—Yes, for Beverley and places like that, I believe so. For instance, last year we had a \$1.6 million restoration of one of our historic hotels. We have just opened a \$600,000 skydiving centre. We are in a slightly unique situation, but that does not prevent me from being concerned for the rest of the region.

Senator LIGHTFOOT—The constraint of time is the only reason that I am not going to ask you some more questions, Mr Fisher. I very much appreciate your contribution, thank you.

Senator MARGETTS—On the headworks issue, can you give us a couple of really brief examples of differences in the increased costs of quotations in the headworks.

Mr Fisher—The best one is the Northam exercise with the AAA eggs. Once the people were advised of the cost of the headworks, they immediately shifted over to Gingin where they could put a hole in the ground to get their own water. I cannot remember what the initial cost of those headworks was, but it was mentioned at that meeting.

Senator MARGETTS—It would be useful. They were really useful figures.

Mr Fisher—We could perhaps get those for you.

Senator MARGETTS—Can you get those? If I recall, it would normally have been something like \$50,000, and then it was several hundred thousand dollars, maybe \$800,000 or \$900,000. It was a huge factor. It basically meant that several projects probably were not going to go ahead. If you can ask some of your regionals—

Mr Fisher—I will be happy to get that for you and forward it to you, which is the easiest way to do it. I know your time is short, but can I quickly say, if you do have any more questions—

CHAIR—I do.

Mr Fisher—Sorry. Go on.

CHAIR—In essence, what you are saying in part of your submission is that much of the world does not understand national competition policy, that you feel as if your community in particular is in the dark about it and that you would like to see much more solid efforts at education because this process is not going to go away, to use your words before.

Mr Fisher—That is right.

CHAIR—It is that what you are telling us?

Mr Fisher—I am saying that, yes. To enhance that, we need some practical assistance. It does not have to be money. It is an expertise. Whether we develop that through existing organisations or other places, we need to develop that expertise to be able to make the benefit. There is no point in it just benefiting the people who live on the coast.

CHAIR—Thank you, Mr Fisher. You wanted to make some final statements.

Mr Fisher—There is a whole range of issues that go through your mind about these things. One of them is that we need to think about the rural areas in regard to the productivity that exists there and also about maintaining our ability to continue to produce

those things. I am sure that some of you come from rural areas of Australia. Eighty per cent of the export income of this state comes from the rural areas. I think that represents about 26 per cent of the export income of Australia. We cannot afford to lose that export income. If we do not provide some methodology of dealing with national competition issues effectively in Western Australia, that export income will fall, and we will pay the price.

CHAIR—Thank you very much, Mr Fisher.

[10.53 a.m.]

BOSUSTOW, Mr Colin John (Private capacity)

CAMARRI, Mr Franco Antonio, Senior Vice-President, Dairy Section, WA Farmers Federation

GREEN, Mr Arthur (Private capacity)

CHAIR—I now welcome the new witnesses to the table. For the *Hansard* record, would you please state the capacities in which you appear here today.

Mr Green—I am a farmer from Boyanup and Waterloo.

Mr Bosustow—I am a rural consultant assisting Arthur Green and Frank Camarri.

Mr Camarri—I am a dairy farmer from Nannup and also a Senior Vice-President of the Dairy Section of the WA Farmers Federation.

CHAIR—We prefer all evidence to the committee to be given in public but, should you at any stage wish to give part of your evidence or answers to specific questions in private, you may apply to do so and the committee will consider your request. I now invite you to make a brief opening statement and, at the conclusion of your remarks, will invite committee members to ask you questions. Just to let you know our time constraints, we have only 20 minutes. If it is going to be an opening statement of any length, make sure that only one person is making it. We will see how we go.

Mr Bosustow—We have two statements.

CHAIR—Fine.

Mr Bosustow—I have passed out a brief summary of our submission, and I will very quickly run through it. Basically, our concern is over the impact of national competition policy on the dairy industry in the south-west of Western Australia. We believe that NCP has the potential to seriously erode the profitability and sustainability of our industry—an industry which has performed well under the current regulated system and which we believe will continue to perform well and serve consumers, processors and suppliers well into the future.

I will give a brief background on our industry. We are a very small industry; we produce only 3.86 per cent of the nation's milk; we produce high-quality milk. We do have a heavy reliance on market milk—45.1 per cent of our milk is produced as market milk, and the rest as manufacturing milk for other uses. WA dairy farmers are efficient, low-cost producers. We have maintained significant growth over the past 10 years and we supply only two large volume processors—National Foods and the Peters Brownes Group. Environmentally, dairying is one of the few industries in our region that has the level of profitability necessary to manage the natural resource base properly.

The potential growth of our industry has been identified in a state-wide survey by Bird Cameron late last year, and it stressed the importance of maintaining market milk pricing levels as the base to profitability of the industry to allow it to grow and expand, particularly to allow for growth of export markets.

The WA dairy industry has been deregulated at the retail level since 1991 and past the farm gate since 1995. Our experience with deregulation has been that in the past five or six years, once deregulation at the retail level occurred, retail milk prices have increased by 42.4 per cent, whereas returns to farmers have only increased by 26 per cent. There is a substantial difference, which is obviously made up by the processors and the supermarkets. We therefore see that national competition policy has the ability to threaten our industry at the farm gate level and it is having a huge destabilising effect at the present time. It is clear that if we concede marketing power to the supermarkets and processors, this will lead to lower farm gate prices and reduced profits. Farmers simply cannot absorb these margins or these losses.

My client base probably has an average profit factor of around 1c per litre at the present time. We see that, if prices are eroded or if lower prices are received, the main things that will happen will be that farmers will reduce their personal spending within the community. They will reduce farm inputs and the immediate response is in employed labour and contractors. They will shelve development plans and they will sacrifice natural resource management for short-term survival measures.

There is also the threat that, if a pooling system or an averaging system is put in place in a free market environment, there will be further downward pressure on prices due to oversupply. Our current system returns on average 47c per litre to dairy farmers for market milk and an average of 22c per litre for manufacturing milk. If you average that out, that is around 32c per litre. In an average situation or a pooled situation, that sends out a message to farmers that their next marginal litre will be rewarded at 32c a litre, whereas, at the moment, manufacturing milk is rewarded at 22c a litre. There is a great danger of oversupply flooding the market and lowering prices.

Banks are already contacting us. Instead of doing their future calculations on pricing at an average of 32c per litre, they are already looking down towards 28c or 27c per litre. That is their perspective of it. We therefore believe that the present system of regulated farmgate pricing is essential to the survival of the industry. That is not to say it cannot be improved on the present system but it only needs small modifications. These modifications were enunciated in a proposal to the review of the dairy industry act, and we have a copy that I would like to leave behind, if I can.

CHAIR—Thanks very much.

Mr Fisher—Briefly, we see that the demise of the industry is not an option. Dairy farming is the best possible land use on most of the farms in the south-west. The economic rationalists would have you believe that if dairying disappears we will shift into horticulture, viticulture, and it will simply be a smooth transition. It will not. On most dairy farms the soil types and climate are not suited to horticulture and viticulture. The best possible land

use is dairying, followed by beef, followed by sheep. The comparative profitability is substantially in favour of dairying. That concludes my opening remarks.

Mr Camarri—I have a couple of pages to read, and it is against deregulation and the difficulties of national competition policy.

CHAIR—It might be better to incorporate that and go straight to questioning, if you do not mind doing that.

Mr Camarri—No, I do not. That is fine.

CHAIR—Is it the wish of the committee that the document be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The document read as follows—

Senator LIGHTFOOT—Mr Bosustow, you mention at the bottom of the second page of your submission that there was a 42.4 per cent increase at the retail level compared to a 26 per cent increase to farmers. But you mentioned before that it was deregulated at the retail level in 1991 and passed the farmgate in 1995. When you talk about that 42 per cent increase, do you mean 1991 or 1995?

Mr Bosustow—Since 1991, the deregulation at the retail level.

Senator LIGHTFOOT—So there has been a reasonable increase in the rise to the farmer but not if you compare it with the rise at the retail level?

Mr Bosustow—That is right.

Senator LIGHTFOOT—Had the retail level been roughly the same at 26, would that have been a reasonable price increase or would you have thought that that was still not keeping pace with costs?

Mr Green—No. It was an astronomical increase, far greater than the actual production side of milk.

Senator LIGHTFOOT—So you are happy with the increase that you received from 1991?

Mr Green—I think so. Our organisation has always tried to keep the price of the milk to the lowest possible minimum for the public so that we can always sell more milk. As you increase the price, the volume of milk sold always goes down.

Senator LIGHTFOOT—Yes. So what has exacerbated your antipathy is the 42.4 per cent at retail level. Has this meant the consumer is not buying milk because it is too dear or what?

Mr Green—We believe it has had quite a large effect on consumers, yes.

Senator LIGHTFOOT—So, notwithstanding your advertising, the per capita consumption of milk has gone down in Western Australia?

Mr Green—Yes.

Mr Camarri—I will just qualify that to some extent. Over the last 12 months, where there has been extensive generic advertising through the ADC, the consumption of milk has gone up by about five per cent, but this was on the back of a substantial and continuing fall in consumption for a number of years up to that period.

CHAIR—What is the cost of milk, if I go down to the supermarket now and buy milk?

Mr Camarri—It is \$1.37 a litre.

CHAIR—And what does it cost for a two-litre container here?

Mr Bosustow—\$2.65.

CHAIR—Can I butt in a bit further here and give you a bit of bad news? If you were producing milk in Queensland or in New South Wales, you would be getting 56c per litre. The price over there has just gone up to \$1.26 per one-litre carton and there is an inquiry over it, because they all went up 6c in the one day—all the suppliers. In fact, the price of the two-litre container over there is about \$2.65. So, even though your prices have gone up astronomically since 1991, you blokes are actually 20 per cent worse off.

Mr Green—But we are very efficient farmers.

Senator MARGETTS—An increase of 26 per cent over 10 years is not astronomical.

CHAIR—Those are the words of Mr Green. I was not saying it was astronomical; Mr Green said that.

Senator MARGETTS—‘Astronomical’ was the word I think he used to describe the retail price increase.

Mr Green—We are more efficient farmers than Queensland by a long, long way, because we have better climatic conditions and we still do not have droughts. All those factors come into it.

Senator LIGHTFOOT—You are not as decentralised. The dairy industry is centralised.

Mr Green—No. It is centralised within that area from, say, Mundijong South to the South Coast—in that heavy rainfall area. That is the reason.

Senator LIGHTFOOT—Given that the increases here seem to be compatible with your investment and with your lifestyle—not one that I would want seven days a week, incidentally—where do you see the problem with national competition policy? How is that going to detrimentally affect your industry or your lifestyle or any social aspect of your particular—

Mr Bosustow—We see that it would basically hand over the marketing power to the two processors and, further down the chain, the three supermarkets that we supply. We have 450 or so—

Senator LIGHTFOOT—Do you have supermarkets or do the processors have them?

Mr Bosustow—The processors. We have 450 or so individual dairy farmers producing milk to basically two major suppliers.

Senator LIGHTFOOT—Do all the dairy farmers sell to the two major suppliers or do some not sell?

Mr Bosustow—Some supply other processors but it is only a very minor amount.

Senator LIGHTFOOT—What is that minor amount? Can you give a more precise figure?

Mr Camarri—There are 2½ main ones. There are Masters and Peters and then Capel dairy, based out of Capel, which is localised. It has 70 producers on one of them but, unless you are in the immediate Capel-Busselton-Nannup shire, you do not have access to that factory.

Mr Bosustow—We see the threat being that if you hand over any protection or regulation of pricing and your 450 suppliers are competing to supply two or 2½ major processors, you are in an extremely weak situation. People would suggest that that could be overcome by farmer cooperatives or the like. But the weakness there is that not all dairy farmers are going to join the cooperatives, so the processors will simply go to one or two major suppliers and start purchasing milk direct from them rather than going through the cooperative.

Mr Camarri—The other difficulty here is that farmers are subjected to the NCP process. If we achieve, as we have, a public benefit positive result, it does not follow up the chain. The processors or the retailers can say, 'We will now slash your price,' which tends to negate, to some extent—I think significantly—the original idea which was to establish a net public benefit for the farmers.

Senator LIGHTFOOT—Given that in 1991, and then deregulation again in 1995 at the farm gate, which completed, I suppose, the deregulation of your industry—

Mr Camarri—No. The market milk component, which is the drinking milk, is still regulated. Then there is the export, the manufacturing milk, which includes butter, ice cream and all those other things which are also on the local market. That is the bit that is deregulated for practical purposes. But the drinking milk is still regulated; that is what the argument is about.

Senator LIGHTFOOT—So you see NCP as affecting the residual aspect of what is not deregulated by the state legislation that was brought about in 1995?

Mr Camarri—Yes, it is very significant. That is all the talk about the price falling. With respect to Capel, in a deregulated environment they have to offer a world parity price.

Senator LIGHTFOOT—Mr Green wanted to say something about the effect on the social aspects of the industry or your life. What was it, Mr Green?

Mr Green—I have been a dairy farmer for 63 years. I left school at the age of 10. We are now in the fourth generation. I remember 1933-34 very clearly, before the then Labor government regulated the dairy industry. We lived in unbelievable poverty. There was no expansion, nothing. On the regulation of the dairy industry, our industry grew to become the second best organised industry in all the world.

Senator LIGHTFOOT—That was at the height of the Depression?

Mr Green—That was at the height of it. As the Depression was going on, the Western Australian Labor government, not the Liberal or National parties or whoever, decided on it because there was a policeman killed, a train derailed, dairies burnt down and fights and battles all the way from Armadale to Perth. The milk was tipped out. It was a terrible time. The farmers were so depressed—a country gets like Indonesia—that they fought like hell. They brought in regulation of the dairy industry and it grew from that date to become probably one of the greatest success stories in Western Australia in agriculture. If we deregulate that industry, we go back to 1933. That is without doubt. It is suggested that the price of milk will drop to such an extent under the control of the supermarkets and the processors that we will have no more say. It will be finished.

Senator LIGHTFOOT—Why? Because there are too few supermarkets and processors?

Mr Camarri—Too few processors—

Mr Green—There are too few processors. We have no other opposition in Western Australia. Then Coles and Woolworths will take control. The supermarkets will demand that the processor put it on the market at their price, because they have 80 per cent of the total food industry.

Senator LIGHTFOOT—Are the processors Australian owned or locally owned?

Mr Green—National Foods is virtually the Westpac Bank, the Commonwealth Bank and all those associated with it.

Mr Camarri—National Foods is—

Senator LIGHTFOOT—Is it an American company?

Mr Camarri—No, it is an Australian company. It was hived off Adsteam when they had all the troubles in the 1980s. It was turned into a company in its own right. Peters and Brownes is a local company.

Senator LIGHTFOOT—They are still owned locally, are they?

Mr Camarri—Yes. They are owned by Graeme Laitt. Capel dairy is part of the George Western group.

Senator LIGHTFOOT—Would you like to finish, Mr Green?

Mr Green—Yes, if I can. I want to push this so you will understand. I have one son and three other sons. They recently went into a dairy farm in Waterloo because they had to expand. They are now in debt to the point of \$1,004,000. They will meet their commitments under regulation. If it is deregulated, with the price that I believe we will receive for our milk, which will be dictated by the supermarkets, they will go broke because they have got no option. That will bust up four generations of dairy farmers—gone forever. There is no other use of that quite large farm that I know about other than dairy farming. There is nothing else in the south-west that will give the volume of money to pay back even the

interest alone, which in their case is very considerable. I cannot quote it; it will not come into my head now.

They are one of many farmers around me that will go exactly the same way. It will have a very detrimental effect on the industries that we serve right out into the wheat belt. They supply the grain; it will not be bought; the fences will fall down. You know what happens if there is not sufficient money to meet your obligations—you go to the wall. I believe that at least 60 per cent of the farmers in the south-west will go to the wall. There is just nothing else to it.

Senator LIGHTFOOT—We have only five minutes, regrettably, so I will defer to my colleague Senator Margetts.

Senator MARGETTS—Thank you so much for coming today. I recall having a meeting in Margaret River. I was actually quite surprised that a number of dairy farmers attended that meeting. They came quite long distances. They wanted to talk about issues of competition policy. It surprised me, because I did not realise how much interest or concern there was in the community. If you were liaising with those other farmers in areas like Margaret River, there is a lot of value adding potential going on, isn't there, within the dairy industry in Western Australia? Does anyone have any figures on what potential might be at risk in terms of the current move towards high value adding within the dairy industry?

Mr Camarri—I could not give you those figures straight off but whilst it is a lot, it is only a small percentage in fact. If you look at the Margaret River area, there are two factories there which do value adding. They do not use a great deal of milk, probably a couple of thousand litres a day. There are one or two out of Perth, and they are bigger. There is one that is trying to start up north of Perth looking for 10,000 litres of milk. They are not big volumes of milk in terms of the overall. That is not to say that they are not important and significant; they are.

Senator MARGETTS—If the squeeze is on producers, I am wondering whether that budding industry of highly value added dairy products might be at risk.

Mr Bosustow—It lies between the two major processors. Masters tends to have a philosophy that they are in a commodity market and they sell large volumes of either milk or milk powder direct. Peters Brownes has tended to specialise in going to the value added products such as specialty ice-creams, desserts and that sort of thing. Their factories at Balcatta are mainly concerned with the production of value added items. So if we say that Peters is taking—I am not sure of the exact figures—probably around 35 to 40 per cent of the milk produced in WA, that quantity would be under threat.

Mr Camarri—But you are referring to the small factories.

Senator MARGETTS—Yes, probably.

Mr Camarri—They ride off the back of the quota. They take milk off the farms but not all the milk—they might take 1,000 litres here and 1,000 litres there—and the farmer still has his quota and manufacture structure. He supplies them for an extra couple of cents at

manufacture price. You take that supporting structure away and they are going to have a lot of difficulties. They will be in exactly the same situation as Capel dairy where they have to come right back to world parity price to be able to survive.

Senator MARGETTS—The final issue—I know you have mentioned this—is the land use issues of dairy farming. I know there are lots of ways of managing dairy farms. What do you think the environmental cost could be if dairy margins are pushed down to the bone? What extent of potential damage are we talking about?

Mr Green—Quite astronomical because if you have no money, then everything goes backwards, you do not plant trees and you are unable to keep the necessities of protecting the environment. Our biggest worry is with the irrigation system, which is now very highly priced, but it is all right at this stage. If 40 per cent of the irrigation farmers leave the industry, that whole irrigation system will close its doors. That must be an astronomical worry for the people who took it from the government to keep it going. There is no way that we can pay more for our water and get less for what we produce. That is the big problem.

CHAIR—Thank you very much, gentlemen. I am sorry we did not have more time. Obviously you people are at the cutting edge of national competition policy. So it has been extremely useful for the committee to have had you here today. Thank you for taking the time.

Committee adjourned at 11.18 a.m.