



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

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

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

MONDAY, 17 MAY 1999

PERTH

BY AUTHORITY OF THE SENATE

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

**Monday, 17 May 1999**

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

**Senators in attendance:** Senators Lightfoot, McGauran, Margetts, Murray 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 8.33 a.m.**

**CHAIR**—I welcome everybody to this fifth public hearing of the Senate Select Committee on the Socio-Economic Consequences of the National Competition Policy. The terms of reference agreed by the Senate require the committee to inquire into and report on the national competition policy including: (a) its socio-economic consequences, including benefits and costs to unemployment, working conditions, social welfare, equity, social dislocation and the environment; (b) its impact on urban and rural and regional communities; (c) its relationship with other micro-economic reform policies; and (d) the clarification of the definition of public interest.

The committee is required to present its report on or before the last sitting day of June 1999. However, I make the observation that due to the breadth of the terms of reference and the volume of submissions received, the committee is likely to continue its inquiries after that date subject to the agreement of the Senate. Before we commence taking evidence let me place on record that all witnesses are protected by parliamentary privilege with respect to submissions made to the committee and evidence which is given before it.

Parliamentary privilege, for those you who have not appeared before a committee before, means special rights and immunities attached to parliament or its members and others necessary for the discharge of the functions of the parliament without obstruction and without fear of prosecution. Any act by any person which operates to the disadvantage of a witness on account of evidence given by him or her before a Senate committee or any other committee of the Senate is treated as a breach of privilege, and so you are accordingly protected. I now welcome Mr Murray Brown, Chief Executive Officer, of the Shire of Jerramungup.

**BROWN, Mr Murray Nelson, Chief Executive Officer, Shire of Jerramungup**

**CHAIR**—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 now invite you to make a brief opening statement. At the conclusion of your remarks we will invite committee members to ask you questions.

**Mr Brown**—Thank you. Welcome to Western Australia. You are now in the best state of Australia. The Shire of Jerramungup is located on the south-east coast of Western Australia. It is an agricultural shire with a rural base. I will not go through anything in the submission which senators may have already read, but I will point out that on a local level, from the shire basis, we have gone down the national competition trail as the legislation requires. We currently contract out various works and services such as cleaning, gardening, rubbish removal and some road works. We are also going down the road of workplace reform. We have things like workplace agreements and things like that to try to make us more efficient. Perhaps the concern that is not specifically mentioned in the submission that I could mention is the concern over the future of regional infrastructure in terms of railway lines, power, water and things like that. There is concern over the future of what I call CSOs—community service obligations—from organisations such as Telstra, power and water, et cetera.

The observation to date and the Main Roads Department example, which I used in my submission, seems to be that national competition implementation appears to favour the large companies over the locally based contractors. National competition implementation appears to be seen by some government organisations as an excuse to reduce the level of service to the area. This has resulted in a lot less local involvement for local works and services. There is also concern for local employment opportunities resulting from the national competition policy implementation.

**CHAIR**—Thank you.

**Senator McGAURAN**—I understand that you are not a supporter of competitive tendering for local government?

**Mr Brown**—We do a lot of competitive tendering. There is the problem where you get the big outside organisations that come in and beat the locals. Historically, local government has tended to favour the local tender, which is not always the cheapest tender and is not always the best. These days it is very hard to go past the cheapest tender.

**Senator McGAURAN**—Is that what you are doing?

**Mr Brown**—Yes, in most cases.

**Senator McGAURAN**—Your shire is undertaking competitive tendering, as I understand from your submission, against your will but you would prefer not to.

**Mr Brown**—In some cases we would prefer not to.

**Senator McGAURAN**—Because it is not of benefit to the taxpayer?

**Mr Brown**—In many cases it is not of benefit to the locally based contractor.

**Senator McGAURAN**—As I understand it, there are local criteria when undertaking competitive tendering. You can still read that into it.

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**Mr Brown**—Yes, you can but it is very hard when you get an elected council that is very dollar conscious. It is very hard to have a heart, so to speak.

**Senator McGAURAN**—So you take the best price and it is usually an outsider.

**Mr Brown**—For the works we have tendered out we have not set up a business unit and competed against ourselves, so to speak.

**Senator McGAURAN**—But someone has to be a winner for this. Perhaps the locals miss out on the tender or formerly when the council did it you have had to shed employment but someone has to be the winner of the competitive tendering. Who is that?

**Mr Brown**—Our experience to date—and we have only been doing it for a couple of years—is that it is normally outside organisations that spend nothing or contribute nothing to the community.

**Senator McGAURAN**—It is not the ratepayer?

**Mr Brown**—The ratepayer, I suppose, benefits indirectly. But if the community is falling down around their head, it is probably not necessarily a wise decision, is it?

**Senator McGAURAN**—I do not know. Your primary responsibility is to the ratepayer, is it not?

**Mr Brown**—That is right, yes.

**Senator McGAURAN**—Therefore, choosing the best price is in the best interest of the ratepayer and that has to have the flow-on effect through the community. The reverse could happen. If you take the worst price for the sake of maintaining localism, the ratepayer does not benefit and, therefore, is equally hurt through the pocket.

**Mr Brown**—That is true, but in small or rural areas the ratepayers contribute more than just rates. In our shire, for example, the community work well to provide other facilities that are not normally provided by other organisations and contribute both directly and indirectly.

**Senator McGAURAN**—I guess what I am trying to say is that it is a matter of priorities. If you choose that your primary concern is the ratepayer, then of course you will take the best price from whoever brings it forward. I understand what the effects of that could be, or probably are, as you have stated, but aren't you being a bit harsh? You can play the balancing act. You can get a local tenderer, the person that you would like to win it—

because of their localism, and for no other reason, of course. You can make judgments along those lines too. You do not have to necessarily burn it off for the best price.

**Mr Brown**—No, the council does not.

**Senator McGAURAN**—It does not?

**Mr Brown**—No.

**Senator McGAURAN**—It does not make those sorts of—

**Mr Brown**—No, it does not have to; I agree with you.

**Senator McGAURAN**—So why don't you?

**Mr Brown**—The council themselves, whilst they tend to accept the cheapest tender, realise that, whilst they are saving the ratepayer dollar, which is their prime concern, they are also perhaps contributing to the downfall of small local business.

**Senator McGAURAN**—That is my point. Why don't you make the choice for the local?

**Mr Brown**—Yes, a good point, I suppose. But it seems to me there is lots of pressure on—

**Senator McGAURAN**—You bite the bullet. No-one is going to come in and sack the council. You come to us and say, 'Competitive tendering, the pressure of it, has this flow-on effect.' As I understand competition policy, there is nothing to say you cannot stand up and say, 'We are choosing the local for these good reasons.'

**Mr Brown**—The council can.

**Senator McGAURAN**—So why don't you?

**Mr Brown**—It does on occasions but not on all occasions. My point really relates more to works provided by other levels of government in the area. For instance, the Main Roads example was an example in my submission.

**Senator McGAURAN**—Thank you, Mr Chairman.

**Senator MARGETTS**—As you have just mentioned Main Roads, Mr Brown, can you tell me how things may have changed in relation to main roads work in and around Jerramungup? What kind of changes have you noticed in government business enterprises like Main Roads?

**Mr Brown**—Main Roads, as my submission mentions, are going down what they call the net term contracts, which I think are nine- or 10-year contracts, to carry out all maintenance and construction in the Narrogin and the Albany regions, which cover a very large area of the Great Southern area of Western Australia. They are going to put out

tender—and they are currently going through the process—that one organisation will get all their roadworks for a nine- or 10-year period. The companies that are in the short list are all national or multinational companies. There is no local content. Most small areas of the state have local based grader operators and bulldozing contractors and these sorts of things whereas the companies that are more likely to get it will be the national or multinational companies.

**Senator MARGETTS**—Can I understand that, in your area, they will get a chunk of region?

**Mr Brown**—They will get the whole region. They will get the whole of the Albany and Narrogin regions—the main roads—and they will do everything.

**Senator MARGETTS**—In effect, they will get a local monopoly for about 10 years.

**Mr Brown**—Yes. And if they want to use local contractors, they will just tell the contractors what price they will employ them at. Recently, with maintenance, a large Western Australian company has moved in and taken over from the day labour force. They carry out minor construction and maintenance works on a hit-and-miss basis as they go around. I do not know on what basis they are paid, but the only contribution they make to the local economy is buying the occasional carton of beer from the hotel. They do not use any of the local contractors and they do not spend any money locally.

**Senator MARGETTS**—Do they set up their own camps and provide for themselves?

**Mr Brown**—Yes. All the plant that they hire comes out of the metropolitan area.

**Senator MARGETTS**—That is really interesting. Do you know of any local contractors who would normally have been given a nine- or 10-year contract in the past?

**Mr Brown**—No, not for things like road works, because you never know when you are going to have a flood. It is pretty hard to predict long term what is going to happen to your road network.

**Senator MARGETTS**—So, in some instances, are some private enterprises getting greater security than local authorities or local contractors got in the past?

**Mr Brown**—It appears that way, yes.

**Senator MARGETTS**—Can you tell me what the impact has been on things like cost or quotes for headworks in your area? Have you got any new developments or new proposals for which you have had to ask for things like water headworks or power infrastructure? Has there been any noticeable impact on what you have been quoted for these kinds of works?

**Mr Brown**—I could not say that I am aware of any instances where headworks charges are higher now than they have been. But in fairness, a lot of our developments that are in the pipeline are being held up by native title, so we have been holding ground for two years. We

have got some land based aquaculture developments and they cannot get off the ground because of the native title, which is a separate subject.

**Senator MARGETTS**—In your area, where do the Telstra service personnel generally come from? Or has that changed? Can you tell me about what your experience has been with servicing of Telstra?

**Mr Brown**—The nearest Telstra based officer is now in Albany or Esperance, which is 200 kilometres away. So when you ring up and report a fault, you are not sure whether the person answering the phone is in Cairns or in Perth, because Telstra seem to have a system whereby they will answer the phone anywhere. It has been noticeable that the service provided by Telstra in repairing faults and new phone connections is getting slower and worse. I think Telstra have a community service obligation to provide a standard telephone service to everyone in Australia or in the state, and our community believes that should now be extended to a mobile telephone service, too.

**Senator MARGETTS**—Has it always been the experience at Jerramungup that you would get your service personnel from Albany or Esperance?

**Mr Brown**—Telstra used to have three or four people based in Jerramungup.

**Senator MARGETTS**—Okay. You have mentioned your banking services. Has that changed over time?

**Mr Brown**—Not in our shire. But we must be about the only rural shire that has still got at least one bank.

**Senator MARGETTS**—Is it Bremer Bay that—

**Mr Brown**—Bremer Bay is the other town, a town on the coast. That has no banking services.

**Senator MARGETTS**—For the benefit of the committee, could you tell us how far people from Bremer Bay might have to travel to get to a bank?

**Mr Brown**—Their nearest bank could be in Albany, which is about 190 kilometres away.

**Senator MARGETTS**—Have there been any costs involved in Jerramungup being involved with national competition policy implementation and changes? What kinds of costs have been involved for Jerramungup?

**Mr Brown**—That is a good question. If you look at my submission on television, I am not sure if the national competition policy had an influence on the fact that various television service carriers now use different satellites. In the old days in Western Australia, both the ABC and GWN, which were the national and commercial channels, used the one satellite.

With the introduction of competition and the deregulation of the telecommunications industry, we now have our two main players using different satellite systems. In our shire we provide four rebroadcast transmission sites. In other words, we provide the satellite dishes and the black boxes and we hook the signal off the satellite and rebroadcast it around the shire. We provide four of these sites in the shire and, as a result of the fact that both major TV stations are using different satellites, we will have to double up on the gear. In other words, we will have a second TV dish and more black boxes to be able to get the signals to broadcast to the local communities. We have also had changes which were partly subsidised by the government when we went to digital TV from the old analog. We had to change the black boxes and reposition the TV dishes. That is an example where it has cost everyone in the community in terms of access to a television service.

**Senator MARGETTS**—We have been told by a number of witnesses that competition policy does not require that you go necessarily always for the lowest cost tender. Has the Shire of Jerramungup had any assistance? What kind of assistance would be needed to build any other elements of community values into your tendering process? How is the tendering process working these days?

**Mr Brown**—Prior to national competition policy, most local governments that I have worked for—they have all been in rural or regional Western Australia—have always had a preference for a local tenders policy of up to, say, 10 per cent, which is similar to what the state government had with some of its projects, for instance, Homeswest housing. We were told early in the piece that such a policy was discriminatory and was contrary to national competition policy guidelines so we had to abolish that policy—

**Senator MARGETTS**—Who told you that?

**Mr Brown**—I could not tell you, but it would have been either through the Department of Local Government or the WA Municipal Association. The impression spread around was that having such a formal policy was contrary to national competition policy. As Senator McGauran said, there is no reason why you cannot—there are tests that you can use to select other than the cheapest tenders. A lot of councils had that policy in writing and stuck to it religiously, whereas now you have to look at each situation on its merits and decide which is best for the local community.

**Senator MARGETTS**—I have lots of questions, but I will ask just one more. In general, national competition policy was supposed to improve competition, prices, availability and choice. In general, is it your feeling that it has been a success for the people of Jerramungup?

**Mr Brown**—Our area is too small and too isolated for it to have had much effect. The negative effects are more obvious to the community: the fewer services and the difficulty in getting things provided under these community service obligations. There are not a lot of net benefits seen at this stage.

**Senator MARGETTS**—Thank you.

**Senator LIGHTFOOT**—Mr Brown, it is nice to see you again. With respect to the big picture with national competition policy, do you think that it is of modest benefit to Australia or do you think that it is of negligible benefit? How would you put it? Look at the big picture rather than the more parochial Jerramungup benefits, or lack of benefits, that you may derive from it.

**Mr Brown**—On a state or a national basis, national competition policy has some benefits. Some of them are fairly obvious, particularly in the metropolitan area where you have a large population. It is very hard to measure because of various economic factors over the last couple of years. We have had a very low interest rate, a fairly low unemployment level and a very low inflation rate and we have picked up. Whether that is coincidence or whether national competition policy has helped a lot, I am not sure. National competition policy in Perth is probably far more practical than it is in rural areas.

**Senator LIGHTFOOT**—So your generic view is yes, it is good for Australia; it is good for Western Australia as a result of being good for the city where most people reside. Would that be correct, without putting words into your mouth?

**Mr Brown**—Yes, but I have concerns about its implementation in small country areas.

**Senator LIGHTFOOT**—I understand that, and particularly, your concerns seem somewhat magnified by the atrophy of the bush with respect to government departments, banks and things of this nature. Does the national competition policy, as a result of that, sharpen your awareness of the problems with the NCP as a result of that atrophy?

**Mr Brown**—NCP probably gets a lot of blame for things. For instance, I do not think national competition policy has had any real influence on banks' decisions to withdraw their services from rural areas, but it is all happening—everyone in the country will tell you. In the metropolitan area, I have talked to local authorities in Perth where they are concerned that banks move out of shopping centres and the total spending power of the people who go to those shopping centres is affected. They will turn around and go to another shopping centre where there is a bank, rather than go to a shopping centre where there is not. So it has an effect in the metropolitan area, too.

Yes, national competition policy probably gets blamed for a lot of things that it is not responsible for. I think some agencies in Western Australia are using the national competition policy as an excuse to lower their level of service.

**Senator LIGHTFOOT**—So there has been a retreat in population numbers in your shire, your authority, in the last couple of years?

**Mr Brown**—Our growth is mainly on the coast; in Western Australia we seem to be gravitating more to the coast. That is probably happening in our shire, too.

**Senator LIGHTFOOT**—Does your shire extend to the coast, incidentally?

**Mr Brown**—Yes, in Bremer Bay, we have a couple of hundred kilometres of coastline along there.

**Senator LIGHTFOOT**—It is a very beautiful part of Western Australia and the world.

**Mr Brown**—It is.

**Senator LIGHTFOOT**—What about the first tranche that was paid to states in 1997-1998? Did any of that find its way back to your authority?

**Mr Brown**—From the savings?

**Senator LIGHTFOOT**—Yes—the per capita grants back to the states by the federal government.

**Mr Brown**—We got a cheque a couple of weeks ago from the state government. That was our first sign of any money back to the local areas through the national competition policy.

**Senator LIGHTFOOT**—As welcome as that was, did that contra any losses or potential losses for you up to the next tranche of 1999-2000?

**Mr Brown**—Only minor. We got \$2,000-odd dollars.

**Senator LIGHTFOOT**—Is that all?

**Mr Brown**—Yes, that was all. It was on a per head of population basis, and it was 80c a head, or something.

**Senator MARGETTS**—Don't spend it all at once!

**CHAIR**—Have you spent it yet?

**Mr Brown**—I do not know. It is in there somewhere.

**Senator MARGETTS**—Send out a notice to tell everybody.

**Mr Brown**—It was \$2,000 roughly.

**Senator LIGHTFOOT**—So you have not bought a new Lear Jet out of the money?

**Mr Brown**—No. We know that next year the state government has set up a system where we are going to get a per capita grant, and it will be less than \$2,000. Then the government is setting up some funds where various local authorities can apply for specific projects. So the system is in place, so to speak. Again, it is very small dollars in terms of the return to local government.

**Senator LIGHTFOOT**—With respect to some of the questions that Senator McGauran asked you, particularly those that focused on the tendering process, isn't it true that you still can use the old phrase that used to accompany government tenders 'not necessarily the

lowest nor any tender is acceptable'? Do you still then use your discretion as to which tender you finally accept and does it not necessarily have to be the lowest?

**Mr Brown**—You are right.

**Senator LIGHTFOOT**—Do you apply that acidulously?

**Mr Brown**—Yes, but there is always a temptation when you are dealing with councillors that they want to save every dollar they can.

**Senator LIGHTFOOT**—Yes, but the big picture of saving every dollar means, if you accept a tender from outside the shire, that often a family may be forced to move out. If you have a family that is involved in earthmoving—and a lot of your budget goes on earthmoving in one way or another—and you accept a tender from outside the shire, it is quite possible that one or two families may shift on: is that correct?

**Mr Brown**—Yes, that is true.

**Senator LIGHTFOOT**—Or something analogous to that?

**Mr Brown**—There is a flow-on effect, yes.

**Senator LIGHTFOOT**—Has the shire made decisions where that sort of thing has happened as a result of what they perceived their duty to be under the national competition policy?

**Mr Brown**—I could give examples where they have made decisions both ways.

**Senator LIGHTFOOT**—Yes. So at the end of the day, I suppose you are saying that once again it evens out?

**Mr Brown**—To some degree it can.

**Senator LIGHTFOOT**—What is the biggest detrimental effect that you see with respect to the NCP? Focus on one point.

**Mr Brown**—The term I would use—and it is not so much in our local situation but statewide—relates to aggregation of tenders and contracts where they make them so big that only multinationals can have a go at them.

**Senator LIGHTFOOT**—Yes. Would you like to de-aggregate those or get them back to single tenders?

**Mr Brown**—Yes, to where you have some small jobs. With respect to a lot of the business people in the rural areas, earthmoving contractors are reasonably competent and efficient but they are not all lawyers or accountants. When you get a tender document that you have to spend a week reading and going through and preparing, it is getting a bit complicated for a lot of the small business people.

**Senator LIGHTFOOT**—Yes. What about the second tranche that, as I understand it, is partly dependent on the national electricity market? Have you thought about that and bringing it within the guidelines of the state legislation? There are myriads of acts in the states, I understand, something like 30 or 40 different acts that the state has passed with respect to NCP. Are you aware of the ramifications of the electricity costs and production of electricity in your locality?

**Mr Brown**—We are not that far from Esperance and I believe there has been a fair bit of publicity about the actual costs of production of power for the town of Esperance. They were looking at a special deal because of the high cost of producing it. I think that most people who have been around a while would be aware that, in terms of electricity, the metropolitan area of consumers do subsidise the country consumers. There is no doubt about that.

**Senator MARGETTS**—Where do you get power from in general?

**Mr Brown**—It comes from Collie or Perth or wherever the power line goes.

**Senator LIGHTFOOT**—You are on the grid, aren't you? Probably, Muja.

**Mr Brown**—Yes. Somewhere like that.

**Senator LIGHTFOOT**—You are different from Esperance, aren't you, particularly with respect to the unit cost of electricity or the cost per kilowatt hour? I understand that Esperance is, if not the highest, certainly the highest of any authority in the area and perhaps the highest in the state.

**Mr Brown**—Yes.

**Senator LIGHTFOOT**—But yours is considerably cheaper. Do you know what your unit cost is?

**Mr Brown**—No. The main cost would be the fact that we are so far away from anyone and the cost of running the power lines and maintaining them.

**Senator LIGHTFOOT**—Yes. You mean that once they come off the grid lines—the reticulation of power around your authority and not the grid lines, don't you?

**Mr Brown**—Both. We get our power from where everyone else does, but it is the cost of providing and maintaining those lines.

**Senator LIGHTFOOT**—Yes, with the exception of Esperance which generates its own power separate—

**Mr Brown**—Yes.

**Senator LIGHTFOOT**—They are not on the grid—

**Mr Brown**—That is right.

**Senator LIGHTFOOT**—You could say with some confidence that your power is cheaper per unit than the power is in Esperance?

**Mr Brown**—Yes, the cost of us having power is a lot cheaper.

**Senator LIGHTFOOT**—Do you see any big change in cost or structure or headworks of the supply of electricity to business, commerce or isolated farms with the obligatory changes brought about by NCP?

**Mr Brown**—I could see that the costs could go up. We are on the very end of the line and the problem with our power supply is that we have fluctuations. They say the power is either at full strength or you do not get it at all, which is not quite true. We get lots of power fluctuations. To the east of us, and between us and Esperance, is a shire called Ravensthorpe where they are looking at two or three mines. One of the problems with the mines is finding the energy to run the mines. The government is looking at either running gas down from the goldfields or trying to work out an efficient way of providing the mines with power.

**Senator LIGHTFOOT**—We are having the president of Esperance shire to give us evidence today at some stage. I understand there is something like 50 megawatts of power extra needed around Esperance for the Ravensthorpe development, which is quite considerable. The whole of your electricity would not equate to 50 megawatts, would it?

**Mr Brown**—No, nowhere near that.

**Senator LIGHTFOOT**—What is the problem with NCP with electricity in your shire? Is it so negligible that you are not concerned about the ramifications that power may have as a result of NCP in your shire, or is it of some concern to you?

**Mr Brown**—We are concerned that there is enough power available, that any development wanting to start up could start up without having to be delayed or deferred because of lack of access to a reasonable power supply.

**Senator LIGHTFOOT**—Is there anything else that you would like to tell the committee that is of a negative nature that the committee can ingest while it is here and take back to Canberra?

**Mr Brown**—Not really. I think most of its concerns are mentioned in my submission or we have talked about them.

**Senator McGAURAN**—Is your council in surplus?

**Mr Brown**—In terms of money?

**Senator McGAURAN**—Budget.

**Mr Brown**—We are running pretty close to the wind, but we will be all right.

**Senator McGAURAN**—What does that mean?

**Mr Brown**—We will finish just a little bit ahead.

**Senator McGAURAN**—Your budget will finish in surplus?

**Mr Brown**—Yes, by about one per cent or two per cent.

**Senator MURRAY**—You list the population of your shire as 1,400, which is very small in terms of any local government area, but your economic value is very high, isn't it?

**Mr Brown**—Yes.

**Senator MURRAY**—Do you have a view as to what the economic value of your shire is?

**Mr Brown**—I would not have a clue.

**Senator MURRAY**—It seems to me that any discussion of payments of subsidies is on a per capita basis, but this is often irrelevant. Looking at the list of the activities in your area—and I will repeat them: grain production, wool, cattle, fishing, tourism, tree growing, potato production, trial viticulture and land based abalone production—I would suspect that the gross local government economic production for your shire would be very high.

**Mr Brown**—Yes, I agree with you.

**Senator MURRAY**—To me, that means that the one-size-fits-all approach to NCP needs far more flexibility applied to it so that a distant and isolated but economically vital area such as yours gets appropriate leeway. Isn't the issue that there is not enough leeway in this policy, that there is not enough discretion?

**Mr Brown**—Yes, Senator, you are dead right.

**Senator MURRAY**—The idea of national competition policy—that is, that you deliver the greatest economic benefits and the best pricing you can—has its attractions, but not if the overall costs are greater than the benefits. Your submission says that, for your shire, the costs are greater than the benefits. Is that right?

**Mr Brown**—That is right.

**Senator MURRAY**—Let me return to the very important question that Senator McGauran put to you, because that is the nub of this. In economic terms, there is a multiplier effect from economic activity. Therefore, if work is given to the local contractor, because the people are employed locally, the supplies are drawn locally, the people shop, live and use services locally, the multiplier effect of all those can be far greater than the

narrow pricing benefit resulting from getting a lower price from the Perth based contractors. Isn't that so?

**Mr Brown**—That is true, yes.

**Senator MURRAY**—Has your council been provided with, by WAMA or by the local government ministry, or have you developed for yourselves, a kind of check list? The point Senator McGauran made was that, if you are faced with a lower price outside, the value of all those things that I have just outlined to you can be put before the council so that they can make a proper judgment as to whether it is in the economic benefit to go locally or to go to a Perth based contractor.

**Mr Brown**—The councillors, individually, would have the check list in mind when they are considering the tenders at the meetings. I would hope they would.

**Senator MURRAY**—Don't you think it would be helpful if WAMA, the local government ministry here or perhaps even a national body had developed some kind of appropriate check list so that those local benefit elements could be evaluated against the lower price element?

**Mr Brown**—I agree. I think it would be a good idea.

**Senator MURRAY**—The reason I put this to you is that it is equivalent to the economic problems we are faced with in cutting out tariffs. You cut out car tariffs and you end up with lower prices for imported cars, which benefits individual car buyers throughout Australia, but it transfers car production and car jobs from Australia to some foreign country. Effectively, that same thing is happening in your shire—that is transferred from you to Perth—and it is all very well for the people of Perth but it is not terrific for yourselves. My question to you concerns this: if that is at the core of your criticism of the negativities of this, we need a far more flexible and a less ideological application of national competition policy. Is that so?

**Mr Brown**—I believe that is so; yes.

**Senator MURRAY**—The point Senator Lightfoot was making to you was that the overall intention of national competition policy has been good but the application may be deficient.

**Mr Brown**—I agree with that statement too.

**Senator MURRAY**—Sorry, Chair, I am doing what is known as leading the witness but I am doing it deliberately because I have a very short amount of time. With a population of 1,400, in terms of the intellectual resource and the ability to evaluate these problems, you are almost on your own without the assistance of WAMA or other bodies that can do the research and think through these issues. Is that so? There is just you and a few other people to help you in the council. Isn't that so?

**Mr Brown**—Yes. We are fairly light on resources but I do not see that as a problem.

**Senator MURRAY**—Isn't it a problem when these things are sent down from high, when Canberra agrees with all the state premiers, they get it out to all the local government ministers and it is imposed on you? Unless you have support in resisting it, you end up being a victim. Haven't you been a victim, given some of the comments you are making here?

**Mr Brown**—Yes, but I think the fact that we have sent off a submission and that I am here telling you our problems shows we have enough resources for us to be able to write and tell people when we are not happy.

**Senator MURRAY**—I understand that and I was not minimising that; I meant in terms of solving the problem.

**Mr Brown**—We need someone else to work with us to solve the problem.

**Senator MURRAY**—That is right.

**Senator MARGETTS**—You would not be able to conduct a full-scale cost benefit analysis of how better decisions could be made?

**Mr Brown**—No, you would lose me.

**CHAIR**—We have run out of time, but I think the submission that you have given us has been very useful. It really does, in Senator Murray's words, come down to the nub of the question. As for the aggregated contracts that you mentioned earlier, particularly when you said that there is a process whereby government gives contracts out on an eight- to nine-year basis, how does it determine the pricing of those contracts?

**Mr Brown**—I would love to know. I do not know, but I have talked to a medium sized contracting business, L. R. Archibald and Co that are in our shire doing some work. They have been in the earth-moving business based in Narrogin, which is a regional centre of the Great Southern. They are a reasonable sized organisation, they have resources and they said that they could not get through to the stage where they were on the short list of the tenders. They did not have the expertise or the ability to be able to compete against these big companies.

**CHAIR**—These are pretty big contracts, I presume?

**Mr Brown**—Yes.

**CHAIR**—Thank you very much. I am sure that submission will be very useful to us.

[9.14 a.m.]

**MANNION, Mr Gary, Project Leader, Regional Development Division, Department of Commerce and Trade**

**MORGAN, Mr Stuart, Chairman, Regional Development Council (Western Australia); Chairman, South West Development Commission (Western Australia)**

**CHAIR**—Welcome. 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 we will invite committee members to ask you questions.

**Mr Morgan**—I would like to make a few short comments. The Regional Development Council is made up of the nine chairmen from the development commissions covering the entire state, together with two members representing local government for Western Australia, and one representative from the state Department of Commerce and Trade.

The Regional Development Council is the state government's peak advisory body on regional development issues and reports directly to the Minister for Regional Development. The purpose of the council is to promote development in all WA's regions and the coordination between local, state and Commonwealth bodies in respect of regional issues. The Regional Development Council has submitted written responses to this inquiry, as has the South West Development Commission and other development commissions. I do not wish to waste your valuable time repeating what has been said in those submissions. I would like, however, to make a few general comments.

Competition policy is one of a raft of similar reforms. Competition policy and related reforms, such as contracting out, corporatisation, privatisation, rationalisation and user-pays are all justified and interlocked using the same language and ideas. They are implemented or championed by the same agencies, have a similar impact on regional areas and are viewed in regional areas as one and the same thing. Regional impacts appear to be an afterthought for many of the competition policy reforms. Adverse impacts and solutions should have been initiated prior to implementation.

The community responsibilities of corporatisation or privatisation of agencies have been replaced by financial responsibilities to maximise profit to the stakeholders or shareholders. This is without, in many cases, a safety net guaranteeing minimum essential infrastructure and services. In this state, the directors of government trading enterprises are now charged by an act of state parliament totally with maximising profit to the state. Also, directors of privatised government trading organisations would be deemed negligent if they did not put the interests of their shareholders before the interests of the broader community. Implementation of competition policy and related reforms for government provided services should be complemented by customer service charters and by specified levels of service delivery, preferably backed up by legislation.

The concept that one overriding policy is suitable, or even desirable, for all areas of Australia and will have the same effect and benefits in capital cities and remote regions is a flawed policy. The problem lies not in the aim behind the policy—which is international competitiveness—but in how the policy is implemented. A hefty ladle of commonsense needs to be applied. I will give two examples. Firstly, the federal government's policy for the four major trading banks, known as the four pillars policy, is possibly a good policy when viewed from Melbourne, Canberra or Sydney but, from remote areas of this state, a policy of just having one bank in town is even more important. Secondly, having three or four mobile phone providers may well encourage competition in the capital cities, but it does not help remote towns get any mobile service at all.

There are other things I could mention today, but I see from your program that you will be talking to people from the dairy industry and local government, so I will not mention those areas. I would like to thank you for your courtesy in listening to me.

**Senator MARGETTS**—Firstly, you mentioned in your submission—I notice Treasury are not here today—that the Western Australian Treasury, who have the implementation role in Western Australia, have difficulty with or seem to be loathe to integrate the cumulative impacts of national competition policy and other economic rationalist changes that are occurring. Is that also your experience through the National Competition Council? What is your experience in relation to the implementation?

**Mr Morgan**—My view is that the state Treasury is probably like all treasuries around Australia. It tries to maximise its income and it takes as little notice of the social impacts of its policy as possible.

**Senator MARGETTS**—How have you experienced the review process of regulations, laws and programs? What has been your experience of the review process for implementation of national competition policy? How transparent has this been and how independent have these reviews been in Western Australia?

**Mr Morgan**—I suspect the reviews have been totally independent. I think the reviews have mainly concentrated on the financial aspects of changes in policy and take no account of the social impacts of some of those policies.

**Senator MARGETTS**—When you say that you suspect this, how much information has been circulated about the review process? How much do you know about the reviews that have taken place?

**Mr Morgan**—I spent the long weekend reading the whole COAG agreement. It has a lot of outs in it for public benefit and things like that. The problem is that, because of the times and lack of money for infrastructure, I suspect the public benefit suffers to the financial aspects.

**Senator MARGETTS**—Can you name any particular reviews that are occurring in Western Australian legislation or regulations that you are aware of?

**Mr Morgan**—There is one review going on at the moment by the Waters and Rivers Commission and that claims very heavily that it has been stimulated by the COAG agreement. I must admit that I think that claim is not correct. I do not think the COAG agreement is the necessity for the review. That is a view shared, incidentally, by one of the commissioners of the competition policy from Canberra.

**Senator MARGETTS**—What is your view on community consultation in relation to these kinds of reviews? Are all stakeholders being consulted and are you aware of any problems in relation to these kinds of reviews?

**Mr Morgan**—I think it is very difficult for the full consequences of any policy to be fully appreciated by the people that are consulted. I think it is extremely difficult; it is a complex issue. It would take almost a lifetime to fully analyse some of the consequences. Therefore, the consultation period has, of necessity, to be probably shorter than desirable, but I know of no alternative to that.

**Senator MARGETTS**—Who is your guru in Western Australia? Who would you go to to say, ‘We have a difficulty here. Can you explain where it all fits in?’

**Mr Morgan**—I would go to the Department of Commerce and Trade.

**Senator MARGETTS**—Are they helpful? Are they on top of it all?

**Mr Morgan**—I think they probably understand it better than most people.

**Mr Mannion**—It is helpful but perhaps they are not on top of it all.

**Senator MARGETTS**—So it is still a really complex process.

**Mr Morgan**—Extremely complex.

**Senator MARGETTS**—And there is difficulty in actually getting to the bottom of what is going on and how it is going on?

**Mr Morgan**—The problem, as I mentioned in my opening remarks, is that unless you put a safety net in place before you implement the policy, you are chasing your tail from then on because every single change then has to be argued at the time.

**Senator MARGETTS**—What about the pace of implementation? Have you come across some specific problems involved with the pace of implementation, the tranches and the process of review?

**Mr Morgan**—Directly, no I have not, though I suspect there have been some.

**Senator MARGETTS**—I notice that there is no representative from Planning here today, and I guess that was not necessarily your intention, but what is the to-and-fro that you know of in relation to Western Australian state planning authorities with the implementation of national competition policy?

**Mr Morgan**—I do not think there is any relationship at all.

**Mr Mannion**—I do not think it would be a criteria against which they made planning decisions in the broad. I think perhaps national competition policy would be more likely to affect local government, which of course is a separate department, and the acts and the regulations therein, rather than planning per se.

**Senator MARGETTS**—Sorry, I think what I was referring to—and perhaps I will raise it when we get to our local government association, WAMA—is that the local government act is changing, I believe, or being redeveloped to comply with national competition policy. That is not something you have been involved with at all?

**Mr Morgan**—I would prefer you to speak to the WAMA people about that.

**Mr Mannion**—As an example, for what I think is called the local purchasing contract, or some such thing, the state has a regional buying compact. That is now being extended down to the local government level, but that has to go through some sort of test to see that it conforms with national competition principles. While, by and large, the changes will be enacted, it appears to me that there is still a considerable degree of uncertainty because the decisions are most probably being made more on a political basis than on a rational economic one. So while the policy is there, national competition policy still sits there as a source of uncertainty.

**Senator MARGETTS**—What about the social impacts?

**Mr Mannion**—Of national competition policy?

**Senator MARGETTS**—Yes.

**Mr Mannion**—As the previous witness described it, I think national competition policy for things like energy reform is largely beneficial, but, as Mr Morgan said, the impacts on regional areas seem to have been an afterthought. When you do your public benefits test you have a problem in that, for example, if you are a government agency, you apply the public benefits test across the board, across the state; it is not applied at a regional level. So if most of the affected parties are in the metropolitan area, you end up with a situation where metropolitan people may benefit, they are in the majority, and they may far outweigh the number of regional people who are affected, but in fact it is they may be either relatively worse off or absolutely worse off.

**Senator MARGETTS**—So there is a cost shifting, do you think, from central bodies or private enterprises or people in urban areas to regional areas?

**Mr Mannion**—Yes, there is a lot of cost shifting going around, and a lot of benefit shifting as well.

**Senator MARGETTS**—Right. On page 3 of your report, you mention the six recommendations for reducing the adverse impacts on regional areas. We are short of time

today, but have you had any progress on getting any positive response in implementing those six proposals?

**Mr Mannion**—Are you talking to the report or to the submission?

**Senator MARGETTS**—Your report, *Implications of competition policy for regional development*, which notes that a whole-of-government regional policy framework should be developed; that there be developed an applied methodology for the establishment of standards; a regional services committee; part of payment made by Commonwealth should be passed directly back to local government; that government be encouraged to provide improved leadership and, with regard to competition policy, in developing a general model; and it should also be encouraged to develop greater transparency in determining and funding CSO. Can you notice any response or positive reaction to that?

**Mr Morgan**—I think there is a better awareness now of some of the consequences than there was.

**Senator MARGETTS**—An awareness but—

**Mr Morgan**—Still a long way to go.

**Mr Mannion**—The Regional Development Council has been closely involved in the development of a whole-of-government regional development policy. That policy came about, in part, through having to deal with things like national competition policy and the uneven distributional impacts between country and city, and also the perception that there was a threat to the quality of service and the level of access to service in regional areas. I think that is in one of those recommendations albeit, as we heard earlier in a very small way, the state government has made some small payment to local government. They have actually taken it on board which is considerably different from the stonewalling that was previously the case.

**Senator LIGHTFOOT**—Mr Morgan, you are chairman of the state's Regional Development Council which, I understand, covers nine development commissions and which, in effect, covers the whole area of Western Australia, border to border.

**Mr Morgan**—Yes. It is the only state where we have development commissions covering the entire state.

**Senator LIGHTFOOT**—Excellent. You have obviously some interest or a preoccupation, I might say, that is by and large with your nine commissions and they have a preoccupation with mining and agriculture. Would that be correct?

**Mr Morgan**—Could you restate that.

**Senator LIGHTFOOT**—Within your commissions would it be fair to say to a greater or lesser degree that the commissions headed by your chairman, or your chairs, as you call them, would have a preoccupation with mining and agriculture over and above, perhaps, most other subjects?

**Mr Morgan**—Yes.

**Senator LIGHTFOOT**—With respect to the state having 26 per cent or more of national export income, is it also correct then that we need to get it right with national competition policy?

**Mr Morgan**—Yes.

**Senator LIGHTFOOT**—What is good for Western Australia is, in effect, because of the eminent position for exports, good for Australia?

**Mr Morgan**—It certainly is.

**Senator LIGHTFOOT**—Is it in some way then that we are looking and concentrating too much on the NCP without looking at other areas that affect it—say, GST. I do not want to get waylaid with the GST, but can the national competition policy work for Western Australia—and you represent the peak body of these development commissions—without massive taxation restructure?

**Mr Morgan**—I want to avoid going down that path if I can because that is a very wide subject in its own right.

**Senator LIGHTFOOT**—I understand, and I am not going to dwell on it.

**Mr Morgan**—There are other issues, too, such as education, health and the things that go with those. They are financial matters apart from being social matters and, therefore, they are obviously related to tax. But I am not an expert on tax.

**Senator LIGHTFOOT**—We can say all we want about the NCP not working because of the 1997-98 capital reimbursement to the states from the Commonwealth. Our previous witness from the Shire of Jerramungup said he got about \$2,000 from that. Even with a novice like the Shire of Jerramungup, that is really of no consequence. Where is it then that the NCP is failing and why is it failing?

**Mr Morgan**—I think it is failing because it works on the assumption that pure competition exists everywhere and pure competition is good. The background behind the whole policy is to make Australia more internationally competitive. But if you just take the very narrow equation, you end up with the maximum majority answer which is the capital city answer, and you do not take into account the full ramifications in the country areas where, in effect, the wealth is generated. That is the problem. It needs a lot more commonsense applied.

**Senator LIGHTFOOT**—Does it then need to be a clear differential—a clear line of demarcation—between the 76 per cent of Western Australians that live between Jerramungup and Mandurah and the balance that live in the other one million square miles of Western Australia?

**Mr Morgan**—I would have to say the answer has to be a balance between the two.

**Senator LIGHTFOOT**—If it is based purely then, on a per capita grant, isn't that per capita grant—which is supposed to assist with respect to the new competition or the new view of competition for Western Australia—going to create an imbalance and further depreciate rural areas?

**Mr Morgan**—You are quite correct. Per capita grants into areas like the Kimberleys and the Pilbara are rather meaningless.

**Senator LIGHTFOOT**—In fact, when one looks at them and analyses them on a dollar basis, they assume some proportions of ridiculousness.

**Mr Morgan**—They are your words, not mine; but I do not disagree with them.

**Senator LIGHTFOOT**—I thought, because of the time constraints I would not exercise my usual diplomacy; I choose these words because of time constraints, Mr Morgan. So what area is it then that the federal government should look at, in specific terms, with respect to more equity for the regional areas of Australia—remembering that Western Australia produces an enormous amount of goods and is very fortunate to have the biggest diamond mine in the world; the biggest iron ore exports in the world; the biggest alumina powder exports in the world; 50 per cent of Australia's export of wheat; the biggest crayfish and so on; we can go on and on. I do not propose to do that, but we are very important—in a rural sense—to the rest of Australia and it seems to me that the NCP is not working and the government has to review it, quite dramatically.

**Mr Morgan**—I think that is correct, but I think it also comes back to the COAG agreement which should emphasise in far greater terms than it does the social impact of some of these policies and the effect they have in those remote and regional areas. I do not think they have been fully appreciated by the economic analysis that has been done.

**Senator LIGHTFOOT**—Is there, in your view, a formula—although I don't want you to recite one—that could work with respect to a per capita differential between the metropolitan area that I mentioned and the other areas of the state?

**Mr Morgan**—I would be delighted if that was the case.

**Senator LIGHTFOOT**—It may be. I think one could be worked out.

**Mr Morgan**—I think one should be worked out.

**Senator LIGHTFOOT**—Yes. And that is an imperative for making the NCP work.

**Mr Morgan**—It will make it better. There are other problems with the competition policy as well.

**Senator LIGHTFOOT**—If the competition policy was a dictate, and that tender process seemed to be with respect to local authorities—and you deal a lot with local authorities; they in fact become almost your clients if not de facto clients—is the tendering process one area that could be looked at by Canberra and this committee to making that easier and giving a

bias towards tendering that allows an inflated tender to be accepted? In other words, not necessarily the highest, nor the lowest tender should be accepted.

**Mr Morgan**—I think it would be a great help.

**Senator LIGHTFOOT**—Do you think that would be an impediment then, to any further drain from rural areas?

**Mr Morgan**—I do not believe there is any black and white about these things; but the points you have raised I think would improve the situation. Once again, all these things need a very strong, heavy ladle of commonsense.

**Senator LIGHTFOOT**—Yes. With respect to privatisation and corporatisation which often precedes privatisation, are there some areas of that that have gone too far? Are there other areas that could be hastened with respect to corporatisation, then privatisation?

**Mr Morgan**—I do not know of any that can be hastened or should be hastened, but we have had corporatisation here of the gas, electricity and water, and that is moving down now into other areas of government as well. There are problems with community service obligations and the definition of them. You mentioned yourself in discussions with the previous witness the uniform tariff policy and the disconnected power systems in the state. They are areas of concern and they are areas of problems.

**Senator LIGHTFOOT**—With respect to electricity, which is so vital to the maintenance of a standard of living, particularly in small country areas, could the price of electricity be standardised throughout the state as it has often been mooted over the years? In fact, there are areas of, say, aero fuel that were standardised years ago. You could buy it in the Warburton Ranges at the same price as in Jandakot. Is there some area where the government could look at electricity standardisation with respect to price?

**Mr Morgan**—There was a uniform tariff in the state on all power supplied by what is now called Western Power. That is the uniform policy. I think that came in in 1965. That policy is also in Queensland and I understand the Queensland government has reaffirmed that policy. In this state, however, that policy is up for—to put it politely—discussion.

**Senator LIGHTFOOT**—Should we revisit the area or is that being revisited with respect to that discussion?

**Mr Morgan**—I think you have to revisit the area. When you understand that if you have directors of corporatised bodies or privatised bodies and those directors have responsibility for maximising the economic return to their shareholders or stakeholders and then you think about Western Australia—and here is a copy of the disconnected system—

**Senator LIGHTFOOT**—Yes.

**Mr Morgan**—I would like a photocopy of it, but you may keep it. When you look at that—and the losses sustained in that system are \$40 million a year at the present time—are you going to have a community service obligation covering that or not? In the areas in

Ravensthorpe that you mentioned with the last witness, the transmission line losses to get down to areas like that could mean that the actual cost of power may well be about \$1 a unit, whereas the average selling price is 14c a unit. When you also look at these disconnected power systems, 70 per cent of the power cost is energy cost, 15 per cent is maintenance cost and about 15 per cent is labour cost. So the big consideration in that disconnected area is, of course, the cost of the energy. The federal government recently—two budgets ago—took up the excise on light fuel oil, which increased the cost of electricity by 8c a unit in those areas.

**Senator LIGHTFOOT**—Yes, and Esperance was one of those areas, as I recall.

**Mr Morgan**—Correct.

**Senator LIGHTFOOT**—Do you have any idea of the unit cost of electricity in Esperance?

**Mr Morgan**—I emphasise that I am not the expert on that, but I think it is probably 24c a unit.

**Senator LIGHTFOOT**—Which is about double the metropolitan areas.

**Mr Morgan**—Not quite, but nearly, yes.

**Senator LIGHTFOOT**—Near enough. This is my final question only because of time constraints. Do you consider that electricity is one of those areas that is vital not only to the proper functioning of a state but also with respect to the NCP? Should that be revisited and should there be some emphasis of time with respect to that single item?

**Mr Morgan**—For electricity and water and some of these essentials of life, there must be a minimum standard or a minimum cost for those to all the people that produce the wealth in the country areas of Western Australia.

**Senator LIGHTFOOT**—Thank you very much.

**Senator MURRAY**—I was thinking, Mr Chairman, that Senator Lightfoot's next career can be as a racing commentator: he got an awful lot into a very short time.

**CHAIR**—You never know, he may well have been one.

**Senator LIGHTFOOT**—No, not at all.

**Senator MURRAY**—Mr Morgan, we have distinguished between the population differences in regional Western Australia and metropolitan Western Australia. For simplicity, let us call it 80-20. Do you know what are the distinguishing percentages—maybe it is in your documents—in terms of gross state product? How would it break between metropolitan and regional Western Australia?

**Mr Morgan**—Ross, have you got the answer to that?

**Mr Mannion**—In fact, the Department of Commerce and Trade is on the basis of exports. The percentage is roughly reversed. About 80 per cent of exports come from outside the metropolitan area of Western Australia.

**Senator MURRAY**—Hasn't that has been one of the major problems with the implementation of this policy—a lot of the regional policies have been designed with a population perspective and not with an economic value perspective or a social value perspective?

**Mr Morgan**—I totally agree with you.

**Senator MURRAY**—That is the balance that probably needs to be brought to—

**Mr Morgan**—That is where the commonsense has been lacking.

**Senator MURRAY**—The second question I would like to put to you is this: is it probable that, given the complexity of social and regional issues, competition policy has in fact been too broad? Perhaps it needed to be more narrowly defined to those areas where it could produce the greatest outcomes because—in trying to extend it so deeply into, for instance, the daily workings of a country shire—it has resulted in negative effects whereas, when it is devoted to matters of gas, electricity and power grids, it has some applicability.

**Mr Morgan**—I totally agree with you.

**Senator MURRAY**—Have you made recommendations as to how much it should be narrowed?

**Mr Morgan**—No, we have not, but that is one of the matters that we are looking at at the moment.

**Senator MURRAY**—It would be helpful to the decisions of this committee if the narrowing was spelt out to us.

**Mr Morgan**—I think, quite frankly, we have approached this competition policy with massive enthusiasm and not very much thought in the detail. It is in the detail where the problems lie, and those problems go almost to the square of the distance from the capital cities. For instance, the situation in the Kimberley and the Pilbara is far greater than the problems in my development commission area, which is the south-west.

**Senator MURRAY**—I have been reading a lot of the literature, as you would expect. One of the problems we have is that the defenders of national competition policy are trying to defend the whole thing, instead of defending those bits that are good and then saying, 'Those bits are bad. Let's fix it.' My understanding, from your submission and your responses to the previous questioners, is that you do not reject national competition policy; you reject its deleterious effects.

**Mr Morgan**—One of the tendencies of competition policy is to go for short-term profit, whether that be a government trading organisation or anything else. Consequently, the

provision of headworks becomes a very difficult issue, because those government trading organisations no longer want to provide those headworks, or that infrastructure headwork, because it affects their balance sheet. Therefore, they say user pay and the first person in pays. Obviously, the first user of a new dam does not have to pay for the total construction of the dam, but it might be many years before that dam is fully utilised. These are the sorts of problems we are talking about.

**Senator MURRAY**—So long-term cost benefits need to be evaluated—is what you are saying?

**Mr Morgan**—Yes, very much so.

**Senator MURRAY**—One other question I want to put to you is in terms of the perspectives of policy leaders and political leaders in this area. In regional Australia you can divide it into two holdings. One set of holdings with very significant economic power is of those which are national or multinational—big mines, big forestry companies and big agricultural companies, whose owners may in fact be in Melbourne, Sydney or even overseas. The other has those people whose ownership and livelihood is in that regional area and who are attached to medium and small business and ordinary workers and so on. Has this influenced at all how regional Australia, in particular regional Western Australia, responds to and reacts to the inadequacies of national competition policy? Is there a different view from the big to the medium and the small?

**Mr Morgan**—The answer to that question is: definitely.

**Senator MURRAY**—Can you expand on that?

**Mr Morgan**—You heard the previous witness talk about the main roads tenders where the state has been divided up into nine or 10 areas and they have awarded 10-year contracts. The only people capable of accepting those contracts are very large organisations and, almost by definition, they reside either in Perth, other capital cities or overseas. That is the problem.

**Senator MURRAY**—It is a centralising mentality.

**Mr Morgan**—Yes, it is. There is no doubt that competition policy applied without commonsense will have a centralising effect.

**Senator MURRAY**—In global or international terms, that has the consequence of everyone ultimately moving to the biggest, the most powerful and those with the most.

**Mr Morgan**—Without trying to make a heavy point, if the present competition policy had been in when Australia was founded, we would never have left Botany Bay.

**Senator MURRAY**—Yes, I think that is the point. I note Mr Mannion is well connected to the state government, and I know Mr Cowan has a very strong view on these matters and is not afraid to express it. Is your feeling that the Western Australian state government is capable of exerting sufficient pressure within COAG to change these perspectives, or is it

very difficult? Are the states very resistant to a regional differentiation policy such as you have outlined?

**Mr Morgan**—I do not believe our state government has sufficient clout to change the policy. That is why I have a great hope for this inquiry that is taking place right now.

**Senator MURRAY**—In other words, it has to be the centralised government which makes the change. It cannot be initiated by the state.

**Mr Morgan**—Central government has control because of the money it has promised to the states if they carry out the competition policy.

**Senator MURRAY**—And because of the source legislation.

**Mr Morgan**—Yes. Fundamentally, the federal government is all powerful, so the solution lies with it.

**CHAIR**—Let us get this straight. What you are telling us, in effect, is that national competition policy is really the child of the large metropolitan areas, and the bush is either not skilled or not capable of dealing with it because of the size of contracts which are offered and a whole range of other impediments.

**Mr Morgan**—I agree with your conclusion but not the detail. I think the bush has the capabilities, if it were given the chance, but this whole policy is about centralising contracts and control in the capital cities, and the regional areas are not being given the full consideration they should get.

**CHAIR**—So you are saying that you can make national competition policy work in rural Australia—not to the detriment of rural Australia—if contracts are made sufficiently small so that smaller entities can go for them?

**Mr Morgan**—The answer to that question is yes, but that is only part of the problem. The problems are the total infrastructure and service delivery and the cost of those in the regional areas. Under this policy now, where you have to maximise the bottom line, government authorities and organisations which used to have a social conscience, apart from having a requirement to deliver services, are now maximising profit, and it is much easier for them to maximise the profit by concentrating on the metropolitan area. This is why banks are closing, this is why we have problems with schools, this is why we will have the problems with electricity that we have been talking about, and this is why we will have problems with water. All forms of infrastructure which were considered almost essential in regional areas are now under threat.

**CHAIR**—Mr Mannion and Mr Morgan, thank you very much.

[9.56 a.m.]

**CUSWORTH, Ms Nicola Claire, Chief Economist, Chamber of Commerce and Industry of WA**

**ROWE, Mr Lyndon Geoffrey, Chief Executive, Chamber of Commerce and Industry of WA**

**CHAIR**—Welcome. We prefer all evidence 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 an brief opening statement and, at the conclusion of your remarks, will invite committee members to ask you questions.

**Ms Cusworth**—The Chamber of Commerce and Industry of Western Australia is concerned at the extent to which competition policy has come under attack in a way which we believe to be somewhat misinformed. We believe that competition policy has a potential to yield enormous economic benefits for Australia and, most particularly, that we are already seeing the beneficial effects of competition related reforms here in Western Australia.

To give you an idea of that local dimension, deregulation of the energy industry and of the gas industry has seen the price of gas for major industrial users in the north of the state fall by approximately 50 per cent. That has been a direct stimulus to a range of investment projects in some of our most potentially profitable mineral related areas. We can point directly, for example, to the private sector construction of the Kalgoorlie gas pipeline and the associated infrastructure with that. BHP stated that the reduction in gas prices was one of the factors behind its decision to build the DRI plant in the north-west. More generally, energy is a significant component of cost, particularly in the downstream processing of minerals, which has been an industry activity we have been looking for over many years in Western Australia and failed to achieve primarily because of cost factors.

While we are aware that there are transition problems and problems which have been associated with the implementation of competition policy, we believe that pursuit of this policy for the WA economy and particularly for the area of minerals and related activity, which has been so much a driving force for Western Australia's economy, is absolutely crucial.

Just to give you an idea of the magnitude of that impact, as you are probably aware, Western Australia is Australia's biggest exporting state. We account for about 25 per cent of the nation's exports. A large proportion of that is derived out of regional and rural Australia in both rural products and mineral products.

Our economy has grown faster than that of any other state over the course of the past 10 years. That process has been driven primarily with very high levels of business investment flowing through into very high levels of exports. Until recently, Western Australia's mining sector alone, which is one sector in a state which accounts for about 10 per cent of the population, accounted for more than 10 per cent of all corporate sector investment in Australia.

We are not saying that the process has only been possible because of competition policy, but we do believe that competition policy and deregulation have been a major facilitator in that process. We also believe that the changes in international economic climate, which happened with the Asian crisis a couple of years ago, are only now starting to flow into the state's economy.

In particular, we have seen a very sharp reduction in mining investment over the course of the past six to eight months, a reduction which the chamber believes is likely to persist for at least another year. In that context, we would be particularly concerned to see any winding back of competition policy processes which offer improvements in the business investment environment in Western Australia.

We believe that some of the criticisms of competition policy are, in fact, somewhat misdirected. Firstly, I think the benefits of competition policy are often poorly understood, partly because they are very broadly diffused, so that the beneficiaries tend to be spread across the community or the business community, whilst the people who are potential losers out of the process are very readily identifiable and often very vocal.

We have also seen things being blamed on competition policy here in Western Australia which clearly have very little, if anything, to do with it. For example, we saw a school blame competition policy on its decision to charge users of its sports oval. Clearly, the line there is quite tenuous.

I think perhaps the disbenefits of competition policy may be exaggerated—sometimes mistakenly and sometimes deliberately. That is partly because very little clear distinction is being made between policies which flow specifically from the legislation and related measures which comprise national competition policy, from very clearly related policies which are not part of that raft of legislation, such as tariff reductions and privatisation, and more general changes in the world's economy in states and nations flowing from things like globalisation and innovation. Those are causing disruption and distress. There is no doubt about it. But they are also yielding benefits and are being slated home to the blame of competition policy, whereas the key or central driver is probably located elsewhere.

We are aware that there are specific concerns for groups who may be disadvantaged by the implementation of competition policy. We are aware too that perhaps the application of the public benefit test has sometimes been inconsistent and somewhat vague. We would happily support any improvements in that process.

Similarly, not just with the changes which flow from competition policy, but also those broader economic changes which we need to welcome into the economy of the nation and the states, we would see a genuine role for government in facilitating and easing those processes of change. But we believe the attempts to prevent change and improvements in economic activity and the attempts to improve efficiency, which sometimes seem to underlie criticisms of the competition policy process, could be extremely damaging to the Australian community and Australian economy.

**CHAIR**—Thank you very much.

**Senator MURRAY**—Ms Cusworth, what are the negatives arising from national competition policy?

**Ms Cusworth**—With any set of changes, particularly the regulatory changes, we have seen processes which have withdrawn privileges and benefits from certain groups. One has to recognise that costs are involved in that process. I will give you a couple of examples of processes. One example where a review has not gone in a pro-competitive way in Western Australia, and where we are somewhat disappointed, is the review of the Potato Marketing Act.

The Potato Marketing Act and the regulation of potatoes in Western Australia probably result in the transfer in the region of between \$12 million and \$18 million a year from WA consumers to producers. That appears to be a very small amount of money. When you put it on the price of a kilo of potatoes, it is probably less than 20c per kilo. So you are not going to have a long list of potato consumers, for example, coming in to give evidence of this committee on the grounds of the losses which they are incurring. On the other hand, if there were to be pro-market deregulation of that industry, there would clearly be disbenefits to those producers who have benefited from the transfer from consumers.

In the process of the review of that act, which came out recently, although they will not quantify it and their methodology was not specified, the review found that the fact that there were primarily only two varieties of potato grown in Western Australia, and that the price was on average about 30 per cent higher than in the rest of Australia, was a benefit to the Western Australia community. It argued that the lack of choice was a benefit because it is efficient to produce only a limited range of potatoes compared to Tasmania, where I understand that they have more than 40, and that the higher price reflected higher quality. Again, there is no measure of the way in which these things were quantified.

We still tend to the view that the marketing act, as it applies with the potato industry, is simply representing a transfer from consumers to producers, but that any review of that process will clearly be a disbenefit to producers. There are inevitably winners and losers from any form of regulation. When you are talking about deregulation of processes, you are going to have to manage the processes of losses which you incur. But we believe that the primary objective of competition policy, which is to put the interests of individuals and consumers above those of collective producer interests, yields both better economic outcomes and better social outcomes, and should be undertaken despite the fact that there is a cost to business and quite often a cost to business who are our members.

**Senator MURRAY**—But the criticisms put against national competition policy have been that individuals and social groupings—consumers—have been detrimentally affected in regional areas by some aspect of the national competition policy. Do you regard it as a perfect set of legislation and set-up or would you adjust it in any way to address criticisms of the competition policy?

**Ms Cusworth**—I think those issues could and should be undertaken and addressed through the application with public benefit principle. Again, one of the misunderstandings of the legislation is that it tends to, I think mistakenly, argue that the public benefit principle concentrates only on profit and loss and does not include adequately social, environmental

and other concerns. In fact, if you look at the range of issues which can and should be included when public benefit is being evaluated, there is certainly scope in the legislation as it is currently written to accommodate all of those concerns. I would accept that there may have been occasions on which those concerns perhaps have not been properly addressed, but I would regard that as being really more a question of how the implementation process has worked rather than a fundamental flaw of the legislation itself.

**Senator MURRAY**—The difficulty you face in that answer is that people such as Minister Hendy Cowan, the witnesses just before and a series of witnesses we have already had think that you are wrong and that there needs to be fundamental reform sometimes at the margins—and I do not mean it cannot be fundamental at the margins—and sometimes to more material aspects simply because they put a lot of evidence on the negative effects, particularly on regional communities, which will result in social, political and economic outcomes which are very unsatisfactory. You and your chamber play a prime role in policy interpretation and formulation in this state. Given that the reaction is already there, given that it has considerable force or momentum now, are there no adjustments or changes that you would recommend to either legislation or to the way in which the process is being managed?

**Ms Cusworth**—No, and I must say that we have not had any significant pressure from members saying, ‘We would like to see this particular dimension of competition policy modified or amended.’ Where we have seen complaints about government agencies or about the operation of government in Western Australia, it has quite often been in areas where competition policy has been a benefit, or the proper application of competition policy would be a benefit, for our smaller and regional members.

I shall give you an example. Let us go back to the potato issue. You may remember that in Western Australia about a year ago the Galati family attracted certain media attention because they failed to meet the deadline for supply of their potatoes to the WA marketing authority. As a result, they were not allowed to sell their product into the premium market even though they had a premium product. In protest at this particular development, rather than selling into the cheaper export market or processing market, they chose to give away their potatoes, attracting, as you might expect, considerable publicity in the process. That prompted the marketing authority to impose a 24-hour surveillance on their farm, which cost the state government in excess of \$260,000.

We have a black market in potatoes in Western Australia. We do not have a black market in carrots or onions. We have seen some absurdities here where we would believe that the proper implementation of competition policy can often be very beneficial to small businesses who are uncomfortable with working within a regulatory framework.

I will give you another example of a case that we took up on behalf of another member, a tourism operator in the south-west, who was extremely unhappy at some of the practices of the Department of Conservation and Land Management which, as both regulator and operator in competition with privately owned tourism businesses in the south-west, was able to cross-subsidise some of its operations in a way which our member believed resulted in unfair competition. Again, we tried to take up that issue with the minister and failed. We would see proper application of competition policy as actually being a benefit to many of those businesses which it is perceived are potential losers out of the competition policy process.

**Senator MURRAY**—Given that the chamber will make no recommendations to address the perceived negativities in it, do you have any recommendations to actually make it far more stringent, to apply it in a far quicker timeframe, to apply it far more rigorously, strongly and in a far purer sense than it is at present?

**Mr Rowe**—Before Nicky answers that, can I just come back to your previous point. Part of our difficulty in this debate is that a lot of the issues identified as negatives of this are attributed to national competition policy. In our view, this is often not the case. There is a whole range of events that are going on, for better or for worse, and people are laying the blame for these on national competition policy.

This was not a particularly good example but, in the previous discussion, concern was expressed about the excise on light oil and what that did to regional power. We fought that one as well, because we thought there was a misunderstanding of the rebate issue. It is not a national competition policy issue in that sense.

We think all sorts of things can be done to reduce some of the negative impacts of what is happening in regional Australia. A lot of those negative impacts are not necessarily attributable to national competition policy. I want to make the point that we are not underestimating some of the difficulties that regional Australia is facing. We think sometimes it gets confused: we are laying the blame on national competition policy as to how it can be improved.

**Senator MURRAY**—We have understood that. Those things have been put to the committee, but there are two aspects that we have to consider. One, whether national competition policy should be limited and changed, and, two, whether it should be expanded or advanced. In my first line of questioning, I dealt with limiting or changing it. The second one is to know from you whether you think it should be expanded or advanced and how.

**Mr Rowe**—I will anticipate Nicky's answer. I suspect that she is going to give you an example of how it should be changed. I suspect that she is going to say that that goes to the way the public interest test is applied and how that is consistently applied.

**CHAIR**—But you have to do it.

**Mr Rowe**—Absolutely.

**Ms Cusworth**—Going back to the key concerns of this committee first, the social dimensions and the potential losers, particularly in regional processes, we would accept that the public benefit test has to be applied sensitively. We would also suggest that, in regard to not only competition policy but also the whole broader range of factors which are causing economic change and distress in regional and rural areas, there is probably a greater role for government in facilitating and managing change, not necessarily in preventing change.

We would regard the simultaneous application as being a way of ameliorating some of the disadvantages. As we said, we tend to believe that regional and rural Australia in many respects, and particularly Western Australia, is actually a major beneficiary of competition policy processes, but there are certainly some industries and some aspects which are not.

If you are simultaneously pursuing a broad range of competition policy reforms, there is a greater possibility that the benefits and the costs will tend to outweigh each other and you will get a greater acceptance of that process. When you have a series of rolling reviews, you will tend to get to a point where each acceptable or beneficial change is going to be welcomed, but then you come to a phase where only unacceptable or only potentially disadvantaging changes are being pursued. That makes the process difficult both in terms of the very uneven geographical impact of some of these changes and also their different impacts on different parts of the community.

We would also like to see the public benefit test and the principles being applied in a much more stringent and much more transparent way. One of our concerns with a couple of reviews that have particularly taken place here in Western Australia is that they appear to have been extremely lax and loose in the application of some of the public benefit principles that they should have been addressing. They have provided no supporting evidence of the analysis that they have provided. Again, I would cite the potato marketing review as being an example of that.

**Senator LIGHTFOOT**—Ms Cusworth, in your opening comments—and, incidentally, we are very appreciative of those types of comments here—you said that we are seeing the benefits of the NCP working with respect to gas. I know it is easy to get mixed up with dates because I have been guilty of that myself at times but, as I recall, the deregulation of gas was as opposed to that of electricity. In other words, the electricity was hived off from the gas or vice versa and, as a result of that action, the gas was deregulated. Instead of being something like \$4 a gigajoule, after some time it turned out to be about \$1 a gigajoule. They are both generic figures.

I do not think that NCP was actually in at that time. For the sake of the evidence that we are taking today, it is a very important issue that we should get straight. I wonder whether you would like to come back with that particular one on notice. I think that happened in about 1993-94 and I do not think that national competition policy came in until a couple of years later, in 1996-97, or something of that nature.

I understand what you are saying. There was a flow-on effect after that that was caught up in the national competition policy and that had a great effect. But I think what precipitated it was the deregulation of the gas, hiving it off from the electricity and corporatising the gas, which saw a massive drop from \$4 a gigajoule down to \$1 a gigajoule. That, of course, attracted the second stage of reducing iron ore to a form of pellets. There are five or six of those people waiting in the wings for the Asian meltdown to improve so that we can take advantage of it then. However, whatever happened, NCP is certainly complementary to it, but I would just take issue with you on that, if you do not mind.

**Ms Cusworth**—No, you are quite correct. Those decisions were made as the culmination of a process of decisions on energy deregulation in Western Australia which proceeded the formal adoption of national competition policy.

**Senator LIGHTFOOT**—Yes.

**Ms Cusworth**—But I think that it is very important to say that competition policy was not invented by Fred Hilmer and it did not begin with the application of that legislation. It was in fact the codification of a series of processes which governments at all levels had been implementing in any event, prior to—and in many cases a long time prior to—the adoption of a national uniform approach. It really is only a codification of a process which was going on anyway.

If you were to take a retrospective view, had the government not pursued those reforms prior to the implementation of national competition policy it would be under very significant pressure now to be implementing those, and in fact it is pursuing a process of deregulation. But, yes, you are quite right: in terms of chronology, it was not the act which precipitated that process, it was the process of broader competition policy reform.

**Mr Rowe**—And, indeed, the chamber's support for free enterprise and competition predates Hilmer.

**Senator LIGHTFOOT**—And predates the deregulation of the gas as well. We certainly appreciate that. In fact, they are complementary to each other. The chamber's policy undoubtedly has been one that has enthused the government of the day to deregulate gas. Of course, I am sure Mr Hilmer took some courage from the fact that it had worked, and worked dramatically, with a drop not of 50 per cent but of 75 per cent in the price of gas once it was deregulated.

You said that the Western Australian economy was the fastest growing in Australia, and you purposely, Ms Cusworth, said that in the past tense. Lately there has been a rise in unemployment, there is a drop in job vacancies and there is a consequential drop in some commodity prices—an 11 per cent drop in iron ore, et cetera. Where is the logjam?

There are 1,500 geologists unemployed—NCP is not helping us there—and another 1,000 are underemployed. Forty per cent of drilling rigs in Western Australia are underutilised. For six consecutive quarters there has been a drop in exploration. For the first time in our history we have more money being spent on exploration by Australians overseas. If that is extrapolated to the future, we are mining yesterday's discoveries. How is NCP going to help us there? And where is the logjam in Western Australia with those dramatic results that are going to so drastically affect the bottom line with respect to Australia's economy, not just Western Australia's?

**Ms Cusworth**—We are looking at a very sharp decline in particular in resource and related activities in Western Australia which began in the second half of last year and which we expect will continue over the course of this year and into next year. The decline in mining investment and in exports in the early part of this year has been really quite spectacular.

**Senator LIGHTFOOT**—Why?

**Ms Cusworth**—Mainly because most of the largish projects which are currently under consideration were predicated on Asian markets or would be more viable in a context of higher commodity prices. So we are seeing a delayed impact of the Asian meltdown having

its critical impact on WA's economy, not in exports, as many people initially thought it would, but more in terms of investment in those kinds of projects. In particular, for example, if you look at the Access Economics and Delta Electricity list of investment projects for Western Australia, although the list is still far and away bigger for WA than for any other state, we have seen a marked shift in the profile of the projects which are listed, away from being actually under construction or committed to being much more of the just 'under consideration' or even 'possible'. It is our belief that many of those projects are out there and they will still eventually go ahead, but they will go ahead only when the world economy improves.

What can competition policy do to improve that context? The truthful answer probably is: very little. Although competition policy has been very important in setting the context for those industries to expand as spectacularly as they have in Western Australia, where things like gas deregulation, transport deregulation are beneficial to those industries, the bottom line at the moment is being swamped by international demand and supply conditions.

Competition policy is crucial. The previous submission mentioned that we need to have a long-term, medium-term, not just a short-term, focus. Unless we have these competitive reforms, unless we recognise that WA's economy, in order to be internationally competitive, needs to have competitive inputs from this vital infrastructure and key inputs, then we are potentially going to damage our long-term growth prospects. But our view is that the next 18 months or so are going to look tough irrespective of what any government at any level does. We are more pessimistic, for example, than the state government, which recently in its state budget forecast  $4\frac{1}{2}$  per cent growth for next year. We are forecasting  $2\frac{3}{4}$ , so we are significantly more pessimistic.

**Senator LIGHTFOOT**—And that is not enough to keep up with employment, is it?

**Ms Cusworth**—No, it is not.

**Senator LIGHTFOOT**—What would you want to keep up with employment—three per cent?

**Ms Cusworth**—You have a strange process because in WA, although there are direct linkages between the internationally orientated parts of the economy and the domestically focused, there are time lags and process lags between those happening. So although we are seeing resources and related engineering construction activity falling back very sharply, we are also seeing, say, consumer growth, retail spending, still looking relative strong. Our employment growth does not look all that bad at the moment. In fact, the most recent figure showed the first pick-up in full-time employment for some time. So there will be a lagged process. But, ultimately, we are running with a population growth just shy of two per cent in WA, probably skewed a little bit more towards people of working age, so you need to be running your employment growth at at least  $2\frac{1}{2}$  per cent to be standing still.

**Senator MURRAY**—Is that net?

**Ms Cusworth**—Yes.

**Senator LIGHTFOOT**—You mentioned, of course—and it is difficult not to mention—international competition in this global village environment that seems to have permeated all economists and, as a result of that, governments as well. Isn't the Hilmer report, the national competition policy, a little restrictive then when it seems to just talk about national competition policy? In other words, Western Australia would like to import some of its goods, particularly some high capital cost goods—motor vehicles, trucks et cetera—from overseas but we pay an import duty on them. We are forced to get them from the east, so there is a one-way flow of traffic of goods into Western Australia and very little flows back the other way because of tariff protections and other walls to Western Australia. Do you think, then, that the Hilmer report is a little lacking in not talking about international competition and reducing it to almost what is seen in a global environment to be a parochial issue of national policy?

**Ms Cusworth**—I am not sure that necessarily you would need to use Hilmer type processes to address those international issues. You are relying primarily on the NCP and the ACCC as being the mechanisms through which that national dimension is addressed. We would see international competition policy as also being crucial. You are quite right to point out that things like tariffs are a particular relative disadvantage to states like Western Australia, which are export focused—and ultimately tariffs are taxes on exports—and which have a relatively small proportion of those highly protected industries which tend to be concentrated in the eastern states. So we would see that, whether it is in terms of tariff or of broader protections of things like intellectual property rights in facilitating the flow of intellectual property, knowledge transfers and so forth, as being absolutely crucial. We were also very disappointed to see the MAI process break down, and hope to see that renewed under the World Trade Organisation.

**Senator LIGHTFOOT**—That would be to the benefit of Western Australia?

**Ms Cusworth**—That would most definitely be to the benefit of Western Australia. Those issues are as important as national competition policy, but it does not necessarily follow that they have to be addressed as part of the same legislation or through the same forums. It is often not the case.

**Senator MARGETTS**—In your presentation today you mentioned that national competition policy—and if I have paraphrased this wrongly, please correct me—puts the interests of consumers above specific business interests.

**Ms Cusworth**—Yes.

**Senator MARGETTS**—What are the Chamber of Commerce and Industry's measures of this outcome? What kind of information are you using or do you have available in relation to price availability and choice for consumers in, say, Western Australia?

**Ms Cusworth**—That will depend very much on the particular market you are looking at. In the reviews of the marketing acts—and industry specific issues are perhaps the easiest ways of addressing those—we have particular measures, for example, of the increase in the price of potatoes as a result of potato regulation, and the current review of the taxi industry gives us a very clear view of the additional costs to taxi users of taxi regulation. It is

actually not that difficult to measure the extent to which prices are inflated as a result of regulation.

What is harder to measure, for example, in the case of an industry like taxis, is the broader consumer disbenefit which flows from the fact that having a highly regulated industry with a very expensive plate means that you do not get the breadth of service, the flexibility of service, that you would in a deregulated market. For example, it is not worth running a taxi part-time to cope with peak time demands. So you get a quality effect as well as a price effect, which is somewhat more difficult to measure.

These are things which ought to be incorporated into each of the reviews which are being undertaken. In many industries it is actually surprisingly easy to get an estimate of what these things are costing the consumer. In the case of the taxi industry, the very fact that you have a taxi licence which is worth tens of thousands of dollars is a reflection of the fact that, by having a regulated industry, that degree of additional profit can be extracted from taxi users.

**Senator MARGETTS**—I do not want to go too much into that. You have mentioned taxis and potatoes, but have you actually surveyed your members? What proportion of your members are urban based and what proportion are rural? Have you looked at such things as costs in rural and regional areas, particularly compliance costs for competition policy? Where are you getting your policy development on this issue? What kinds of factors from your membership are you using? What kinds of surveys have you done of your membership of the range of factors involved here?

**Ms Cusworth**—We have not surveyed members on competition policy issues per se; we have on broader economic policy issues. Deregulation has always featured very strongly as being an objective, particularly of our smaller business members. Our membership base is probably reflective of the state as a whole, in the sense that we have most members in the metro areas and about 20 to 30 per cent in rural.

**Mr Rowe**—It is about 20.

**Ms Cusworth**—Similarly, about 80 per cent of our membership is small businesses compared to large. Our policy development processes come through a range of internal consultations, committees and councils within the chamber in which representatives, for example, of retailers are involved in formulating retail policy and representatives of our resource members are involved in formulating resource policy—all of which is finally processed through the board, which has the ultimate decision in the development and application of CCI policy. So it is not usually a survey based process.

**Senator MARGETTS**—How confident are you about such things as competition policy in the multilateral agreement? You mentioned that perhaps putting pressure on the Multilateral Agreement on Investment or something like that will come back. We are apparently going to have a change of tape in about one minute, so I will perhaps leave that with you. I am also going to ask about how confident you are about your members supporting things like the Multilateral Agreement on Investment—but I suppose that is

another issue altogether. But I would also like to come back to ask you about the process of review of such things like state agreement acts in Western Australia.

**Mr Rowe**—Can I pick up the answer to Senator Margetts's question about support for the national competition policy amongst the membership? I would be very confident about that. National competition policy is so integral to the philosophy of the chamber and its belief in free enterprise that that position is well and truly promoted amongst the membership and, in my view, it is well and truly supported. As recently as the last couple of months, as part of revisiting our whole approach to a whole range of policy issues, a principle statement has gone through all of our councils and through our board which is totally consistent with the sorts of views and objectives of national competition policy. So I would be very confident that that is supported.

**Senator MARGETTS**—Could it be that people do not come to the CCI with these kinds of issues because they do not think you are going to be interested in doing anything about it?

**Mr Rowe**—My members are never backward in telling me when they think I am wrong, Senator.

**Senator MARGETTS**—We have had a lot of trouble fitting people on the program in Western Australia because of all the people who want to come and tell us about a range of issues. How come they are not saying those things to you?

**Mr Rowe**—I think, in part, it comes back to whether or not the issues people are raising are directly attributed to national competition policy or whether they are using this hearing as a forum to address a whole range of issues, which includes the effect of globalisation and government policies generally. It comes back to the comment you made at the start that we have to be careful when we are talking about this that we are actually focusing on issues directly related to national competition policy.

**Senator MARGETTS**—That would be a reasonable thing for you to say, and I can understand why you are saying that, and it is the same kind of thing that has come through from the National Competition Council and the ACCC. But Ms Cusworth said that she was prepared to lump in with the benefits of national competition policy the benefits of a gas decrease, so you are prepared to put in the general changes to economic rationalism, privatisation and so on as the benefits of national competition policy but you are insisting that we, and everybody else, can somehow artificially separate them out as if they are not.

**Mr Rowe**—I think what Nicky said in response to that is that we see the deregulation of gas as being totally consistent with the objectives of national competition policy—that is, putting competition into industry. To the extent that it is a competition-driven issue, I am happy to debate that issue and the particular concerns that might be expressed.

**Senator MARGETTS**—But why don't those people who say that the general ideological push for competition is associated with a whole range of issues, such as confusion, dislocation and, sometimes, regional unemployment, have the right to say that that is part of the general push for privatisation?

**Mr Rowe**—They do.

**Senator MARGETTS**—So why is that not valid?

**Mr Rowe**—An instance we have dealt with would be the regional power proposal, which we had a lot of feedback from our members about and we have developed a policy in conjunction with that. So, yes, they do.

**Senator MARGETTS**—So which particular people are ignorant and uninformed in this process?

**Mr Rowe**—I do not think we said that anybody was ignorant and uninformed.

**Senator MARGETTS**—I think Ms Cusworth said that there was ignorance and that people were ill-informed.

**Ms Cusworth**—I can see where you are coming from in terms of distinguishing what is specifically related to the act and what is specifically related to very close issues. I would be happy to see, for example, issues which are very clearly part of the competition reform processes but which precede the implementation of the legislation being debated as part of that context. But if you look, for example, at things like the issues surrounding telecommunications in the regional areas, which are very complex and very difficult, I suspect that a large proportion of the anticipated problems arise more out of technological change than out of competition.

**Mr Rowe**—Or broaden that to the banking industry.

**Ms Cusworth**—Banking would be an even better example.

**Senator MARGETTS**—I want to return to something I mentioned earlier, in relation to the review in Western Australia of state agreement acts. By way of background, every major development project in Western Australia seems to be associated with a state agreement act. What role has the chamber had in the review of state agreement acts? And what is your view of the reform of state agreement acts—as national competition policy is a good thing, in your view—and of the major reforms that might be required in state agreement acts so that they conform to the principles of competition policy?

**Ms Cusworth**—As far as I am aware, we have not had much of an active involvement in the process of the reviews of state agreement acts. In regard to the application of the principles of competition policy, we would take the preferred view that, if it were possible to correctly address things like the allocation of infrastructure costs associated with particular projects, ideally you would not need an agreement act process at all. That goes to the fact that, historically, we have seen governments trying to use agreement acts as mechanisms to deliver behaviours from business that have simply not been achievable.

For decades, Western Australian governments of various political flavours have been trying to promote downstream processing. One of the ways in which they have done this is to give differential tax structures to particular businesses or to actually write into agreement

acts a requirement that downstream processing should be undertaken. For a variety of reasons, mainly because it was simply not economical, those measures were never successful in delivering significant downstream processing in Western Australia.

We regard as by and large inappropriate the extent to which agreement acts are used as attempts by governments to manipulate or give favourable treatment to certain forms of businesses. It would leave very substantial issues still to be resolved such as—for example, the sharing of infrastructure costs between private developers and the government. But we would prefer these issues to be determined within clear, transparent principles and applied equitably between different kinds of projects in a manner that is consistent with competition-type principles. These principles say that, unless external benefits are expected, developers by and large ought to be covering their own infrastructure costs.

**Senator MARGETTS**—Can I just get this clear. As I said, state agreement acts have been associated with just about every major infrastructure project in Western Australia and we have had a review. The review, as far as we know, has still not finalised its report and the Chamber of Commerce and Industry has not been formally involved in the process. The opinions that you have just given have not been sought by the review process?

**Ms Cusworth**—No.

**Mr Rowe**—I will take that question on notice and come back to you with an answer, because it may be that those views would be well known and quite widespread. There may well have been discussions between the officers in the chamber and the review team and we will undoubtedly comment on the final reports when they come out.

**Senator MARGETTS**—I do not want to put words into your mouth, but if the competition policy was working correctly, you would say, in general, that most state agreement acts would not be necessary? Is that right?

**Ms Cusworth**—You would need to determine very clear guidelines for the sharing and evaluation of the costs of certain bits of infrastructure, particularly where there is a public dimension. In an ideal world, we would like to see state agreement acts as being not actually necessary.

**Senator MARGETTS**—I think this is one area where I can agree with you.

**Senator McGAURAN**—My question is along similar lines to Senator Margetts's question, but drawing on different terminology in relation to cross-subsidisations. Government services have often cross-subsidised rural areas—no less an area than electricity—at the expense of metropolitan areas. As a purist in competition policy, cross-subsidisation would go. What is your view?

**Ms Cusworth**—I would hope so. I think the delivery of community service obligations is an important government responsibility and we certainly would not argue that there is no case for giving support to the delivery of essential services in rural areas. However, we would argue very strongly that cross-subsidies are one of the most inequitable and inefficient ways of delivering those social outcomes, for a variety of reasons.

The first is that you introduce cost distortions not only into the markets which you are subsidising but also into the markets which are providing the subsidies. In other words, the only way by which you can have below cost delivery of services in regional areas is by having above cost delivery of services in metropolitan areas. That has the effect of distorting demand in both markets and leads to economic inefficiency. Not only does it lead to an inefficiency but also you need a secondary tier of anti-competitive regulation in order to ensure that the subsidising market is protected, otherwise you will get the problems of cherry picking, which many large currently or previously publicly owned organisations will point to as being a danger. If you have to charge above cost for the delivery of goods and services, say, into the metropolitan area, then you also have to protect those markets from competition or else somebody else will come in and undercut you and the potential for cross-subsidisation disappears.

In terms of the subsidised market, that is even more of a problem. We talked about regional power generation in Western Australia and the application of the uniform tariff policy. The fact that the regional areas have been non-competitive has probably contributed to the fact that the cost of generating electricity in regional areas has been so high, because when you are obliging a single supplier to supply well below the true cost of supply, then there is clearly no benefit or no incentive for small innovative, perhaps green technologies, to move into those small regional power grids and supply an alternative form of energy, or use alternative generation methods, or simply be more efficient. Their costs may be significantly less than the uniform costs of Western Power, but because the price is below even that cost, there is no incentive.

We would like to see those regional power generation activities being subject to competition and including a cross-subsidy payment which is also subject to competition, so that you have an incentive for the least cost greenness, whatever, provision of regional power, while at the same time maintaining the requirement to have a minimum cost for regional consumers.

**Senator McGAURAN**—I am sorry; I do not understand it. What does a cross-subsidy payment mean?

**Ms Cusworth**—It is a community service obligation payment. What you will find increasingly with WA government activities—and it has not yet extended into regional power, but it has into regional water—is that the service deliverers identify the costs of meeting community service obligations and these are transferred directly from government revenue to the supplier. In other words, rather than financing the subsidies for regional areas through internal cross-subsidies, it is done by a transparent payment from government.

**Senator McGAURAN**—A la Telstra and telephone?

**Ms Cusworth**—And for a very wide variety of reasons, that tends to give you a much more optimal outcome. I think that will become even more of an issue over time when you are looking at areas like telecommunications, where the industry is changing extraordinarily rapidly as a result of innovation, technological change and so forth. Where you have a minimum service quality for an activity, say, water supply, you probably would not have that same capacity over time for a very substantial change in the character of the service which is

being supplied. A government can mandate a certain minimum level of supply and a certain maximum level of cost and pretty much lock in the delivery of a particular level of community benefit.

With telecommunications, you are inevitably going to have the regulators behind the innovators in terms of the quality of supply. If you come up with market-driven solutions which encourage service providers to supply both innovative and new products, as well as their standard products into those areas, then you are going to have a much better mechanism for ensuring that regional and rural Australia is not left behind in one of the most important areas of technological change in our economy at the moment.

**Mr Rowe**—If I can add to that, coming back to the power example, it is particularly important if we are to get competition in the power industry. Just as the chamber advocates greater competition amongst power generations, we cannot do that and expect Western Power to pick up those cross-subsidies. In terms of creating that competitive energy market, then it should be done through community service obligations not through cross-subsidies.

**Senator McGAURAN**—Senator Margetts also asked you for a profile of your organisation. Can you go a bit further—for example, what is your national affiliation? Even if it is a guesstimate, what is the weighting between your rural membership and your metropolitan membership? And what is the weighting in regard to retailers, manufacturers, big and small business and mining industries? What is the profile?

**Ms Cusworth**—From memory, we have 6,000 members in total and about 2,500 affiliated members.

**Mr Rowe**—Yes.

**Ms Cusworth**—Of associated organisations that makes us something like the second or third biggest business association in Australia. Membership is broadly based across all industries: we have membership in all industry sectors, including government sectors, like the local authority in Melbourne. About 80 per cent of our membership is small business and, from memory, about 80 per cent are metro and the others are regional. In that sense, it corresponds very closely to the profile of the economy as a whole.

We have some areas of overrepresentation, such as in the manufacturing area, and it is probably because, historically, of our evolution from having been a chamber of manufacturers. Also in certain areas, like retailing, we tend to have above average market penetration and, again, it is because of our affiliation structures. We are not a perfect match for the business profile of the state, but we are pretty close.

**Senator McGAURAN**—What is your federal affiliation?

**Mr Rowe**—We are a member of the Australian Chamber of Commerce and Industry.

**Ms Cusworth**—But we operate independently in terms of policy and services.

**CHAIR**—As the potato people are coming in later, I want to be clear on the potato issue. You have obviously waged a bit of a war over potatoes, and you see potatoes as one of the great bastions of privilege.

**Ms Cusworth**—Potatoes in terms of their economic impact are relatively trivial. It is one instance where I think the arguments are particularly clear cut.

**CHAIR**—What you have said is that potatoes cost roughly 20c a kilo more—

**Ms Cusworth**—Less than 20c.

**CHAIR**—which is 30 per cent more than the rest of Australia.

**Ms Cusworth**—Yes.

**CHAIR**—When the potato people come, that will be the first proposition I or one of the other senators will place before them, and they can justify themselves.

**Mr Rowe**—For the potato police, it is about \$268,000.

**CHAIR**—I have met all in my career, including bread sniffers on the weekend when we had regulated baking. I am, as most senators know, probably more of an economic rationalist than many, but I will make one observation: wherever I have seen deregulation of dairy products and baking products, the prices have all substantially risen. Is that your experience here?

**Mr Rowe**—No, it is not.

**CHAIR**—It certainly is in every other state that I have come across: in my own home state, in Canberra and in New South Wales. I think there is some inquiry going on in New South Wales right now.

**Mr Rowe**—No, it is not. I am happy to take that on notice, if you like, and come back to you with some examples.

**Ms Cusworth**—I can think of no case where it has not led to a reduction in prices.

**Mr Rowe**—But let us come back with some examples to show that it has.

**CHAIR**—I can tell you that in my home state the price of bread has gone up. Over a 10-year period in deregulation, it has gone up 100 per cent, and dairy products have gone up almost 50 per cent.

**Senator MURRAY**—My memory is that nationally over the last year the fastest CPI increase has been on fresh fruit and vegetables. I am not going to lay down the reasons for that.

**Ms Cusworth**—I would make the observation that that is an extremely volatile market, which is determined by a very wide range of factors besides regulation and deregulation. I would be extremely surprised if changes in government legislation had any significant impact on that. Over the medium to long term, certainly, the fastest growth in the CPI has been in health costs.

**CHAIR**—What happened in baking—not in the dairy industry—was that, in fact, you had a whole series of the larger bakeries that had an economy of scale because of labour rates when they used to bake. Once all that was deregulated, and there was fresh bread available on the weekend at all the smaller or less efficient bakeries, then the overall unit price of bread went up substantially.

**Mr Rowe**—Over a sustained period?

**CHAIR**—Yes, over the last 10 years consistently.

**Mr Rowe**—It continued to increase?

**CHAIR**—Yes. The main reason why I am raising this is that you do not always get cheaper prices with deregulation. There are some key food areas where, in fact, you find the opposite. I hope your prediction of potatoes, if you win, is true.

**Mr Rowe**—I think the only comment I would make on that is that our support for national competition is for competition, not necessarily for deregulation. Deregulation does not result, and competition does not necessarily give you the benefits, that's true.

**CHAIR**—Good answer. Let's go back to the previous couple of submissions, some but not all of which you heard here this morning. Basically, the proposition that was put to us by the first two sets of witnesses this morning was that in country Western Australia, particularly in the remote regional areas, there are all sorts of problems with the way in which national competition policy has been presented to them. They feel that they are cut out of it, that there is no consultation with them, and that it is not tailored to suit them. We have spoken about electricity prices, which I think is probably a local problem here in Western Australia. The issue of road contracts came up this morning. What they have said is that, as a result of national competition policy, there are huge aggregated contracts for major roads going through a particular shire in regional Australia. The local shire and the smaller earth moving companies in that area are not able to compete because of the size of the contract, the length of the contract or even, as one of the witnesses said this morning, the complexity of the contract. That seems to be grossly unfair on regional Western Australia. Have you looked at those sorts of things?

**Mr Rowe**—Not that one in particular. I can remember before national competition policy a similar argument with respect to bus services. There was a concern there because of the way it was being done. My memory of that is going back some time, so don't hold me to this but, in the end, as a result of some lobbying by us and others, there was some break up of that. Sorry, it was not with respect to bus services but removalist services for the education department, the police department and so on. I do not know the answer to the

particular issue you have raised. It is not an issue we have looked at. I am interested, though, to find out what the argument is for that having been driven by national competition.

**CHAIR**—Let's take that one stage further; that might answer your query. What they are saying is that they are not able to compete because of the size of the contracts, the complexity of the contracts, and the way contracts are now being set up.

**Mr Rowe**—I can understand that, but is national competition causing those types of contracts to be set at that size?

**CHAIR**—There is a tendency, as Ms Cusworth said before, to lump everything in the same basket. There is a tendency to blame all your woes on national competition policy. But certainly it has come in the same wave, and what they are saying is that they cannot compete and that this may lead to an overall contract price that would be cheaper than it being done piecemeal with some of their constituents getting a piece of the action, but that those benefits transfer to downtown Perth, that they go outside of regional Western Australia. I think Ms Cusworth made the comment about distortions in the market. It is a pretty big distortion if you take a wad of money out of a little place like Jerramungup. They only have 1,400 people down there. They are struggling. Yet they have just had a fairly substantial amount of money taken out of that community and it now goes to road builders and whatever who live either in Perth or in London and have an operation in Perth, but they do not have anything in Jerramungup. That causes a distortion in the market, particularly for all the poor locals down there.

**Mr Rowe**—Yes, it is a difficult issue. I understand the sensitivity of those and I think there are probably arguments where, in the medium-term or even in the short-term, lumping into one contract may actually mean they end up paying higher prices for those too. There are also arguments about being able to deliver more efficiently on a smaller scale. So it can actually work both ways.

The other issue that you need to consider is that, going back some years, we had a local preference for government purchases. The end result of that, particularly in the electricity industry, meant that we ended up paying more for our electricity infrastructure, which meant it got reflected in higher prices which we all pay—country or city. So there is an issue there about making sure that we are being as efficient as possible, because if we are going to compete in that world marketplace, we have to make sure that we do everything. It is not just the private sector that has to be competitive; it is also the government sector that has got to do it efficiently and effectively.

**CHAIR**—Can I just put this to you now? I do not know this place Jerramungup. I have never been there. One day I might get there. There was a hint here this morning—I cannot remember who it was, but I think Senator Murray said that this place produces an awful lot of stuff that is sold overseas. I looked at the submission and it is basically a grain growing area. Presumably its exports are worth millions upon millions of dollars which helps me go out and buy my imported car if I want to buy it. It helps me buy my TV set. I would like to buy a local one but unfortunately Astor do not make TVs any more. It helps me do all those sorts of things. If I am actually asked to cough up a little bit more in the way of a community service obligation or in the way of just helping these communities out there

survive, surely that is of benefit to me in the long run as well. It seemed to me what you were saying was that you want your cake and you want to eat it as well. You want the products of these places out there but you do not want to give them a bit of a leg up or, as it was put by Ms Cusworth, a distortion in the market?

**Mr Rowe**—The issues that you raised about whether or not the government decides that it should support that community is a real issue and the government needs to make those decisions. The argument we would make is that you do not do that by cross-subsidies. You do it as part of an explicit and transparent process.

**CHAIR**—That illustrates the issue reasonably well. Thank you very much.

**Senator MURRAY**—Just a reminder, really—that is, in the evaluation of these things, if you only have economists talking to you, you have a bias towards economists. If you only have priests talking to you, you will have a bias towards priests. The balance—

**CHAIR**—Did you say police or priests?

**Senator MURRAY**—Priests. Theocracy. The balance in evaluation of competition policy perhaps needs to move away from a purely economic viewpoint or a purely Treasury dominated viewpoint. That is a problem we have throughout public policy and it is implicit in your answer.

**Mr Rowe**—I will say to you very briefly that the public interest test to national competition policy takes into account all of those issues. What we are saying is let us deal with those and deal with them objectively.

**Senator MURRAY**—You are correct but the problem is that the people with the ultimate authority are in fact Treasury and economics driven. Those are the people who establish the pressure which is applied to various people.

**Mr Rowe**—Like most economists, I have a hard head but a warm heart.

**CHAIR**—I have got to say that if the priests were here I would need a lot of community service obligations to save me.

**Senator LIGHTFOOT**—Hansard cannot see your tongue in your cheek, Mr Rowe.

**CHAIR**—I know what you are saying.

**Senator MURRAY**—It is a balance of what you need.

**CHAIR**—You are right. The point that I make—I am playing devil's advocate with the two of you, but in essence you have this community down in the middle of nowhere, that I have not been to and probably will not get to. It is down there and is producing tens of millions of dollars of product which help with the balance of payment. We are all sitting around here saying sod them. They can have their roads from London. That is it, because it suits us and we get a few extra quid out of it.

**Mr Rowe**—I do have to respond to that because we are certainly not saying that. As a former country boy who still has close relatives running farms, let me say to you that we are certainly not saying that, but we also believe that the future of those communities is probably in those communities' hands. There are all sorts of innovative things taking place, in the wool industry for example, where other people are throwing up their hands. If you went down to Esperance you would find some wool growers there who have combined to sell direct to Italian wool mills and are making a profit out of wool even in the current circumstances.

**CHAIR**—That is fair. We just have to canvass all the issues. Thank you very much. We are working through morning tea.

[11.03 a.m.]

**MARTIN, Mr John Andrew, Director Strategy, Western Australian Municipal Association**

**MICKEL, Mr Ian Stanley, Vice-President, Western Australia Municipal Association**

**DE SOUZA, Miss Shaheen, Policy Manager Finance and Taxation, Western Australia Municipal Association**

**CHAIR**—Welcome. 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 invite you to make a brief opening statement. At the conclusion of your remarks we will invite committee members to ask you questions.

**Mr Mickel**—Thank you. The Western Australia Municipal Association appreciates the opportunity to appear before the Senate Committee on Socio-Economic Consequences of National Competition Policy. WAMA is the peak organisation of local governments in Western Australia. Through its member associations, WAMA represents and provides a united voice for 144 local governments in the state. As a sphere of government, local government is essentially involved in the implementation of NCP. Operations of individual councils in Western Australia are affected by the requirements to conform with NCP. Most importantly, as the sphere of government closest to the community, local government must assess and respond to widespread public concern about the wider implications of NCP.

Local government in WA has accepted and even supported aspects of NCP and the related reform process, despite the fact that local government was not formerly a part of the competition policy agreement. Local government is making a direct contribution to the reform process and is responsible for a substantial proportion of the benefits expected to be achieved over the longer term. Local government is investing significant resources considering the application of competition neutrality to business activities, competing reviews of local laws and establishing reporting mechanisms for NCP compliance.

WAMA's research on the estimated NCP compliance cost for local government indicated that NCP would impact on over 150 significant council activities worth over \$180 million and mean the extensive reorganisation of at least 100 council functions. NCP will require the review of over 220 local laws this year and cost a total of at least \$5.2 million to implement during the same period. Despite this, local government in WA has had to fight hard to receive even a symbolic share of the competition incentive payments received by the state government. After extensive lobbying, the state agreed at last year's budget to provide a nominal \$4 million over the next three years to local government through the local government development fund.

In a wider sense, one of the most fundamental difficulties in assessing the impact of NCP on local government and its communities is distinguishing between the impacts of NCP and that of other reforms promoting structural, economic and social change in our communities. NCP is often bundled together with a swathe of reforms held responsible for a multitude of

problems in our society. This climate of economic rationalism is blame for a fracturing society, the increasing disparity between metropolitan areas and the bush and in general the increasing alienation of people from caring government. The difficulty of discerning the impacts of NCP from the impacts of other social, economic and technological change is something that must be taken on board and addressed by today's policy makers.

Public perception can often be the enemy of successful policy making. Policies cannot be made in isolation. Resources need to be invested both in facilitating community understanding of why the policies are put in place and how the benefits will manifest themselves. For many in our communities, especially in regional Australia, the why and how remain a mystery. The absence of tangible redistribution mechanisms and short-term compensation to offset the adverse impact of reform heightens this. The continuing decline of service to the bush has only increased public resistance to change. Over the last few months, WAMA has catalogued a number of examples where the emergence of a more business like government utility sector has had real and adverse impacts on communities around the state.

The quality of and disruption to telephone service remain high on the list of community concerns. When phone lines are down on remote farms, a family's link with the outside world is virtually cut off due to lack of mobile access and few public telephones. People in rural and remote areas have, through gradual loss of banking and other services, been forced to use facilities such as telephone banking to manage their bank accounts, pay bills, order supplies and meet other business requirements. When the phone access is lost, restoration of services should be a priority for Telstra. Yet I have personally received numerous complaints from families putting up with delayed service delivery and little support from Telstra. Out in the bush, we are simply not profitable enough to warrant greater attention.

It is the same with public telephone boxes. Recently, a small town near Esperance lost its only phone box due to lack of profit and inconvenience to service. Telstra's response to the community outcry was to offer to put a phone card into the local hotel, with the hotel renting the line on the community's behalf. The reasoning behind it was that the phone box had to show a profit; it had to be viable.

With the other utilities it is no different. The Shire of Gnowangerup recently went into bat for a growing company producing fencing wire in its community. The organisation in question was successfully established and was in the process of expanding to meet demands and reduce its costs. As part of this process, the organisation wished to install a new welder but was told by Western Power that an upgrade to the power supply costing hundreds of thousands of dollars was required, to be paid by that organisation. Obviously, the organisation does not have the resources to meet this obligation, leaving the shire concerned that the whole organisation will simply relocate to a more convenient location. The gradual move away from cross-subsidisation of essential community infrastructure and services by corporatised and privatised entities has left our rural and remote areas isolated and feeling very victimised.

While in the longer term NCP may produce dividends for the community, our policy makers must ensure that sufficient and tangible redistribution mechanisms are in place now to offset the cost of reform to our communities. The social fabric of many communities,

especially in rural and remote areas, is under threat and this disintegration is often exacerbated by the current reform process.

Local government is working hard to reinvest in communities, negotiating with the state for local purchasing preference policies to enable goods and services to be supplied by those living in non-metropolitan WA rather than from the larger and cheaper metropolitan source. Centralised long-term contracts that bypass vulnerable labour markets in non-metropolitan areas may be competitive and economically efficient in the short term, but the long-term impact on country areas can be devastating. Similar to such purchasing preference policies are local laws that are now interpreted as protectionist but serve to ensure long-term supply rather than cheaper goods which undermine the viability of the local traders, for example.

In the case of trading local laws, particular restrictions to competition were omitted by WAMA's solicitors from a draft of local laws 'by reason of inconsistency with competition principles agreement'. The restrictions included local government's right to restrict a hawker, stallholder or trader's ability to conduct business within 300 metres of any permanent place of business offering similar merchandise and, similarly refuse a permit to conduct a business considered significantly catered for already. WAMA had to convince its solicitors, who have since reinstated the provisions, that the majority of country local governments adopt these laws only to restrict unfair competition.

For a country business, losing a contract to a centralised contractor, or market share to a more competitive trader with greater discount ability, can be make or break. Not only that, job loss can mean necessary relocation due to a lack of alternate opportunities. The impact of one less family in a town can be devastating, given the resultant school closures and general service withdrawal that inevitably occurs due to decreased population.

The reason for continued enforcement of such policies by local government is that, especially in our rural and remote areas, competitive markets simply do not exist. Service providers enjoy a monopolistic position where, if the provision of a service is not viable, it can simply be discontinued. There is no alternate market presence to which the community can turn. The impacts of NCP are not uniformly felt. What is often a minor short-term disturbance to a large urban centre can cause major disruption to regional communities with often irreversible consequences.

The concern in the bush is that the cost of supply is increasingly dependent on location and that, largely, private enterprise has no incentive to relocate to marginally profitable areas. The continued implementation of NCP must recognise and then compensate the needs of Western Australian citizens, providing communities struggling with the impact of reform with some tangible benefits or interim adjustment assistance. Increased funding for government programs is one way to offset the adverse impact of reform—through, for example, incentives for teachers and doctors to live and work in non-metropolitan areas, and incentives for families living in these areas, through increased tax concessions and programs which encourage benefit-driven reform.

A related issue, but one which is crucial to the sustained wellbeing of local communities, is taxation reform. The refusal of the Commonwealth and state governments to allocate local government an equitable fixed share of GST revenues means that the financial assistance

grants to councils are continuing to decline proportionate to Commonwealth tax revenues. There is less and less money going out to our regions. There must be a more concerted effort to make social and quality of life goals a key aspect of future economic policy formulation.

Greater attention must be paid to making reforms more palatable, further selling the reform process and thus reducing public resistance. In the UK, for example, they are now embracing the principle of best value. Best value involves putting public concerns first, as users of services, to ensure needs are met at least cost. Best value involves the public choosing, designing and monitoring service and activities.

While there is a fundamental need to ensure that NCP receives community support over time, there is an equal need for mechanisms that examine and then redress the impact of the reform process on the wider community. Mr Chairman, in summary, we are yet to see the forecast of benefits of NCP in our urbanised areas. In the bush, we view it as an absolute disaster.

**CHAIR**—Thank you very much.

**Senator LIGHTFOOT**—Thank you for that submission, Mr Mickel. There is a lot to discuss. Regrettably, there is not enough time to discuss all those issues that you have raised with the committee. Regarding the disaster and the evidence that I have had from my sojourns into the bush, which is frequently—that is where I grew up and I am very attuned to that—would you outline some of that? I know electricity is one. What are some other areas that are of major concern to your organisation?

**Mr Mickel**—You used electricity. I guess I could speak of electricity and the cost of electricity. I was interested to hear the comments made by the former presentation, because our community in Esperance has been vitally involved with electricity. The situation there is that we have no competition in our market, we have a single provider and we have a government that is not sympathetic to providing subsidies to our big employers. That has left the bigger businesses in our town continually under threat of power disconnection and increased power costs. That puts a whole cloud of confusion over a community.

I spoke briefly in the presentation of the situation with Telstra and the lack of service. When a phone line goes out in the rural areas of this state, particularly in my area—that is the one I can speak of—a date is given three weeks forward when it will be fixed by. If you are very lucky it will be fixed in a week. Most times it goes out to three weeks. I know of an instance now where, for a person in my area, it has gone beyond three weeks to provide them with a service. There is just no competition for service. We do not have an Optus running around that would provide some sort of facility or service to us. How do people operate their businesses when there is this type of issue?

One would believe that the market share in the metro area of Perth would not allow that to happen—that the person would fairly quickly advise Telstra that if they did not smarten up they were transferring their account tomorrow. We would see action almost immediately to address those issues. Those are some of the examples of where I believe that type of service in rural areas is being sadly neglected because they must compete in the markets—

the metro area. The resources have moved to the metro area and we in the bush are left to fend for ourselves.

**Senator LIGHTFOOT**—Have you any idea of the cost of electricity in terms of kilowatt hour or unit in Esperance?

**Mr Mickel**—Under the uniform tariff basis, it is 12c for my home and 16c for my business. I understand that for the Esperance hospital it is 29c. They are charged on a full cost recovery basis. During a period of negotiation one of the major employers was issued with an account for 33c per unit. A quotation was given 18 months ago to a new business that was looking to start up and employ 14 or 15 people of 45c per unit. There are some quite unclear signals coming from a corporatised government utility which has a monopoly in our area.

**Senator LIGHTFOOT**—Would it be fair to say that at 45c, even 33c, per unit it would make practically everything—if not everything—uncompetitive in Esperance, your shire?

**Mr Mickel**—The business did not locate to Esperance; it used Fremantle as a site to locate to and set up its operations there. Large businesses that are employing a lot of people cannot move away from it. The alternative is to look at their own power generation. To give an example, a new business wanted to start up alongside the power station in Esperance and set up works. In its negotiation for power with Western Power on that occasion it was told that they were not prepared to provide that business with power beyond 20 per cent of its requirements between the hours of 5.30 and 8.30 every night—in other words, it could have power, it paid a substantial headwork cost, but it was not allowed to run its plant.

**Senator LIGHTFOOT**—Would you explain to the committee what ‘headwork cost’ means, because a lot of people in the metropolitan area would be aghast if they were asked to pay headwork costs.

**Mr Mickel**—The headwork costs, as we see them, are almost an ambit claim on business. It is claimed that we are required to contribute to not only the connection into the system—in other words, the hook-up cost to the network in the case of power—but also, sometimes, the upgrading of a line back to the power station. In one instance that I know of it even included the upgrade of the power station to adequately supply that industry.

**Senator LIGHTFOOT**—Are those headwork costs ever reimbursed?

**Mr Mickel**—I have never seen any documentation which indicates that they would be in the longer term.

**Senator LIGHTFOOT**—As Vice-President of the Western Australian Municipal Association, can you tell the committee whether there are other shires, apart from Esperance, that suffer the same inhibitive costs with electricity?

**Mr Mickel**—Most of the rural communities that are on the independent power generation group would have the same costs. We are seeing it flow into another situation—the Shire of Gnowangerup, in their negotiations with a company by the name of Southern

Wire. They were seeking a contribution to upgrade the line for some 90 to 100 kilometres to provide more power so they could operate that business. The full cost of the upgrade that was required to bring the additional power in was being sought from the company trying to expand its business.

**Senator LIGHTFOOT**—What other areas are there with respect to added infrastructure costs that inhibit expansion of industry and commerce in rural areas?

**Mr Mickel**—The major infrastructure is power and water. Similar limitations are placed on water. I cannot provide you with a specific example, other than to tell you about one we were dealing with some two years ago whereby the Shire of Narembeen bought four homes in their town and demolished them to build a complex of retirement units. Water was already connected to those four houses, of course, but they faced a head works bill and I stand to be corrected on this, but I believe it was in the vicinity of \$40,000 to get water up to the new complex. We could not follow the mentality of that, but that related once again to upgrading the main lines to provide services in that area.

**Senator LIGHTFOOT**—Do you think that the reimbursement by the federal government to the states in two tranches, one in 1997-98 and another one committed for 1999-00, is: firstly, adequate for the states; and secondly, if you think that reimbursement is adequate for the states—and I have no idea of your answer on that because I simply do not know—do you think that that per capita flow back to the shires of Western Australia, particularly rural shires, is adequate?

**Mr Mickel**—Senator, I cannot make a judgment about whether there is sufficient money flowing from the federal government to the states. A share to compensate local government for their costs has not flowed from the states to local government; as I mentioned, we have had a small contribution of \$4 million over three years, after a long fight—that will not fully reimburse the councils that have had to address these processes for their time, their efforts, their legal costs and all the other issues that they have had to deal with. It is moving somewhere towards it. It will not compensate the communities at all for changes that need to be made, I believe.

**Senator LIGHTFOOT**—From where in Western Australia is the NCP being driven? Is it coming from government, a government department, the bureaucracy—or is it a mixture of all those things?

**Mr Mickel**—I would read it fairly clearly as coming from state Treasury; but perhaps Mr Martin could comment on that, because he is dealing with this issue on a day-to-day basis.

**Mr Martin**—That is correct. The state Treasury and the Department of Local Government are responsible for the administration of the competition policy; certainly, that has been the case since its inception. WAMA has been involved in some aspects of the original clause 7 statement and subsequently of some specifics in terms of the how-to of the policy, but it really has been driven at a Treasury level.

**Senator LIGHTFOOT**—I want to be able to defer to my colleagues in the limited time that is available to us, so I only have one more question, Mr Mickel. Once again, I am not concentrating on the Esperance Shire, but it is such an important part of the infrastructure development of the hinterland, particularly the goldfields, that I want to ask you about the proposal to bring desalinated water from Esperance up to the goldfields, particularly Kalgoorlie and its immediate environs. There seems to be an inhibitive factor here which, as I understand it, is the Water Corporation—the corporatised state water. I do not know whether we are going to take some evidence from someone later on with respect to this—I hope we are—but there seems to be an inhibiting factor there with the state water supply, now titled Water Corporation, and the private enterprise based proposal to bring desalinated water from Esperance to the goldfields. If the state water supply got behind the project, it seems to me that it would work. I do not know whether you have any evidence of that, but because this is a major project, I wonder whether you could enlighten the committee as to the lack of competition, if you like; or that a government department seems to be inhibiting what could be a major project for Esperance.

**Mr Mickel**—Senator, I feel that you have a very good assessment of it. My community is very supportive of the proposal by goldfields utilities to pump the water up and it is obviously the viability of selling some of that water into the Water Corporation market which seems to influence the success or failure of it. One would have thought, with the problems that the Western Australians have with Mundaring Dam and the shortage of water, that it would have been very good business to link the private enterprise supply up. It would put water into the general network of the Perth water system, into the goldfields and then heading west from the goldfields into the regional areas of Western Australia. I am not sure what the state of those negotiations are, but I do know that the Water Corporation have been in town in recent times talking about running their own pipeline.

**Senator LIGHTFOOT**—‘In town’ meaning Esperance?

**Mr Mickel**—Yes. In town—in Esperance—speaking of setting up their own pipeline to pump sea water to Kalgoorlie and selling sea water into the mining industry, which seems to me to be an absolute nonsense. I think, for the good of Australia and, particularly, to get good water into the goldfields to service all the people along the way of the 400 kilometres from the south to the north, and to be able to pump it into the goldfields water system, back into the wheat belt areas towards Perth and to give a backup system for Perth; I would have thought would have been extremely good business. But there seems to be some professional jealousy happening in there. From the debate that is coming to me and the various angles that people are putting to me as an independent person, I feel that the whole project could be undermined if we do not get some commonsense and some reality into it.

**Senator LIGHTFOOT**—On what you have said, it appears to me that the state government in effect with one of its corporatised utilities seems to be competing—albeit with subsidised water or a subsidy from the state government, that is, the taxpayers—to inhibit what is a free enterprise, private sector initiative to bring not only better water, but fresh water as opposed to salt water. This seems to me to be rather an odd thing for a government to be involved in.

**Mr Mickel**—Senator, I would agree with you. I still do not quite know the tie between our state government and our corporatised bodies. They seem to separate on issues when they want to separate but work together when they want to work together according to my experience with the Western Power state government lobby that my community in Esperance has had to deal with over the past three years over that issue. So I would not like to make a political statement on what is happening between the proposal of the Water Corporation and the state government against one that might be done by private enterprise.

**Senator LIGHTFOOT**—Okay. To finish on this point: there does seem to be a dichotomy between what the state government is doing and national competition policy. Thank you very much.

**Senator MARGETTS**—It is one of those occasions, again, when it seems a pity we have such a short time to talk to you. I want to follow up on the issue of head works costs. What kind of feedback are you getting from a range of councils in relation to head works differences in quotes? Over what period of time has the cost of quotes from head works increased and, if I recall correctly, are you not also getting service contracts having to be built into head works quotes—that is, you have to pay life of service type charges; or can you explain what the elements are in terms of water, power and other services?

**Mr Mickel**—The range of head works charges is mainly an issue for our rural areas; we do not get complaints from metro councils that these are major issues. From the rural areas, there seems to be no common factor in the heads works charges. We cannot seem to get a process by which they charge or how they come about arriving at a figure. It would appear in the larger towns that head works charged from a base of what it costs to connect into the system but, as I explained previously, in the more remote areas it seems to go back to provision of line and power generation upgrades and those sorts of issues. Certainly, since we have seen it become a corporatised body, head works charges have become quite substantial. I referred to the business in Bandy Creek earlier where they were told they would be charged 45c. They also had a head works cost quoted to them—on that occasion of the 45c—as \$83,000. One could not see why. There was a three-phase power service into the area. One transformer was probably required and a short distance of line. So that is why I say that there seems to be no pattern to the way head works charges are applied to some of these jobs.

**Senator MARGETTS**—Is it because of the desire, say, for Western Power or the water authority or whomever not to amass further liabilities? They are required to be profit making; and they are trying not to amass further public liabilities?

**Mr Mickel**—I would be fairly confident of that on the process that goes through. I think they are rather keen that businesses that might look to establish in the rural areas just do not; they will not pay the head works charges, so they will move into the metro areas and set up their businesses there. One would think that it would relate to the bottom line profitability of the corporatised body.

**Senator MARGETTS**—Has WAMA looked at consumer benefits or costs? We have had a bit of difficulty finding out from anybody, either the ACCC or the National Competition Council or, indeed, the chamber of commerce this morning, what kind of surveys have taken

place and whether there has been a consumer benefit change or disbenefit in relation to costs, choice or availability. Has WAMA had any opportunity to look at those issues, at whether or not there has been a consumer benefit from competition policy and whether the benefits or disbenefits have been distributed?

**Mr Mickel**—I will defer to Mr Martin on this.

**Mr Martin**—All of the research undertaken by WAMA has been based on the impact that it will have on local governments and, obviously, on the communities that they represent, either directly or indirectly, whether it is the business sector or private individuals. The research that we have undertaken in quite a broad sense, given that it related to the entire start on head work charges, does show that it is a problem that has been accentuated. It has always been a problem and it has probably been accentuated since 1991-92. We did not look at specific costs. We were really trying to isolate what things were restricting councils in undertaking their economic development policies, such as rural subdivisions and various other things. That was seen as one of the major impacts. In many ways the results taken from those councils would reflect the individuals, but in no way would they look at specific sectors.

**Senator MARGETTS**—That is reasonable. So you are just—

**Mr Martin**—We look at communities in a broader sense. We are trying to take into account the business communities' and individuals' broader needs.

**Senator MARGETTS**—This might be a difficult question on that basis as well. Hospitals and things like hospital meals: what has been the experience reported to you on things like provision of hospital meals in regional and rural Western Australia? Is that an unfair question? I will give you the context. I remember visiting Albany a few years ago and they said that, for cost reasons, they were no longer going to be supplying their local hospital meals in the area; the meals were going to be brought, frozen, from Perth by road. Is that the kind of experience that you are getting?

**Mr Martin**—There has certainly been no evidence given to us that the NCP, or any other similar micro-economic reform, has supported the viability of those services. I could talk more specifically about child care, for instance, where looking at the real costs and benefits of providing a particular service had councils questioning, in many cases, whether they could fairly justify particular services. In some cases councils, possibly driven by the policy and the philosophy behind that, perhaps went down the track early to pull out of certain services where there was quite an immature market. Then they found that sectors within that child-care market were not being catered for and they had to re-enter it, and I guess that resulted in more costs again. They were the problems that were eventuating.

**Mr Mickel**—To add to that, I cannot quote specific cases from my own community but, yes, that is the type of problem that we are seeing with national competition policy, that there is a state-wide contract or a region-wide contract and they have taken employment opportunities out of our communities. For example, there are the recent contracts that Main Roads Western Australia have let for maintenance. My own council was extensively involved

as a subcontractor to Main Roads to do work that was remote from their depot, and we were providing a service.

We see ourselves as having very limited opportunity now. The tendering process just eliminates us completely. We cannot get in there to tender because of the enormity of it. And the opportunities to subcontract are extremely limited. They will come to us when they want a job done, and we presume that they will be screwing our prices down as hard as they can. So our good relationship, our good work and the skills of our work force that we are providing to state infrastructure are virtually going to be non-existent. That was supportive, and I believe that if we looked at the total cost of it—being located locally, being able to address things very, very quickly—we could do it quite efficiently. But that does not seem to fit into those new-type programs.

**Senator MARGETTS**—We are under a time constraint, so I cannot ask you to answer any further questions right now, which is unfortunate, but perhaps you could take on notice—it is probably in your submission; I should have read it more carefully—a question about the multiplier effect. Previous witnesses have talked about the multiplier effect. Have you looked at the negative and positive multiplier effects of some of these changes in terms of not having local suppliers operating and in terms of the impact on diversity? What is the downstream impact of loss of diversity within your communities as a direct result of national competition policy? I do not expect you to answer that now, because we are out of time, but those questions, amongst many others, I am keen to ask.

**Senator MURRAY**—Mr Mickel, I thank you and your team for your submission, which I think is very helpful. Assuming this committee's eventual report is of any influence, the government will be faced with a number of options: leave things as they are, abolish the policy or change the policy. And, if they change it, it could be in three ways: change the direction; narrow it or limit it in some way; or, in fact, expand it and develop it further. You have really picked out the problems. Do you have any recommendations as to how it should be limited, expanded or changed? Do you have any specific recommendations as to what changes should be made?

**Mr Mickel**—That is a good question. I should have worked a bit harder on this and had a more positive answer, I suppose, but I believe that it should give more flexibility than we view it to have today. It is obvious that it will bring benefits to the major urbanised areas, the heavily populated areas. There will be some benefits there. But we all have to run by the same rules. The examples that we have tried to give today, and many more of them, just indicate that those same policies do not work in rural areas.

We spoke about the laws, which were seen as restrictive, that stop hawkers. To have a company like Jeans West come into town, rent a hotel room for a day every six months and sell everybody a pair of jeans at half the price than the local people market it or at the same price of the local person running a store can buy it at and just wipe out the jeans market, you might say is healthy for the community; it does nothing for the local economy, I can assure you. This is an example of an experience where we feel that we have stuck by the rules that have applied to everybody, which might be healthy and competitive to someone, but which will undermine the structures and the fabric of our more remote and less populated communities.

**Senator MURRAY**—Isn't that the point? The point you are making is that economic rationalism of this kind, national competition policy this kind, results eventually on a focus on only that economic activity which can stand on its own. So the primary producer, the manufacturer or farmer will survive, but the supportive services go—the supportive retailers, the banks, the local government services—because they can, if you like, be contracted out and others can come in and do them, whereas others cannot come in and do the farming; that has to be done in the place. Others cannot come in and do the mining. Isn't what you are saying, in fact, about values—that our political, economic and social environmental perspective has to provide a value-driven assessment of this as well as an economic assessment?

**Mr Mickel**—Most definitely, and that is why we mentioned the UK model. We think there are other models that should be looked out. Being a farmer, I probably have a vested interest, but I have a little different opinion on whether it is bringing major benefits to the agricultural industry as well. But others will report on that.

From my point, within our communities there has to be a best value assessment, and that is not in the exercise at the present time. One would think that if we can legally get some forms of local purchasing policies we can protect ourselves—through a whole range of those issues—from the multinationals and the major suppliers from metro areas taking over these big markets within our rural communities. If we can do that and we can get some sort of support—whether it be a community service obligation or that type of process—into our large major utility services, I think that we then have a chance to survive out in the rural areas. You have referred to withdrawal of banks as just another example. I feel that we are virtually doomed in those rural areas.

**Senator MURRAY**—The reason I framed my remarks the way I did is that one way of approaching this is to leave the machinery intact but to change the personnel. In other words, that those making the decisions are not city based economists but include a balanced range of people from the community—if Treasury were not running it, from the state point of view, et cetera. I really want to know whether you think what is needed is fundamental legislative and regulatory change or merely a change in the attitudes and the values and the people who drive and manage the process.

**Mr Mickel**—I think a change of the people certainly would have definite benefits to us. Perhaps it needs a bit of regulation change as well as some legislative or regulative change, because I see us being exposed by the regulations and the legislation that is there now.

**Senator MURRAY**—Mr Martin, could I ask you on notice whether your policy unit could give some thought to perhaps specific recommendations as to how regulation or law or management processes should be changed?

**Mr Mickel**—We will definitely take that up.

**Mr Martin**—In reply to the last question, and to add on to Mr Mickel's comments, I think local government's experience in implementing NCP in the last three or four years suggested that it seemed a viable policy to allow governments to realise when they should or when they should not undertake something that a private enterprise company can or cannot

do. It has led them to question their own functions and to look at the private sector, if they are able to undertake the same functions, but there is nothing there to suggest that it has done anything that would really enhance the local economy.

There are a series of reforms that local government has pushed for—whether it be a ‘buy local’ preference policy or whatever it may be—that would specifically enhance the sustainability of economic development in the regions. Nothing in NCP has led to that at a local level.

**CHAIR**—The Jerramungup shire said that they were providing black boxes for television distribution in their area. Is that widely done in Western Australia? Do many of the rural councils, where there are no television services, provide those sorts of things?

**Mr Mickel**—Certainly it is done regularly—not always by the council but sometimes by community groups. In my shire there are two community groups that provide their own retransmission facilities at their own total cost. New services such as GWN have just been established by WIN. Those communities went out to their own people to raise money and put in equipment.

**CHAIR**—I have two other quick matters. Have you got a copy of an extract of the guidelines for legislative review produced by the WA Treasury? Do you know about that?

**Mr Martin**—Yes.

**CHAIR**—Could you furnish us with a copy of that?

**Mr Martin**—Yes.

**CHAIR**—Ladies and gentlemen, I will sum up with you where we are at. I understand that you represent 144 councils in the state, and you are telling us that you think competition policy has adversely affected rural Western Australia?

**Mr Mickel**—Yes.

**CHAIR**—You understand the difference between all of the other economic reforms and national competition policy? Strictly speaking, it is not national competition policy; it came in on the same wave but it is a different surfboard. Do you understand the difference between the two? Pardon me putting it in blunt language.

**Mr Mickel**—We certainly do, but one of the issues that we come up against all the time, as I mentioned earlier, is the division between the two, or the various platforms that come up under this national economic process, I suppose you would call it. Often, when we question other activities that we would probably call ‘economic rationalism’, the point is very quickly made that we have got to do this under national competition policy. This is Hilmer. The statement is: we have got to do this. Whether it is fact or whether it is the processes of a board that sits in Sydney, or someone like that, I do not know, but that is regularly the statement that is made when things are withdrawn from us.

**CHAIR**—I thank you for that; it is very useful that we have that on the record in plain language.

**Senator MARGETTS**—This question is on notice, and perhaps you could just provide the answer in writing. Page 18 of the Department of Commerce and Trade's document, *Implications of competition policy for regional development* refers to the findings of a series of workshops conducted by the department in 1997-98 with local government and regional groups. What I would like you to do on notice, if you could, is to go through the points with you as they relate to local government. The first point is:

That competition policy should not be separated from other reforms introduced by Commonwealth and State Government. The Treasury approach of treating the implementation of Competition Policy separately from other reforms was unrealistic and a reflection of Treasury's lack of awareness and appreciation of the practical impacts at the regional business and agency level.

As I said, if I can throw that at you, I would be really appreciative.

**Mr Mickel**—The staff will take that up and get an answer to you, Mr Chairman.

**CHAIR**—Thank you very much for your efforts.

**Mr Mickel**—Thank you very much for the opportunity to address you and to answer questions, Mr Chairman. It has been good.

[11.51 a.m.]

**PALUMBO, Mr Domenick Tony (private capacity)**

**CHAIR**—Welcome. In what capacity do you appear before the committee today?

**Mr Palumbo**—I appear in a private capacity out of my interest in the north-west region; my residence is in the Pilbara.

**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 I will invite committee members to ask you questions.

**Mr Palumbo**—First of all, I would like to thank the Senate committee for allowing me the opportunity to put my case. I am speaking as a self-made small businessman of some 32 years and as a long-term resident of the major regional centre. My fear about the NCP is that it is based on ideology and is driven by economic rationalists from the confines of Canberra and Melbourne with what seems to me little understanding of the major contribution that people in business located in rural and regional Australia—in particular, my part of the world, the north-west of WA—make to the state and national economies. The national competition policy paves the way, I believe, for the takeover of small business by the multinational companies not only in the bush, where the greatest impact will be felt, but also in urban Australia, where small business is in danger of being swallowed up by the multinationals under this policy.

Finally, this policy encourages the use of the fly-in, fly-out work force in regional centres and provides no social, business or employment benefit to the local community, because national companies have little commitment to small towns and centres. What needs to be understood is that this type of policy may be beneficial to a country with a population of 100 million or more, but Australia is a country with a population of barely 20 million spread over one of the largest continents in the world, with sparsely populated areas. In my opinion, there has to be a fine balance on the part of the government between protecting the interests of rural Australia and encouraging it to grow alongside urban Australia. The national competition policy, in my humble opinion, does not do that.

**Senator MARGETTS**—Mr Palumbo, do you basically consider the national competition policy to be failing because it is not limiting the abuse of market power by large businesses?

**Mr Palumbo**—Mainly large corporations, as I have experienced directly.

**Senator MARGETTS**—What is wrong with that? What would be wrong, if, by virtue of cheaper quotes, large business were able to take over the operation of many of the functions currently provided by local government authorities, by government or by small business? What is wrong with that? Won't we all benefit?

**Mr Palumbo**—I will give an example. I have been affected directly by the policy itself. I will move into another area a little later on regarding capital works. In part of my company we have cleaning and ground maintenance contracts around the Pilbara. In one particular area, in Port Hedland itself, the cleaning contracts of the defence forces were put out to tender to limit abuse by major companies. But, to my knowledge, the tender was only tendered by one company. Can I name the company in this hearing or not?

**Senator MURRAY**—Yes, you are protected.

**Mr Palumbo**—Transfield Maintenance won the contract Australia wide for the cleaning contracts and ground maintenance.

**Senator MARGETTS**—Can I interrupt? So the tender was for the entire country. Is that right?

**Mr Palumbo**—It was for South Australia and Western Australia, and I believe they are moving to the eastern states as well. That tender was won by Transfield Maintenance, who took over the whole operation. In turn, that has been given to another multinational company, that is nationwide, to run the operation for them. But it seems to me that it goes against the policy itself because, to my knowledge, no others were invited to tender. It actually goes against what it says regarding limiting abuse by market power.

Going on from that, the company has moved into Port Hedland and taken over the regional centres for all the cleaning contracts for the defence forces. They had not been there a month when they started tendering for the local cleaning contracts of colleges and will probably do so later on for the high schools. They beat all local contractors by at least \$30,000. I had the price on those. This is what happens. They set up and they start taking over the smaller contractors. At the same time, I know they have set up another small company called Access Services, which is part of the Transfield nationwide operation, and now they are tendering for the local refrigeration and local electrical contract works. They are knocking out local people who have been there for many years. That, to me, goes totally against the operation of competition tendering. They move into the town and take over.

**Senator MARGETTS**—How are they able to achieve those reduced tenders? Is it your feeling that those costs will remain that low? Are you thinking that over time those costs may increase, or is there a difference in the structure of the way they treat the staff, the number of people they are employing? How do they structure this to be able to do that? Do they take a loss?

**Mr Palumbo**—If I knew how they were structured, I would probably be able to attend them myself. No, I do not know. I do know for a fact that they cut back on services because the hours of operation in Port Hedland have been cut back. However, they may be able to do it more efficiently with fewer hours—I do not know. A multinational company can carry a loss in a small town such as Port Hedland or Karratha and write that loss off as part of the company's operations that may be more profitable in Sydney or Melbourne. There is no benefit to the government there because of the taxable dollar.

**Senator MARGETTS**—So, to get a statewide contract or a nationwide contract, they might carry losses which in effect get rid of local tenders and mean they get the juicy, more profitable areas within—

**Mr Palumbo**—That is how companies work in the private sector.

**Senator MARGETTS**—Do you have an opinion about what could or should be done in relation to our trade practices law to be able to deal with this issue? It seems to me that we jumped into national competition policy without dealing with trade practices law. Is that also your concern?

**Mr Palumbo**—The National Competition Council has put out *National Competition Policy: Some Impacts on Society and the Economy* in January 1999. I have gone through the book. It seems to me that they have basically made up their minds. I read it as saying that the council itself supports national competition policy. I really do not know about the Trade Practices Act, but it says:

The package represents a new and important step in pro-competition reform, and builds on a process that was launched with the Trade Practices Act in 1974. The Act established rules to limit the abuse of market power by businesses, promote fair trading and efficient industry practices and to protect consumers.

But it is not limiting abuse of market power by business. When you get one or two major companies that can tender for one particular government contract, that is not limiting abuse.

**Senator McGAURAN**—I understand the picture you are trying to establish in regard to local communities—that their sense of local community—employment, recreation, family and all that—has been affected by this now fly-in, fly-out mentality. Did you mean fly-in, fly-out to the mining towns?

**Mr Palumbo**—Yes, mainly the mining towns' work forces.

**Senator McGAURAN**—As I say, I concede that I know what you are trying to say about the picture, but has that fly-in, fly-out of mining towns got less to do with national competition policy and more to do with fringe benefits tax, the unions and the social difficulties that started to grow up out of it? Wasn't it just a whole cultural and trend change rather than national competition policy?

**Mr Palumbo**—Yes. It is a combination of all that. Obviously, the fringe benefits tax, the operational cost of companies and allowing the tax deductible operations of fringe benefits tax have encouraged fly-in, fly-out. The main organisations that use fly-in, fly-out are the big multinational companies. My thoughts are that, if a multinational moves into a town and starts operating different contracts and takes over electrical, plumbing and whatever the case may be, it could lend itself to using the fly-in, fly-out. I do not say it is a direct result of the national competition policy, but it will not help either.

**Senator McGAURAN**—I cannot see that they are connected at all.

**Mr Palumbo**—If a multinational company comes in and takes over a major contract in town—

**Senator McGAURAN**—It brings work with it.

**Mr Palumbo**—It may bring in only a fly-in, fly-out work force.

**Senator McGAURAN**—It brings with it the fly-in, fly-out work force.

**Mr Palumbo**—But it does not help the community. It does not help the town.

**Senator McGAURAN**—By implementing fly-in, fly-out—

**Mr Palumbo**—Yes, sections of the fly-in, fly-out work force.

**Senator McGAURAN**—It does not help the town?

**Mr Palumbo**—No, it does not help the community.

**Senator MURRAY**—The main contract you are referring to is with the government agency, which is Defence.

**Mr Palumbo**—The Defence Force.

**Senator MURRAY**—Are some of these other subsidiary contracts pursued also with government agencies—schools and those sorts of things?

**Mr Palumbo**—The schools are; yes, of course. And so are the colleges.

**Senator MURRAY**—I think it is New Zealand and I think it is the United States which require any contract with any commercial provider to be public, except for a few areas. The reason they do so is for transparency purposes, particularly where you have single tenderers or just a couple, so people can clearly see the outcome. Do you believe that requiring governments here—whether local, state or federal—to make public for inspection all contracts, with a few necessary exclusions sometimes, would be helpful in ensuring terms and conditions are above board, the process is transparent and you can see exactly what is going on?

**Mr Palumbo**—Yes, it would. It was. I am talking about the college contracts in Port Hedland. They were public. I am not saying they are not public.

**Senator MURRAY**—But the tender process.

**Mr Palumbo**—The tender process was public.

**Senator MURRAY**—But the final contract—would you know what their contract actually says?

**Mr Palumbo**—Yes, that price was given. That is why I know the difference in price between the lowest tender and their tender. They actually write and say, ‘This was a successful company at this price.’ We do not have a problem with that at all. My point is on the competition policy that allows a multinational company to come into the town, win the government contract on a state basis and, while they are there, they move into other local, smaller contracts—because they are already there. They have established a foothold.

**Senator MURRAY**—But Senator Margetts’s point to you is the critical one. There are three economic possibilities here. One is the marginal costing possibility: you win the major contract and then you make it more profitable by adding on marginal activity, because you have already established the infrastructure and the core cost, and everything else is just grist.

The second possibility is the one you outlined, where you have cross-subsidised areas so that over east, maybe, it is highly profitable, here it is marginal or at a loss, but overall they make a profit. The third possibility is that the way in which the service or the contract is structured allows somebody to compete on a very different basis. They provide different hours, they have greater technology, they pay people less or whatever. For you to assess any of those as a competitor in a market, you would need to know the full basis of the contract. If you merely know an ultimate gross price, you do not know that.

**Mr Palumbo**—No. We do not know that; we are not given that information. I would have thought that was privileged information, apart from the price.

**Senator MURRAY**—Why should it be? It is taxpayer money contracting a service. Why should it be privileged information? What is this ethos that, in America or New Zealand, they can have a public contract but we cannot have it here?

**Mr Palumbo**—I do not have a problem with that. If that becomes unprivileged information, it will probably help a lot of small business, I am sure.

**Senator MURRAY**—I will stop there. But you see where I am going, don’t you?

**Mr Palumbo**—Yes, I can understand that.

**Senator MURRAY**—The destruction of competitors is the destruction of competition so, if you are going to get fair competition and you are going to proceed with this policy, you need to make sure there is as much transparency, openness and fair play as possible.

**Mr Palumbo**—Yes, I can see that.

**CHAIR**—Thank you, Senator Murray. We are very tight on time. Senator Lightfoot, if you could restrict yourself to one or two questions at the absolute outside, and I will forgo mine.

**Senator LIGHTFOOT**—That is very kind of you, Mr Chairman. I appreciate your deferring to me, and I will do my utmost to try to curtail myself, but I do have a couple of interesting questions for Mr Palumbo. The first is: is it possible that the problem that exists

now with the constriction of tenders is more to do with the ACCC, the Australian Consumer and Competition Commission, than as a result of the fallout of national consumer competition policy?

**Mr Palumbo**—I don't know. I couldn't answer that one. I don't know whether it has anything do with the ACCC. The policy that has been pushed by government throughout most tenders and most areas in Australia is driven by this competition policy.

**Senator LIGHTFOOT**—Is the competition then exacerbated by your company not receiving notice of tenders? In other words, is there an unfair element to it with the major companies because they happen to be eastern state companies having a lobby that you don't have, et cetera, and getting tenders that you have missed out on getting?

**Mr Palumbo**—That is true because I wasn't even told it was going to tender, by the Defence Force. I wasn't the only one, by the way. A lot of other smaller contractors around the state, particularly up in the Pilbara, weren't notified that was happening.

**Senator LIGHTFOOT**—I find it quite appalling that small business in Western Australia, one of the so-called outlying states, wasn't notified of tenders of that nature. I certainly hope the committee has taken note of what you have said, Mr Palumbo, and so we should. With respect to tender prices, I believe there is a case for loading. There has been in the past and maybe there still exists with respect to loading. In other words, Commonwealth departments, state departments, are not necessarily obliged to take the lowest tender. It has to be the lowest overall in its attractiveness. You aggregate everything and look at the other end. Surely the social ramifications of what happens where companies like yours leave regional but isolated centres ought to be factored into the equation as to whether the tender is acceptable or not. The social factor ought to form part of that. What is your idea with respect to doing something of that nature so that the bottom line is not the only factor in accepting tenders?

**Mr Palumbo**—The state government has a reasonable purchasing policy.

**Senator LIGHTFOOT**—Is that a 10 per cent variant?

**Mr Palumbo**—Ten per cent variances, in our case above the 26th parallel. But very rarely is it adhered to, in my opinion, because generally it is always the bottom price.

**Senator LIGHTFOOT**—So you are saying that the state government has a policy where they at their will—so it is a unilateral decision made by state government departments—accept a loading of 10 per cent for the benefit of a local company rather than, say, an interstate or a metropolitan—

**Mr Palumbo**—A city based company, yes.

**Senator LIGHTFOOT**—And it is rarely adhered to.

**Mr Palumbo**—It is very hard to get the information, but generally most local contractors in a lot of cases do miss out on that 10 per cent loading. I have tendered on jobs and my price was within the 10 per cent margin and it was given to a city company.

**Senator LIGHTFOOT**—You were saying earlier on, I think as a result of Senator Margetts's question—perhaps if I could paraphrase it; I can't remember precisely what was said—that it would appear that larger companies from the east, and we like to mention the east all the time because they are the bogey men, come into a regional centre, drive the price down and as a consequence the competition that literally lives in that regional centre is driven out and then the prices gradually or significantly rise on the next tenders. Is that right?

**Mr Palumbo**—In time that is what would happen. I can't give a specific case of that happening at the moment because it is early stages. But human nature being what it is in a profit driven business, of course it will rise when the competition is limited. I can understand what the policy is trying to do, I think—to encourage competition. But in some ways it discourages competition. I will give you a quick scenario that took place during the recent boom times in Port Hedland on land released. Homeswest own a lot of residential land in Port Hedland. For this policy, I guess, to work in its entirety it should have placed the competition on Homeswest itself. But Homeswest controlled all the land. Within six months prices doubled. They went to public auction and private tender and because of the BHP-HBI boom prices went from \$15,000 and \$16,000 for a building block to \$32,000, \$35,000 and \$40,000 within a six or seven month period.

**Senator LIGHTFOOT**—Are they still currently at that level?

**Mr Palumbo**—No, they have come back a little bit because the boom has gone away. Homeswest profited from that particular boom but they controlled the market—and that is a government department. Instead of encouraging growth it was just too costly to build in a lot of cases.

**CHAIR**—Thank you very much.

**Proceedings suspended from 2.14 p.m. to 3.52 p.m.**

**CARTER, Mr Paul Thomas, Economics Executive Officer, Western Australian Farmers Federation**

**CHAIR**—I wish to welcome Mr Paul Carter from the Western Australia Farmers Federation. 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 I will invite committee members to ask you questions.

**Mr Carter**—I have the responsibility of the economics portfolio with the Western Australian Farmers Federation. The farmers federation appreciates the opportunity for being able to make further comments to our written submission.

The WA Farmers Federation represents some 6,000 farmers in Western Australia, representing a wide cross-section of agriculture from dairy and grains and representing a majority of the state. We seek to protect the interests of our members by minimising costs and maximising returns for our members. In my capacity I can only speak on policy that the federation has at this stage. When this submission was prepared, I was actually responsible for the grains portfolio, so I am not fully conversant with the research that went into this paper. But I will endeavour to do my best to answer any questions and I ask that I be able to take questions on notice if I cannot answer them.

**CHAIR**—Thank you, Mr Carter.

**Senator LIGHTFOOT**—Welcome, Mr Carter. It would be fair to say that the Western Australian Farmers Federation, representing all those 6,000 individual farmers, does not embrace the national competition policy in any major area? Would that be correct?

**Mr Carter**—I think, from a farmers federation perspective, we do embrace the concept of competition and the efficient allocation of resources. However, from a rural perspective, the costs and benefits of competition policy and of competition tend, more often than not, to benefit the metropolitan and more highly populated areas at the expense of rural and regional communities. In terms of our attitude towards competition, banking has been an excellent example of competition and benefits have flowed through.

**Senator LIGHTFOOT**—Sorry, from?

**Mr Carter**—Banking. The deregulation of banking has provided benefits to growers in terms of lower costs of financing. They have led to tighter margins in the banking sector, which have led to other social consequences of competition policy, being the withdrawal of banking services from regional areas as banks try to minimise costs and maximise their returns. So they are some of the benefits and costs of competition policy.

**Senator LIGHTFOOT**—In terms of NCP providing a reasonable return on the capital invested in farms, you do not think that NCP will rectify that or turn around what is, by any other investment, an abysmal percentage?

**Mr Carter**—The problem with rural and regional communities is that there are not the buyers and sellers in the market place to stimulate fair and competitive prices. I think, from a rural perspective, regional Australia is disadvantaged and pays a higher price. It does not, I suppose, represent the true contributions that it makes to the economy as a whole. I think that is something that needs to be addressed.

**Senator LIGHTFOOT**—All right. Let us be more specific about it. You say that it will reduce farmer income. Is that correct?

**Mr Carter**—Using the dairy industry as an example, what tends to happen with deregulation is that, at the end of the day, for the consumer the price will be maintained or, in some instances, will rise; but the net effect is that the farmer makes no more money or makes less money and it is the manufacturers and the supermarkets who take a bigger piece of the cake and are disproportionately capitalising from the work that the rural sector does.

**Senator LIGHTFOOT**—Why is it then that, say, Victoria and South Australia can, in a deregulated market, sell their goods in Western Australia? Are you suggesting they are dumped here or that they are sold here at a loss in order to maintain market share? Do you want to take that on notice?

**Mr Carter**—Yes, I will think about it for a while.

**Senator LIGHTFOOT**—Please do. Perhaps while you are thinking about it you could also think about your statement that it reduces grower control. Would you be kind enough to explain to the committee how you believe that comes about?

**Mr Carter**—I will use the impending sale of Westrail as an example. Industry is being told that Westrail needs to be privatised to comply with national competition policy objectives. National competition policy does not compel the state government to sell Westrail; it requires that the state government implement measures that ensure competitive neutrality and that they seek to equalise the net competitive advantage of government agencies arising from their public ownership. The state government has met these through, firstly, the implementation of their third-party tracks access, and they are in the process of writing their government railway access code. Secondly, Westrail has subjected their government enterprises to a tax equivalent regime, so they are meeting competition policy requirements without actually privatising Westrail. The concern that we have in terms of losing control is that under—

**Senator LIGHTFOOT**—Losing control of what?

**Mr Carter**—The question you asked was about growers losing control.

**Senator LIGHTFOOT**—Yes. Of?

**Mr Carter**—In terms of Westrail, under government ownership—

**Senator LIGHTFOOT**—Are you saying losing control of Westrail or losing grower control? You do not control Westrail—though I guess in a sense you do because you are probably the biggest movers.

**Mr Carter**—No, we do not control Westrail; but, in public ownership, growers have an ability to go to the state government through lobbying efforts and put pressure on freight rates. We have done that in Western Australia whereby in the last 10 years we have reduced freight rates from one in five years to one in 10 years of a grower's annual return. In private ownership, growers lose that ability. They do not have an ability to go to a privately owned organisation and say, 'We want lower freight rates,' whereas under public ownership we do have that ability.

**Senator LIGHTFOOT**—But with respect to the dairy industry, of which you spoke, it is pretty well road transport today, if not exclusively then almost exclusively, isn't it?

**Mr Carter**—Yes, for the dairy industry it is. I am not sure what it was I said in relation to control of the dairy industry.

**Senator LIGHTFOOT**—You were going to come back to that. Any of these questions you are asked, please feel free to take them on notice.

**Mr Carter**—Have I answered the question?

**Senator LIGHTFOOT**—No, but you can take that on notice. With respect to exports, which are so vital to Western Australia, given that we have 50 per cent or thereabouts of the nation's exports of wheat—it varies from 45 per cent to perhaps over 50 per cent sometimes—and we grow a great deal of Australia's wool, how are they going to be affected? Why is it going to be negative on exports?

**Mr Carter**—I think from a grower's perspective, the amount to negotiate with our world competitors is probably a lot more achievable under a statutory authority where you are having a single buyer or a single seller who can go into that market and negotiate a price. From our perspective, that has been achieved well through statutory marketing organisations in WA, such as the Grain Pool and on the national level, being the Wheat Board.

**Senator LIGHTFOOT**—The land board?

**Mr Carter**—Yes, there are various numbers of organisations who do that, but I think it is a lot easier for industry—or for growers who have limited ability to negotiate—to negotiate it through a statutory authority than to do so on an individual basis.

**Senator LIGHTFOOT**—I cannot see a correlation between a retreat from health and safety regulations of rural Australia and the environment, but could you explain to the committee how the NCP is going to affect in a negative sense occupational health and safety in rural Australia as well as the rural environment? You might like to take that on notice.

**Mr Carter**—Yes, I think that was mentioned later in our submission, and I will take that on notice.

**Senator LIGHTFOOT**—I have got only one more question, given the constraints of time. There is another organisation, the Pastoralists and Graziers Association of Western Australia, but what percentage of farmers does your peak body represent?

**Mr Carter**—The peak body or the WA Farmers Federation?

**Senator LIGHTFOOT**—The WA Farmers Federation.

**Mr Carter**—As I said in my opening statement, we represent about 6,000 individual farmers. I am not sure how many growers in Western Australia—

**Senator LIGHTFOOT**—Take that on notice. We would be interested to find out what the percentage is. We are better able then to form an opinion as to what the WA Farmers Federation of Australia think, also in terms of the submission that you have made today—and we have had notice of your submission prior to today. That will give us some idea of what percentage of farmers actually use their peak body and use that as part of their policy. I thank you for your answers.

**Senator MARGETTS**—Mr Carter, your submission tends to indicate that the impact of national competition policy is in redistributing income away from farmers to other sectors. Which other sectors are those, and are the consumers actually getting the benefit of this redistribution?

**Mr Carter**—Are you talking about my opening comments or the submission itself?

**Senator MARGETTS**—I guess it is a summary; we are paraphrasing.

**Mr Carter**—Prior to competition policy, there were services offered by government and offered at cross-subsidised rates. From a rural and regional perspective, those consumers who may be being cross-subsidised deserve those services. They contribute to the economy and the wealth of the nation, so they deserve to have basic infrastructure, such as telecommunications and those sorts of things. But as competition policy moves to more deregulation, it is likely that business will operate in markets where they are going to be able to generate the greatest amount of return. It is more likely that there is less competition in rural and regional Australia and therefore there is a higher ability to generate a higher price or ask for a higher price, because there is less of an alternative for those people in those markets.

**Senator MARGETTS**—Can I cut in there? Are you saying that, ironically, in rural and regional Western Australia, national competition policy may end up in less competition in rural and regional areas than exists now?

**Mr Carter**—I think it is very likely. For example, I am sure petrol deregulation has seen great benefits to WA as a whole. But in terms of petrol prices for a person in a remote area, it is obvious that they are not going to get the same price as someone in Perth because there are distance factors. There is a limited alternative for a person to buy fuel when there are a limited number of people operating in that environment.

**Senator MARGETTS**—Within the rural sector in Western Australia, what is the nature of the reviews taking place in legislation or regulations or programs? Can you give us some examples of the nature of competition policy reviews occurring that are creating problems and compliance costs, and what kinds of compliance costs you are aware of?

**Mr Carter**—Are you talking about whether they are reviews of licensing and pricing and those sorts of things?

**Senator MARGETTS**—Licensing, pricing, regulation or legislation.

**Mr Carter**—Isn't everything being reviewed under competition policy? Statutory marketing organisations are being reviewed for various reasons—whether it is pricing or powers of acquisition, and those sorts of things. There are reviews of organisations like the Grain Pool of Western Australia, the potato board, the Dairy Industry Authority, and the egg industry. They are all being reviewed or have been reviewed.

**Senator MARGETTS**—Have you surveyed your members on what kinds of cumulative compliance costs or implementation costs are associated here?

**Mr Carter**—Compliance cost of regulation or of the removal—

**Senator MARGETTS**—Of the national competition policy and deregulation.

**Mr Carter**—I do not know what the compliance costs would be at the individual level. In terms of the costs that industry bears in going through the review process, I am not sure of what those costs would be.

**Senator MARGETTS**—How open have the reviews been to your knowledge, and what kinds of responses are you getting from your members as to their ability to participate in any reviews that are taking place, the consultation process, and so on?

**Mr Carter**—I am not sure. In relation to the dairy review, I think there was quite limited consultation with industry and the review was proceeding, basically without the knowledge of our members. They were not aware of what was being considered, what the outcomes were and what the minister's views were and those sorts of things. I do not think there is a requirement to consult with members of the public, and often it may be to the detriment of those people who are participating if they are not aware of what is being considered and cannot have a say in the future—it makes it difficult for them to accept it as well.

**Senator MARGETTS**—Who undertook those reviews in Western Australia? Which bodies actually did the reviewing?

**Mr Carter**—I think the state governments have national competition policy departments that investigate. I suppose the appropriate department, like the agriculture department, would have a say in what is involved in the review.

**Senator MARGETTS**—So the agriculture department would be responsible for their own views on any agricultural changes or legislation?

**Mr Carter**—I would say so, yes.

**Senator MARGETTS**—I do not mean to be rude. I notice that a few of your answers are qualified. We know farmers have been involved in a whole range of issues in review, and changes and sometimes challenges to the way they are doing things. How much free flow of information from government has been coming down to your organisation and to the farmers to assist in understanding the complexities of the whole large issue of national competition policy?

**Mr Carter**—Are you talking about the flow of information from the federal government to—

**Senator MARGETTS**—Federal and state governments. How clearly have you understood the process from the information that has been provided to you by state and federal government bodies?

**Mr Carter**—The competition policy review process?

**Senator MARGETTS**—Yes.

**Mr Carter**—From our perspective, we are aware of the intent of competition policy and that it is trying to provide benefits to the community as a whole—and we are aware of the processes that are involved in implementing that competition policy—but there are serious concerns in terms of the benefits and the distribution of those benefits.

**Senator MARGETTS**—Sorry, you may have misunderstood me. How easy has it been to obtain information about where the process is at?

**Mr Carter**—For a particular review?

**Senator MARGETTS**—Yes.

**Mr Carter**—Quite often, we are not aware of where the review is at until the minister makes a statement saying where it is at—like a statement of the outcome of the review.

**Senator MARGETTS**—Have you been given any clear idea as to what other areas might end up being reviewed or what things are coming up in the future?

**Mr Carter**—There is a timetable outlining when the legislation is likely to be going through parliament and when the reviews are scheduled. From our perspective, we are not completely aware of when the reviews are on and we have to actively find out when they are on, as opposed to the government saying, ‘This review is in process,’ and sending us the terms of reference and those sorts of things.

**Senator MARGETTS**—Page 7 of your submission mentioned the deregulation of the dairy industry in the United Kingdom. Is it possible to provide the committee with more information on what has been learnt from the experience of the UK? You do not necessarily have to answer that question now.

**Mr Carter**—I will take that question on notice.

**Senator MARGETTS**—We have been given to understand—and the Chamber of Commerce and Industry also re-emphasised this—that the main supposed benefits of national competition policy were to be benefits to the consumer and that, obviously, industry and small business sometimes had to take the downs, if there were downs, because there would be a benefit to the consumer. What information does the Western Australian Farmers Federation have about impacts on prices in Western Australia following, say, industry deregulation and national competition policy? What has been the impact on prices, availability and choice within rural and regional Western Australia?

**Mr Carter**—I do not know whether you are after an agricultural industry example, but we can use the example of petrol deregulation. Because there is no longer the control on prices in areas where there is minimal competition, such as remote and regional Australia, the impact on price has been negative and the availability of supplies is very disproportionate in terms of the number of buyers and sellers in the market.

**Senator MARGETTS**—What about speciality shops and so on in regional Western Australia? Are you getting any feedback on services, shops and so on? Do people have to go further to get the things they used to be able to buy? To your knowledge, are they more available or less available?

**Mr Carter**—I am not aware.

**Senator MARGETTS**—I guess that is not unusual. We have not yet found anyone able to tell us who has had the resources to have a look at the consumer impacts. There is an assumption about it. Page 7 of your submission mentions that there has been a shift in the balance of economic power away from the producer and the consumer. Where do you think that balance has shifted to, and is there any evidence to back that up?

**Mr Carter**—I do not have any evidence to back that up, but I think that, in terms of the power being shifted away from the consumer, they have less ability to lobby government if there are concerns with prices; and the same with the producer—they lose the power to have a body, such as a dairy industry body or something like that, negotiate for prices on their behalf to offset the balance of multiple sellers and single or two buyers. For example, in the dairy industry, there are only two major dairy processors and one minor processor in Western Australia, so the industry as a whole needs the ability to negotiate with them.

**Senator MARGETTS**—So to summarise that: you see that it is the bigger operators who are getting the benefits of this?

**Mr Carter**—It probably would be the bigger operators and also the supermarkets and those sorts of operators. They are more able to bid one producer off against the other to get a lower price.

**Senator MARGETTS**—To play off one against the other.

**Senator McGAURAN**—Senator Margetts asked you what reviews are being undertaken, and your answer was, ‘Well, everything.’ You say in your submission:

In 1996 the WA State government released its policy on competitive neutrality and included an implementation timetable.

You then listed the Perth Market Authority, bulk handling, dairy, egg, meat, potato and grain. I would like to ask you a question on that part of your submission. What has happened since 1996?

**Mr Carter**—With those reviews?

**Senator McGAURAN**—Yes.

**Mr Carter**—The Dairy Industry Authority of Western Australia have gone through their review, and I am not sure of the outcome at this stage. The Grain Pool of Western Australia is up for review at the end of this year. I am not sure about the Perth Market Authority.

**Senator McGAURAN**—What about eggs?

**Mr Carter**—The WA Egg Marketing Board had their review.

**Senator McGAURAN**—And the result?

**Mr Carter**—You might like to ask the next witness.

**Senator McGAURAN**—What input did you have in those reviews? I guess what I am trying to get at is whether you support as the status quo all those marketing authorities you have listed.

**Mr Carter**—The federation has predominantly been supporters of statutory marketing organisations and the benefits that flow from those kinds of organisations. We therefore support the concept of orderly marketing. The Farmers Federation would like to maintain that for as long as we possibly can. There are obviously the immense pressures of competition policy trying to remove those statutory type organisations.

**Senator McGAURAN**—You say that you want to maintain them as long as you possibly can, but if you took the stance that their benefits outweigh the costs, then—if the government listened to you—you would maintain them for as long as you could, would you not; that is, if you take the position that you want to maintain these marketing authorities because of the benefits?

**Mr Carter**—Yes.

**Senator McGAURAN**—Do you?

**Mr Carter**—We do. Obviously there are benefits of organisations such as the Grain Pool of Western Australia and the Dairy Industry Authority in terms of the benefits they provide to the grains industry and the dairy industry as a whole.

**Senator McGAURAN**—So clear cut: you want to keep them as the status quo?

**Mr Carter**—I think so, yes.

**Senator McGAURAN**—You think so?

**Mr Carter**—Everything that I say is subject to policy, and our policy is to maintain those organisations for as long as we can. Therefore, for as long as we are able to maintain those kinds of organisations or find an alternative that meets the requirements and does not disbenefit our members any further, then we will try to hang on to them for as long as we can.

**Senator McGAURAN**—We are getting the Potato Marketing Authority and the Egg Marketing Board up here in a minute, and I suppose I could ask them that question. The government are taking a long time to review this—they are not rushing into it. As far as I can see, they are almost erring in favour of these boards. I can sort of read the Western Australian situation—I would not call it politics; I would just call it the Western Australian situation—and there does not seem to have been any change at all, and there may not be, and nor does there have to be. It is 1999 and nothing has changed, so would you say that nothing will change?

**Mr Carter**—I would say that there is a great deal of pressure for things to change.

**Senator McGAURAN**—From whom?

**Mr Carter**—From competition policy and the guidelines and the requirements that there are to fulfil.

**Senator McGAURAN**—But it comes back to the state government.

**Mr Carter**—Yes.

**Senator McGAURAN**—Whose competition policy?

**Mr Carter**—All state governments have agreed to it, I suppose. If, under the current review, state governments are ticking off on the current structures, then—

**Senator McGAURAN**—But they are not. This review has been going on for three years; that is a long time. I would suggest that—I will be very interested to hear from the next witnesses—on balance, it would seem that nothing is going to change.

**Mr Carter**—Obviously, in making these submissions, industry needs to demonstrate the benefits and the costs of those regulations. They will remain until there is an alternative other than regulation. Colin, one of the next speakers, will talk about the egg board. He has demonstrated that, with deregulation, the consumers in other states where deregulation has occurred are paying a higher price and the farmer—although I am not 100 per cent sure—is getting a lower return. It is questionable as to what the benefits of competition are to the economy as a whole.

**Senator McGAURAN**—I suppose the point I am trying to make is that it is in the hands of the state government. I would think the state government have made a decision that the benefits of these marketing authorities outweigh the necessity for competitive neutrality. That is the decision they have made, it is within the ethics and the war is over. Would you agree with that understanding?

**Mr Carter**—From the perspective of the Farmers Federation, it would be great if the war were over. But I am sure that it has only just begun and they are probably trying to by time in terms of—

**Senator McGAURAN**—Just to finish the point: competition policy is not that bad after all, if you can make these decisions within its boundaries.

**Mr Carter**—I will not say that competition is bad. As I said in my opening comments, there are benefits from competition. Predominantly, the disadvantages flow away from rural and regional Australia to built up populations. In terms of statutory marketing authorities and authorities that exist currently, removal of the existing regulation often does not provide the benefits that it was assumed would flow from competition. It increases the margins of a limited number of people while often maintaining or increasing the price to the consumer and removing an income base from rural and regional communities that rely on those statutory authorities. By removing that stability from those communities, it has a negative effect on the community as a whole.

**Senator McGAURAN**—Do you think the state government will change these myriad marketing authorities and bring them to competitive neutrality? Do you think the state government will do that?

**Mr Carter**—I would say that, yes, they have. There will probably be a difference between the reviews of statutory marketing organisations that have a state focus or a domestic focus as opposed to those statutory marketing authorities that have an export focus, like WAMMCO; I think they are in the process of losing their single desk. The Grain Pool of WA has an export focus. So more than likely they will be treated differently from domestic authorities that may come under more pressure from the eastern states and intrastate competition.

**CHAIR**—I gather from what you have said in your evidence that your organisation believes in the single desk for most of the agricultural commodities.

**Mr Carter**—Yes.

**CHAIR**—You mentioned very early in your evidence that you believed there were some things that would benefit from competition. What are they?

**Mr Carter**—I use the example of the banking sector. There have been benefits from that in terms of the costs of finance to business and whoever is borrowing finance. But there are also negative aspects to it. It has reduced the margins of the banking sector or the finance sector. The banking sector, in trying to reduce costs, has withdrawn services from rural communities because it is in those areas it is probably not getting an adequate return on its investment.

**CHAIR**—Are there any other areas where you think competition has been good?

**Mr Carter**—To the rural economy as a whole, deregulation of petrol has been of benefit. But there are losers, people in areas where there are a minimal number of buyers and maybe only one seller or one person servicing them. If you are going to buy from that one person, basically they can ask for whatever price they want.

**CHAIR**—What about deregulation of the labour market and tariffs and so on? What do your members think about that?

**Mr Carter**—It obviously puts higher costs on business and I suppose that tariffs make for an uneven playing field, or whatever you would like to call it. For example, you get tariffs on textiles, clothing and footwear and vehicle manufacturing and those sorts of things; we would certainly support the removal of those because it would mean that we could get cheaper vehicles and those sorts of things.

**CHAIR**—In other words, you want competition for everyone else but yourself and your members.

**Mr Carter**—But Western Australian primary producers are amongst the most efficient in the world. I do not think it can be said that, through statutory marketing and those sorts of bodies, we are advantaged over the rest of the community.

**CHAIR**—No, but you want me, the taxpayer, to help you subsidise your rail freight, don't you. That is what you said earlier.

**Mr Carter**—How have you subsidised our rail freight?

**CHAIR**—You do not want the train line sold off because, if it is, you will not be able to go around and exercise the same muscle on the new owners as you can with it being in state ownership. It has nothing to do with the cost of the transportation; it is what you can get away with. It is either that, or you have a look at your evidence and make a clarifying statement on it. That is what the inference was. I am just pointing out to you that I think there is an inconsistency in there.

Mr Carter, as there are no further questions, I thank you very much for the evidence you have given us.

[2.34 p.m.]

**Da PRATO, Mr Robert, President, Poultry Farmers Association of Western Australian**

**MANN, Mr Colin, Executive Officer, Poultry Farmers Association of Western Australia**

**CHAIR**—Welcome. We prefer that all evidence to the committee 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. At the conclusion of your remarks, we will invite committee members to ask you questions.

**Mr Mann**—We appreciate this opportunity to verbally add to our previous submission. Perhaps we should apologise for the length of the papers you received from us previously, but we believed it was very difficult for us to show that there is a benefit in some regulation, and that is what we set out to do in those submissions.

Initially when making our submissions, our major concern was that the review process—under the state's obligation to the NCP and, in this case, the review of the Marketing of Eggs Act—appeared to have a rushed timetable that would not allow any necessary changes to be phased in or an adjustment process to be put in place by industry. It also appeared that the intent was that deregulation had to be introduced immediately, without taking into account the implications and costs to the industry or the longer term public benefit.

As indicated in the price graphs of our submission, deregulation theoretically to provide competition in the eastern states has not provided a public benefit, unless lower prices to producers, higher prices to consumers and increased margins to the major retailers can be defined as a public benefit. Updated figures today—and New South Wales is now the state having had deregulation the longest—show a very similar situation. I have here a document that shows the egg prices in the eastern states. I will table that.

There is another point to make. That document shows that, in fact, the only public benefit went to the major retailers, and I think that is in our original submission. It shows that the major retailers were the ones that made the profits out of the increased price shown there. Very little of that went to the producer.

This is not to say that the Poultry Farmers Association wishes to be protected from competition. We acknowledge that the industry must adapt to a competitive global market. This has been an ongoing process over recent years that has led to a wide range of variety and size of eggs being available as well as processing and, in this state in particular, export development.

However, given the size of the Australian market, we consider that the centralised system in WA has provided, and will continue to provide, a public benefit. This has been understood and acknowledged by our state Minister for Primary Industry, as indicated in his media statement of 16 March. I will also table copies of that, if I may.

Certainly over time, further changes will be made to enable the industry to develop in an even more dynamic and commercial manner and in a competitive and growing domestic and export market. I think part of that will be—going back to something Senator McGauran mentioned earlier—a quality assured and safe food product, which will be absolutely essential.

The Poultry Farmers of WA consider that, with some changes, the current centralised system will continue to result in benefits to producers, consumers and the economy which far outweigh any of the perceived detriment of the restrictions that were identified in the legislation. Provided that these changes are not forced at an unacceptable rate for industry adjustment, the socioeconomic implications will be minimal. From memory, our original submission was made back in July of last year; a lot has happened since then and many changes have started to take place which will continue. We will endeavour to answer any questions the committee might have.

**Senator McGAURAN**—What is the result of the government's review?

**Mr Mann**—That was handed to you. Basically, it is to keep some of the restrictions but to continue to work towards improving what I would call the 'centralised system'—even though it is a regulatory system in Western Australia—and to keep that in place until the size of the market is big enough to allow it to break out, if it needs to.

**Senator McGAURAN**—Does this mean that there will be change on the fringes perhaps, or is it really code for 'We're not going to change; we've made the decision that the marketing authority'—

**Mr Mann**—No, definitely not. A whole number of changes have been made over previous years, particularly in the egg industry. It was very much a regulatory system and it has become freer and freer, with more and more flexibility being placed into it. That will be allowed to occur on the way through but it will be kept, I guess, in what we would call the least cost path from producer to consumer.

**Senator McGAURAN**—But a national competition policy purist, like perhaps Mr Samuel, would say that the state government and your marketing authority are avoiding the national competition policy—but he would also say 'because you have made the decision that best suits Western Australia that the benefits are there'.

**Mr Mann**—No. We set out in our submission to the state government, to this committee and to the Productivity Commission to show that some regulation was of public benefit. So we are saying that no, we do not disagree with what national competition policy is about. We originally disagreed with the timetable, which seemed very rushed. We are quite prepared to go on and make those changes as there is a greater awareness of things; in fact, we are already doing that to become part of a national market.

**Senator McGAURAN**—You are happy to go all the way over time to a completely deregulated—

**Mr Mann**—I will have to defer to my president as to whether he wants to go all the way. We are prepared to go as far as is necessary to make sure that that public benefit, and the benefit back to the industry itself, is occurring. We have been able to do that. If I can just add, we have in Western Australia some eight per cent of the Australian production. Because of the flexibilities and things that have been put in place, we now have 90 per cent of the export from Australia.

**Senator LIGHTFOOT**—What was that percentage?

**Mr Mann**—Ninety.

**Senator LIGHTFOOT**—Total Australian?

**Mr Mann**—Total Australian export product.

**Mr Da Prato**—Perhaps I may elaborate a little on that. Some legislators seem to believe that the only way to achieve public benefit is by total deregulation. In Western Australia we are probably a little more fortunate in the sense that we have had 10 years of experience since seeing the first state go that way. Therefore, our approach is no longer a theory but more one of facts accumulated over the last 10 years. Our graphs will show that the only one to have benefited from total deregulation is the supermarket where the price has come down to the producers to the advantage of the super chain. So where is the public benefit? At times of shortages, the price goes up and the public does not benefit at all.

That is not to say that Western Australia has not been prepared to accept changes. In fact, we started to change and have been changing for the last 10 years. But we have also had to acknowledge the reason for change. The reason for change was public benefit—not necessarily total deregulation. We never lost the focus on what we were trying to do, and that was the public benefit. Therefore, we accepted what was the least cost path between production and the consumer. We accepted a long time ago that some legislation had to go. But, in order to achieve that least cost path, we had to recognise what for us was the absolute necessity. That is what we have managed to achieve.

**Senator McGAURAN**—Perhaps you can be a model for many others.

**Mr Mann**—We would like to think that we are.

**Mr Da Prato**—And we recognise that, in a few years time, we may have to accept further changes.

**Senator MARGETTS**—We assume that there are still some reviews and changes that will take place. But what has been the cost to your industry of the review process so far?

**Mr Mann**—Other than the cost of doing the review?

**Senator MARGETTS**—What was the cost of doing the review as well?

**Mr Mann**—It has probably cost us somewhere between \$50,000 and \$100,000.

**Mr Da Prato**—All the research and time.

**Mr Mann**—There is a difference in size between ourselves and the last speaker, and we are probably very fortunate in that we are a very small industry in Western Australia with some 104 members; that is, 104 commercial producers, 85 per cent of whom are around the metropolitan area. So we had direct access to our producers most of the time to be able to do that.

What has been the cost of the national competition policy to them up to the present time? There has been none whatsoever. You can say that competition itself has meant some lowering of returns to producers, yes. But that has not been brought about by the national competition policy; that has been brought about more by mutual recognition policy and the global market that has started to exist. As a competitor in the market place, we have eggs from eastern states in Western Australia at the moment. We also have egg pulp. I should have added with regard to our export—and I am sorry that I did not—that that all relates to pulp product, not fresh eggs.

**Senator MARGETTS**—Is that frozen pulp?

**Mr Mann**—It is frozen and packaged pulp.

**CHAIR**—Powdered eggs.

**Mr Mann**—It is pulp egg; it can be in powdered form, it can also be in frozen form—just broken eggs and slurry.

**Senator MARGETTS**—I had tried to visualise how you would export eggs.

**Mr Mann**—If you go to Chinese restaurants, it is in the four gallon tins—and I am showing my age by using imperial measurement. But yes, there are export markets in South-East Asia in particular.

**Senator MARGETTS**—In the process of the review, what has been your interaction and relationship with the ACCC, the National Competition Council or the various implementing bodies? Who have been the major contacts, and what has been your relationship with them?

**Mr Mann**—I was also involved with the WA Farmers Federation as one of the industry groups, and we went to the very first national competition policy review process. Part of my role was to follow that through with my industry president. We have had a very good relationship, I believe, with the ACCC itself. They came to a recent workshop with all our members and presented the case. We have been able to go to them and ask questions of them.

In regard to the state government, the review process with the egg industry was undertaken by a group within the Department of Agriculture. They consulted with us widely. It was not a review committee as was established for the potato growers.

**Senator MARGETTS**—Has there been any contact or experience with the National Competition Council, who are overseeing the review process?

**Mr Mann**—Not as such, other than through their state office here. I am not sure of his title, but the head of the state office here was always available for us if we needed clarification.

**Senator MARGETTS**—Has the process of review been open and transparent, in all?

**Mr Da Prato**—Absolutely, I would say, yes.

**Mr Mann**—I believe it has, yes. Everyone has had the opportunity. Because we believe we have such a good case as an example to show that there can be public benefit out of some regulation, we have been quite prepared to submit to discussion with anyone.

**Senator MARGETTS**—Are the worries over for your industry on this issue? If not, what are the concerns that still remain?

**Mr Mann**—Provided we have the timetable to allow the industry to adjust, I do not believe that we have any major issues confronting us, but I defer to the president.

**Mr Da Prato**—There are more challenges here than concerns—we have Victorian eggs here in Western Australia at the moment and we have some Western Australian eggs across in the eastern states. That is the area where we are concentrating.

**Senator MARGETTS**—Has the outcome of your review been as a result of what you think is successful lobbying from your industry? Is the implication that everybody knows the rules and knows what they have to do to get a successful outcome, or does it matter how successful you are at the political process—lobbying, et cetera?

**Mr Da Prato**—I do not think it is a case of being a successful lobbyist. We do not believe in that. If you have a genuine case and you can actually prove it, I believe that ministers and legislators will listen.

**Mr Mann**—We have been through the review process twice in the last five years anyway, both internally and with the state government public inquiry. Our submission just added to that, and you will find that there have been changes on the way through. Each time the industry has reviewed itself it has been prepared to make those changes.

**Senator LIGHTFOOT**—Mr Mann, it is nice to see you again. With respect to the national competition policy, specifically, what does your organisation fear about the implementation of the MCP in its fullest interpretive sense?

**Mr Mann**—From the point of view of the Poultry Farmers Association?

**Senator LIGHTFOOT**—Yes.

**Mr Mann**—Can I revert back and say that our industry is very small. Eighty-five per cent are very close to the metropolitan area, so there are not a great deal of scaries in the national competition policy as far as the Poultry Farmers Association is concerned. There are some for our country members, and probably more so for those in the remote and regional areas.

**Senator LIGHTFOOT**—What do you imagine those to be if you do not know?

**Mr Mann**—They relate to the loss of services brought about by competition. Specifically for the egg industry it was coming anyway, but it has probably brought on the competition of imports from the eastern states much quicker. The instance we have there is, in particular, for some our regional centres where eggs are allowed to be produced locally under a permit type system, where the centralised buying of the major retailers dictates, ‘You shall buy X pallets of eggs from Victoria this week,’ and then they are sent out to those regional areas, which means that the local producer gets cut out.

**Senator LIGHTFOOT**—Does that apply to the differential between New South Wales, for instance, and Western Australia and South Australia, which are roughly equal? Does that apply to the retail, too? There is a 50 per cent differential between the eastern states, as compared with, say, South Australia or Western Australia, according to your graph.

**Mr Mann**—They are ABS statistics, by the way.

**Senator LIGHTFOOT**—The information would have come from your organisation, I would imagine, for the ABS to get it anyway. In relation to the 50c differential—that is a hell of a percentage of \$2.40—is that differential taken up by retailers making more of a margin on their eggs or does that reflect the wholesale price or the price that retailers pay your organisation for your eggs and your counterparts in New South Wales?

**Mr Mann**—I could not answer on behalf of the New South Wales growers, but we certainly believe that that would be the case—that it is the margin between the wholesale price and the retail price.

**Senator LIGHTFOOT**—The price that the eastern states producers would receive is roughly about the same price that South Australia and Western Australia receive.

**Mr Da Prato**—With no capital investment.

**Senator LIGHTFOOT**—Do you mean the retailers? There is no capital investment in your industry?

**Mr Da Prato**—That is right.

**Senator LIGHTFOOT**—They have got a capital investment—I see your point. Where do you think that the national competition policy will assist in closing the gap in the case of what appears to be the retailers making a margin way and above the margin that the producer is actually making?

**Mr Da Prato**—The biggest threat probably would be with our export opportunity. Because we are such a small industry we can only afford one pulping plant. If we accepted total deregulation the export opportunity would just disappear. No individual producer could possibly afford a pulping plant or other export opportunities—they would just disappear.

**Senator LIGHTFOOT**—Would it be reasonable to say that your organisation is opposed, even vehemently, to the guidelines laid down under the NCP?

**Mr Mann**—No, because the guidelines give us the opportunity to be able to show that there is a public benefit in the system that exists. We call it the statutory system but we prefer to call it the centralised system because it keeps getting changed. The big emphasis for us in Western Australia is the centralisation of the system which allows that. We believe that the national competition policy gave us the opportunity to show, in fact, that some regulation is in the public interest.

**Senator LIGHTFOOT**—You do not want to take the policy to its most extreme. You do not want to deregulate it to the degree that it deregulates your centralised policy of egg marketing. Would that be reasonable to say that?

**Mr Mann**—Yes.

**Mr Da Prato**—Not until such time that we can demonstrate that then we can accept that.

**Senator LIGHTFOOT**—Okay. As long as NCP agrees or the policy does not take it to the extreme of deregulation you go along with the NCP providing your central marketing authority remains intact or relatively so?

**Mr Da Prato**—Yes.

**Senator LIGHTFOOT**—Does your organisation keep up with the varying demands for eggs? Sometimes they are more fads than demands but sometimes fad equals demand: vegetarian eggs, brown eggs, free-range eggs and so on.

**Mr Mann**—We basically have all of those available. We are representing the industry side and not the marketing side, but the marketing authority has also developed some innovations in regard to products that go with eggs, for example, the microwave cooker and a few things like that. Yes, all of the various grades are available.

**Senator LIGHTFOOT**—And the various styles?

**Mr Mann**—Yes, and the various styles.

**Senator LIGHTFOOT**—Do you market any other eggs other than ones from the traditional chook? Do you market pigeon eggs, quail eggs or any other eggs?

**Mr Da Prato**—No, not in that area. We are mostly into table eggs, vegetarian eggs, free-range eggs and barn laid eggs—whatever the eastern states are doing. We are always looking at something different.

**Senator LIGHTFOOT**—You said that you produce eight per cent of Australia's eggs—

**Mr Mann**—I think it is up to 10 per cent because we have been increasing.

**Senator LIGHTFOOT**—Excellent. That means that it is slightly higher per capita. Where are about 9.7, 9.8 per cent of the population. Did you say that you had 90 per cent of—

**Mr Mann**—Yes.

**Senator LIGHTFOOT**—That is incredible. It is right across industry in Western Australia. I am not surprised.

**Mr Mann**—We believe that you cannot build a steady export market on unknown surpluses. That was tried right across the egg industry nearly a decade ago and it was found impossible. The way it is done here is that it is a centralised system that is planned forward. The sales are made forward and then the contracts too.

**Senator LIGHTFOOT**—Is it compatible for you to have your growers sell at farm gate as well as sell through your central selling organisation?

**Mr Mann**—The quick answer is 'yes', provided they are letting the marketing authority know the number of eggs that they are selling and provided that they meet the quality requirements. All of the quality requirements are most important for our exports.

**Senator LIGHTFOOT**—So do you have no problems with farm gate sales?

**Mr Da Prato**—None whatsoever. In fact, Geraldton has been supplied by our very large producer and so are the Carnarvon and Broome markets and also Bunbury and Albany.

**Senator LIGHTFOOT**—So if you buy farm gate sale eggs, you are guaranteed of the quality because of the regulations that you impose.

**Mr Mann**—We have a quality code in place and the industry itself will not support anyone that does not abide by that code.

**Senator LIGHTFOOT**—In relation to the export of whole eggs rather than pulped eggs, apart from the production cost, is there any other inhibiting factor that prevents you from selling whole eggs overseas?

**Mr Da Prato**—The subsidies from overseas have not come down substantially enough, yet.

**Senator LIGHTFOOT**—What countries have those subsidies?

**Mr Da Prato**—Europe and the US.

**Senator LIGHTFOOT**—But not South-East Asia?

**Mr Da Prato**—No.

**Senator LIGHTFOOT**—Why don't you export to South-East Asia?

**Mr Da Prato**—We are in there constantly.

**Mr Mann**—That is where we are exporting.

**Senator LIGHTFOOT**—Thank you.

**CHAIR**—Thank you, gentlemen.

[3.00 p.m.]

**BRAJKOVICH, Mr Lennard, President, Western Australian Broiler Growers Association**

**PACKARD, Mr Terry, Vice President, Western Australian Broiler Growers Association**

**CHAIR**—Welcome. 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, I will invite committee members to ask you questions.

**Mr Brajkovich**—Thank you for the opportunity to elaborate on our submission. The submission itself was rather to the point and short and on a different tack than one would argue that normal submissions should go. You will note that the chicken meat industry in Western Australia underwent a comprehensive review. We did take on board the fact that was alluded to—not without a bit of an argument at the start—that the net public benefit deriving from our industry far outweighed any perceived gains that could be made by deregulation. The emphasis of that review is on the failure of the reviews.

I draw your attention to the Rice review, which I attached as an appendix and, in particular, to the hieroglyphics on page 3. I commented in there that I trusted that the senators could understand those hieroglyphics. In other words, the language barrier there with normal review committees was completely out of kilter.

The difference between that particular review and our review was that I saw fit to address the committee in Croatian, and they all wanted to know what the heck I was talking about. I said, ‘I’m glad you understand it, Mr Chairman, because that is exactly the question I was asking except in a different language.’ The outcome of that was that the chairman saw fit to throw the review out and told them to go away and put it in plain English, which was a great starting point. From then on, that particular review went down the road of net public benefit and was more to the liking of the review committee that was put in place by the government. So that was quite good.

The one thing that came out of the New South Wales one was the objectives the government appeared to come up with in that particular review. Paragraph 10.13 stated:

The objectives of the National Competition Principles Agreement are to minimise the costs imposed by anti-competitive regulation where such regulation is the only feasible means of achieving the Government’s objectives.

One queries what the government’s objectives were. This crowd here did not take on board the total review that your committee is now undertaking—absolutely nothing. Yet they concluded that there was a net public benefit to deregulate the rice industry in New South Wales.

You must ask them why the heck I am here, because we have got our way from the government. They perceive that we are an excellent industry. I must point out that our

association represents 100 per cent of all meat producers in this state, as distinct from our egg producer colleagues. We do not represent quails, turkeys, geese or ducks. We also represent the processors, and there are only two basic processors in this state, if not across the country, which are Inghams and Steggles. They market something like 70 per cent plus of the total meat produced in Australia and, in this state, well over 98 per cent of all meat that is produced.

We also represent in a very key area the processors in the whole industry. It is an area which does not really come up in many reviews—that is, the impact of any industry upon the environment and also planning issues. Our industry, and I have this in the submission, is not exactly the people's favourite industry when it comes to odour or urban encroachment. I alluded to that on the last page.

To show you what we are like in this particular field, you would be aware of the consequence of the outbreak of newcastle disease in New South Wales with 1.9 million birds slaughtered. You might say, 'What has that got to do with this?' The fact of the matter is that all those birds that were slaughtered were in a regulated industry. The only loophole in the whole affair was that fancy bird breeders, with parrots and so forth, were purported—and I use the word purported—to have smuggled birds out of the zone before they got slaughtered. They kill everything in that zone; no matter what it is, if it flies, they shoot it or kill it.

What happened there is that that area got bigger and bigger. The outbreak that started on one farm spread to two, three and nine farms. It was almost like a fire and you had to do a back-burning exercise. The weak link in there was the deregulated fancy bird and private bird owners who could not see why their birds had to get slaughtered. So much for regulation.

I have tabled the 'Report of the task group on biosecurity in the poultry industry including the issue of compensation on poultry farms affected with AI'—that is, avian influenza. That occurred prior to this outbreak in New South Wales, and this document is based around biosecurity and how we are going to control it. Isn't it amazing that on page 18 of the model for the 21st century, the task force comes up with:

While the government regulatory approach has not been able to deliver programs that address the loss of public confidence that follows disease and other market failures—

which is understandable—

a totally deregulated approach will also not produce the desired outcomes because industry alone cannot deliver compliance with an industry standard.

They came up with what they classified as industry standards, and there is a five-year program to implement that. But then there is the review of the farm model. I have not tabled this but it is a public document. It is a document that we as an industry submitted to the Chicken Meat Industry Committee. It is a review of the farm model, and the key word is 'model'. In other words, everything we do is open and transparent.

We tabled this with an industry committee and in that particular document we have a section on biosecurity. Lo and behold, with dead bird disposal, we are the only state in Australia where there is a 100 per cent pick up of dead birds that go to rendering plants. What we have is a page on biosecurity, nominating all the key factors that they now want to put in place in the eastern states as a measure to be in place five years from now. How did it come about in Western Australia? You have a costed model, you have a very secure act and regulations and you have 50 growers who have very capital intensive farms. We are captive to the processor.

Incidentally, another document which this committee could look at is the Australian Chicken Growers Council submission to the House of Representatives standing committee on fair trading. That gives a better overview of the whole industry. I know you told me to say a few brief words, but I think that basically answers where we are at as an industry. I would be happy to answer any questions.

**Senator McGAURAN**—Can you explain something to me. If you are an orderly marketing—

**Mr Brajkovich**—No.

**Senator McGAURAN**—You are not?

**Mr Brajkovich**—No, we purely grow. We are growers for a processor that competes in a marketplace. In other words, Steggles and Inghams go out there and compete. We in turn compete. In fact, he is my competitor. We compete in a pool system. We are deemed as inefficient in a pool if we do not measure up to 97 per cent of the pool prize. In other words, the money goes into a pool. If I cannot go over six batches—and a batch is roughly 60 days—and show that I am averaging 97 per cent, the penalties are so heavy against us by the processor that we are forced to sell our farm and get out, and this has happened in WA. We are very, very stringent. In fact we drum march any grower out of the industry who brings our industry into disrepute. We have a wonderful rapport with any organisation you care to nominate—the RSPCA, the Water and Rivers Commission and Waste Management. In the area of waste management, one of our biggest wastes is the manure that comes out of the chicken.

**Senator McGAURAN**—That really was my point. I wanted to know how you were captive to the processor, but now I see how. In that case, why don't you orderly market yourself?

**Mr Brajkovich**—We cannot. He owns the chickens, he always owns them. The ownership of the chickens across Australia never transfers to the grower from the processor other than if the chicken snuffs it—then it is ours and we have to get rid of it—and we own the waste matter that comes out the back end. Isn't that strange?

**Senator McGAURAN**—So the processors have set you up?

**Mr Brajkovich**—Exactly. That is another story.

**Senator McGAURAN**—This is anti-competitive.

**Mr Brajkovich**—Of course it is. We know that.

**Senator McGAURAN**—We have a situation here that is anti-competitive. You have come here to argue not like the previous witnesses who were saying what a model their organisation was—and they got me in with that. You are arguing the opposite—

**Mr Brajkovich**—No, on the contrary.

**Senator McGAURAN**—What are you arguing?

**Mr Brajkovich**—I am not arguing at all. I am saying that we have already achieved national competition clearance. We did not even get over there because it did not get past cabinet, because this is what cabinet perceived: why are we going to muck around with an industry which is the most efficient in Australia? We have the best standards. We have the biggest model. A model is what you derive your costs from, the size of the farm. Our model size farm which the costs are based on—and remember that all the imputed costs are governed against the model—means that we are 100 per cent bigger in model size than the average in all of Australia.

**Senator McGAURAN**—But it sounds like you are in an anti-competitive situation?

**Mr Brajkovich**—In what respect?

**Senator McGAURAN**—You are such a captive to the processor.

**Mr Brajkovich**—Yes, but I do not have chains around me. Because we are making such a good job of it, they do not want anyone else. This is the whole point. When we go to the Eastern States, they say to us, 'Forget it.' WA is different country. They do not want to know about us. Take the honourable senator's home state. They are in the biggest mess you could ever think of.

**Senator McGAURAN**—So you are happy?

**Mr Brajkovich**—They went down the path of authorisation exemption because they were not coordinated. Remember we are not represented by the farmers union. We are not affiliated with the EPA because they are as different as chalk and cheese. We do all our own work. We are well organised. To give an example, no new farm in Western Australia can build now unless it is on 100 acres. Why? It is because we went to the planning ministry; we put the guidelines in place; we wrote the code of practice for industry; we went to the EPA; we were proactive. We went out there and made sure that our house was in order and the government saw fit—

**Senator McGAURAN**—If someone met that criteria, could they enter your industry?

**Mr Brajkovich**—You can start tomorrow, but where are you going to get the day-old chickens from? There are not any available. They are lucky to meet their own supplier, let

alone supply you. There are none. They are a monopoly. They are almost as good as Western Power!

**Senator McGAURAN**—I am losing the thread of your argument.

**Mr Brajkovich**—It is not an argument. It is fact.

**CHAIR**—What you are saying is that industry might be uncompetitive—or this, that and the other—but leave it alone.

**Mr Brajkovich**—Right.

**Senator McGAURAN**—So you are happy to be squashed on by Inghams and Steggles?

**Mr Brajkovich**—On the contrary, we are not squashed on. The point is that the rapport between the processors and growers in this state is second to none. The industry runs well, but we are captive to them.

**Senator McGAURAN**—But they are captive to you, Mr Brajkovich.

**Mr Brajkovich**—Exactly. The conclusion of this submission states:

. . . we conclude by making the point, that the five State Governments would not have gone to the trouble of enacting and maintaining for 20 years substantial pieces of anti-exploitation legislation,—

which is our chicken meat industry acts—

unless there was a clear acknowledgment of the substance of the threat posed by the market power held by the Processors in the chicken meat industry.

That is exactly what it is. They can screw us any time they like. We have nowhere to go. We cannot grow mushrooms. We have 40 per cent of the capital invested and I think that the prudent line which I should finish on, if I am given a chance, is that—

**Senator McGAURAN**—I cannot work out whether you are satisfied or unsatisfied. We are not used to satisfied people at the table.

**Mr Brajkovich**—We are overly satisfied because we have our act still in place.

**Senator McGAURAN**—But they can screw you at any time they want to and they will, won't they?

**Mr Brajkovich**—They do, but not to the degree that they would like to. All I can conclude here is that it should be noted that, with the growing fee representing eight per cent of the retail price of chicken, the difference between an equitable and inequitable level of return for the grower would be negligible to the consumer level. Remember we are the only part of the industry subject to the consumer price competition policy. The other 92 per cent does not front up. They own the feed mills, the chickens, the processing, the breeders. It is no wonder that I had no answer for one of my growers who asked me:

Tell me, why are they ‘piss-farting’ around with 0.8 of a cent on a piece of KFC which costs \$1.27 cents, which they then round off at the till to the nearest 5 cents ie \$1.30 cents which rips the consumer off more than the total profit that goes to the grower?

It is no wonder that the bloke that cooks the chicken can afford to buy a state soccer side worth millions. He says, ‘We just had a good win.’

**Senator McGAURAN**—Mr Chairman, I am going to throw that right back to you.

**CHAIR**—Thank you very much, Senator McGauran. We are running a bit tight on time.

**Senator MARGETTS**—Can you give us an idea of what compliance costs have been associated with your own association in relation to national competition policy?

**Mr Brajkovich**—Very little. The association which we run represents 50 growers in total, which is 100 per cent of the industry. Myself, my secretary and the executive do all our own work. One would argue that the greatest cost to us for complying with the national competition policy was our own time. In terms of money, we produced all the submissions ourselves. Needless to say, I sit on the board of the Australian Chicken Growers Council. We ran up one helluva bill with solicitors, in particular with South Australia. They, of course, went down the road of authorisation because they were totally railroaded into it. At the end of the day, they were given a little slap and told, ‘Go away and do what you are doing; thank you for the \$7,000 fee each year or couple of years.’ That is sad, Senator.

**Senator MARGETTS**—What sort of time was involved?

**Mr Brajkovich**—We were the first cab off the rank in WA because, once again, we were pro-active. A sunset clause in our chicken industry act came up for review. I asked the minister of the day, Monty House, ‘Why waste time and beat around the bush? Let’s go for the anti-competitive set-up straightaway.’ We had no compulsion to do so, but we felt it was prudent to do so, and we did so. It followed a very good course. I think you missed the opening remarks, Senator.

**Senator MARGETTS**—I missed those pearls of wisdom.

**Mr Brajkovich**—If you have another half-hour, I will go through it. Otherwise you had better read the report.

**Senator LIGHTFOOT**—I am sure you might have, but we do not.

**Mr Brajkovich**—I just said that. You better read the report. The point is that, in the very first review, I said the rice one is a classical example of getting steamrollered by academics and we did not like that at all. I made sure that it was not going to happen to us. As I pointed out to the honourable chairman and other senators, I addressed the committee in Croatian and they did not like it. They could not understand it.

Then when the chairman realised what was happening, we threw out the original work of the academics and told them to go away and put it in plain English, which they did. We

went down a very good course. We had open public forum meetings. We called a full public forum meeting and one ‘outsider’—if that is the word to use—rolled up to see what was going on. There was no Woolies, no Coles, nobody. Why wouldn’t they roll up? We only represent eight per cent of the total cost of the chicken produced. They could not screw us there, so they had no interest in it at all. That is what is really what is happening across Australia. The growers are just getting screwed by the processors.

**CHAIR**—You should feel happy about it.

**Mr Brajkovich**—No, 333 million birds are produced. If they screw us by 1c, that is big money to them, because they monopolise the whole Australian scene. We have a very good industry because we know where we are going. We can invest safely because we have an act and regulations. Environmentally, we are ahead of the rest of Australia, as I have already alluded to. I trust you will read these reports. We are second to none and quite proud of it. I think I have said this to a parliamentary committee before: if you ever have the misfortune of needing your appendix out, book into one of our facilities between batches and we will accommodate you. You will not get golden staph like you might in Royal Perth Hospital.

**Senator MARGETTS**—I will keep that in mind. Perhaps I am fortunate to have had my appendix already taken out. What was the source of your information? You obviously decided that that perhaps attack was the best form of defence.

**Mr Brajkovich**—Yes.

**Senator MARGETTS**—What was the source of your information? How did you get the information you needed in order to take that aggressive stance?

**Mr Brajkovich**—Firstly, as I pointed out, I do sit on the Australian executive—the Australian Chicken Growers Council. We did get the solicitors Gilbert and Tobin in the very early stages where they were lecturing us on it. We did have the ACCC commissioners come down. They lectured us on it.

We had a good briefing on it. I did my homework because I felt that we could very easily show that we were very pro-active in environment. I am the spokesperson and handle all environmental issues for the state. As I said, the only stumbling block we have now to being the first in Australia to create power generation from the burning of poultry litter is our wonderful monopolistic Western Power.

I did not want to bore you with another report, but the stable fly in this state is horrendous. You may or may not be aware that the multinational marketing authorities like Woolies and Coles are saying that no animal manure shall be used for horticultural purposes unless it is pathogen free. That means you have to steam it; you may as well forget it. In this state, we have a stable fly problem. We grow on sand. They use it profusely here, but it breeds flies something horrible.

**Senator MARGETTS**—If people used the material from your industry and turned it into compost, wouldn’t that deal with that?

**Mr Brajkovich**—We are spending \$325,000 worth of national funds, state funds and health department funds. The project is now in about its second 18 months. Composting does not make it dormant enough so that it will not breed flies. We feel that the best way out is power generation. They are doing 70 megawatts in England—they have just built the third plant. They get very good government subsidies. You have your carbon credits involved here; the greenhouse gas emissions are a lot less. It is a wonderful project, but once again we have a monopoly situation in this state where the power is controlled by Western Power—they have more power than they know what to do with.

**CHAIR**—Are these the ones that die before they wind up—

**Mr Brajkovich**—No, this is the litter, the manure.

**CHAIR**—Okay.

**Senator MARGETTS**—What about worm farms or methane?

**Mr Brajkovich**—In this state we produce, conservatively, 100,000 tonnes of chicken manure. Because of our hygiene standards we have what we call ‘all in, all out’. In other words, at the completion of a cycle, which is 60 days, we completely eradicate the manure from the farm—it goes out. We vacuum, disinfect and clean the farms and bring the farm’s status in disease back to zero or as close to zero as we can get it. We then restart the cycle. The bedding, as we call it, is predominantly jarrah. We take the waste from the south at about \$14 per cubic metre and bring it up here and turn it into chicken manure. As I pointed out, at the end of the cycle it happens to be ours, not the processors. We were selling it for anything up to \$5 or \$6 a cubic metre. That has gone because of the fly problem in, predominantly, the market garden areas, and the edict coming from the government and the committee, which we both sat on, is that we will ban the use of poultry manure for horticulture and all manure by December 1999. Obviously we will need an extension of time because we are really battling to get this project to bed.

**Senator LIGHTFOOT**—I must declare that, because I have known Mr Brajkovich for many years, my questions to him are purely rhetorical. They are really for the benefit of the committee and *Hansard*. I know what he is going to say in his usual idiosyncratic way. Are the processors in Western Australia going to be affected by the national competition policy in such a way that it will benefit the grower? Are the processors, who seem to be ripping you blokes off—and you do not seem to mind them doing it because the supply and demand seems to be about equal; I assume that is what it is—

**Mr Brajkovich**—That is correct.

**Senator LIGHTFOOT**—Are they going to be affected in such a way by the national competition policy that it will be detrimental or will it somehow have a positive effect on growers?

**Mr Brajkovich**—It will not be detrimental to them because they will not be affected by it. None of their facilities or operations are subject to national competition policy—nothing. They own the feed mill, the breeder birds and the hatcheries and they do the processing and

the marketing. Therefore, they are not going to be affected one iota. The only area of concern they have is that they cannot put facilities up that will undermine the productivity of the model, which is the costed model here, to lower the price. If you lower the price the industry suffers in terms of environmental aspects. For instance, we are five years ahead of this crowd's recommendations for the rest of Australia. We are already where they want to be in five years time. Why are we there? Because in this particular model we costed in, for instance, a spare bin on the farm to take all surplus feed at the end of the batch so that it does not have to be put in bags for rodents and it does not have to go back to the mill. That is costed into the model. When we cost all these in, obviously, we are the losers to a certain degree because you always wear it.

The cost to the grower of producing a chicken in this state has not moved in the last 4½ years. The indication I have given the processors is that it is highly unlikely to move until 1 January 2000.

**Senator MARGETTS**—Is that real or dollar cost?

**Mr Brajkovich**—That is the growing fee in cents per bird in real terms. It will not move at all. In other words, we will absorb CPI and interest rates. There are valid reasons but I dare not go into them now.

**Mr Packard**—Basically there are four meats available: pork, chicken, beef and sheep meats. One is regulated—chicken. We have far outstripped our growth in the last 20 years under regulation. We are killing the other three unregulated meats in the marketplace, as you know by the consumption of chickens. So I ask the question: why has regulation been difficult for the consumer?

**Senator LIGHTFOOT**—I will finish off with another rhetorical question. The last thing you want to hear is a knock on the door and someone saying, 'Hello, I'm from the government; I am here to help you.'

**Mr Brajkovich**—Exactly.

**Senator LIGHTFOOT**—Thank you. That is all I have to say.

**CHAIR**—The staff want me to give you this to take on notice, if you could. Could you provide detailed information on the process by which cabinet decided that your industry would not be part of the NCP framework?

**Mr Brajkovich**—I can tell you now, if you have the time. The government took it on board, we went through the review process, the committee was put in place, Treasury put up their case, we put up our case. We argued in committee. The chairman and the committee then made a recommendation to the minister who then took it to cabinet. I did allude to the process in that document. In fact, it is here so I can tell you exactly what happened. It is here:

The final conclusion was that the consumer and the industry were well served by the existing system, which when analysed showed that when the very aspects that your committee is inquiring into, were taken into account and subject to a few minor amendments to the existing Chicken Meat Industry Act, it passed the test.

We accepted that there were certain amendments to the act that must take place to remedy aspects that were seen to be anti-competitive purely in the eyes of the law. In other words, restriction of entry to the industry. In other words, if you want to build, go ahead and build—we are happy. So there are certain things we have agreed to remove from the act. The document continues:

This was subsequently approved by the Cabinet Government Management Standing Committee on 20 April 1998 and this decision was then endorsed by Cabinet on 18 May. We will now ensure that the recommendations made in the review will be implemented by the year 2000.

Those reviews relate only to the Chicken Meat Industry Act and regulations which are in place now and have been extended for a further period. The act and regulations are there. We are working as if those acts and recommendations were implemented—even though they are not—and we will subsequently ask the parliament to change those recommendations.

**CHAIR**—Thank you for your evidence. Happy chicken growing.

[3.30 p.m.]

**WELLER, Mr Gregory Bernard, Chairman, Rural Committee of the Liberal Party of Western Australia**

**CHAIR**—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 now invite you to make a brief opening statement at the conclusion of which I will invite committee members to ask you questions.

**Mr Weller**—Thank you. I also appear as a private cartage and earthmoving contractor. I appreciate the opportunity to address you. I also thank you for allowing me to address you on such short notice. I do move around the north of Australia in my work and at times I find it hard to meet certain commitments in relation to time. Unlike senators, who can jump in an aeroplane, I operate a road train carting livestock so that slows me down a little. I would like to touch on the areas where I believe the national competition policy is affecting rural and regional Western Australia and Australia. I will just go through a few areas and touch on where I believe the national competition policy is detrimental.

The first one I will touch on is in relation to the fly-in, fly-out policy, particularly where large national companies have a contract as we have just seen happen with the cleaning contract in the defence forces. You have probably had Domenick Palumbo attend this morning in relation to his particular area, but I want to cover it on a little wider footing.

I believe that the community obligation for the competition policy has to be taken into account, particularly in areas where you employ people on a part-time basis. I do not wish to get into the male and female side of things, but in the case of cleaning, for instance, it is quite often a housewife or a lady who has four hours to spare in the morning who welcomes the opportunity to be involved in a job where she can be paid. She then takes the money back, she spends it in the town and the town is then in a position where it is generating funding. Where you have a fly-in, fly-out situation, that is generally lost.

Under certain circumstances in a fly-in, fly-out situation, a national company will have people turn up at point A, do the job there and then fly to point B. Their wages are not spent in the town. They do not spend any time there. It is just in to do a job and then down the road to get to another particular position.

**Senator LIGHTFOOT**—I will have to interrupt you there; I am sorry. I have been able to negotiate only 15 minutes with the committee, of which you have used 12 minutes. I wonder whether, if there is anything else, you could make a submission.

**Mr Weller**—Right.

**Senator LIGHTFOOT**—I do regret that. I thought it was better than nothing.

**Mr Weller**—Thank you very much for that, Senator. That covers a lot of areas, but what I would like to do is to go through the areas where I believe the national competition policy has reflected on the services provided to the rural community. The competition policy has affected banking. Steps are now being taken. I appeared before David Hawker's committee in relation to that, and that is documented in that particular one.

I want to raise the issue of transport. A national operator has more buying power because he runs 100, 200 or 300 trucks. They then work on a system where they offset a profitable side of their business against putting a price into a less than profitable one initially. They offset that by the fact that they are then there and they can pick off the small local operator in other niche operations. Generally, those niche operations are fairly profitable. The people do not go into those without looking at whether they are going to make a dollar.

I will come back to that one because that has a particular area where you see people working in a field who develop technology—perhaps you might look at the Heath Robinson type invention. We are talking about people who, because of necessity, develop a particular skill and a particular piece of equipment. That can be documented, going back through some of the equipment that we now use in the drilling fields in Australia where a particular drilling operator—one person, the boss, with a couple of offsidiers—has been able to develop equipment which is now used internationally. I can document that for you, if you require.

One of the things that people do not realise is that loss of entrepreneurial skill. A national company does not have the opportunity because the people are in there and they are paid to do their job. They do not sit there at midnight nutting out how they are going to solve a problem, but a small operator will. He will deliver the service wherever possible, and I think at times he delivers it a lot better than the national type people do.

The next one I want to deal with is how, in relation to transport, the competition policy reflects on Worksafe. Competition is a good thing. We livestock transporters have unbelievable competition. In Western Australia, we now work under a system of fatigue management. We perhaps are more sensible than the eastern states, where they have logbooks. We have always operated on the assumption that we should know when we are too tired to drive.

As a transport operator, what I am concerned about is that under competition policy we can get an area where people will stretch themselves beyond the limit. I am not going into what the limit is and whether or not I believe in where we have got to in our fatigue management. It certainly will have a variation in how many hours we drive. Competition on the eastern seaboard is making that detrimental to the single truck operator because he is tied to a national operator and has to deliver the goods. I have great concerns about that. I have been driving trucks for many years and I do not choose to drive in the eastern states if I can avoid it.

**CHAIR**—Thank you, Mr Weller. We have to go to questions now.

**Senator LIGHTFOOT**—With respect to fatigue management, are you saying that with the way the truck operations are in Western Australia your fatigue management is implemented in a far better way than it is the east? Could you tell me the differences?

**Mr Weller**—The difference is that we have a position where we feel it is reasonable for an operator to work 14 hours a day with certain breaks in between. For instance, if I am bringing livestock from Broome, which is 2,300 kilometres, I know that I am going to achieve that in a certain number of hours. We can drive over the recommended operating hours because we know at the end of the trip we do not have to jump back in the truck and drive straight back.

**Senator LIGHTFOOT**—That system does not operate in the east?

**Mr Weller**—No. In Queensland, the Department of Transport is taking on board the way we are working. South Australia is also looking at it but, as you are aware, the eastern seaboard is tied up with log books which unfortunately can be doctored; whereas, in our case, we do not have log books and we just produce what is probably a more reasonable attitude.

**Senator LIGHTFOOT**—You mentioned transport. Do you think some of the major trucking companies, like Fox Transport—or whatever Lindsay Fox's transport company is called—are detrimental to the industry generally because of their purchasing power? If so, why is that?

**Mr Weller**—I believe anybody can get a good deal if they have enough buying power. If you walk into any of the major trucking suppliers and say you want to take out 100 trucks, they will fall over themselves to do business. If I walk in, they say, 'Yes, Mr Weller, you can have a truck. It is a quarter of a million dollars. Put your cheque down there,' and out you go. I would not be foolish enough to say what sort of a price the national buyers can buy at, but believe me it would be somewhere in the region of around \$200,000 on the same truck.

**Senator LIGHTFOOT**—With respect to fly-in fly-out, why is that detrimental to national competition policy?

**Mr Weller**—I believe that the fly-in fly-out policy and into competition policy is stopping town infrastructure because you do not have population in the town, the money is not spent in the town and competition is reduced for the people on the ground. In other words, the small service provider in the town is not in a good position because the population of the town is not large enough. Therefore, you get a national provider of those small services who will then bring his people to Karratha, do their house cleaning or whatever, move into Port Hedland and do it there, and then perhaps go to somewhere else, wherever they happen to be involved.

**Senator McGAURAN**—Just so that I can get a picture of the fly-in fly-out situation, what is the example you have in your mind? Was that the Transfield example given earlier?

**Mr Weller**—I would see it anywhere where you have ongoing transfer of personnel from one job to the next.

**Senator McGAURAN**—You were using the example of cleaners hopping from town to town?

**Mr Weller**—Yes.

**Senator McGAURAN**—Was that a government job or a private job?

**Mr Weller**—Defence forces.

**Senator LIGHTFOOT**—I have one more question with respect to the loss of entrepreneurial skills. It is not so much the loss of entrepreneurial skills, if my measure of what you are saying is right; it is the loss of entrepreneurs. The skills are still there but it seems that, for obvious reasons, ‘entrepreneur’ has become a dirty word in Australia and internationally to some degree over the past decade. Do you see national competition policy bringing back entrepreneurs that are almost vital to the Australian economy, or do you see national competition policy inhibiting that?

**Mr Weller**—I take your point. Thank you for pointing that out to me. No, I believe that the competition policy will restrict the entrepreneurs. You have to have some sort of a bee in your bonnet, I suppose, and the desire to succeed in a particular field, and I believe that we are stopping that from developing.

**Senator LIGHTFOOT**—NCP will exacerbate that?

**Mr Weller**—Yes, I believe it will.

**Senator MARGETTS**—Mr Weller, if I have read you correctly, I think you are saying something similar to what some of our other witnesses said today: that ironically there is an assumption that national competition policy is going to bring greater competition but in reality the process and implementation might lead to greater monopolisation. Is that what you are saying?

**Mr Weller**—I believe that competition policy in certain areas will be detrimental to the people that live there. That is a clear statement. I do not walk away from that, because I believe it will be detrimental to those people. My personal view, as far as being a transport operator, is that I know if I have to go up against a national operator I will miss out every time.

**CHAIR**—Thank you very much, Mr Weller.

**Proceedings suspended from 3.44 p.m. to 3.56 p.m.**

[3.56 p.m.]

**CLAY, Dr Christopher Dudley (Private capacity)**

**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.

**Dr Clay**—I would like to thank you and the committee for the opportunity to speak to you. I had better also say that I had a nodule taken off my vocal chords recently, so if I start coughing I am not infectious.

I would like to make some remarks about what I have written in my submission. I have been quite concerned about the potential for unrestrained, or at least poorly restrained, competition to have an adverse effect on a number of aspects of medical practice and the retention of medical expertise, particularly in small areas of specialisation. I can really only speak for my own area, which is dermatology. A lot of the things we do may appear to be related to a club spirit or a collegiate spirit, but it relates to the fact that we just have to cooperate to achieve these ends. Take, for example, education: there are fairly few of us and we are expected to continue to educate ourselves, to educate medical students, to educate our trainees, nurses, podiatrists and a raft of other practitioners. Unless we cooperate, it is next to impossible to maintain any level of service in this area.

In addition, continuing medical education involves quite a degree of voluntary sacrifice of time and effort. All of this is done gratis more or less. A very small number of educational activities involve an honorarium, but certainly our trainees—nurses in our hospitals and so forth—and even service to the university is done gratis. It is supposed to be paid but I have not been paid for ages. Another aspect of this is that we gather together two or three times a week to see difficult cases, do pathology work and so forth. This is also done without charge. It would be difficult for this to occur if we did not behave in what is regarded as a collegiate way.

The next point that I would like to make is that in fact we do actually compete in the sense that our fees are all different; most people charge a different fee. The thing that actually fixes the fees in a relatively small band is the schedule item number. It is really not possible to charge very much above that without striking very considerable resistance on the part of the patients.

I have also pointed out that the medical market really is not a very sophisticated market in terms of the consumers. In addition, medicine has had the most extraordinary capacity throughout history to be bedevilled by charlatanism and all kinds of similar activities. I draw your attention to an area of medicine at the moment where there is very strong competition. That is the area of cosmetic surgery. I do not think most people would regard that sort of competition as being particularly desirable. In fact, I gather it is so scandalous that at least in one state there is an investigation into it. So for all these reasons I feel that insisting that

doctors reject the ‘club spirit’ and engage in vigorous and enthusiastic competition will actually have very little benefit and merely lead to a considerable detriment.

**CHAIR**—You may be a reasonable citizen but some of your colleagues are not, are they? The schedule fee may well influence how you charge fees and how other dermatologists do so but that does not do much for the orthopaedic surgeons around the place or some of the others—neurologists and a couple of others I could name—where sometimes people get huge gaps between the schedule fees and what the services are. So I do not think as a general principle that is right.

**Dr Clay**—Again, I have to comment on the colleagues that I know. Clearly there are some people who are charging quite a bit over the benefit, I suppose, otherwise there would not be the sort of comment that there is. I actually noted on the radio that there is some move afoot in Western Australia at least to organise a no-gap situation, which means that even they are beginning to realise that behaving in an unrestrained way can lead to problems.

**CHAIR**—The reason they can behave in an unrestrained way is the control over the number of specialists that come out the other end and the fact that some of the colleges ultimately have these sorts of controls over who is going to practise as a specialist.

**Dr Clay**—I can really only comment on my own college. We actually do not have any control over the numbers. In fact, we have always had trouble keeping the numbers of training positions up.

All of our trainees are actually training. All trainees receive their four years and that is all. If you fail you have just got to go out and get a job until you can pass the examination. We don’t actually allow people to continue training. We have had so much trouble keeping the numbers of jobs up that in New South Wales six or seven of the jobs in the Skin and Cancer Foundation are actually funded by the dermatologists.

**CHAIR**—I do not think I have ever met a dermatologist, but I certainly know a few orthopaedic surgeons; a couple of them are mates of mine. I know a couple of urologists too, and they are fairly reasonable fellows. But some of the stories that come out, including from the state governments around the place, is that they find it almost impossible at any price to get an ear, nose and throat specialist into one of the public hospitals. I think in South Australia the government actually gave up on the task of employing one in the end. They were offering around half a million dollars a year and they got no-one. I could be wrong with that figure, but I certainly remember them going over a quarter of a million dollars, and they just could not get anyone to do the job. It may well be the case in your area that you take all comers. Presumably anybody who is qualified as a doctor then applies to go and do it. That is certainly not the case in some of the other specialist colleges.

The other thing which I want to lay on the table here is that we put to the AMA some of the evidence that has come to this committee with respect to these matters, and they were rather quiet about it. Other people to whom we put the matters gave us a comment. One of the suggestions that was made—it was certainly made to the ACCC—was that in fact not necessarily the best brains get selected in some of these surgical colleges. It may well be that dermatologists are a different breed than the others; you may run a decent house. One of the

suggestions that was made was that it was not on academic merit that people got into these areas but on the basis of who you knew. If your father or, in some instances, your mother was involved in the college, then you were almost assured of entry and others did not get in there.

So there were two issues. One was the number of those particular specialists that graduated through the system and the other was the issue of who actually got to be trained. You might want to comment on that for other specialists. You must mix with them.

**Dr Clay**—Yes, I do. I cannot really comment on whether there is that kind of nepotism going on in other colleges. There certainly is not in our neck of the woods. I have been involved in selection for dermatology. In actual fact there is quite vigorous debate in the selection committee because different members have their own candidate that they would like to get up. In fact the vast majority of our offspring have not gone into medicine. My son is the first one to do so for some time. He has just started, and he probably will not do dermatology, if he has any sense.

I do not think that there should not be any control on this. For example, AMWAC—I do not know exactly what that stands for, but it is the manpower group—has made recommendations. On the basis of their recommendations we have managed to get another job up here and funded, as they said that we needed another person, and the state government took that on board. I am not saying that those kinds of things, where inadequate numbers of specialists are being put out, should not be addressed.

What I do feel quite strongly is that, as far as I can see, one small section of the Trade Practices Act has just been taken and applied directly to individual people working in a profession. I believe that it is something of a blunt instrument. It then is being applied by the ACCC, who make comments that suggest that they actually do not know what is going on at all. At first the whole thing instilled fear and despondency amongst practitioners. I just feel that it could have been tackled in a far more sophisticated and effective and efficient way. An example of this is the way in which only one section of the Trade Practices Act has been applied, and that is the competition section. I believe that the section relating to false advertising actually does not apply to individuals, which leaves the appalling situation where you have got a competition where anyone can say anything they like.

The other thing is that, when it comes to selection, we actually have tidied up our selection considerably. There certainly was not, to my knowledge, any nepotism of that sort. We have actually tidied it up very considerably, not because of competition but because we are afraid of being sued by a person who feels that they were inappropriately passed over. As a defence to that, we now have a transparent procedure that has been passed by our college lawyers so that, if we make a decision, we feel it is a decision that can be defended.

**CHAIR**—I commend you on that. I just wish a few of the other areas would take such a responsive position, because I understand the situation in some of the eastern states is actually worse than in South Australia. If you have anything that requires an orthopaedic surgeon to look at it and you are not privately ensured, you will wait 12 to 13 months to get an appointment. I have had arguments with these people. I have even had letters come back to me telling me that I should send the person around to the doctor and not bother him, and

all this, that and the other. But, at the end of the day, it still goes down the same route—that there is an inadequacy of these services provided to public patients. There is a brazen approach by some orthopaedic surgeons to indicate that if the person wants to take out private insurance they will be quite happy to fix them up next week. In fact, in the one instance I am thinking of they said they would fix the case within three weeks; other than that, I could wait until there was something there. I think I got the blame for it, somehow or other. I do not know how that worked out, but somehow or other I got lumbered with the whole thing.

Quite clearly in these areas there is a lack of competition. I am actually pleased about what you said about dermatology. Next weekend I am going to take the *Hansard* around to a good friend of mine who is a surgeon. I will show him the *Hansard*, as I have shown him everything else, and maybe suggest that some of the other surgery colleges could take the same road for that reason.

I have an interest in this area because I think there is a large number of people out there that would require certain areas of speciality, certain colleges—particularly the ENT and orthopaedic surgeons and, to a lesser extent the urologists—to be more along the lines of what you are saying. I guess the argument is beyond the scope of this committee as to the adequacy of the training or the selection procedures, but I make those comments because I think they are things that really need to be answered and they came from within the medical community. But certainly, at the end of the day, these issues need to be addressed, and why I have raised them a number of times on this committee. I presume that is one of the reasons you are here today; certainly it is the reason I got another submission from the Royal College of Surgeons last week. I think the issues need to be addressed. They have been around a long time. Quite frankly, in my state it is getting worse, and I understand it is worse in the other eastern states. It might be different here in Western Australia—I have no knowledge of it.

**Dr Clay**—Obviously no-one wants this situation—not even surgeons themselves—like this. If you ask them in a more sane moment whether they want a situation like this, they would not. Perhaps what I am trying to say is that the Trade Practices Act is not the best way to do it. Perhaps a combination of the sort of initiative that has occurred in Western Australia is possible. I wish I knew more about it. I heard on the radio that moves are afoot. I do not know if that is just a Western Australian initiative. Making it possible to have gap insurance whereby people will not be out of pocket combined with a properly planned training scheme by someone like AMWAC would be better than just saying, ‘You fellas or you women’—because our college has a very high number of women—have got to get out there and get at each other’s throats and appear to be doing it or you’ll be in serious trouble. In fact, you will be subject to a \$10 million fine.’ That is going to strike fear into the heart of anyone that takes them seriously and, if they do not take them seriously, that is really not a very good situation.

**CHAIR**—Thank you very much for that. I am sure other members of the committee want to ask you questions.

**Senator LIGHTFOOT**—With respect to creating competition, wouldn’t a nominal charge of, say, \$5 to \$20 for a visit to a GP create two things? First, it would create

competition, because GPs could charge \$5 to \$20 or nothing, if they wished, and that in itself is competitive. Second, it would reduce the number of people who, at times, say, 'I am bored today. I think I will see my doctor.' That is putting it simplistically because of the constraints of time, but don't you think, with all your experience of this, it would create some competition and reduce the waiting lists?

**Dr Clay**—Again, I am speaking outside my area. My area of experience is referred practice, but that proposition does seem reasonable, yes. It would have to exist in a situation where there would be a sufficient number of general practitioners—which there appear to be in most places, with the possible exception of Western Australia. It would have to be applied, I would hope, by doctors who would take a reasonable attitude; that is, in specific cases, they might forgo such charges.

**Senator LIGHTFOOT**—It would then be up to the doctor to act in a certain way rather than up to legislation. Shouldn't the impetus for creating competition then be that the doctors be given broad guidelines that they are able to implement themselves, as individuals or with respect to their associations?

**Dr Clay**—It would certainly create a type of competition in the sense that people who felt their services were worth more than others could indicate that to the public through a financial means. Unfortunately, however, having made the comment that the medical marketplace is not necessarily sophisticated, it can cause problems. For example, a colleague of mine, who wanted to work less, decided to put up his fees, but his work actually increased. The assumption was made that, as he was able to charge higher fees, he must be a better doctor.

**Senator LIGHTFOOT**—That is the nature of competition.

**Dr Clay**—Yes, it works in all sorts of ways.

**Senator LIGHTFOOT**—While I cannot give you the precise details, the closing of the gap is a national initiative, an undertaking, I think, by the current government. But eliminating the gap is a double-edged weapon. It does give people who take out private insurance something that they ought to have had anyway. In other words, if you are not insured, there is no gap to pay and you probably get the same specialist anyway. If you are insured, you get treated by the same specialist, but you have to pay a gap, which seems a ludicrous position to be in. There is a dichotomy here. Doesn't that closing of the gap, in an official sense, create a flow of people who may, for one reason or another, have previously chosen not to insist on the specialist or hospital or whatever, merely because there is now no cost to that gap? That will exacerbate the problem of allocating private beds in much the same way that the problem of allocating public beds has been somewhat exacerbated now.

**Dr Clay**—You mean it will cause pressure on private beds?

**Senator LIGHTFOOT**—Yes.

**Dr Clay**—It could do, yes, but the private system is usually capable of responding to that.

**Senator LIGHTFOOT**—They have the potential to respond to it by putting up their fees, because it is somewhat a supplier-demand situation.

**Dr Clay**—Yes. It is a difficult question to answer, because medicine is not entirely discretionary. It is not quite the same as a situation where you go out to buy a car and you can decide on any car you like. If you have had a heart attack and your cardiologist says to you, ‘You need a stint,’ you cannot say, ‘Well, look, I don’t think I would like a stint. Is there anything cheaper?’ In that respect, the market is not entirely discretionary. I am not trying to prevaricate, but it is such a complex question. In terms of your question about general practitioners, for example, I would have thought that a small charge might not have been a bad thing, provided there were safety nets for people who really were going to be genuinely disadvantaged by a thing like that.

**Senator LIGHTFOOT**—If I could interrupt you there, perhaps that proposed fee ought not to apply to students, pensioners and self-funded retirees?

**Dr Clay**—Yes.

**Senator LIGHTFOOT**—I did not qualify it.

**Dr Clay**—Or an upper limit to the fee could be fixed. In this way, people would appreciate that they were receiving a service, but it would avoid the situation where some could profit, perhaps unreasonably, from the fact that patients are not, in the main, in a discretionary position. It is different from cosmetic surgery where you can have that sort of competition without people dying. And, in fact, if they do not go, they are actually less likely to die.

**CHAIR**—I know a couple of plastic surgeons who are going to love that.

**Dr Clay**—It is true, unfortunately.

**Senator LIGHTFOOT**—Even if you meant it in the sense of crossing the road to see the doctor, you do take a risk in crossing the road. What about the effect of the potential for overservicing where there is no cost factor involved? Do you think that it is necessary—an integral part—to eliminate or reduce overservicing by charging a fee?

**Dr Clay**—Again, you are asking me a question that is in the area of economics. But I think it is probably fair to say that, if there is no fee, there is no constraint on using the system. So, the only other way you can constrain the system is by applying either an overt or a covert quota. Either you restrict the number of doctors—because you know there is only some 168 hours in a week and so they simply cannot provide too many services—or you cap the number of services they can provide. The other alternative is that you apply a fee and people will decide whether or not they want to pay for the service.

**Senator LIGHTFOOT**—Do you think national competition policy would increase or decrease the potential—it is not a potential that actually exists—for overservicing?

**Dr Clay**—Yes, because I regard that part of the Trade Practices Act as a very blunt instrument, it could act in all sorts of anomalous ways. Unfortunately too, as I have pointed out, advertising is intended not so much to inform as to persuade. And, in medicine, you can create all sorts of desires or, at least, all sorts of imperatives on people. I cannot think of one offhand, but it would not be that hard to do: to convince them that they should obtain some treatment for their children, for example, and send them on a guilt trip if they do not. They may be willing to spend money, but that really is completely unnecessary.

**Senator LIGHTFOOT**—On that point alone, how do you eliminate, say, a hypothetical situation where a women of 65, who is likely to suffer from osteoporosis, breaks her ankle and, instead of having her ankle set with the usual time-tested plaster of Paris or whatever the plastic equivalent of that is now, the doctor decides to put in stainless steel plates, which cost a king's ransom? How do you eliminate something of that nature where, on the one hand, hypothetically, the doctor is correct in saying, 'Yes, she is in the age group where she is going to suffer from osteoporosis and I have made the decision, even though she has no bone structural weakness there, to put in stainless plates', although this was unnecessary on the detailed evidence? How do you eliminate something of that nature?

**Dr Clay**—That is exceptionally difficult. Again, it is difficult for me to comment on the example you have picked. Perhaps if I take all of us into an area where I would understand it better. By way of example, when there was a sclerotherapy item number available—sclerotherapy is the process of injecting veins to get rid of them and it is the best treatment—the normal situation was that you would go for it. You would get all your syringes lined up and inject as fast as you can.

But there were practitioners who made a practice of injecting three or four veins at a time and then continually bringing the patient back time and time again. I suppose in an open competition that is the sort of thing that could be done, because they could convince the patient that that is the best way of doing it.

**Senator LIGHTFOOT**—To sum up, I take it from your submission that you are opposed—though not totally—to the interference, if I can put it that way, of the national competition policy as outlined.

**Dr Clay**—Yes, I am opposed to it. I am not necessarily opposed to any competition.

**Senator LIGHTFOOT**—I understand; that is why I qualified it.

**Dr Clay**—I just feel that taking a Trade Practices Act, which seems to me to be aimed at preventing multinational companies from using undue commercial power to avoid competition, and just applying it en bloc to a profession that operates in a very different way is likely to cause more detriment than it causes advantage.

**Senator MARGETTS**—At one stage earlier in your presentation I had written down a question for you: do you think that national competition policy is a blunt instrument? Obviously, you do.

**Dr Clay**—I do.

**Senator MARGETTS**—The next question was going to be in relation to the collateral damage in your particular area—what you think this blunt instrument might, is or could be causing? That is of interest to me. And I would like to know, in wielding this blunt instrument, what you think is the experience or expertise of the National Competition Council or the ACCC in deciding these complex issues of public interest in relation to health and medicine.

**Dr Clay**—Were there two questions there?

**Senator MARGETTS**—Yes. What is the collateral or potential collateral damage caused by the blunt instrument in your specific field?

**Dr Clay**—It is potential because they have not applied it yet and they seem to apply this blunt instrument fairly selectively, from what I can see. That may mean that they simply do not have enough people to apply it everywhere. But the sort of thing would be this sort of collegiate behaviour that we engage in to carry on the whole medical enterprise. There is a certain critical mass and there are only about 23 or 24 of us here. We gather together to see patients once a month, for example. If we were competing in that sort of tooth and claw fashion, we would not do that. I am quite happy to talk to other people about difficult patients I have, but if we were competing in that sort of commercial sense, I suspect we would stop doing that kind of thing. We simply have to cooperate to train further specialists, but if we are in a tooth and claw type of competition, that will fall by the wayside. At least that is my feeling. It is very hard to predict the future, but I just cannot see that sort of thing continuing if we are really going to abolish what must appear from the outside to be a club spirit and get on with this sort of competition.

**Senator MARGETTS**—The second part of the question was: from your own experience or the feedback you are getting from other colleagues, what is the expertise that the National Competition Council or, in particular I think, the ACCC has or can use in relation to deciding these delicate issues of public interest?

**Dr Clay**—Perhaps ‘expertise’ is not the word I would like to comment on because I do not know what their expertise is. Perhaps an understanding of what is going on and perhaps their ideological bent is the problem. One example is that they have suggested that this sort of training should go back to the universities. But that is not really possible without a huge reorganisation of the way medicine is done here and a huge increase in the cost. We have three trainees here, and to organise a university course to cope with, say, three or four trainees is going to be enormously expensive, and they are going to have to use our services in any case. But, if this was a university course, I would expect to get paid for things I now do for free.

The only way that it could be made efficient would be to have a central university course somewhere, which would mean that all our people would have to travel, and it would become very expensive to become a specialist because presumably, if it is a university course, you pay for it. With four years training it really would make it prohibitively difficult for people who are not fairly well-heeled to specialise.

**Senator MARGETTS**—If, in reality, the issues are price and access to services—if that is what the ACCC are trying to deal with, and if that is seen to be a problem of competition—would you be in favour of a process that included consumer groups to try to work out how to deal with and properly solve that problem and balance the interests of both the practitioners and consumers?

**Dr Clay**—I would have said no, except that I was just speaking to a colleague and he was saying that he had been involved with a couple of consumer groups, or had consumer representatives on some committees, and they had found the experience very positive; they had actually made quite a useful contribution. So I think that might be quite helpful.

**Senator MARGETTS**—You are saying that the Trade Practices Act is unwieldy. Would that be the kind of thing that could be recommended in relation to the Trade Practices Act—that the issue of competition in a particular sector might be, if you like, almost a dispute resolution mechanism or some working through within a sector that might be able to come up with recommendations?

**Dr Clay**—In relation to what?

**Senator MARGETTS**—Price and access and availability.

**Dr Clay**—In fixing prices?

**Senator MARGETTS**—If the problem, as I mentioned before, is perceived to be monopolies or artificial monopolies of practitioners, and that is what the ACCC are worried about, would it be reasonable to expect that eventually we as a committee—I won't be here—are going to have to make some recommendations about how the Trade Practices Act could or should deal with issues like specialist care or medicine that the ACCC is dealing with, currently brandishing this blunt instrument? We would be left in the situation of having to suggest what could be done in the future to deal with those issues where there is a perceived problem by consumers, a perceived problem by practitioners, and there is potentially a lot of common ground between the two.

**Dr Clay**—I would think the thing to do would be to take it out of the sphere of trade practices altogether. I believe the AMC is going to subsume all of these duties. I think that working along the lines of AMWAC would be the best way to go to determine—

**Senator MARGETTS**—AMWAC?

**Dr Clay**—The Australian Medical Council.

**Senator MARGETTS**—So AMC is going to take stuff off the ACCC?

**Dr Clay**—No. They are going to subsume the activities of what was NASQAC. I am sorry; I only know these by acronyms. It is the national qualifications group that has actually dissolved now. But you are asking how it could be done. A group like the AMC could work in cooperation with a group like AMWAC in order to determine how many people are required and then work towards training that number of people. Again, I can't speak for

orthopaedic surgeons; they seem to be a group apart. I don't want to live in a world where there are not enough dermatologists because I am worked to death. But unfortunately, if there are too many of us, we start to find all sorts of nefarious ways and means of making a living.

**Senator MARGETTS**—The last point I quickly throw in is that, unfortunately, the evidence we are receiving is that the Trade Practices Act doesn't actually result in multinationals not being able to use undue power, but it is a nice thought.

**CHAIR**—Thank you, Dr Clay. I have a bit of an interest in your area.

**Dr Clay**—In dermatology?

**CHAIR**—No, in medicine.

**Dr Clay**—Can I give you the training program handbook?

**CHAIR**—You certainly can.

**Dr Clay**—That handbook contains the material relating to how we select and train. Perhaps it will be of some value.

**CHAIR**—It will be very useful. Thank you for coming: we appreciate it.

[4.34 p.m.]

**CARSTAIRS, Mr Thomas Edward, Executive Officer, Potato Growers Association of WA**

**CHAIR**—We prefer all evidence to the committee to be given in public but, should you wish at any stage 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, I will invite committee members to ask you questions.

**Mr Carstairs**—Thank you for the opportunity of addressing this committee. I have felt concern for some time about where this national competition policy was heading. As you are well aware, we have put in a very negative report so far as the NCP is concerned. The whole reason for this is that in WA we have been very reliant on statutory marketing organisations to do our marketing, unlike the eastern states where they have less statutory marketing. The reason for this is that, in the past, they have always had great difficulty in trading between states. Therefore, if a system were set up in one state, the state next door would interfere with their marketing.

As a result of this, even though the growers in the other states would love to have retained their potato marketing system, for example, the free trade between states killed it very quickly after the war. Because of our isolation, WA and South Australia were the only two states that were able to continue. It is very interesting to know that the two states that did continue—South Australia and WA—had the two best potato production systems in Australia as far as quality marketing, quality assurance and all those were concerned, because they did have a system in place. All the other states that did not have a marketing system have dropped behind, particularly in the fresh market sales.

From our association's point of view, I represent both the processing growers, who are Edgell growers, as well as the ware growers, who operate under the board. So on the one hand, I have got free enterprise; on the other hand, I have got people that produce under contract. I believe that whether you produce under contract or whether you produce under an orderly marketing system where your production is controlled, you are working under the same system. No-one wants Australia's natural resources to be abused in such a manner that we waste the limited resources that we have.

WA is a mile in front of every other state with orderly marketing because our systems come up for review every five years. This is a parliamentary review where anyone can come along to a committee like this and give their side of the story of how it operates, how it can be improved, whether sections should be lopped off and whether we are tackling the problems in the right way. This goes for consumers all the way through. I think that, as a result of this, the systems in WA have been far more effective than in any other state, and we have a very strong rural economy because of this.

I have been fortunate because I have had 16 years as Marketing Manager of the Grain Pool of WA, so I have been associated with all the grain side of it. I had 10 years

experience with the Pastoralists and Graziers Association of WA, who are a very private enterprise right wing organisation. I have had 12 years experience as Marketing Manager of the Potato Marketing Authority, where we introduced the quality marketing systems and things like that. Then I had a heart attack and everyone wanted to put me out to pasture, but I am still out there fighting for the farmers and representing grower organisations and drawing up submissions and things like that. So I have a very broad knowledge of the agriculture industry.

What I do know in agriculture marketing is that, when you are marketing overseas, if you do not have a strong single desk seller, you are at a great disadvantage because, as far as Australia is concerned, we are only a drop in the ocean compared to these big multinational grain marketing organisations overseas or to any type of organisation overseas. The only way we can compete against them is by having a single desk seller.

One of the reasons we wrote a negative report was that, coming out from our state government in particular, there was a report that all growers should be looking at new generation cooperatives as a method of marketing for the future. We all looked at these new generation cooperatives and, the more we went into it and the more lectures we went to, we found that we have been through this phase 50 years ago. We had Wesfarmers and these organisations that originally set up voluntary pools which then eventually turned around to become statutory pools over a period of time. The dairy industry was a cooperative set up right from the beginning. They found that they did not have the necessary powers to make the system work. If you do not have a system with guidelines in it, other growers are going to abuse the system to their own financial ends all the time and the system will fall apart.

In all our major commodities, we need a strong seller to set the market tone or at least to give stability to the market. I do not want to go into too much detail. I just wanted you to know that, from the background side of it, you could ask me questions on where we are heading but what concerns me most of all is this globalisation system, which is supposed to be freeing up international trade and trade within Australia and letting international industry have free access to our markets. We could find ourselves in the situation where we have our rural industries taken over, whether it be the grain marketing or even the egg industry or the potato industry. We have press statements here that say that, in Victoria, one person has 20 per cent of the egg industry under his marketing control. It takes only a little bit more and, all of a sudden, he has control of the Victorian egg industry. This is the sort of cooperative system that they are trying to push our grain industry and our potato industry into in this state. It will not work. In this state, we are so isolated from any other markets, whether it is South Australia or Victoria—

**CHAIR**—I think we may have to go to questions now or we are going to run out of time. This morning we had some evidence in here and your industry was used as an example of a very heavily regulated one. Some witnesses made the following allegations—they said that potatoes in Western Australia were 20c per kilo dearer than in the eastern states and that that represented 30 per cent higher prices. Is that right?

**Mr Carstairs**—These are statements that people make from time to time. ABS figures do indicate that there is quite a price difference between WA and other states. What they do not show is that, in Western Australia, 90 per cent of the market is in the washed potato line

whereas, in the eastern states, less than 50 per cent of the market is in washed potatoes. When you wash potatoes and remove the potatoes of inferior quality, you find that your cost of getting a better product out to consumers is a lot dearer. We have had a look at what is going on in the eastern states. Up to 40 to 50 per cent of their potatoes in the unwashed form we would reject in this state as not being suitable for the local ware market or for the fresh market, because they are damaged or diseased. In the eastern states, where they do wash potatoes, this is not evident.

**CHAIR**—They do wash some.

**Mr Carstairs**—Yes, they do wash some.

**Senator LIGHTFOOT**—It might be the Sydney water!

**Mr Carstairs**—What you will find is that South Australia is now taking over the Brisbane, Sydney and Melbourne washed potato market. Growers are now heading towards Tasmania with potatoes that are similar to the quality that we are putting out. They are charging nearly double the prices they do for unwashed potatoes and taking away the market share from the traditional Victorian, New South Wales and Queensland growers, because they are putting up a better, superior product with better eye appeal, which the consumer wants.

I am concerned about it because, down the line, we are going to find that what we are doing is going for a higher appeal potato all the time—this is being pushed by the big multinational companies like Coles and Woolworths—but we are losing what I believe the consumer really wants, which is taste and flavour. We have to get back to that situation. England went through the same situation. They had a variety called Nadine, which was a beautiful white potato, introduced over there. That cleared the market floor and topped all the sales. All of a sudden, they had to come back to taste and flavour. I think you have these cycles.

At the moment, you will find that our consumers in this state are getting a far superior product. In fact, when we did an analysis of what the losses are on unwashed potatoes compared to washed potatoes, we found that our growers are supplying either the cheapest or the second cheapest potatoes in Australia. So you have to look for quality.

**Senator McGAURAN**—In your submission the state government, through the minister for agriculture, has suggested that you could replace your current statutory marketing authorities with cooperatives.

**Mr Carstairs**—Yes.

**Senator McGAURAN**—I think that is a good idea. Aren't they, in a sense, the same thing—much of a muchness? It is control of the product.

**Mr Carstairs**—What a lot of people fail to realise in WA is that we have got very limited water resources. By the year 2015, we expect that all our bore licences—in the south-west of the state where our major production of potatoes is—will have been granted.

With the pressure now on for people buying up potato and other horticulture properties to put vines and that on, and using that water for those purposes, we are going to find in another 10 or 15 years time that they will be welcoming the potato board to maintain production to meet local market requirements because of the lack of natural resources like water and land.

**Senator McGAURAN**—If you went to a cooperative, how does that change the structure?

**Mr Carstairs**—A cooperative differs on such limitations as production controls. For example, it is no use producing 50 per cent more than the local market requires because that is a waste of resources and fertiliser in the ground has got to be ploughed in, which adds to your pollution problem of ground water. You are using up all this extra water that you could be using for other crops. We also find that when you have, in this state, a system where there is a bit of stability for part of your market, this allows growers to then opt to plant a certain amount of their production for export purposes.

We in WA account for 30 per cent of the national export value of fresh export sales of horticulture, and that is only because we have got more stability in our industry. One of our biggest potato producers in Wanneroo, for example, is our biggest cauliflower producer in this state. They can work their systems because there is a degree of stability in the industry. The rest of the potato industry is under contract, and that contract gives them stability. Tasmanian growers work under a contract, which is a dollar per tonne; so they have their stability of contract price. Because of our isolation from other markets, and if we were to produce willy-nilly, we would have heaps of potatoes one minute and the next minute this state would be very short of potatoes. So the marketing system and the allocation of production over 12 months of the year to bring potatoes onto the market in a fresh condition results in superior sales, fresher produce and superior quality to consumers.

**Senator McGAURAN**—Without labouring the point, the same effect can occur with a cooperative. The dairy industry cooperative in Victoria, Bonlac, which is the farmers' cooperative, has contracts and sets out milk targets. It has the same production control in a sense.

**Mr Carstairs**—It does; but then it is different in the potato industry because anyone can then market potatoes that they grow outside that cooperative and ruin it for the other members of the cooperative. People who do not play the game right, and produce their share of the market, can produce double and treble and throw it onto the local market and, at that period of the year, flood the market, and collapse the price to nothing. The growers who grow out of season then do not have the money to plant because there is very little in it at that period of the year. So if you do not control your production, you do not have continuity of supply.

One of the things that you see in the eastern states is that the price can vary from \$70 a tonne to \$2,000 a tonne and there is a big difference in this. You get the ridiculous situation that happened 18 months ago when I was over there. Because the big retailers like Coles and Woolies can appoint one person to do their packing, or the majority of their packing, that person has control over the prices that growers get whether there is a shortage or a surplus.

They can dictate to the industry down through the retail chain what the growers' returns are going to be.

Our growers only get the fourth highest return in Australia. So the system is not exploiting consumers in any shape or form. I have given you a copy of my report that says our wholesale prices in this state have remained static for 10 years and yet the price in the retail shops has gone from 80c up to—I even saw it the other day—\$1.60 a kilo. These supermarkets are now in the situation where they are marking up fruit and vegetables. Once upon a time their mark-ups would be 10 per cent to 20 per cent. Now their mark-ups are 40 per cent to 60 per cent, and I have even seen them as high as 400 per cent.

This gives you an indication that supermarkets are no longer out there in competition with one another. In fact, if you got 11 items in a basket of food and went through the various supermarkets, you would find the same thing in the UK. There is very little difference in the price except that now they are working on tremendous margins. What they are doing in the UK is the same as in Australia. They are forcing the price down to the producer, who has got all the cost and all the risk, whether it is meat or agricultural product going through the supermarket. They put the pressure on to get it at a lower and lower price and whoever gets down to the lowest price sets the level for the next one to come down to. So they are chasing prices down, not up.

In the UK, four supermarkets handle 60 per cent of the trade. In Australia, we have got three doing 80 per cent. I know there is another inquiry into this. If we freed up our competition nationally under national competition policy and gave away all statutory marketing, the supermarkets themselves would pick up the difference.

I have got statements about the first seven months of the dairy industry when it was deregulated in New South Wales. The supermarkets picked up \$30 million, which did not go back to producers. So that is \$30 million out of producers' pockets; none went back to the consumers at all. In fact, the price to consumers went up. I have got other statements that say that they expect the price in New South Wales for milk to go up by another 20c. These are the sorts of things—

**CHAIR**—Sorry, Mr Carstairs, I will have to cut you off there. We will have go to Senator Margetts or we will never finish tonight.

**Senator MARGETTS**—Mr Carstairs, you seem to have created a bit of stir within the Chamber of Commerce and Industry because potato growers in Western Australia seem to have been a specific focus of their presentation. Do you feed this kind of information into the chamber of commerce in Western Australia? What kind of response do you get from organisations like them that are currently proponents of national competition policy?

**Mr Carstairs**—They had made some press statements earlier about it and when I rang them and offered to give them all the information on it, they declined to accept. At that time, there was a newspaper article about one poor grower being victimised by the marketing system in this state. He was giving away free potatoes. He had gone to them for their support. Their support was to free up the whole system. They listened to this one grower instead of listening to the industry and they were quite prepared to make statements like that.

**Senator MARGETTS**—What effort has it taken for you to gain a handle on what is happening under national competition policy?

**Mr Carstairs**—A lot of reading more than anything and we have attended quite a few meetings sponsored by our minister.

**Senator MARGETTS**—Sorry, which minister was that?

**Mr Carstairs**—The minister for agriculture in this state. We have not had many dealings because our main concern was to put up a report to the committee. We were told that, if our industry could demonstrate public good, we would have no problems retaining what we got. So we had to prove that we were a public good. But then what we find out is that, even if we do prove to our minister that we are a public good, the NCP and ACCC can turn around and throw that back onto our state government and say, ‘We want you to look at it again’ or ‘We do not agree with you’. So despite winning the case, we can be in a situation where it can be reviewed again.

**Senator MARGETTS**—There have been general comments that the concern in regional and rural Australia is the result of confusing national competition policy with other general elements of deregulation and privatisation. Would you say you understand the difference between the changes?

**Mr Carstairs**—I do, yes. I spend quite a bit of time travelling through the country—particularly in the eastern states, of all things. It is not until you go to rural towns and see how they are dying, compared to what they were like five years previously, that you can see the effects of what is happening. Banks and all those things have been mentioned before as part of the reason for it. When I talk to growers individually, I see the other social side of it—that is, that they have not got enough members for the football team that they used to have; so they have to amalgamate with another team that might be 50 kilometres away. For them to go to training and to be part of that side of it puts a strain on the whole family, and that farming family have got to do something. Where they might have had a school bus, they have no longer got the numbers for that school bus. So the parents have to cart those children all the way to the school and back each day. Now that is quite a strain if you are living 40 or 50 or 60 kilometres away from the school.

**Senator MARGETTS**—One would consider that cost shifting on a massive scale.

**Mr Carstairs**—It is. It is quite a massive disruption of the whole of our agricultural community. I believe that if we deregulate all our marketing schemes, this will be the second wave. I pointed out to an IAC hearing in 1991 that deregulation of rural marketing schemes results in up to 20 per cent reduction in returns to producers. Consumers will never get this benefit because the retailers and people like that are the ones who will pocket that difference all the time. Unfortunately, from what I have seen with deregulation over the last five years in the egg and dairy industries, that is in fact what is really happening. It is not what the economists believe is going to happen—that we are going to reduce costs to the public. In actual fact, you have to look at what is happening.

**CHAIR**—I think that is a good note for us to wind up on. Thank you very much, Mr Carstairs.

[4.56 p.m.]

**WREN, Mr David, Secretary/Treasurer, Western Australia Water Users Coalition**

**CHAIR**—We prefer all evidence 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, we will invite committee members to ask a few questions.

**Mr Wren**—As Mr Lightfoot said, I am the last speaker. Our concern is that in four days WRC are putting the draft legislation to state cabinet. We did not have this information when we made our original submission, but we have given you supplementary material since then. Our concern is that the COAG water reform framework was attached to the NCP and its implementation is being used to push these reforms. There are some NCP effects of the policy that will have an effect on regional areas but that has not been tied up.

I would like to point out that I am secretary of this group. It is a very loose coalition of traditional water users who have invested under a state water regime that has been existence since 1914. As the current act is basically related to public works, it gives a fairly loose rein for private investors to develop water infrastructure on their own properties. They have done so quite sensibly and, as a result, areas such as Margaret River with wine, Manjimup with cauliflower exports to Hong Kong and Donnybrook with apple exports to England have developed without any cost to the state. Because of COAG's requirements and the NCP, the state government is now going to change the regime: growers will lose current control of and investment on their property.

This is the concern of our group: we are asking, 'What is the implication of this?' because they are a part of the NCP. We have asked the state government to back off, but they said they cannot because of COAG. Then we talked to the Productivity Commission, and they said, 'There is no rush—you have until 2001.' Here we are saying, 'Don't rush,' but they are rushing ahead; they want to rush it through. It is not tidy; there are a lot of loose ends. There are loose ends on capital gains; there are loose ends on native title; and there are loose ends on how the minister is going to handle what is now currently in the hands of private property and local government.

**Senator MARGETTS**—For the benefit of the committee, could you tell us if the COAG water agreement started prior to the 1995 competition policy legislation?

**Mr Wren**—Yes, in 1994.

**Senator MARGETTS**—So here we have a situation where an agreement which was supposedly about costing out the water resource got linked in as a kind of afterthought? Or was it always intended that that was going to be linked in?

**Mr Wren**—Originally it was part of the COAG agreement, and then it tied in micro-economic reform trying to free up water, which it has done. I will be blunt with you: there are a lot of people, especially wine investors, who are waiting for the reforms to happen so

they can grab control of the water which currently potato growers use in a sustainable fashion, rotating it and maybe having a water reserve. There are a lot people waiting for the reforms, because they want to grab the water and have tax geared investment schemes, for instance, to plant a lot of grapes, whereas currently people are growing cauliflowers or potatoes on a sustainable export market which maybe increases by one or two per cent a year. I would say this is the interest behind it: to free up water and to make it tradeable. From our understanding, that is why it was tied to it.

**Senator MARGETTS**—Is this right: basically the idea is to trade off or sell water for the value of whatever it will get, depending on what the highest value of the land might be?

**Mr Wren**—Yes. It will be similar to the mineral lease. If you are not utilising water now, but it is in your dam—legally, under the current act, you build a dam and have X amount of water—they will be able to allocate that water somewhere else. If they separate it through licensing, then that licence could be sold to the highest bidder.

**Senator MARGETTS**—Can you see some potential positives for valuing water differently from what it is now?

**Mr Wren**—I have no problem with TWEs, because I come from a free trading market, but as I became involved in this and became secretary, I started to get an understanding of the people who would be affected. Many older people in rural areas are going to be affected by this, and they have no understanding of how you could separate water from land. There has not been a proper consultation in respect of their investment and their particular point of view.

Currently the situation is under the control of that farmer through licensing or through rights attached to his ownership of land. That is what the act states. It is quite legal: as long as you do not do anything stupid with the environment, you can use that water. The new regime will wipe that out and everything will be at the discretion of the minister through the commission.

They will establish a committee of local rules. We are still arguing about what the structure of those local rules can be. They will also have powers to make a ruling on water allocation. Trading will happen when the commission decides that an area is totally allocated and then they will allow trading to come in. Already there are several areas I can think of that are ready for trading. There are people that know what is happening already and they are going to make a lot of money out of it. The people who do not understand the issue are going to lose a lot of money. That is an inequity that I do not think the NCP wanted to happen. It is wrong. The people have not been consulted.

One of the principles of the COAG agreement is that the community has to have discussion and understanding of the property rights issue and equity, and if there is a change there has to be an understanding within the community. That has not happened. This has been forced through. Once it has gone through the state has no formal mechanism for compensation. Once the law is changed, it is too late, mate, you cannot claim. That is our concern. It is happening.

**Senator MARGETTS**—Do you have any knowledge of the way this debate has gone on in Queensland? I know it has been a very large issue in Queensland and, perhaps to a slightly lesser extent, New South Wales. Do you know how the consultation and the debate in Western Australia has compared with that in any of those other states?

**Mr Wren**—I will go back to where it started. In Western Australia 18 months ago all industry got a thing in the advertising papers that public meetings were to be held to discuss changes to the law because of COAG. What is COAG? I have not heard of the thing. This group was formed as a result of that. We had to, through our own resources, hire legal and policy people. This is an industry group trying to find out, like a detective. We had to contact Canberra, Volkers Aukeens in the COAG task force, to get information on COAG; we finally got the agreement. Waters and Rivers were bringing out their own little brochures, which were summaries of the thing, and kept saying that you have got to agree to this or the state is going to miss out on funding. That is the approach they took. At the first meeting in Manjimup they denied that irrigators had any rights to water.

The first two issue papers of New South Wales and Victoria were to do with equity and property rights issues. That was their approach. Here they took the opposite approach. We feel it was because of the compensation that they took that approach. It is only when we got our own lawyers and lobbied some more politicians that they finally put out a weak paper on rights to water. The current draft to a certain degree talks about compensation. But they are not recognising people who invested, for example, in a dam, which the property market reflects, and it is quite legal, and they put in a big dam saying you are going to have a 10-year business plan. There was no recognition of that, it is only on use—these types of little things. There is no communication in this matter. We are not opposing reforms. We are calling for a 12-month consultation process until we get more information. They want to rush it through because of the state political election coming up.

**Senator MARGETTS**—Correct me if I am wrong, but it sounds like you feel you are being steamrollered?

**Mr Wren**—We are being rolled. There is no doubt about it. This group that we put together is only through word of mouth, through packing sheds and trucking depots—that type of thing. We have got a small budget, and the groups join everywhere. We have also picked up support from most of the south-west shires and the South-West Development Commission has offered us support. In the last week, both PGA and WAFF have accepted our proposal for an independent appeals system, which I would like to speak on a bit, and for a compensation mechanism.

We are going from a regime where irrigators have some rights to the use of water to one where it is going to go to total minister discretion. In many situations where local rules make decisions, there is no appeal process. We are calling for a situation similar to that in the mining industry where you have an independent tribunal or wardens court. I am on a local committee developing rules. I was also on a water corporation committee. I have been involved in the committee for five years. They want us to make a decision on water allocation, which will be taken away with rights. They want the local rules to make a decision, and we are pushing for an independent appeals system for that. Obviously a lot of the stuff has nothing to do with NCP—the state legislation—but they are using that as an

excuse to pass the law. They are going to introduce it in June. I do not know what you can do there.

**Senator MARGETTS**—Roughly, what has this cost the organisation?

**Mr Wren**—In time and money? Lawyers' fees have cost us tens of thousands of dollars, plus there is our own time. We have got membership from Carnarvon to Albany. We meet in Manjimup. We have had probably 20 meetings. People have to travel and leave their work; I run a market garden and I have come here today, and I do not count that. COAG has promised money for industry consultation. We never received a cent. If we come to where we differ on policy with waters and rivers, if you want to get dirty, I can get dirty about what they have done to some of our people. This type of thing is wrong. We are saying, 'Let us get this thing, if it is NCP driven, open and accountable and get the industry involved.'

**Senator LIGHTFOOT**—The corporatisation in the last couple of years of what is now the Water Corporation seems to me to be a harbinger of it going fully private. You could argue that it is not, but just assume for the sake of the argument that it is. Is it not in the best interests of the Water Corporation, in order to obtain a better price, that it be a monopoly, notwithstanding the national competition policy?

**Mr Wren**—Because of the COAG agreement, they split into three groups. There is Waters and Rivers, which is the section which we are dealing with; the Water Corporation, which they are leading to privatisation; and the Office of Water Regulation. Actually, this is one of the issues we could speak on. I was on the Water Corporation committee at Margaret River. It is our responsibility to protect the water quality to the Ten Mile Brook Dam. Also, that area is having pressure for grapes. So Waters and Rivers makes allocation policies for the Water Corporation at no cost. They are knocking back applications from private irrigators. So if it is privatised, there will be huge shift of resources going through privatisation which would be on-sold perhaps to another company.

**Senator LIGHTFOOT**—That is my point. My point is that it is totally unfair and it flies in the face—

**Mr Wren**—Of national competition.

**Senator LIGHTFOOT**—Exactly.

**Mr Wren**—There are other issues. For example, in the Manjimup district they are pioneers in the export cauliflower industry; they were selling cauliflowers to Singapore and Malaysia before Asia boomed, back in the fifties. Because water got tight in the summer, the shire and the local growers took it upon themselves to set up a local irrigation district to basically regulate the flow of water and make sure it was used efficiently. Farmers sell to farmers. Farmers sell to the town of Manjimup.

If Waters and Rivers was really for water trading, they would support us. But they actually wanted to arrest them. It is not to do with water trade; it is to do with the shift of resources from private enterprise individuals to the bureaucracy that has been created. Bear in mind that in the year 2001 the user pays principle has to be finalised with COAG. So,

once the bureaucracy is established through statutory water resource legislation, then the next thing is to bring in a user pays principle. which means again that irrigators will have to fund a bureaucracy.

I can give you several examples where industry, through self-regulation or through a cooperative structure, is already able to handle the situation. It has nothing to do with environment; it has nothing to do with water trading; it has to do with the state agency. As the previous speaker just said, how water is going to be very tight in the next 20 years, because of the demand for water by the wine industry here. Internationally, people are falling over themselves to get in here. Waters and Rivers are going for the money, and there are going to be losers in it. I am one of the younger members of the organisation. When I go to these meetings there are a lot of older people who have had properties, for instance, since the 1920s. They know nothing about what is happening. They do not understand it, and they are not being communicated with. Like I said, they will be the losers.

**Senator LIGHTFOOT**—It seems to me it ought to be a case for the ACCC. It is obviously, in the old parlance, ‘restrictive trade practices’. You are having a government bureaucracy funding another one, or at least putting resources into another government bureaucracy—albeit with a corporate name—that is going to act adversely towards people and growers who have large quantities of water under their control now that they have exploited and developed on a usable, reusable or ad infinitum basis. Those waters of the private growers are going to come under the control of some other bureaucracy.

**Mr Wren**—It will go through a bureaucracy. I will give you another illustration of what has happened. One potato growing area has now gone out of potatoes because of the demand for grapes. I cannot believe it; they can raise \$25 million overnight just for a grape project. There is a 100-hectare sumach market garden at Jindong. They had the situation where they had their old water licence, which was for vegetables. You do not need that much for grapes. For grapes you only need about a quarter of what you need for potatoes. These guys were quick enough to grab that water. They started buying land up left and right. The average person in that situation cannot get a licence now because it is overallocated; the cap is there. But those who are aware of the situation have already made their move.

**Senator LIGHTFOOT**—Given that there will never be another dam built on a river in Western Australia, these sorts of water licences become very valuable.

**Mr Wren**—Yes. I remind you that once the new regime is passed, the COAG agreement is to allow water for the environment first. That is going to soak a lot of water up forever, because the community is demanding, legitimately, priority for the environment. So it is going to make the price of water very dear. The basic cost to start out with is that people have licence fees, then there is transfer of licence fees, stamp duty on tradeable water, and capital gains tax on water sales. So there are already going to be four or five costs brought in that you do not have now. Then, like I said, they will have the statutory regime to bring in other management costs for catchments.

**Senator LIGHTFOOT**—You are a market gardener. How does the future look for you? Will you get out of the industry?

**Mr Wren**—I am very uncertain. I have two situations. I have bore licence in the Scott River Coastal Plain, which is an experiment for the bureaucracy on a water allocation process that has nearly financially killed two people that I know. And I have a market garden in a non-proclaimed area which was designed by the department of agriculture at the time. They were the water agency. It was done properly with the right criteria, but it happens to be next to wetlands. I think I have done everything properly with my LCD involvement and my management plan, but WRC will not issue me with a licence. They have that power. I have been farming a market garden in that place for 20 years, but this is the power. And once you get up and say, ‘What are you doing?’ this is the power that they have over you to try to shut you up. It is not just one isolated incident, because they know the cost of what is involved. It is getting dirty.

**Senator LIGHTFOOT**—What do you mean by, ‘It is getting dirty’?

**Mr Wren**—With Waters and Rivers and some of our members, they are not playing fair. They are trying to embarrass some of our members. They have made statement within different groups. But I would like to say that our Farmers Federation and PGA finally have come after 18 months, because they were onside originally—

**Senator MARGETTS**—There were onside with what?

**Mr Wren**—With Waters and Rivers. Originally, they wined and dined the executives in Perth. It was not until the WAFF zones—there are four WAFF zones and two PGA zones down south—started holding their own meetings and we formed this group that finally the state organisations realised what was happening and finally supported it.

**Senator LIGHTFOOT**—So who is the bad guy? Is it Waters and Rivers, or is it the Water Corporation?

**Mr Wren**—In this instance, Waters and Rivers is the bad guy, because they are the body responsible for allocation. The Water Corporation is like us, in theory; but they are not, because they have got their own sweetheart deal.

**Senator LIGHTFOOT**—But they are totally government at the moment.

**Mr Wren**—They are in the same ministry. They have split up. The Water Corporation is supposedly independent, but they get what they want. But, yes, Waters and Rivers is the body responsible for allocation, so the Water Corporation has to apply to them. They have done so. Like I said, I understand that a lot of this has nothing to do with NCP, but it is the blunt instrument that is pushing the reforms.

There are issues I can give you—for example, shire councils in country towns are pumping out the rivers for their golf courses and their ovals, which they currently can do. They will not be able to do this in the future. They are going to have to pay for it. There are some little costs like that, because now they pump straight out of the river. It is quite legal. They are not causing any damage. There is heaps of water. In this situation, they cannot do that. They are going to have to get a licence and pay a cost. So there will be some incremental costs immediately, but not as big as the change of control.

**CHAIR**—Thank you very much, Mr Wren, and good luck.

**Committee adjourned at 5.18 p.m.**

