



COMMONWEALTH OF AUSTRALIA

# Proof Committee Hansard

## SENATE

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

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

TUESDAY, 17 AUGUST 1999

KALGOORLIE

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

**Tuesday, 17 August 1999**

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

**Senators in attendance:** Senators Lightfoot, 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 9.06 a.m.**

**CHAIR**—I now declare open this public hearing of the Senate Select Committee on the Socioeconomic Consequences of the National Competition Policy. The terms of reference agreed by the Senate require the committee to inquire into and report on national competition policy, including its socioeconomic consequences, including benefits and costs to unemployment, working conditions, social welfare, equity, social dislocation and environmental impacts; its impact on urban and rural and regional communities; its relationship with other micro-economic reform policies; and clarification of the definition of public interest and its role in the national competition process. The committee is required to report on the first sitting day of October 1999.

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 given before it. Parliamentary privilege, for those 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.

**CAULTON, Mr Andrew, Executive Committee Member, Kalgoorlie-Boulder Chamber of Commerce and Industry Inc.**

**GALLAGHER, Mr Hugh Henry, Chief Executive Director, Kalgoorlie-Boulder Chamber of Commerce and Industry Inc.**

**McAULIFFE, Ms Annemarie (Annemie), Member of Executive, Kalgoorlie-Boulder Chamber of Commerce and Industry Inc.**

**WILK, Mr Ziggy, Executive Member, Kalgoorlie-Boulder Chamber of Commerce and Industry Inc.**

**CHAIR**—Welcome. Do you have any comments to make on the capacity in which you appear?

**Ms McAuliffe**—I am a private management consultant in Kalgoorlie. I am also a member of the subgroup which was asked by the Chamber of Commerce and Industry to put this submission together.

**Mr Wilk**—I am also the regional manager for Western Power, which is the electricity supplier to the goldfields.

**Mr Caulton**—I manage a mining supply company in the goldfields and I am also a director of the Prospectors and Miners Hall of Fame.

**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, at the conclusion of which we will invite committee members to ask you questions.

**Mr Gallagher**—Thank you. We appreciate the opportunity of making a submission. Let me first give you a bit of background information, because I think it is important. The four people here today have spent quite a few months preparing what on the face of it is a fairly brief paper that focuses on the community service obligation. The intent of the paper is for us to stimulate some broad discussion with you in the short period we have because there are many issues we believe simply cannot be put on paper. We would like it to be a two-way opportunity. The person who has actually put the paper together on our behalf—and each one of us has made a contribution to the paper on a regular basis—is Annemie McAuliffe, so I would like to invite Annemie to introduce the paper.

**Ms McAuliffe**—Firstly, as members of the chamber we do not have any strong objections to the national competition policy as a policy. In fact, we agree with it and we make the statement that we are supportive of the principles. It is the application of the policy that is an issue for us. We looked at the policy from two points of view: firstly, the issues as they impact upon regional development and the service levels and standards; and, secondly,

the CSO as a safeguard of public interests as we saw it, and the implications for the CSO being equity and distribution.

I will firstly go to the issues that impact on regional development. Research indicates that national competition policies throughout the world have a centralising effect. Organisations and firms are expected to be internationally competitive on both quality and price. Inevitably, an overriding consideration becomes that of economic accountability in this kind of environment. This, in turn, at the individual organisation or firm or sectoral level, encourages a centralist approach where rates of return on investment are more easily maximised; for example, the reluctance to build a new facility and the closure of rural banking. In this environment, price and service advantage is generally felt where demand is greatest and where competition can be sustained.

It is in rural and remote Australia where the centralising effects are most likely to be felt. It is here that demand is at its lowest and most dispersed. This is particularly true for social and physical infrastructure and the provision of essential services such as power, water, transport and telecommunications. Normal market forces will not, except in rare instances, encourage competition. Where competition will occur, it will be likely to apply only to those elements that offer the greatest profitability. Competition can only operate in the context of the market and, where the market does not exist, competition does not exist.

There is therefore a concern that the economic reform priorities of the national competition policy will override social, environmental, occupational health and safety and regional priorities. While safety, occupational health and environment legislators support, monitor and guard their standards level, in the case of the community service obligation there is no independent mechanism to make sure that this important element is not compromised in regional, rural and remote areas.

This may not be, in the long term, in the best interests of the nation—witness the situation in East Germany where, despite the cost to the West Germans, unification became a reality more because long-term dollar and environmental costs could be greater were the two regimes not unified. It may not be in the interests of the nation's international competitiveness to sacrifice some regions at the expense of others. The Hilmer report of August 1993 says on page 16:

Competition policy is not about the pursuit of competition per se. Rather it seeks to facilitate effective competition to promote efficiency and economic growth while accommodating situations where competition does not achieve efficiency or conflicts with social objectives. These accommodations are reflected in the content and breadth of application of anti-competitive policies, as well as the sanctioning of anti-competitive arrangements on public benefit grounds.

Clearly the intention of the policy from the very beginning was to provide for public benefit requirements. The report goes on to say that the purpose of the policy is to support an open, integrated domestic market for goods and services. It is arguable whether this would be possible in instances where obvious regional inequities might exist.

The Senate select committee is asked what safeguards does it believe are, or should be put, in place to ameliorate the centralising effects of national competition policy. Does the committee believe that a commitment to decentralised decision making would be an

important step in ameliorating centralising trends and, if so, is there any commitment to decentralised decision making? Has the committee given any attention to how decentralised decision making might best occur within a national competition policy environment? We will put those questions on notice, if we may.

I turn now to the CSO as a safeguard of public interests and the implications for equity and distribution. To avoid divisions between metropolitan and regional and remote Australia, the Kalgoorlie-Boulder Chamber of Commerce and Industry believes that the CSO is the essential ingredient to ensure an acceptable level of equitable and distributed service standards. The CSO can be only achieved by commitment of government, as it is in itself anomalous to market competition.

Under the conditions of the competition principles agreement, consideration is given to the CSO as a public benefit factor to be taken into account in applying the policy. The ACCC applies the public benefit test as a framework for systematic and structured evaluation of government activity that requires governments to justify anticompetitive regulation and legislation and targets monopoly. The public benefit test does not, however, specifically address the CSO, nor is it a central consideration for the ACCC.

The ACCC is the appointed body responsible for applying the policy. Its focus is to ensure that the Trade Practices Act is universally applied throughout both government and business. The emphasis on the application of the policy, therefore, is upon its proper and universal application. Nowhere in the current arrangements does there appear to be provision for a watchdog on the process other than that the Productivity Council has the role to ensure that anticompetition principles are applied. There is no monitoring or review agency to ensure that the policy is fairly and equitably applied, particularly in a public benefit or CSO sense. Our belief is that Hilmer intended that such a body exist. Currently CSOs are left up to the relevant minister's discretion, leaving the regional communities in a very compromised position. The KBCCI sees this as a serious omission.

It is interesting that Hilmer did not define competition. Rather, any application of the policy would have to be in the context of the public benefit interpretation of a given situation, be it a region, a sector, et cetera. It is therefore desirable, if not wise, for those most affected to undergo their own planning in order to better define what it might mean to their context. Recognition of this is important for effective application of the policy. Failure to involve those most affected will have serious political consequences. The political backlash, as seen in the last federal election, is occurring as the regional and remote areas of Australia are feeling like second class citizens.

Environmental protection and occupational health and safety standards are rigorously enforced nationally and internationally. Is there an alternate and rigorous process required for the CSO? This is an issue for serious concern, and how does the committee perceive the matter will be addressed? That is the second set of questions we want to put on notice. Then we go on to talk about a CSO watchdog, but I think we might leave that for consideration in discussion.

**CHAIR**—Sure.

**Mr Gallagher**—Normally in our discussions I have not been doing the talking; these people have. I daresay we would invite them to do some talking. Ziggy and Andrew have been very quiet.

**Mr Wilk**—Talking about the watchdog, our point that we want to deliver to you is that, in terms of the current competition policy agreement—which is the principal agreement under that policy—there is the statement about making sure that the environmental safety community service obligation is not going to be compromised. As a result of the application of that policy, what we are observing is that, because the community service obligation is left to the relevant ministers to decide the application, it is compromised. Whether you are in Menzies, Kalgoorlie or Perth, the safety issues are equally applicable in all safety aspects. The same applies to environmental concerns, plus there is the backup of the legislation in terms of the penalties against people or businesses which do not actually follow the relevant legislation. In terms of the community service obligation, there is no backup at all. That is why it is compromised.

Now, in terms of the application of the policy where the market is small—and let us face it, in regional Australia some of the markets are very small—the population is not big enough. Some people are saying there needs to be a minimum of 100,000 people living in the one area to have a sustainable market. We do not have many people in our areas. Specifically in the goldfields here, there is not 100,000 people living in that area, so the market is not strong. In that market we cannot have big, strong competition to deliver the best services. There is no chance for such kinds of services. In fact, it is the opposite. The centralised effect is pulling all the services back to Perth. We have been supplied with a number of these services back to the goldfields, rather than have production and services there. If we are not careful, that process is going to continue. That process is going to have a major impact on regional Australia.

We all know about the politics and the situation with One Nation. Some people see it as racist. You may find that that is what these people are saying. They are observing the elements of services disappearing, and it is going to be more a political issue, we believe. It is going to deliver the feeling in our community that we are really second class citizens and that is what is happening at the moment. We are asking you to examine the legislation again and have a look to see if there are any safeguards to be put in there to make sure that these things can be delivered. It is too late to make the major change to the policy. The policy is being implemented and we cannot stop it. It is time to take action and correct the negative impact on regional Australia which that policy is delivering at the moment.

**Mr Caulton**—Following on with some of the environmental and social issues, we have a situation now with the deregulation of transport. Believe you me, as a supplier in this region I have found that the cost of deregulation of transport has been to our benefit. However, there are certain areas that are of major concern. For instance, the bulk of diesel fuel coming into the goldfields region is now coming in by road and not as it originally did by rail. The bulk of our chemicals are not coming up on rail any more; they are coming up on road. We are actually seeing a rather fast deterioration now of our major road link between the goldfields and Perth. Anybody who travels on a Sunday afternoon from Perth back to Kalgoorlie tries to get off that road before sundown, otherwise they are facing a constant

barrage of truck lights coming at them. It is the same coming back on a Wednesday. If you are heading down to Perth, there is a constant stream of trucks.

From an environmental point of view, having those chemicals run on the road is rather scary. To date, we have not have a major chemical truck accident. However, suffice to say that, if those chemicals and that diesel fuel are being brought in on rail, it is contained. If there is an accident, ninety per cent of the area is farmland. However, on the road there are a lot of small towns that big chemical trucks and fuel trucks are now passing through at a hugely increased rate. We are not seeing any more money being spent on upgrading our roads, because the money is just not there at the moment.

There are other areas from a social point of view. For instance, an independent college is being started up here. At the end of the day, are we going to see the state forced to compete against the private sector in education in remote areas? These are some of the what ifs. We do not know whether that is going to happen, but there is nothing in place to keep an eye on that for us. Health is another one. If we see a private wing or even a small private hospital started in this region, what is that going to do to our government supported health services? Those are some of the things that have been mentioned. They are what ifs; we do not know.

**Ms McAuliffe**—We are trying to suggest that there needs to be a process in place which protects regional interests in this entire policy framework. CSOs, as they have been applied at the moment, have been applied generally in vertical sectors—telecommunications has had some which relate to telephones. No-one has looked after the issue that Andrew has raised, which is the question of what happens, in terms of protecting the social impact issues of the region, when you have competition between two different transport sectors.

We believe a watchdog role is required in order to ensure that happens properly, and part of the process is that the regions must also set the particular benchmarks they require in order to be able to do those social impact studies. It is not good enough to have a centrally determined decision on the kind of service standard that every household in Australia might experience, because they are not household generic. Regions have different aspects related to them. Here we are living on the fringes of remote Australia. We have very few reticulated infrastructure possibilities in this region. The kinds of decisions that we need to make about servicing this region are going to be very different from those in Narrogin or Geraldton.

We believe it is a process in which we all must participate. Somebody has to set the rules and set the structures in place in such a way that environmental and occupational health and safety regulations exist, but at the same time we as communities are going to have to determine those benchmarks and have them ratified within that overall process. That may mean that many of us need to develop the skills to be able to do that effectively. At the moment, many of us are not versed in regional development skills. We could have spent a lot of time collecting evidence. We believe a lot of other people who will be seeing you today have, and we have circularised all our members and come up with a lot of responses from areas where people are seeing benefits or harm occur. But we thought we would be better off trying to look for some kind of way in which we could see regional Australia represented better in the overall process. That has been the thrust of what we have said.

**Senator MURRAY**—One of the assumptions of competition policy is that it leads to price falls. I believe it can lead to price rises as well, and quite rightly so. Two areas I would pick on are fuel and water. I pick on fuel because, the way the industry is structured, the retail sector is unable to make a decent profit because it is all taken upstream. If the industry were reregulated in a manner which ensured better competition practices, we might see prices rise.

The other one is water. There is a lot of literature now which indicates that water policies in fact result in water being too low priced. Of course, if you raise the price, you actually bring on stream projects which would otherwise be unaffordable. I am sure we will talk about it later, but Mr Bridge's view of bringing water down from the north and your own region's interest in bring water up from the south are two examples.

The question that arises from that is also the question of where real costs sit. You have outlined, quite rightly, that the consequence of deregulation of transport has in fact resulted in a shift from rail to road but also in an increased cost to the community. So the benefits that the goldfields are receiving in lower priced goods have to be carried by the taxpayers of Western Australia overall. They have to put more money into road maintenance, and so it goes.

The question I put to you is about the way in which these things can be assessed. It seems to us as a committee that there is a lack of on-the-ground assessment and responsiveness by the political and regulatory bodies to that assessment. The National Competition Council and the state and federal governments do not respond quickly enough to the on-the-ground effects of the policies that are emerging. You are asking us how that can be managed better; I am asking you what regional institutions are best equipped to do that evaluative job and that reporting job. Is it the city council, the Chamber of Commerce and Industry or the Regional Development Council? What institutions are available in your region which are best equipped to provide the feedback which demands a much more credible and instant response?

**Mr Caulton**—One of the things that has been happening in this region lately is that when something like, for instance, the problems with the medical practitioner shortage we have in this region at the moment is put forward, peak body groups have actually been coming together. People have been pulled out of groups like the Chamber of Commerce, the Goldfields-Esperance Development Commission and the City Council to form a peak body group to target that particular problem. It could be done by the Goldfields-Esperance Development Commission using those other resources that are available. That would probably be the hub, unless we were to form a completely new body.

**Ms McAuliffe**—The development commission of course is part of the regional and economic development portfolio of the state government and as such it does not have much of a purview over, for example, the mining industry, because that is handled by a different set of departments. There probably is no natural structure right now that could handle this directly. There certainly is no process, in our view, for setting the community benchmarks which need to be there for the measuring work, the assessment, to be done. You cannot respond quickly if you do not know what the actual effect is of a given step.

**Senator MURRAY**—One of the possibilities is for a committee like ours to recommend that there are regional institutions which are tasked—perhaps resourced, but certainly tasked—with the job of evaluating and reporting back. The committee heard from Mr Morgan, who is the head of the regional development coordinating group—I forget the exact phrase—for the state. It was a very good evaluation, but he clearly indicated to us that there was no ability to change or influence competition policy. In a private sector sense, competition works with a highly reactive environment. If something happens to your transport company you do something about it, whereas in dealing with this policy situation there is not a highly reactive environment to the detrimental or negative sides of things.

One of the ways to do that, of course, is to provide a facility for bottom-up assessment. Who could do it and how easily, and whether it would require a lot of funding and resources or whether people already have enough knowledge to be able to assess it, are therefore important questions.

**Mr Wilk**—Are you looking for a one-off action, or are you looking for something which could be viewed on a long-term basis?

**Senator MURRAY**—I am suggesting an ongoing, independent reactive body. Our committee has to look at this on a national basis, so we are asking what could be easily replicated at low cost but high expertise to ensure that the Competition Council and the state and federal governments—wherever they are—are sufficiently reactive to some of the negatives that you have outlined.

**Ms McAuliffe**—Those structures are not uniform throughout Australia.

**Senator MURRAY**—I understand that.

**Ms McAuliffe**—But what is uniform is the local government structure. So maybe that needs to be looked at, perhaps through regional organisations of councils or something where you can aggregate. That might be a possibility.

**Mr Wilk**—The important thing is to have an independent body out of politics. Otherwise, we are again going to be in a compromise position—if it can be compromised. If we are looking for an independent body, such as a chamber of commerce for example, how to structure it and back it up remains to be seen.

**Senator MURRAY**—It seems to me that an independent body would need to be one without a particular flavour. The fact is that a chamber of commerce is a business body, whereas the council is not; it takes into account all interests, as does the Regional Development Commission. I had better move on, because my colleagues will want to ask questions as well. My last question is about the centralising issue. The Productivity Commission has indicated in its draft report that sponge cities are emerging. This is the phenomenon of small country towns diminishing and larger country towns growing. I would have assumed that this process would have been good for Kalgoorlie-Boulder but not so good for the outlying regions. Could you tell me whether or not the centralising phenomenon that you have spoken about is beneficial for your city; if not, why not?

**Mr Caulton**—It cannot be beneficial for a region like this because of the distances involved. For instance, if you lose a nursing post out of Menzies or Leonora and there is a major accident on the road—and there is a lot of transport up and down that road—you are looking at 300 kilometres either way for an emergency service response. To lose that kind of infrastructure out of these regions and to say, ‘Well, Kalgoorlie has got it; we will put an extra ambulance in and we may subsidise the RFDS a bit more for an extra half plane so that it is here for X amount of time during the year,’ does not make up for the fact that, if you have a small health service on the ground in Leonora, it is to the benefit of that smaller region. I think that, if Kalgoorlie had to forgo something to make sure that that kind of service stayed in Leonora, we would, because we understand the importance of it.

**Ms McAuliffe**—I think, too, there has been an overall leakage of skills from the region, which is quite independent from the servicing arrangement or sponge that we are talking about. In Kalgoorlie, we are still servicing Mount Keith, Wiluna and the Far North in terms of supplies of much equipment, but we are increasingly becoming more of a warehousing type of operation than a local manufacturer or participant in large-scale investments. We are having to compete against centralised purchasing and period contracting arrangements which give more advantage to large-scale nationals than to us. It is getting harder to maintain small-scale manufacturing. It is an interesting point to talk about the crisis in our explosives industry in this region. We had the largest explosives manufacturing plant in the Southern Hemisphere based around here and it is under threat at the moment for all sorts of reasons. So, whilst we might remain a centre for distribution of product and an ordering centre, there is no doubt in my mind that we are becoming less effective in terms of depth and complexity of skills and the ability to problem solve in many areas.

**Mr Gallagher**—There is only one mining company left in Kalgoorlie whereas there used to be literally dozens of them. Their offices are now established in Perth or Melbourne, predominantly. That is a pretty vivid indicator.

**Senator LIGHTFOOT**—I did not hear you say what industries there used to be dozens of and that there is now only one of.

**Mr Gallagher**—I was referring to actual mining companies. Their head offices were in Kalgoorlie, and that is one of the reasons why Kalgoorlie enjoyed the reputation that it did in mining circles. We now have only one mining company, Croesus Mining, with its headquarters in Kalgoorlie. The rest of them have moved for efficiency, which is what we are talking about.

**Senator LIGHTFOOT**—But how has that been affected negatively or positively by NCP?

**Mr Gallagher**—It is part of decentralisation.

**Senator LIGHTFOOT**—That was going on well before NCP, if I read it properly.

**Mr Gallagher**—Yes, but I am sure that it is linked to it. You are right; I agree with that. However, it is an example of what is actually happening in the regions, where the bigger businesses that they used to have are being moved to the cities because of efficiency.

**Mr Caulton**—We feel that governments are adopting that process as well. The private sector says, ‘We will centralise; we have seen more of this government.’ Government sectors are being asked, whether we like it or not, to operate more accountably from budgets and to be able to justify their budgets.

**Senator LIGHTFOOT**—With respect, is that NCP, is it fringe benefits tax or the tax structure generally?

**Mr Caulton**—It is a combination of everything that makes an exodus happen.

**Senator LIGHTFOOT**—It has done over the past. I have had a long association with Kalgoorlie, as you are probably aware. Western Mining shifted from here some 20 years ago. They had a big regional office here 30 years ago. Not only did they shift from here but they shifted to Melbourne and established their head office there. That was well before NCP, and I just wonder whether it is not because of the tax structure—for instance, fringe benefits tax. It has been said that there will never be another town built like Leinster because the taxation structure does not allow for benefits to be recouped from such immense capital structures as building towns like Leinster. We fly in, fly out, or we become somewhat decentralised in the mining industry after losing some of those towns. There are many towns that have died and others have atrophied to such an extent that it would be difficult to build them up again. I would mention Cue, Daydawn, Leonora, Laverton, Menzies, Sandstone, Meekatharra, Wiluna and so on. Is it really the NCP?

**Mr Caulton**—There is no doubt about it. The fringe benefits tax has probably been the most repressive piece of legislation that has ever been dumped on regional areas in Australia. Because of fringe benefits tax, the mining organisations and our bigger businesses decided to centralise to keep costs down. They adopted fly in, fly out. When I started in the industry nearly 20 years ago, I think the Argyle diamond mine was the only inland mining operation that was even contemplating fly in, fly out. It has gone from that in 20 years to probably 90 per cent of the mining organisations running fly in, fly out. Under the guise of national competition, the will of state governments in particular, I think, to leave services out in the regions has been taken away because their employees are seeing what is happening with the mining sector. We used to have a team of regional mine managers in this area who were literally the behind-the-scenes controllers of these regions. They were the men who stood up and fought for these regions. They are now gone because they fly in, fly out. Our senior public servants and a lot of our mid-level public servants and service providers to these regions are now fly in, fly out.

This even applies to the Commonwealth. In aged care, even though they are looking at putting someone back into this region, for the last three years audits and the general overview of the age care delivery systems into this region, which covers from Wiluna through to Esperance out to Hopetoun to Southern Cross and right out to the cross-border units coming in from the NT and South Australia, are covered on a fly in, fly out basis out of Perth. I find that absolutely ridiculous. They used to have at least two people based in this region to look at the region and see what its real needs were from a Commonwealth perspective. To go to a person flying in and out of Perth is not really good enough. Government must have the will to bite the bullet and put those services out there. This

region has no mental health services. Can you believe that? We have nothing on the ground there.

**Ms McAuliffe**—Let us put that in the context of economic change, and that is what you have alluded to. In the history of this region we lived with short-term goldmines and we lived with frequent change. We are used to towns picking up and moving and people moving with them. Governments were prepared to invest in the sorts of services Andrew is talking about in that uncertainty. Now we are trying to struggle with a move to actually stabilise and create some long-term strength in our economy in regional WA, and that is in the environment of a lack of government will to invest in services in the region. We cannot change economic change—that will always happen—but we do have aspirations to stay here.

**Senator LIGHTFOOT**—With respect, Ms McAuliffe, doesn't the government still maintain a very large regional main roads department and health system here?

**Mr Wilk**—What do you mean by large? Large is very subjective.

**Senator LIGHTFOOT**—Doesn't the government maintain most of the highways it is responsible for—I am not talking about local authorities—from Kalgoorlie? Is there fly in, fly out, for instance, with the main roads?

**Mr Wilk**—If you are talking about infrastructure, without arguing about it, we have things like the railway link, which is 590 kilometres of line between Perth and Kalgoorlie, and which has 59 speed restrictions because it is unsafe to travel at the normal speed. Why? Because there is a requirement to put in millions of dollars just to get it back to its original condition. If you drive from here to Perth, you will experience a number of situations where the road conditions are very poor. We are saying that the minimum infrastructure services that we are looking for are telecommunications, health and education. All these things are slowly disappearing. That is what the community believes is happening here.

On the other hand, as a result of the competition policy application we have the deregulation of the market. Government is losing control of that infrastructure in the corners of states like ours. Basically, very soon there will be no influence of the government in regions like ours if we sell, privatise or deregulate the market. The theory behind the national competition policy is that the market will take care of that infrastructure because competition will deliver more service suppliers who will compete for and build more infrastructure. The reality is that there is no market here, so therefore there is not going to be competition as such. Therefore nobody is going to build the infrastructure. Menzies at the moment has no mobile phones. Why? Because nobody is interested in the profit over there because there are only 350 people living there. Neither Telstra nor Optus is going to build any infrastructure to provide mobile services.

**Senator LIGHTFOOT**—Are you saying that the government should interfere and put mobile phone services in Menzies? Is that what you are saying?

**Mr Wilk**—The government has a role to take care of the community. We are saying that government should have a legislative backup strong enough to make sure that the services provided by the national companies in these places should—

**Senator LIGHTFOOT**—So should Kalgoorlie subsidise the telephones in Menzies? Is that what you are saying?

**Mr Wilk**—It is the role of the government to subsidise the areas where there is no market. At the moment that is not happening.

**Senator LIGHTFOOT**—To what extent should the government interfere in the private sector? Should the government interfere right across the spectrum of what it has deregulated and what was previously in the private sector? Is there a role for the government to come back into that, or do you think that, where it is not profitable, either the private sector should subsidise it itself or the government should legislate? If that is the case, where does the government stop? Does it subsidise water, electricity, health and so on? Obviously it subsidises health, but to what degree should the government interfere?

**Mr Caulton**—It depends on how much the government wants to see regional areas stay out where they are. There is a social dividend that is due to the regional areas. We come out here, we spend the longer hours working, our basic lifestyle costs more and it cost us more to take our families on holidays. We do not have the luxury of being able to walk down to the beach. We come out here for a reason—

**Senator LIGHTFOOT**—With respect, that is a choice you make.

**Mr Caulton**—It is a choice we make but, at the same time, if the basic necessities of life are not out in the regional areas we may as well take regional areas like Kalgoorlie and say, ‘Yes, from a dry economic point of view every service provided in Kalgoorlie can be done on a fly in, fly out basis. We will just make the terminal here bigger and put in a bigger hire car fleet and we will fly everyone backwards and forwards from Perth.’

**Senator LIGHTFOOT**—What you are saying—and what all four witnesses this morning are saying—is that national competition policy is not working sufficiently well in these areas, even major regional areas like Kalgoorlie. Should there be more emphasis placed on public benefit and public interest with respect to the application of NCP?

**Mr Caulton**—As Senator Murray brought up before, how do we then get that message back to our leaders? Yes, we do need a body—and God forbid that we create another government department in the bush—whether it be that or an independent body similar to the old ISO, the Industrial Supply Office, which was set up originally to support business dealing with government and vice versa. There could be something along those lines. It could be contracted out. It is about picking the best group of people to do the job in a particular region. The goldfields region is different from the Pilbara which is different from the Kimberleys which is different from Northern Australia which is different from Central Australia. Let us get a bit smart about it. Let us not just set up an ACCC in Melbourne that says, ‘Hello, we are going to look after you.’

It clearly states in the Hilmer report that where national competition policy is going to affect the regions should come from the regions themselves. We believe we are entitled to some CSOs, and I am sure that the regions are. At the end of the day, if we do not get them we are not going to be here. We are already seeing that now in the smaller towns. It is not

good enough to say that the multinationals will come and take over all those small farmers that have gone bust and run the farms.

**Ms McAuliffe**—Let us go back to an earlier question of yours which I do not believe we answered: what is the present level of government investment in this region?

**Senator LIGHTFOOT**—It is a nebulous question; I do not know whether you can give a definitive answer to it.

**Ms McAuliffe**—What we are seeing in these constraining economic times is that the service ends of the system get constrained so that the hospital reduces back in providing essential services, and prophylactic services disappear.

**Senator LIGHTFOOT**—But they disappeared some years ago. This was taken as a training hospital and most of the training was done in Perth, to the detriment of Kalgoorlie I must say. But, to my knowledge, that happened in the mid-1980s.

**Ms McAuliffe**—We have not seen any increase in public health provision in this region for a very long time, despite the fact that we have severe endemic problems with Aboriginal health—

**Senator LIGHTFOOT**—Is it an Aboriginal health problem or is it an overall problem?

**Ms McAuliffe**—If you are talking about infection, we are all likely to disbenefit.

**Senator LIGHTFOOT**—The statistics do not support that. Statistics suggest that there is an Aboriginal health problem, but not necessarily a problem with the health of people of European extraction.

**Ms McAuliffe**—Perhaps because some of them actually go away to have their babies delivered at that very sensitive period of early birth. I am not an expert in health, but I think it is very difficult to answer these in black and white because they are such complex questions.

**Senator LIGHTFOOT**—You mean ‘in black and white’ literally, do you not?

**Ms McAuliffe**—Yes. In country towns, because we have stand-alone infrastructure, the big problem for us is the maintenance of our generators. Those have been the things that we have lost.

**CHAIR**—I have just one quick question. Can you take me through the fringe benefits tax issue? I think, Mr Caulton, you said that it was one of the worst things that ever happened to this region.

**Mr Caulton**—For instance, I was unable to employ a storeman up here. I wanted more than a storeman; I needed a guy who understood the drilling industry and could speak the language. I happened to find one in Perth. To get this guy up here I am having to subsidise his rent by \$5,000.

**Senator MURRAY**—A year?

**Mr Caulton**—Yes. On top of that, it is costing us another \$5,000 in fringe benefits tax. Basically, the company is paying me to live here and there is an added benefit for me and Neil who works for me. We are basically doing the work of four people because we cannot afford to actually run with four people. We need four people in our business, so I end up, on top of everything else, working on average a 65-hour week. Neil, who is on a salary of about \$45,000 plus his \$5,000, works around a 55-hour week. In reality, if I was able to pay a little more rental allowance, I could pay less in salary and attract an extra two people here to do the job. I could run with four people. I could actually create another two jobs.

We have not quite had this clarified yet, but I believe we are about to see an increase in fringe benefits tax on vehicles. I believe it is going to cost us in the vicinity of \$8,000 to keep a Toyota Landcruiser on the road after next year.

**Senator LIGHTFOOT**—Full of fuel?

**Mr Caulton**—They are full of fuel. That is just on fringe benefits tax. Put yourself in my position. I have a mobile phone that is switched on 24 hours a day, seven days a week.

**Senator LIGHTFOOT**—By necessity?

**Mr Caulton**—By necessity. My vehicle is parked out the front of my house because when I get a call I have to go regardless of what is happening. I supply \$1 million a year worth of consumables. When they say, ‘Andrew, you jump,’ you jump. I have to get in that vehicle, drive to work and do whatever I have to do. I am backwards and forwards. The minute I set foot outside my gate, I am at work, and yet that is called a fringe benefit. That is just farcical.

**Senator LIGHTFOOT**—I agree.

**Mr Caulton**—It is absolutely crazy. One of the biggest reasons for people like me and other professionals to leave these regions is that our wives get toey.

**Senator LIGHTFOOT**—Is that the reason for fly-in fly-out?

**Mr Caulton**—Absolutely. It is a big part of it now, plus the fringe benefits tax. But if my company decides, ‘All right, let’s make Andrew’s wife happy. Let’s give her an air fare to Sydney to see her family once or twice a year as a bit of a bonus,’ it is a fringe benefit. Unbelievable. If you want a list, I could sit here for the next hour and just keep rattling them off.

**CHAIR**—No, don’t do that, Mr Caulton. We are actually out of time. I think that has been fascinating. Thank you very much.

[10.02 a.m.]

**BRIDGE, Mr Ernest Francis, President, Watering Australia Foundation**

**CHAIR**—Welcome. Would you please tell the committee in what capacity you appear today.

**Mr Bridge**—Certainly. I am the member for Kimberley in the Western Australian parliament, but I appear today as the President of the Watering Australia Foundation.

**Senator LIGHTFOOT**—You are an independent member of the parliament, aren't you, Mr Bridge?

**Mr Bridge**—That is correct.

**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 and, at the conclusion of your remarks, I will invite committee members to ask you questions.

**Mr Bridge**—Thank you. Just prior to making the preliminary remarks that you have sought from me, I would like to state to your inquiry today that there is a coalition approach to the input that I would seek the approval from you to apply in this hearing in the sense that the Watering Australia Foundation represents—

**Senator MURRAY**—Is that coalition with a big 'c' or a small 'c' ?

**Mr Bridge**—Big in terms of number but small in terms of—

**Senator MURRAY**—I was thinking of political parties.

**Mr Bridge**—No.

**Senator MURRAY**—You mean that it is in the general sense?

**Mr Bridge**—Yes. Can I just explain that to you. In our earlier presentations, Mr Chairman, the Watering Australia Foundation was requested by a range of organisations in New South Wales and Queensland to represent them in terms of the presentation of that document that you are now reading and which I would seek to have tabled as our formal presentation of our position, subject to any clarification you may seek from me during the course of the hearings today. In respect of that particular document, which I would submit to you today represents our position on NCP, the following organisations are to be recognised as being part of the authorship of it: in New South Wales, Ricegrowers Association of

Australia, Lachlan Water Users, Bourke Shire Council, Carrathool Shire Council, Murray Shire Council, Murray Irrigation Ltd, Southern Riverina Irrigation Districts Council, Murray Valley Voice, Lachlan Shire, Conargo Shire, Murrumbidgee Water Users Association, and Murray Irrigation Ltd; and in Queensland, the shires of Richmond, Cloncurry, Flinders, Blackall, Barcaldine and Aramac, the Upper Mackenzie Response Group and the Regional Women's Alliance Group. They are all signatories to the presentation of that particular document before you and which I have sought to have tabled.

**CHAIR**—Thank you.

**Mr Bridge**—In speaking to the introductory comments I want to make it very clear that, as far as we are concerned as a coalition, we feel that the wording on the front of that document sums it all up. It is our view that the NCP is a fiendishly complicated mechanism, so complicated in fact that it ought to be disbanded. That is our position. We feel that you can work around the edges of dealing with it but, at the end of the day, the extent of pain to inland Australia is so great that it is not worth the processes being dealt with in trying to retrieve that continuation of the decimation of inland Australia.

It is our view that we ought not underestimate the decimation of inland Australia taking place at the moment. I think it is false for us to try to quarantine NCP away from that process. It is easy to do that. As a means to justify processes, we are very capable of being able to quarantine a process. But, in reality, if you have a process, Mr Chairman, that has as its targeted priority full cost recovery and user pays as a policy to be achieved by the year 2001, it simply stands to reason that inland Australia is not able to absorb that. That is what it amounts to.

If we had millions of people in inland Australia it could well be a different scenario. But I do not think it is hard to work out the problems of NCP in getting to where its basic thrust is wrong. I think there are arguable reasons why people can say, 'We've got to have greater cost efficiency. We've got to have governments be more accountable because of the taxpayers' money.' Nobody denies all those things, and very few in fact argue against that. But, at the end of the day, if you take that to its fullest conclusion, we submit to you that there shall never be another Kalgoorlie pipeline ever contemplated by a state government, and there will never be another Snowy Mountains scheme ever contemplated by a federal government. You simply cannot commit a nation to the ultimate of those sorts of policies and, in reality, that is where our reforms are taking us at the moment.

Senator Lightfoot, we have a real problem. I heard your comments this morning to the previous witnesses about a range of things, the very range of ideas being put forward by everybody, saying, 'Look, there are these factors that we need to look at how we can deal with, and those other factors that necessarily have to be dealt with.' But I would like to say to you that, in the final analysis, if you have a nation where the origins of the policies coming out of COAG simply demand, at the end of the day, through the range of centralised structures of the system, through the NCP and organisations like the Murray-Darling commission in terms of water reform and through other areas of government, an end position that people are charged to respect and work towards—that is to say, full cost recovery has to be our target by 2001, and you really must be talking about full cost recovery before you really contemplate investment—we simply submit in all genuineness that that is a policy

process completely out of kilter; therefore, at the end of the day, it will destroy the fabric of inland Australia in the manner that clearly will emerge from that sort of reform. I am talking to you as senators and inquirers here today, as parliamentary colleagues like myself, and I really need to put it to you as strongly as this: I think we have a very major obligation as politicians to understand where this whole process is heading. The other thing that I am concerned about, and which I would like to submit to you, is that, because of the processes that are in place, we have effectively become disenfranchised.

**Senator LIGHTFOOT**—In the bush—

**Mr Bridge**—No, in the parliamentary process. With due respect to you as senators, I would like you to believe that I am genuine when I put to you that we have effectively become disenfranchised. The reason I say that to you is that you have the situation where the chairman of the NCP is on record as having written to the previous Premier of Queensland, Mr Borbidge, saying—it is on record; it is in *Hansard*—‘How dare you, Premier, commit your sovereign funds to infrastructure development in Queensland without first and foremost ascertaining and clearly establishing that the beneficiaries will be in a position to commit to full cost recovery in advance of that investment.’ I put it to you that if you have these organisations being prepared to take such a very strong position in terms of the application of the policy, it is neutralising our ability as legislators and politicians to be able to influence. It gets back to the argument put forward in an exchange by the previous group when they put to you that there needs to be a mechanism in place.

My view is that, at this point in time, even if we were keen about a mechanism, I do not believe we have the ability to control this thing, and I think it has got away from us. We need to be acknowledging that. What we have, really, is a tornado in NCP. You know, Henry Lawson talked about the business of the droughts that might come. He said, ‘Is it our fate to wake too late to the truth that we have been blind?’ I reckon we are not far away from that in looking at the processes of the NCP. I was never an advocate for it in its infancy. I reckon it was put in place for wrong reasons back in the days when Keating and his crew set up the NCP. I believe it was more to deal with bypassing the states and dealing with those sorts of issues within the parliamentary process and being able to put in place a structured, centralised control zone where, through the COAG agreement, those sorts of powers would in fact be very much more under control.

That is how it was thought about at the time, because I remember back to its origins when it was discussed in the days of the Brand government. I was a minister—as you well know I was, Senator Lightfoot—and I smelt the rat then, and the smelling of that rat has not dissipated. I believe we as politicians must not tolerate a situation where the head of a centralised organisation can write to a premier and say to the premier, ‘How dare you invest infrastructure funding in your state effectively without us giving you the guernsey.’ In that context he means that his organisation will ensure that you show cause as to where the full cost recovery is clearly evident before you make that commitment. To me—as a politician speaking to a politician—that is intolerable. It is because of that that today I submit to you as a committee that all Australian politicians at the moment are effectively disenfranchised.

We have handed over the power of attorney to COAG as the policy formulators. People will say, ‘Oh yes, it is just subject to the control of the feds,’ but that is the kind of control

that we have, as I have just alluded to. They in turn have set up a group of what I referred to as quangos—the centralised organisations beneath COAG—in which the power of attorney to run these reforms has been vested. The end result is that the community at the bottom of the scale—the grassroots people whose interests are being put forward to you in a range of ways—are now the victims of the process.

This is a pretty dangerous process. For example, when we were in Deniliquin we had a public servant publicly get up and say, ‘You’re concerned about the water reforms of the New South Wales government. Even if three-quarters of the farming families were to go broke in the Murrumbidgee and the Murray scheme, so what?’ ‘So what?’ was his comment. That epitomises the attitude that is enshrined within this whole process. That is not an attitude that you or I believe in. That is not an attitude that Senator Lightfoot would subscribe to. That is not an attitude that Senator Murray would subscribe to. But it so happens, Senator Murray, that is the sort of entrenched ideology that is now starting to find its way into this whole process, in which we bring back economic rationalism through the policies of NCP at work. So I think you have to take into account that it is quite concerning.

I will touch on a couple of the reasons. I will give you two examples of the concerns. On the New South Wales scene, with the current water reform policies of the New South Wales government, which find their way back to meeting the requirements under COAG, there is a threat that the \$300 million industry base in New South Wales could in fact disappear. That is not me saying it; that is the industry saying it.

Take the case of small services, like the Kimberley mail service which has been discontinued because of this cost constraint-cost efficiency process. We had a mail delivery service that was in place for 70 years and yet in 1999, in the name of cost efficiency, that service no longer operates. You can see from that that there are major problems, Senator Quirke, in terms of what we see in NCP. They are reflected in that document. That is really as much as I would like to say in terms of that document, except to ask: is there a way that the words contained in that document can find their way into the transcript, or is that not possible?

**CHAIR**—Now that it has been tabled, it becomes part of the evidence and so in a sense it will be part of the proceedings.

**Mr Bridge**—Yes, I think it is important, so if you would be prepared to undertake to allow that to happen.

**CHAIR**—Thank you very much.

**Senator LIGHTFOOT**—Mr Bridge, prior to entering parliament and in fact also during your time in parliament you were the owner-manager of very successful cattle stations. Is that true?

**Mr Bridge**—That is correct.

**Senator LIGHTFOOT**—Your electorate of Kimberley, whilst it is large in the extreme and isolated, nonetheless represents small business on a reasonably grand scale. The small

businesses include pearling, aquaculture—including prawning—mining, a vast multi-million-dollar area of plantations, shopkeepers, service stations et cetera. Is that correct?

**Mr Bridge**—That is correct.

**Senator LIGHTFOOT**—So not only do you speak with some authority given your personal experience of a lifetime as an SME—as we are prone to call it—but you also speak with experience of representing small business people over a wide cross-section of various industries. Is that correct?

**Mr Bridge**—That is correct.

**Senator LIGHTFOOT**—I wanted to establish that for the committee. In a global sense, isn't it the ultimate goal to have full cost recovery? That is in the sense of global competition.

**Mr Bridge**—I suppose that where it were relevant the answer would be yes, and by relativity I believe that you need to be looking at population. You need to be looking at the population factor and then you can factor in those sorts of things because you have large numbers of people to draw on, you have the support industry base that caters for large numbers of people—and actually the patronage would normally be greater. But in the case of inland Australia, as you and I understand inland Australia, that is a very sparsely populated region.

**Senator LIGHTFOOT**—How far is your electorate at its extreme away from the capital city of Perth?

**Mr Bridge**—It starts at the Northern Territory-Western Australia border. You are looking at 3,000 kilometres from Perth, for example, where my electorate commences at the furthest point and the boundary then extends down to just north-east of Port Hedland, so it is a very big area. It is probably a thousand kilometres in distance, so it is very big.

**Senator LIGHTFOOT**—That is about 3,000 kilometres away from the capital of Perth.

**Mr Bridge**—Yes, approximately so.

**Senator LIGHTFOOT**—Even the novice introduced to a distance like that must come to the conclusion there are special problems associated with it.

**Mr Bridge**—Yes.

**Senator LIGHTFOOT**—What I am saying is that, if national competition policy is failing, it is failing in two areas. It is failing because it does not appear, on the evidence that we have taken, to have any consideration for the tyranny of distance—as Aeneas Gunn said in her *We of the Never Never*—and it does not appear to take into consideration, as a result of that, the special problems associated with those areas. In other words, it would appear, particularly in electorates like yours, that if you implemented NCP you would drive every single businessman and every single contractor out of town.

**Mr Bridge**—You would; that is correct. That is why my major concern is the measure of power loss, if I can use those words, that I see now in the political process. You, quite rightly, have picked up those two factors. Those factors are not being attended to in NCP because there is a centralised structure into which the power of attorney seems to have been vested by us.

I think we as politicians have made the blue of setting up these structures—COAG in the first instance and then the range of other centralised, unelected organisations under it—and they have gone about implementing and applying reforms in a manner which they probably consider to be appropriate but which you and I, understanding the rural scene, consider as not practical. That is where I think we, as politicians, have to bring it back; it is very incumbent upon us as politicians to rein this whole process back in.

**Senator LIGHTFOOT**—So do you think part of the blame is lack of a sufficient education by the government, and I talk about previous governments as well?

**Mr Bridge**—I think two things. I think it has got away from us. One of the things is that we had not thought long enough about where it was heading and so it has just got away. It is a bit like that tornado I referred to you earlier. It came upon us like Henry Lawson's reference to the drought and now we are caught up in a situation where those remote areas are subject to enormous pain.

**Senator LIGHTFOOT**—Instead of actually truncating NCP, which you have inferred that the government ought do, do you think it is possible to work with it to isolate the regional and rural areas of Australia, and I talk of Western Australia in particular, from the metropolitan areas? What if we leave NCP to work in the metropolitan areas and perhaps work a little bit harder in regional and rural Australia to try to see the variance and the flexibility that we need to apply to regional and rural Australia to make it work overall?

**Mr Bridge**—Yes, I would not disagree with that. You have to understand as a politician, and no doubt you do, that my strong position here of condemnation is for a very good cause. I am talking to politicians here today. You would not be in any doubt as to why I am saying to you that we need to get rid of NCP but always be prepared to see if there is a way around it. The ultimate position incumbent upon us to very seriously consider here today is the demise of the bush which is going on at the moment.

**Senator LIGHTFOOT**—And the NCP is hastening that demise?

**Mr Bridge**—Yes. I do not think there is any doubt about that. The state government policies and reforms all find their origins with the COAG agreement. Whether it is to do with water reform, whether it is to do with health services or whether it is to do with other things, you will find that in the final print of the policy process government officers will say, 'We're dealing at a state level with structuring our policies to accommodate what is really being delivered as a requirement by COAG.'

**Senator LIGHTFOOT**—Are the state government policies exacerbated—in other words, their failure to implement them correctly—by federal government policies such as NCP?

**Mr Bridge**—There is that threat, isn't there, Senator Lightfoot? There is that financial package, the dividend for next year. That is always hanging there. I think it is probably fair to say that they are exacerbated because of that.

**Senator LIGHTFOOT**—Are we wrong to judge NCP in isolation or should we also look at the implementation of the Hilmer report, which is overhanging us all, and taxation reform including, obviously, GST? Is it fair to say or is it unfair or irrelevant to say that NCP is actually being exacerbated by other issues that are making it difficult to implement NCP because of the rapid change in society with respect to the GST taxation reform and the Hilmer report?

**Mr Bridge**—I would say that that is a very good question you have put to me, Senator Lightfoot. There is no doubt that if you look at Hilmer directly and in isolation you find a tremendous problem with Hilmer dealing with inland Australia. I suppose what we are caught up with here is really debating the NCP. Therefore, because it is our opportunity to express great fears about inland Australia to you, naturally we are honing in on the NCP policies. When you are talking to officials and ministers at the state level and, in fact, premiers, they all invariably come back to saying, 'Look, we are hamstrung or we're caught up or we're required to accommodate certain requirements under the NCP.'

The difficulty we have is that, if we are going to start to say NCP is not entitled to be as criticised universally as it is and that there are other factors that are impacting upon the scene of concern, we need to be divvying them up a bit. That is what we would need to do. Somebody would need to say, 'There's this portion that you can directly associate with NCP. There's this particular area which is perhaps Hilmer's report,' and so on. But, in the context of where we are coming from in our advocacy, we really are singling out NCP as the basis for all the problems.

**Senator LIGHTFOOT**—Is that also being exacerbated by the special conditions applying to Western Australia? For instance, Western Australia demographically and geographically is not New South Wales, Victoria or decentralised Queensland, which we are some times compared with. Western Australia has a population of 1.8 million people, 76 per cent of whom live in the metropolitan area, and covers a vast area of over one million square miles—one of the biggest states on earth. Not only do we have to look at the implementation of several major structures in our life but also we should look at it state by state. Is that something that—

**Mr Bridge**—That is correct. Queensland and New South Wales are significantly populated and, in terms of the going-in position with these reforms, are probably many years ahead of WA. Nevertheless, WA features significantly because if you have a look at places such as Kununurra, Broome and Kalgoorlie ordinarily you would say that these centres are very substantially secure and will not face the brunt of the downturns that are brought about by reform. But you cannot say that because you only need to have a reduction in air services and suddenly the viability or the buoyancy of a major community disappears. So we are all in it. Kununurra, Kalgoorlie, Broome—significantly big centres—are not out of the claw of the economic procession that I see in place at the moment to which we seek to bring to your attention. Little places like Derby and other places like that—

**Senator LIGHTFOOT**—I am going to Derby on Saturday.

**Mr Bridge**—They are really in the target zone. You have places like Temora and Gilgandra in New South Wales and you have places like Muttaborra, Aramac and Longreach in Queensland—not so much Longreach—they are well and truly in the firing zone at the moment.

**Senator LIGHTFOOT**—It does sound fiendishly complicated, Mr Bridge. I would like to talk to you all day; I cannot, unfortunately; I am going to have to defer to my colleagues. It has been very interesting talking to you.

**Senator MURRAY**—At the heart of all this is a discussion on values. We will always need a competition policy of some sort. You have to have trade practices law; you have to deal with issues of how people relate to each other in competitive terms. But the values at the government policy level, both politically and bureaucratically, have been driven by economists, and economists with a particular kind of training. If I wanted to do something about national competition policy immediately, given the entire set-up, I would actually change the personnel.

**Mr Bridge**—I would agree with you on that.

**Senator MURRAY**—Because in history, as you recall, in the age of theocracy the place was run by priests and therefore it had those kinds of values attached to it, then you had the age of colonialists, of militarists and so on. Do you think that if the personnel running the National Competition Council and the various bodies that implement competition policy were changed to non-economists, to people with different values, that the policy would be significantly improved in terms of its applications?

**Mr Bridge**—In answering that, I would say there would be a great possibility and a great chance that it would be. One of the reasons why I feel very incensed is what I believe is our becoming disenfranchised. As a politician, I am very aggrieved about that because we are the advocates, we are the representatives, and we are the ones who live with the responsibilities of providing the coalface input into policy at the end of the day. The buck stops with us, and we can get thrown out in three or four years. A fellow like Samuel sits in there; he is never going to be tossed out; yet he has the gall and the audacity to write to a premier of a state in the most aggressive, arrogant way. Not only that, and this is why I think you are right in putting to me that a possible change of personality—

**Senator MURRAY**—I am not talking about an individual; I am talking about a class of people.

**Mr Bridge**—I know but I am going to respond to you by highlighting an individual because, in my view, when that individual was found out to be quite inappropriately addressing a premier he should have at least acknowledged that and apologised for that. We simply cannot have unelected persons dictating to states in such a manner, as has been happening at the moment through this NCP. There are a lot of things going on.

As I have said in one of my press releases, it is about time the states and the Commonwealth government took on the blackmailing—that is how bad I think it is, quite frankly. There is a lot to be said about looking at that whole review of the personalities. If that could be contemplated, in many instances it would be preferable to the intransigent attitude that prevails now. The fellow who said that if three-quarters of the farmers in New South Wales were to go broke, so be it—I think that truthfully reflects some of the attitudes that exist. For that reason, any change to the structure, its characteristics and its personalities can only be for the better.

**Senator MURRAY**—Let us go to the second part of that question on values: it is my judgment that the values of the past meant that things were done because people just accepted they were good to be done. In other words, the great ports, the great railways, the great roads, the great buildings and the institutions of public education and public health—my impression is that at the time very little cost-benefit analysis was done. The values of the time simply said that those were good things, they were good for the community in the longer term and should be done. So they were done.

That is the point that both you and the earlier witnesses were making that, in that climate, it is possible to build great pipelines and great roads. It is not possible now when people want full costing, immediate return and do not factor in the intangible—the social dividend, the social benefit. Yet the counterpoint of that is the community's demand for greater accountability that politicians spend money against set criteria and a proper understanding of benefits.

Is it your view that national competition policy—if it were to remain as a policy and as a doctrine—should require the National Competition Council to actually factor in the values that society demand of the regions, and I think legitimately, that there is investment, there is a belief and that it is a good thing to have country and inland towns and for there to be growth?

Just before I let you answer, I will give you an accounting analogy, if I may: over the century in which the accounting profession has really developed its skills, one of the key things they have done is to produce accounting rules and methods of evaluating things. One of the most important areas they evaluate is intangibles, things that you cannot touch or feel but which have enormous value. If you are look at the Coca-Cola balance sheet, the big item is an intangible—it is the trademark, the brand name. In a public policy sense, the big value is in fact the intangible: what the community want and need, and the values we express. My question to you is: should the legislation and the political body demand of the policy that it gives a value to that and therefore must moderate and adjust the whole competition policy approach to account for that?

**Mr Bridge**—My answer to that is to say yes, and the reason is that you would not have built Australia to the present stage of its development had the rudiments of today's national policy prevailed. Those values were factored in. For example, no state government in any part of Australia could conceivably build another Snowy Mountains Scheme today or a C.Y. O'Connor Pipeline because they would be required to show cause in advance of the state investment into that project, full cost recovery and user pay—

**Senator MURRAY**—And a short-term return.

**Mr Bridge**—and a short-term return. So it becomes physically impossible for states to be able to undertake that process. What happens is that our state regimes are now systematically abandoning that kind of policy. It does not get a guernsey when we go to talk about the importance of sustaining inland Australia.

The other reason why we have to talk about sustaining inland Australia, which does not quite come into many debates, is the whole sovereignty question, the safety of Australia. Without inland Australia, particularly northern Australia, we do not have a secure Australia. How can you have a policy process where, on the one hand, the NCP and its dictates simply advocate and dictate that policy process from the states; yet, on the other hand, at the state level they are not able to say, 'We're going to ignore you because we want to protect northern Australia in our way for the future.' It just does not work.

I think that value that you have suggested to me ought to be factored into the equation of NCP is very necessary. I think that all Australian governments and policies of this nation must state that, when the day arrives where we are in a position to require another Snowy Mountains Scheme, C.Y. O'Connor Pipeline, Burdekin Scheme in Queensland or an Ord River in the Kimberley, that should be a process that the state governments can proceed with. No state government at the moment would get any joy in going down that path.

**Senator MURRAY**—You see, Mr Bridge, I gave you that analogy of accounting deliberately because it is no good a corporation paying lip-service to the intangible by saying, 'We have a great brand name,' but never giving a value to it, never attaching it to good will, never attaching it to its market value. It is only when you attach the value to it that the business community at large recognises the real intrinsic worth of your company.

If in legislation or policy you simply say, 'The board should have people who have social science abilities, environmental abilities and other community non-economic abilities,' that is of not much use—it is of use, but not much—unless the actual competition policy costing, the mentality in which they apply value to whatever decision they are making, actually factors in the social dividend and the social value return. A physical figure has to be arrived at. The reason I express this point of view to you and why I want to hear your reaction is that we are not going to get rid of the economist mentality and the economist domination of our thinking, so we have to add to it to ensure that the balance is there. Personally, I think your view that national competition policy should be done away with just will not happen. It will pop up in a different form; it will have a name change.

**Mr Bridge**—Excepting one thing, Senator: I think that if we put them a bit on the run they become a bit more accountable.

**Senator MURRAY**—I understand.

**Mr Bridge**—And I reckon that has happened already. I think our very aggressive application of the very real concerns of inland Australia is starting to impact.

**Senator MURRAY**—But you are a former minister and a politician who understands the political and bureaucratic process. The chairman and the committee have been searching for solutions. I have suggested two possible solutions to you, and I am looking for your practical and experienced response. One is the change of personnel—I do not mean just the head person; I mean the class of people—and the other is requiring the proper valuation of the social dividend, the community value, which is what we are getting reflected back to us. This is not original stuff. Obviously you are unique, but you are reflecting a theme we have been receiving throughout the hearing process.

**Mr Bridge**—From my experience as a minister, can I respond to you by saying that you are spot on in putting forward those two scenarios. When I was the minister for water resources and introduced the rural water strategy for Western Australia it was based on factoring in a just cause basis, a needs basis, not just the economic justifications of a water supply. That meant that during the period of seven years that I was minister there were almost 100 projects developed in Western Australia which would otherwise not have been developed.

We will look, for example, at a little town called Bindi Bindi in the north of Western Australia, north of Perth. I committed a water supply to Bindi Bindi in 1987 after it had been in existence for 117 years, I think, and had been receiving water for its daily requirements which was brought in by 30 hundredweight truck and a tank on the back. When I confronted that issue my advice from the expert was, ‘Minister, you just cannot commit to a water supply for the town of Bindi Bindi. There are only 12 connections and, as a consequence, there is no way we can economically justify a budget of \$240,000 to bring a water supply to Bindi Bindi.’ I turned around to the officials from the water authority and said, ‘I do not care what the economics of it are. As far as I am concerned, they are entitled to a water supply. Factor in the needs factor and let us have a look at it.’ They factored in the needs factor. Bindi Bindi and many others got a permanent water supply.

It is a logical process within this whole equation of economic justification and economic accountability, which you have just referred to. It is too hard at the moment. You will see in the document that I have tendered that I have said that the whole process of NCP has become too rigid. It is absolute rigidity to its fullest extent. That is where our problem is. If we could open it up a bit, relax it a bit, create some variables through the processes that you are highlighting, Senator Murray, it may well be a good process. It would certainly be one that I would, from my personal experience as a minister, support.

**CHAIR**—I have a couple of quick issues. The case you are making out is primarily that Australia if it were run along the lines of economic rationalist principles would not be here and certainly would not be opened up in the interior and in places like Kalgoorlie, is that right?

**Mr Bridge**—That is correct.

**CHAIR**—So what you are saying really is that you want to see some moderation of this policy. You made the comment that you would like to see it go and then Senator Murray said it would reappear in some other guise or some other form, but in essence what you want

to see in there is a process by which these decisions are actually tested to ensure they are in the national interest as well?

**Mr Bridge**—That is correct. That follows the comment I just made where I believe there is absolute rigidity in place at the moment. That rigidity is really causing the nation to become so entrenched in an ideology. We are driven by ideology right now rather than requirements and practical understandings and values. The values are disappearing.

**CHAIR**—So the ultimate test should be at the national and state level to ensure that, no matter which way we go on these things, competition should still be subservient to the national or state interest?

**Mr Bridge**—Absolutely.

**Senator MURRAY**—I would add, ‘And the community interest.’

**Mr Bridge**—The community interest, I believe, will be the triggering process that brings about the recognition of the national interest. That is a critical reason why we should focus on the national interest here. As I look at those vast resources of inland Australia which have not been tapped, places like northern WA, the Northern Territory and Queensland, I see under NCP no possible likelihood of them being explored and that is not an option for us.

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

*The document read as follows—*

**CHAIR**—Thank you very much Mr Bridge for appearing before us today.

**Proceedings suspended from 10.52 a.m. to 11.07 a.m.**

**DAWS, Mr Douglas Charles, Chairman, Goldfields Utilities Ltd****THOMSON, Mr Graham Selkirk, Project Director, Goldfields Utilities Ltd**

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

**Mr Daws**—Goldfields Utilities Ltd is a company that has been created specifically to address the problems associated with the supply of water to this region in particular. All the potable water into this area is currently supplied from the famous water scheme that is now 96 years old. Despite being well managed in former times and recent upgrades in capacity, the line is providing only about one-quarter of the total present average consumption in an area roughly between Norseman, Menzies, Coolgardie and just east of Kalgoorlie. The remainder is being extracted from hypersaline paleo-channels, or ground water. The mining companies have had to resort to the use of this hypersaline ground water due to the unavailability of suitably priced alternatives. In addition, this community, the city of Kalgoorlie-Boulder, has been under continual, unbroken water restrictions for something like six years.

The present managers of the government owned water scheme—that is, the Water Corporation of Western Australia—have developed a system of capital headworks charges which are, in principle, designed to capture funds for capital works but are, in reality, designed to inhibit and/or prevent anyone taking more water. The charges are so high that any footloose industries simply go somewhere else. Only the mining companies—which have no choice, because the ore bodies are where they are found—have been able to be forced to make payments to use potable water. Thus, the Water Corporation are able to, and do, claim that no-one has gone short of water, because no-one has been prepared or able to put the money up to put them to the test.

The net result is that this community has been denied the opportunity to enjoy the diversification, flexibility and improved revenue base that new industry would bring under a competitive water delivery strategy as part of a regional development program. The end result is now evident by way of major social dislocation following major retrenchments and redundancies associated with falling metal market prices, mine closures and industry uncertainty. This could have been avoided if alternative industry had been able to become established in the immediate past. Such industries did express interest in doing so, but did not proceed when confronted by the headworks charges applied by two specific government owned corporations—Western Power and the Water Corporation.

The power problem has been resolved with the establishment of the Goldfields Gas Transmission pipeline and the erection of Transalta Park Power Station. So competition in the power sector at least is alive and well. But, alas, in the water sector there is no competition, no water and the capital headworks charges still apply; they have effectively been removed from the power sector.

Our proposal is to establish an alternative water supply to the eastern goldfields by extending the GGT line—that is, the gas line—from Kalgoorlie to Esperance, where the gas would be used to generate power to desalinate seawater. The extracted salt would go back into the ocean outfall and the desalinated water would be sent to the goldfields through a new system of pipes. We have offered, and we continue to offer, an arrangement to the Water Corporation whereby they could have access to water from GUL to service existing industry, to revisit those industries that did not go elsewhere but instead went onto the shelf, and to reduce the draw on the constrained metropolitan based supplies which rely on the natural processes.

Our concern which relates directly to this region is that competition in water supplies in the region does not exist. We have been frustrated by the Water Corporation at every turn. It is clear that they will do whatever they can to prevent a new water provider entering this market, notwithstanding their own inability to deliver the water needed for social and economic development. Indeed, they seem to have a deliberate policy against development in this area. At a meeting held with them in Perth at their headquarters about three months ago one of their senior executives, Mr Peter Williams, openly stated to all present that they hoped they could hold off expenditure and competition for sufficient time, whereby the mines would be closed and water would not be needed, saving them the expense and everybody else the trouble.

The reality is, of course, somewhat different. The mines are expanding. The ground water is being consumed and is not being replaced, thus placing the mining industry on an even more difficult path. Meanwhile, our community is denied the social benefits that an expanded affordable water supply could bring to the region. In simple terms, the Water Corporation are endeavouring to prevent competition, despite their inability to meet the current and projected demands for water product. It is also important to note that the Water Corporation have openly declared to the mining industry—as recently as last week—that they do not want competition in the supply of water to the goldfields. Those are my opening remarks.

**CHAIR**—That is good enough to start out with. Mr Thomson, do you want to add anything?

**Mr Thomson**—I would just like to add one thing. That is, that one of the problems in water competition in Western Australia is that the Minister for Water Resources in Western Australia is the sole shareholder of the corporatised Water Corporation. While under his banner he has the Water Corporation, the Office of Water Regulation, who are officially the regulator, and the Waters and Rivers Commission, who are set aside for a particular function as well, the minister obviously has a degree of difficulty in taking advice from the two service departments set up to give him advice on the basis of his responsibility as the sole shareholder of the Water Corporation.

**Senator LIGHTFOOT**—That is the state minister?

**Mr Thomson**—Yes, Dr Kim Hames. Of course, what happens is that that then finds its way down through the levels of the Water Corporation, the Office of Water Regulation and

the Waters and Rivers Commission, and it impedes the ability for people like ourselves to put in place a water supply system in competition with the Water Corporation.

**CHAIR**—When you say he is the sole shareholder, are you saying that he, presumably as the minister, is the shareholder? This thing has not being flogged off yet and sold to him, has it?

**Mr Thomson**—No.

**CHAIR**—Because that is the impression I could have got from the *Hansard* a moment ago. So, in fairness to him, he is just discharging his statutory responsibilities.

**Mr Thomson**—Yes, that is right.

**CHAIR**—I am somewhat worried about letting Senator Lightfoot go first, but I shall.

**Senator MURRAY**—Before we get to that, is Dr Hames assisted by a board?

**Mr Daws**—Yes.

**Senator MURRAY**—How is the board comprised?

**Mr Thomson**—The board is comprised of Mr Peter Jones, a former member of the state parliament, who is the chairman, and about seven or eight members.

**Senator MURRAY**—Is regional Australia represented on that board?

**Mr Daws**—There is one member from Bunbury, and the rest are from metropolitan Perth, we understand.

**Senator MURRAY**—Thank you.

**Senator LIGHTFOOT**—Mr Daws, I wonder whether you would be kind enough to explain briefly to the committee the hypersaline paleo-channels from which the mining industry draws by far the most amount of its water? Are they renewable? How old are they?

**Mr Daws**—They are regarded as fossil waters. There has been very limited evidence that there is any recharge. When we say ‘hypersaline’, the salinity varies, but generally in the area immediately around Kalgoorlie we are talking about water that is four to five times saltier than the ocean. If we go to the Norseman end—that is further south—it is seven or eight times saltier than the ocean. And as you get more north towards Leonora, it tends to be ordinary ground water which is stock water quality.

The paleo-channels are a relatively recent discovery using new technology. They were first identified in the mid-1970s. The mining companies and the water consultants have now refined to quite an art just where these things exist. As they go further east the paleo-channels—they are basically buried rivers—get deeper. They are quite narrow in places, and in other places they are wider. There has been all sorts of experimentation done on them by

CSIRO and others to see whether any artificial recharge could take place, and that was found to be not so. Indeed, in the last Waterlink study done by the Water Corporation and released in February of this year, the Water Corporation themselves say:

- . Paleochannel groundwater reserves have an average 20-year life but localised areas of stress are appearing. A major new groundwater source is unlikely.

In some places they have actually failed.

**Senator LIGHTFOOT**—With respect to the fresh water that you propose to desalinate in Esperance and deliver to Kalgoorlie, what is the capital cost of that, and who pays for the capital cost?

**Mr Daws**—It depends what you include. If we leave the power station side of it alone, the capital cost is about \$A500 million for the pipeline, desalination plant, pumping stations and extension of the gas line.

**Senator LIGHTFOOT**—Is that on a turnkey basis?

**Mr Daws**—Yes. It, of course, depends on what technology you employ and whether or not you use steel or plastic pipes. But, that aside, in round figures it is a \$450 million to \$500 million project plus a power station.

**Senator LIGHTFOOT**—Is that government subsidised?

**Mr Daws**—No, we never, ever sought a government subsidy for the project. It was always envisaged as a private enterprise project.

**Senator LIGHTFOOT**—How much per megalitre—or per gigalitre or whatever measure you use—is the anticipated cost of that delivered to Kalgoorlie, if that is not confidential?

**Mr Daws**—Were we able to get through some of the government obstruction via the Water Corporation, we would wish to embark on a serious study to finalise those costs. But we believe that the cost will be in the region of \$2.60 to \$2.80 per kilolitre delivered to Kalgoorlie.

**Senator LIGHTFOOT**—How does that compare with the Water Corporation's price?

**Mr Daws**—It depends on who you talk to. We are not quite sure whether they do not know what the cost is, whether they are deliberately being confusing or whether in fact it depends on what you include. You might support the view of their own chief executive officer who, in a statement at Exmouth about three months ago, stated that it was costing them \$4.05 per kilolitre in total cost to get the water to Kalgoorlie.

**Senator LIGHTFOOT**—Does that cost the Water Corporation just over \$4.00, or is that what the consumer pays?

**Mr Daws**—No, that is the Water Corporation cost to get the water here. In Kalgoorlie, like all other places in the state that are provided with water by the Water Corporation, which is virtually everywhere, the government policy is that everybody pays the same rate.

**CHAIR**—Which is?

**Mr Daws**—It varies. It starts off at a small amount per kilolitre and rises almost exponentially to deliberately discourage use.

**CHAIR**—So it is not a user-pays system?

**Mr Daws**—No.

**Senator LIGHTFOOT**—What are some of those figures?

**Mr Daws**—At the low end, at the beginning of any given year, I think it starts at about \$1.60 per kilolitre.

**Senator LIGHTFOOT**—Mostly for domestic use?

**Mr Daws**—Yes, for domestic use, for a relatively small number of kilolitres. Then it rapidly escalates to several dollars a kilolitre.

**Senator LIGHTFOOT**—At the bottom end of the scale, for domestic use, that is clearly being subsidised by either state taxpayers in general or by commercial industries here.

**Mr Daws**—I am not sure that the industry does that. The government subsidised this through what they call CSOs, community service obligations. We have spoken to people as far as the state minister for finance to try to determine what that figure is, and we cannot determine what it is.

**Mr Thomson**—I will just add something there. It is our understanding from comments made by the Water Corporation publicly that in fact the water to Kalgoorlie-Boulder is subsidised to the tune of about \$26 million a year. We believe that our project can save the state government something in the order of \$10 million a year in CSO obligations.

**Senator LIGHTFOOT**—Does your project impinge detrimentally upon the potential to float the Water Corporation as a public entity?

**Mr Thomson**—In all fairness, I would have said that, if the Water Corporation had a proactive view to what we are trying to achieve, they could in fact end up with more market than they could ever get on their own. The state government have made it very clear to the Water Corporation that they will not give them any capital funding to expand into new sources of water. We have extended the opportunity to the Water Corporation to cooperate with us on an end user basis, not as part of the project, which would have impinged on competition. If they chose to go that route, if they were fully privatised as opposed to corporatised, it would add to their value and not detract from it.

**Senator LIGHTFOOT**—Isn't corporatisation a sort of halfway house to privatisation from a government asset point of view? Can it be that?

**Mr Thomson**—It is an unfortunate situation where you basically have public servants put into a role supposedly under a private enterprise system, but it still works very much as a bureaucracy.

**Senator LIGHTFOOT**—Let me see if I can render this down in precis form. It would appear that the subsidised water by a corporatised company wholly owned by the government is preventing the implementation of a half a billion dollar water project in the goldfields. That would remove the subsidy and supply water to the Water Corporation and others at a far reduced price than the price at which the Water Corporation could supply water to Kalgoorlie-Boulder.

**Mr Daws**—We believe that is the case.

**Senator LIGHTFOOT**—Is there any plan, possibility or potential—I do not want to you to say anything that is commercially sensitive; you are not required to answer that—to extend the proposed project beyond Kalgoorlie?

**Mr Daws**—Yes.

**Senator LIGHTFOOT**—To where? Can you say that?

**Mr Daws**—Leonora.

**Senator LIGHTFOOT**—To Leonora township?

**Mr Thomson**—To the north-eastern goldfields.

**Senator LIGHTFOOT**—Picking up other projects on the way?

**Mr Daws**—Yes.

**Senator LIGHTFOOT**—Of course, it does not take much to work out that the extension of it to the north-eastern goldfields is dependent on getting a pipeline to Kalgoorlie.

**Mr Thomson**—Yes.

**Senator LIGHTFOOT**—Are you looking for government subsidies in any way for the project?

**Mr Thomson**—No.

**Senator LIGHTFOOT**—How do you propose to fund the project?

**Mr Thomson**—Privately.

**Mr Daws**—To use the words of the American partner we have here, the Global Environment Fund, the world is awash with money for major infrastructure projects under a benign political climate, which Australia of course has. So they are quite keen to become involved in a project such as this. They like it, they like the numbers and they wish to proceed. The frustration we have is that at every turn we have a state corporation doing whatever they can to eliminate competition, which is surely what the NCP is about. So I have a somewhat different view than perhaps the previous speaker. We do not mind competition. What we are having great difficulty with is a government agency doing everything they can to prevent the competition because it will affect them.

**Mr Thomson**—Just to add to the answer in relation to how we fund it, it is a mix of debt and equity. The majority of the funding will be Australian funding through Australian houses. The management of the project will be by one of the three largest engineering houses in the world, who have already stated their wish to maximise the opportunities for Australian input to that project.

**Senator LIGHTFOOT**—What about environmental problems with a pipeline of that nature, given that it comes through a fairly large town, in Western Australian numbers, it comes through farmland, it comes through probably some national parks, I think, and eventually to Kalgoorlie? What sort of easement have you proposed?

**Mr Daws**—Will you allow me to embark on a question you might have asked another way, and that is—

**Senator LIGHTFOOT**—I just want to get a picture of what are the problems. If the only hurdle is the fact that the government instrumentality is preventing its implementation, I think we would have to do something about it. That is my view. But if there are other hurdles like environmental, easement, land rights et cetera, please be kind enough to tell the committee.

**Mr Daws**—Let me just answer the question this way, if I might. One of the frustrations we have is that Water Corporation, having done nothing for so long, as a result of the Waterlink program have decided that the best thing they can do to solve the water problem here is to put in a seawater pipeline—do no desalination at all and dispatch about 30 megalitres, or 30,000 tonnes, of sea water a day to Kalgoorlie from Esperance.

**Senator LIGHTFOOT**—With an inherent salt disposal problem.

**Mr Daws**—Yes, with the salt in it. So we are talking about a lot of salt every day coming into an environment which is already salt affected. Our proposal is quite contrary to that. We say, leave the salt in the ocean. There will be a greater expense, but it is an expense which this nation must be prepared to pay if it wants to have development in these more remote areas that are water deficient. So we are not interested in what you might call the short-term need of a few small mining companies; we are interested in the long-term development of a very mineral rich province which has great prospects. The people from Esperance right through have indicated to us that they will not be prepared to tolerate in a very public way a seawater line through their territory, for environmental reasons alone, which is a direct answer to your question. Our alternative, of course, being a potable water

pipeline, would be something that they could tap into to drought-proof the farming area at Esperance, which as you know is a drought affected area.

**Senator LIGHTFOOT**—At viable cost?

**Mr Daws**—At viable cost. The water they get there at the moment is terrible but it meets the international standards.

**Senator MURRAY**—On economic terms, it gives you marginal returns. Even if it was not an economic cost, it would add to the value.

**Mr Daws**—Exactly. Our system will work when we get the benefits of scale. We are not building a big project simply because we want a big project; we have to get it to a scale where the unit cost becomes achievable. We can only do that if we capture the bulk of the market. That is why we want to supply into the Esperance area and the mines along the way.

**Senator MURRAY**—Isn't that the nub of the Water Corporation's opposition, in that in the short to medium term you would actually supplant them as the sole supplier? If you can supply sufficient water needs for Kalgoorlie at a lower cost, every business, every household and every industry will tap off you and not off Water Corporation. That is the problem, isn't it, that you can undercut the monopoly?

**Mr Daws**—You understand the conundrum we face. On the one hand every day we have got newspaper ads saying that we have not got enough water to go around, but when we turn up and say, 'We can supply water to you at less cost than now,' they do everything they can to try and stop us.

**Senator LIGHTFOOT**—To get back to my original question, Mr Daws, what are the hurdles? Are they environmental, or easement? You have already said there are no problems with the funding, no problem with the technology and no problem with the viability. What are the other hurdles?

**Mr Daws**—The difficulty is to get a committed off-take to a level where the investors are prepared to invest the money and also have some reasonable certainty, having invested the money into this final feasibility, that they are not going to get gazumped by the government coming along and allowing Water Corporation to take public funds and put something in in competition. We are not worried about competition, but it is a bit unreasonable to allow Water Corporation to continue to muddy the waters, so to speak, to talk about a seawater line which will not get approval on environmental grounds, to frustrate our endeavours to get to the level that we need to make the commitment to proceed to the next stage, but still with the risk hanging over our heads that Water Corporation might finally go out and say, 'Well, we cannot do the seawater pipeline, we will bung in another one.' They have got a sense of competition, but in a reverse sense to what I am suggesting we really need in this region.

**Senator LIGHTFOOT**—So you have no problem with environment, because it is potable water. What about the easement?

**Mr Daws**—We have negotiated access to the Westrail railway easement, which is almost a straight line from Esperance through to the north-eastern goldfields, as a means of putting in the pipeline.

**Senator LIGHTFOOT**—Are you burying the pipeline?

**Mr Daws**—That is the intent.

**Senator LIGHTFOOT**—So the only hurdle—correct me if I am wrong—is the inordinate opposition, if we believe what you say, of the government owned instrumentality, Water Corporation, to the establishment of a water pipeline that will be cheaper and conform somehow to precisely what the NCP would have been set up for. Is that right?

**Mr Daws**—As we understand it, that is correct.

**Mr Thomson**—If I can put it in simple terms for you, when we started we said that the project would need to be environmentally, politically and commercially acceptable and would have to be acceptable to the broader community. We have jumped almost all of those hurdles. The other three criteria are that we must be able to raise the finance, and we have in principle agreement on the finance. In fact, we have a major meeting next Monday with one of our financiers. The market must exist, and it does. The easement must be available, and it is. The only thing which is stopping us from proceeding is the ability for us to proceed with our final feasibility study unhindered.

**Senator LIGHTFOOT**—Before I defer to my esteemed colleagues, I have one more question. You spoke about headworks. There is an inordinate charge to large users, because you said the more you use the more you pay per litre or per kilolitre, but then you pay headworks on top of that. Would you be kind enough to explain to the committee what is meant by headworks?

**Mr Daws**—For the benefit of the committee, I was chairman of the Mungari Industrial Park advisory board appointed by the state government. Our role was to try to encourage industry to this industrial park, which is located about 20 kilometres west of Kalgoorlie. Some five years on, there is not one single building or industry there. The reason for that was, when I was involved—I am no longer the chairman and have not been for two or three years—that those industries that would have established there came along and needed a number of things. They needed electricity, they would have preferred to have had gas and they needed potable water. Most industries cannot utilise this hypersaline water, even if it continues to be available. The electricity equation has been solved, as I indicated, and the gas is now thoroughly available. With respect to headworks charges, the charge at that time was \$13.84 per litre of consumption per day of your estimated consumption. To put that into a figure that you can understand, we had one industry require 100 tonnes of water per day.

**Senator LIGHTFOOT**—Per kilolitre?

**Mr Daws**—Per litre, not kilolitre. It was \$13.84 per litre of your daily consumption. If you required only 49 kilolitres a day, there is no headworks charge and you pay commercial

rates. But if you go to 50 kilolitres a day or above, that is 50 tonnes of water a day, you pay this headworks charge.

So, at 100 tonnes of water a day, which is not very much, you are required to pay \$13.84 million to the Water Corporation for the right to buy the water with no guarantee of delivery and no refundability of that money if, in the event, you decide not to proceed. One industry, on that basis, chose to go to Northam. They have not yet established at Northam, and I remain hopeful, because the initial capital headworks charge at Northam—which, you realise, comes off the same water pipeline, albeit closer to the reservoir—was zero. You can understand the frustration we have.

**Senator LIGHTFOOT**—I am quietly staggered. Thank you very much. I would like to ask you questions all day. It is a very interesting subject.

**Senator MURRAY**—I was just thinking that it might be cheaper to do it with wine, not water, at that charge. We might carry on with an interchange between Senator Lightfoot and myself because I think Senator Lightfoot was involved in the Telstra inquiries and it strikes me that your problem is similar to the access problems between Telstra and Optus. Eventually they were resolved by legislative changes accompanied by the power of the ACCC, which simply said to Telstra, ‘You’d better wake up or there are going to be millions and millions of dollars of extra fines.’ In fact, they have imposed a major penalty. I think it is a couple of hundred million, I am not sure. But somewhere I have seen that. It seems to me that at the heart of this problem is the access because, having delivered the water, you still do not get access to the household or the business. That is what you were telling us, wasn’t it?

**Mr Daws**—Yes.

**Senator MURRAY**—You said that you could construct that conversion facility in Esperance right now, you could build your pipeline right now, but when you have got it here the Water Corporation powers would prevent you getting access to businesses and households. Is that correct? Is that what I understood you to say?

**Mr Thomson**—No.

**Mr Daws**—They never indicated that that is the path that they would take—at least anything we can wrap our hands around.

**Senator MURRAY**—Sorry, I want to try and understand. At the core of it, you said, to get your investors to respond positively they would need to be sure that they had access to the businesses that would buy the water. Yes?

**Mr Thomson**—No.

**Senator MURRAY**—But that is where the return comes from, isn’t it?

**Mr Thomson**—The problem that we have in relation to the Water Corporation is that the Water Corporation are unfortunately going out of their way to prevent government giving us

any form of security which is acceptable to our investors to spend the \$4 million to complete the final feasibility study.

**Senator MURRAY**—What sort of security would you want, apart from access? If you are talking competition, competition means two trucking companies can travel the same road.

**Mr Thomson**—That is right.

**Senator MURRAY**—Let us disregard the pricing policy of the Water Corporation. Essentially, you are saying you can deliver water in massive quantities at a low price?

**Mr Thomson**—Yes.

**Senator MURRAY**—How do you get it in to the business?

**Mr Thomson**—Okay. If I can just go back to what we need in relation to security, the problem with the Water Corporation is that no investor anywhere in Australia is going to invest many millions of dollars to complete a feasibility study if, on the basis of doing that feasibility study, there is not some certainty that they are going to have an opportunity to develop the project if the final feasibility study proves that it is economically viable.

**Senator MURRAY**—You are saying to me that, if the feasibility study proved attractive, the Water Corporation would simply do exactly what you are doing: put in a facility at Esperance and run it up the railway line? Is that what you are saying?

**Mr Thomson**—Let me explain. Our proposal before the state government right now is for us to complete a feasibility study which is going to cost between \$2.4 million and \$4 million. That study will take a period of months. Our proposal to the state government is that we have the right to complete that study, that these investors have the right to spend that money—there is no government money; it is all private money—on the basis that, if it proves that the thing is financially viable with no government assistance, we may proceed like any other private project anywhere else in Australia. If it was the case that that project could not proceed without government assistance, the government would need to call for expressions of interest or whatever at that stage in order that there be probity in the way that they would operate.

**Senator MURRAY**—But how could they stop you? You can build a factory, subject to normal factory approvals, in Esperance and pipe stuff out of the sea, I assume—nobody is going to tell you cannot. If you have already secured the easement they cannot stop you, so where is the impediment?

**CHAIR**—Senator Murray, I do not think you quite picked up on what was said a moment ago. Pardon me, I am taking up your invitation to do this. What these two gentlemen are saying is that they want a guarantee that the Water Corporation is not going to get a wad of money from the state government to gazump them by extending existing infrastructure to beat them at their own business.

**Mr Thomson**—Exactly that.

**Senator MURRAY**—On the existing pipeline?

**CHAIR**—Presumably by putting a pipeline next to it or making a bigger pipeline—or whatever they have to do—sending it down at a faster volume.

**Mr Thomson**—Theirs comes from Perth. Ours is most likely going to be routed Esperance-Kalgoorlie.

**Senator MURRAY**—But, you see, the difference—and this is where public policy comes into account—is that it is not in the interests of the community for the Water Corporation to do that because they are using potable water, which is derived from limited run-off, plus ground water, whereas you are using unlimited water which has no scarcity attached to it.

**Mr Thomson**—That is right.

**Senator MURRAY**—That is the public policy issue, isn't it?

**Mr Thomson**—Absolutely.

**Mr Daws**—And it makes the goldfields gas pipeline, which the government sponsored but did not put money into, an even more viable proposition for the nation because it is going to have a greater flow.

**Senator MURRAY**—But it would be a simple measure for the government of the state of Western Australia to publicly commit not to pursue that policy, and then you are home and hosed. Is that what you are saying?

**Mr Thomson**—That would be absolutely delightful.

**CHAIR**—What about the next issue? I would like to take it a little bit further. You were talking, very early in the evidence, to Senator Lightfoot about the cost of this water. Take away the cost of the headworks and all those sorts of things, which I doubt anyone is paying—

**Mr Thomson**—They do. I am sorry, Chairman, but they do.

**CHAIR**—At \$13 a litre?

**Mr Daws**—Some of the mining companies are forced to pay because it is the only source of potable water.

**CHAIR**—\$13 a litre?

**Mr Daws**—Yes, per day. That is for the right to buy the water.

**Mr Thomson**—And then they pay for the water separately over and above that.

**CHAIR**—I do not know what they are mining, but they must be making a lot of money out of it.

**Mr Daws**—In the goldmining industry there are some parts of the process where they must have potable water, and the only way they can get that is either a desalination plant or taking a proportion off the watercourse.

**CHAIR**—That makes sense. Don't you also need transparent pricing from the Water Corporation?

**Mr Daws**—Absolutely.

**Mr Thomson**—Absolutely.

**CHAIR**—I think water in my state is about 88c a kilolitre. That is the price at which Esso Water, or whatever they call themselves, now deliver it to most of South Australia. Presumably here it is not going to be that much dearer because Senator Lightfoot tells me 76 per cent of people live within the metropolitan area of Perth. So, if they declared a policy where everyone was paying the same regardless of where they are, you two would be out of business, wouldn't you? You would not be able to match them when they have 76 per cent in the catchment area in Perth.

**Mr Thomson**—If I can just amplify the problem with the pricing, the Minister for Water Resources has advised us that the cost of getting water to Kalgoorlie is \$1.84. Peter Jones, Chairman of the Water Corporation board, tells us that the price is \$3.85. The CEO of the Water Corporation, Dr Jim Gill, has stated on numerous occasions that it is \$4.20. That is the difficulty we have.

**Senator MURRAY**—Let us return now to competition policy, which is the start of all this. Neither the previous witnesses with their criticisms of the present competition policy nor anyone else I have heard has ever condemned competition policy for the good effects. I would very much doubt the scheme you are putting forward would be condemned by anyone, judging by the way they have spoken to us in the past. But what you are telling us in terms of competition policy in our inquiry is: here is a portion of the state government, a portion of the state bureaucracy, who do not see it as being in their self-interest to execute the principles of the competition policy to which they are signatories—

**Mr Daws**—Correct. Absolutely.

**Senator MURRAY**—and that you have an area of duplicity here, because they are applying competition policy in areas where it does not affect their self-interest but as soon as it runs up against their self-interest they will oppose it.

**Mr Daws**—That is correct. In fact they have commented that the CSOs which they enjoy would not apply to us. Be that as it may—maybe it does under the ACCC; I do not know—what they are actually doing in a quite deliberate way is continuing to pursue this concept of a seawater pipeline with this select group of mining companies who can see a short-term fix of possibly cheaper water, but there is no vision from the Water Corporation for the longer-

term goals of the region and the nation. By doing that, they are preventing us getting the mass that we need, coupled with—as my colleague says—the undertaking from somebody that they are not going to come in later and gazump us and just give the Water Corporation a bundle of money to go into competition. That seems that I am arguing against myself, but you know what I am saying: we are being prevented from getting the numbers that are we require by the Water Corporation talking about something which, in the view of many, will not eventuate.

**Senator MURRAY**—Given that you two are energetic, experienced business people, have you been to see the National Competition Council to explain this problem?

**Mr Daws**—No.

**Senator MURRAY**—Why not? If at the heart of this is the fact that a signatory to the National Competition Council is not behaving in accordance with their commitment, why wouldn't you have gone to them and alerted them to a problem they might not be aware of?

**Mr Thomson**—Senator, I think it is fair to say that we have tried to hold the belief that the Minister for Water Resources, at the end of the day, would act in the best interests of the state. Hence, we have had several courses we could have taken in order to assist in overcoming our problem—one was the NCC—but we have chosen not to in the hope that the better good of the community, which is what we are about, would prevail.

**Senator MURRAY**—Is that shorthand for saying it is better politics to try to persuade him before getting somebody to put his arm behind his back?

**Mr Thomson**—That is right.

**Senator MURRAY**—How many months or years have you been at this?

**Mr Daws**—I personally have been on the project on and off for about 10 years, but in this latest effort, as a result of a study that was done 2½ or three years ago, we have been at it pretty full time for more than two years.

**Senator MURRAY**—Don't you think it is nearly time that you went and saw him?

**Mr Thomson**—It is.

**Mr Daws**—It is, and I suppose an indication of that is that we are prepared to talk so openly to you people today. We have never done that before, because we really want to be friends with the Water Corporation. We do not want to be at war with them, because we see the opportunity for a very important strategic alliance which would benefit the nation.

**Senator MURRAY**—I gave you the example of Telstra and Optus deliberately. In the end, being friendly in those circumstances never worked. It was a combination of legislative and regulatory power which has made them open up their access. That has nothing to do with them being privatised or in government hands or whatever; it has to do with a

monopolist culture. If you have a monopoly, you do not give it up lightly. It is as simple as that.

**CHAIR**—Have you been to see the Premier?

**Mr Daws**—And the Deputy Premier, and both have been very supportive.

**CHAIR**—Why didn't they do something? I am asking that seriously. Is there some reason why they have not done anything?

**Mr Thomson**—My understanding is that they are reluctant to do anything which the minister responsible is not prepared to openly recommend, for the reasons I stated earlier.

**Senator MURRAY**—The point I am making is that they are contractually committed to a policy to allow the entry of competition, particularly in the area of utilities—water, power, energy, electricity.

**Mr Daws**—I suppose this sounds all a bit altruistic, but strangely enough we are not in this for any massive interest in making money; we are trying to solve a problem. We are actually trying to fix a water problem here which, it seems, nobody else has wanted to address. We have now spent a lot of time and money and really do not want to let it go. We are not of the kind who want to go to war with people; we are just trying to fix a problem.

**Mr Thomson**—I will just amplify that a little bit. There seems to be a lack of understanding of just how serious the problem of water supply to the goldfields is. It is a very serious problem. It is a problem for the community, who have been on restrictions for six or seven years. It is problem for the mining industry, who have had to resort to the use of what would otherwise be environmentally unacceptable water supplies. They have been forced into that situation by the lack of action of the operator of the day for water supplies. We have new mines coming—

**Senator MURRAY**—I would like to stop you there. Just for the clarity of the record, the 'unacceptable water' is the saline water, isn't it?

**Mr Thomson**—Yes, the hypersaline water.

**Senator MURRAY**—It leaves an unacceptable surface residue, does it not?

**Mr Thomson**—Yes.

**Mr Daws**—It does not go back into the channels.

**Mr Thomson**—At the same time as that is happening, there are many new mines coming on stream and several existing mines wanting to—

**Senator LIGHTFOOT**—These are not necessarily goldmines, are they?

**Mr Thomson**—No. Some are goldmines and some are nickel mines. These people need water, and they need it as a matter of urgency. It is not a matter that we can allow to lie on the table for the next five years while the government or someone somewhere does something to allow someone to develop a pipeline. It is extremely urgent. We have had very detailed discussions with several of these people who have a water problem. They are now pushing us to take action so that we can get our project under way. It really is an urgent problem. It is not one that we can play with.

**CHAIR**—I have a couple of quick questions. I want to revisit the bit about the capital headworks charge. Are you telling me that some of these mines out here are so profitable that they can pay for 100 tonnes of water at \$13 million and they are going to do that every day?

**Mr Thomson**—No.

**CHAIR**—Do they recycle it, or what?

**Mr Thomson**—No, you misunderstand.

**CHAIR**—Take me through that again.

**Mr Thomson**—The capital headworks charge is a charge levied which the corporation claim they need to put into capital works to increase the water supply into the future. It is a once-off payment.

**Senator LIGHTFOOT**—Non-returnable, I understand.

**Mr Thomson**—It is non-returnable. It gives that company the right to buy the water, which they then pay commercial rates for.

**Senator LIGHTFOOT**—In the private sector that would be called blackmail.

**CHAIR**—I think ‘stand and deliver’ is the usual thing, usually with a bloke with a gun and a mask. But in this business I have found out that there are quite a few blokes with guns and masks. There are a couple of other matters. You are being gazumped at each stage, and you reckon—I just want to get this right—that, even though they have been corporatised, presumably they are going to be privatised, is that right?

**Mr Thomson**—No.

**CHAIR**—They are corporatised and it is going to be left in government ownership as a government corporation?

**Mr Thomson**—It is our understanding that the Water Corporation will probably never be privatised because it generates too much income to the government.

**CHAIR**—What sort of income level does it generate?

**Mr Thomson**—I am not sure.

**CHAIR**—This agency looks after sewerage as well, I presume?

**Mr Daws**—Yes.

**CHAIR**—So it looks after every aspect of water both in and out of houses. Thank you very much, gentlemen. It was very interesting. I find Western Australia an interesting place to come and collect evidence.

**Mr Daws**—Thank you very much for the opportunity.

**CHAIR**—No doubt you will be given a copy of *Hansard* shortly, which you can use to your heart's content.

[11.56 a.m.]

**McAULIFFE, Mr Kerry John (Private capacity)**

**CHAIR**—Welcome. Do you have anything to say about the capacity in which you appear?

**Mr McAuliffe**—I am appearing in several capacities. Firstly, I am the chairman of the Western Australian Meat Industry Authority. I am also a member of the Eastern Goldfields Transport Board, which is based in Kalgoorlie-Boulder. I am a commercial lawyer practising here in Kalgoorlie-Boulder, and as a lawyer I am very interested in national competition policy and some of the matters that lawyers have to face up to in the future. In addition to that, I am also an employer. I employ two solicitors and three non-solicitors, therefore I am the proprietor of a small business in regional Australia. In that capacity I am also very interested in where national competition policy may lead.

**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 and at the conclusion of your remarks I will invite committee members to ask you questions.

**Mr McAuliffe**—Thank you. My opening statement will be very brief. Whether it is in the capacity of a citizen here in the goldfields, a small businessman, a member of statutory authorities or otherwise, I have a concern to see that any national competition policy we have in Australia is not the be all and end all of the economic thrust of this nation. I have a concern that, if we have any form of unbridled national competition policy, it may impinge badly on the social good as it is seen here in regional Australia. My main reason for saying that is that it is my perception that, if you have a competition policy which may of itself ultimately lead to forces or power groups being centralised, much of what regional Australia is hoping to achieve may be lost as part of some number-crunching exercise to get a really good bottom line. I think any review of national competition policy may take that into account.

**CHAIR**—Thank you. We have had a lot of evidence here this morning in Kalgoorlie which has indicated disquiet with national competition policy as such. In fact, some of the comments made suggest that it has damaged the fabric of regional Australia. One of the claims made by one of the witnesses is that—I cannot remember the exact wording he used—regional Australia is almost retreating to the major capital cities. Is that your view of this?

**Mr McAuliffe**—Most definitely. We have many local examples of that. For example, one could look at the history of the development of the town of Wiluna at the turn of the century.

**CHAIR**—Where is that?

**Mr McAuliffe**—Some 400 kilometres north of here. In the twenties, that was a thriving community of well over 20,000 people. It had a rail link to Perth.

**CHAIR**—It was as big as Kalgoorlie is now.

**Mr McAuliffe**—Kalgoorlie is a bit bigger now: it is a bit over 30,000 people. But it was a substantial community. If you go to Wiluna today, all you will find is about eight or nine older buildings and an extremely small community. The area has totally shrunk. Look at Cooktown in north Queensland early in this century and what happened to it, and there are other examples as well. My grandfather discovered Kanowna some six months after Paddy Hannan discovered the gold here. Kanowna is 18 kilometres east of here. Within four years, Kanowna had a population of 12,500 people. People used to go on weekend excursions from Kanowna to Coolgardie—in those days, Kalgoorlie was just a little tent town. Yet, by the end of World War Two, Kanowna hardly existed. The last house was removed from there in the period of the second world war. So we have locally many examples of how you can develop a regional infrastructure and all sorts of businesses and activities going on there, and yet they can fade away so quickly when the best reasons for their existence are taken from them or otherwise disappear.

As one sees here now in the goldfields, there has been a tremendous amount of expenditure and human energy and activity undertaken over the last century to develop what we have here right now. As a citizen in Kalgoorlie now—I have been here for four years, and I hope to be here for many more yet—I would feel it to be of great disadvantage to Western Australia and to the nation as a whole if that infrastructure were adversely affected by some competition policy which might not take into account some of the issues that need to be addressed to make sure that this remains a viable area of activity. You may have heard evidence from others as to some of the activities now being undertaken here. I heard a little bit of it myself as I sat in that chair. You might have been given only some inkling of not only how rich this area is in terms of mineral potential but also the problems that we have in being able to exploit that potential. They may be problems related to power, transport, electronic commerce, communication in remote areas—we all think we can walk around with little telephones these days; that is a major problem if you are about 400 kilometres north-east of here—and water. Those of us who are here have a particular concern to know whether national competition policy will help us maintain what we think is worth pursuing here, not just for ourselves but for our nation.

**CHAIR**—Can you tell us what specific fears you have? You were here a moment ago when the two gentlemen were outlining their water plans for this area. Their fears were that there was a very predatory monopoly of the water supply in this state that was giving them a hard time and retarding development. In essence, an anticompetitive practice was being brought before us here. What are the sorts of things that you are somewhat fearful of national competition threatening in your community here?

**Mr McAuliffe**—I wonder whether, through the national competition policy, some regional businesses or enterprises might be forced—as part of meeting competition—to merge into larger forces which might then develop a life of their own to the point where those activities are relocated. Relocation is a major concern. There is concern with the way banks have retreated from rural areas in Australia. We all know a lot about that these days.

We are seeing some of the interesting initiatives that are coming out, like Bendigo Bank and so on, and seeing how local communities react to that. It is an issue that needs some pretty broad focus to see what else may wither on the vine regionally and be relocated more centrally, either in capital cities or maybe in just one location, which may make access to services harder than it currently is. Access to services is a major issue.

**Senator LIGHTFOOT**—How do you see the problems with NCP? Are the problems insurmountable? In your experience, would the goldfields be better off if you—I mean ‘you’ in a plural sense—were allowed to go your own way without the interference or the imposition of NCP upon you?

**Mr McAuliffe**—I do not think it would be as easy to go one way or the other as to try and find a fair balance. Personally, I think that we need a national competition policy. We need a vigorous national competition policy but it must be one that is going to end up with an even-handed result.

**Senator LIGHTFOOT**—Does it need to be tailor-made for certain districts, certain areas and particular groups of people?

**Mr McAuliffe**—Something needs to be tailor-made and the way I would see it would be this: have a broad based and vigorous national competition policy but have it subject to review by some other authority, organisation or entity which looks at a broadly focused national or regional interest.

**Senator LIGHTFOOT**—Not just the ACCC but someone outside just competition?

**Mr McAuliffe**—It would have to be outside the ACCC. As a solicitor, I have approached the ACCC in respect of a number of regional problems where certain organisations accessed fairly unsophisticated people here and sold them so-called tax effective schemes. That led to a great deal of anguish, a loss of money and great difficulty in finding those who should be answerable for that.

When I went to the ACCC, even though I went to school with Allan Fels—he was a classmate of mine—that organisation, perhaps fairly so, said it had bigger fish to fry and could not look at just anything. Therefore, I do not think the ACCC is going to be a suitable organisation. It has its role to play and I think it is going to have its hands full for years to come.

We may need something extra, and it will require a certain sensitivity. While we all like to think that we are Australians—all of one kind and all over Australia—the reality is that we have really quite distinct economic zones and ups and downs from time to time, and there are all sorts of factors that influence that. Look at the whole state of Victoria just six years ago or look at what happens in Queensland after a heavy flood et cetera; I think we need something that is regionally sensitive.

**Senator LIGHTFOOT**—But most states are discrete in the sense that they are different demographically and certainly geographically. Western Australia would seem to me to be the most different of all states. To some degree Victoria emulates parts of New South Wales at

least. New South Wales emulates some parts of Queensland at least. But Western Australia, because of its vastness and the tyranny of distance, is somewhat peculiar, and I do not mean that in a parochial sense. Perhaps we are parochial, but it is somewhat different from the other states.

Do you think Western Australia needs something that is tailor-made for Western Australia or is it just a matter of being more concerned about and empathetic with perhaps regional and rural areas, on the one hand, and metropolitan areas, on the other?

**Mr McAuliffe**—I think the latter. Although I am a born and bred Western Australian and am proud to be Western Australian, I am also an Australian. I have been out of Australia. I have lived and worked in Britain, have spent some time in the United States and, having done so, can look back on where I have come from. To have something that is peculiarly Western Australian is not either in Western Australia's or the nation's interests.

I think the latter approach is a better one. Let us see if we can devise some sensitivity measure or system which can balance a broadly based national competition policy to take into account the particular issues or concerns of a region, be it the vast emptiness of Western Australia, the vast emptiness of south-west Queensland or even north-west New South Wales. There are all sorts of things. Look at Tasmania—there is another one.

**Senator LIGHTFOOT**—Perhaps Tasmania would be better off being part of Victoria, given the success of some of the projects in Victoria recently; I would not say that in Tasmania of course.

**CHAIR**—I think you would like amalgamation with New Zealand.

**Senator LIGHTFOOT**—Only if I was on the ferry heading north.

**Mr McAuliffe**—I have just been reading about the ferries that they make in Tasmania. That is a major success story for that state. If only we could see more industry, maybe through competitive elements, developed there; it would add a bit of national balance, which would be for the good of all of us.

**Senator LIGHTFOOT**—I might just mention that we do have an enviable record of production of ferries here through Austal Ships just south of Fremantle. Do you think it is possible to salvage something from the NCP for people in the bush? Quite clearly you have heard witnesses this morning, and we have heard a myriad of others, perhaps 100, and there has been very little said of a complimentary nature that NCP could do for the bush. Given that it needs to be implemented, do you think part of that failure to have it accepted is due to its not being sold and people not understanding NCP fully, or is NCP skeletally or structurally flawed?

**Mr McAuliffe**—I would start with the middle proposition. There are so many government policies or initiatives—or even those in the private sector—which, if needing to be presented to the community at large, have a selling difficulty. That may be accentuated in areas like Kalgoorlie-Boulder where there are many people who seem to be very successful in life and can make quite good money, but who may not have been particularly well

educated or may not understand a rather complex new policy. The GST will be a challenge for us all, especially here. I find in my own job as a commercial lawyer that there is a need to think twice about how I communicate so that I can be reasonably assured that the people I am communicating with know what I am talking about. That is just not an underground miner; that may well be the clerk of a shire or anybody. It does not matter who it is.

When we are seeking to bring forward into a community like this an issue such as a national competition policy, we might really have to spell out in black and white precisely what it means.

**Senator LIGHTFOOT**—Have we failed to do that?

**Mr McAuliffe**—I think there has been a failure to do that so that people understand what it is about. It is possibly skeletally flawed if the skeleton is so rigid that it must override all other things at the end of the day. That comes back to my original submission.

**Senator LIGHTFOOT**—I must say that one of the things that we have striven to broadcast is that it must be in the public interest. Obviously, that message is not getting through either. You spoke about education. I might add that more often than not education in the goldfields begins when you leave school.

**Mr McAuliffe**—Perhaps it does everywhere.

**Senator LIGHTFOOT**—To some degree, but perhaps to a greater degree here than anywhere else. What should we do? You have had some wide experience in various parts of the world. Is it a matter of stepping back? Is it a matter of some saturation advertising to try to explain what it is? Should we look at redrawing aspects of it, or is it an amalgam of all of those things that I have mentioned?

**Mr McAuliffe**—It is possibly an amalgam of all of those things, but perhaps I could make this point. When one talks about the public interest, one is talking about something that is pretty abstract in itself. What we may perceive to be in the public interest today may not be so perceived in the future. Again, just as a lawyer, I have come across that concept of the public interest. It has been long known, at least for a century, that an attorney-general of a state, for example, may intervene in a legal matter in the public interest. There are many examples of that in North America, Britain, New Zealand and Australia. If you go back through those cases and some of the elements behind them, it becomes difficult to determine the fine kernel of truth or reason as to what we mean by the public interest.

Notwithstanding that, I think we ought to have a go. Unless we do have a go about what might be in the best interests of the community as a whole or a segment of it—perhaps only over a period of time or for a particular purpose—we will continuously come up against a troubled society wondering how it is going to deal with things like competition policies and things like that. If the society feels that there is a tribunal, a group, a system or a measurement, even if it is a bit faulty—although you can repair it on the run, perhaps, and that might be the only way to do it—that one could appeal to for a second thought, second opinion or second approach as to how a competition policy may work for a given set of circumstances, that may make it easier for us to handle both things.

**Senator LIGHTFOOT**—I just have one more question. It has been said that advice is only worth what you pay for it. Notwithstanding that, with respect to the Water Corporation, from some of the evidence which you heard at this public meeting, it would seem to me that the Water Corporation is not subject to the ACCC, or in fact any other prosecutory body, even if it is undermining the private sector, given crown-to-crown prosecutions are well assessed over centuries, if not decades, to not succeed. Do you have any advice to offer in respect of that?

**Mr McAuliffe**—I cannot speak personally for good things or bad things the Water Corporation may or may not be doing in respect of headworks charges or negotiations with somebody who seeks to be supplied with water. I am aware that the Water Corporation is, of course, like any other legal entity, capable of being contained where it might do something that is utterly wrong, or a breach of administrative law or something like that. But, we are faced with the fact that it is a very large state instrumentality. I, too, would not know what revenues it gives to this government, but it is obviously one of the most significant instrumentalities the government has. In what is probably the driest state of the driest continent on earth, it commands a very significant position.

Personally, I think the time has come to review very strongly the monopoly that the Water Corporation has. You only have to see where it is located. Incidentally, the Water Corporation was not always the Water Corporation as we know it. You may recall that the public works department used to control water supplies in country towns like Carnarvon and other places like that. The Perth water authority—and I have forgotten its original name now—or the metropolitan supply group is only concerned with those areas. Now, of course, it all virtually comes under one umbrella, the headquarters of which are located in Perth in the south-west corner of a very large state.

Boldness is going to be the only way we can tackle some of our water problems. C.Y. O'Connor had boldness, and look what happened to him, and the constant detractions that went on over a period of five or six years, even as the water was coming through the pipe, until it eventually got here in 1903. That is one area where national competition policy should be as robust as possible and let new players come into the field outside the square in terms of what we do with water and how best to deal with it. The Murrin Murrin issue alone up here is very worrying in terms of the way water resources have been dealt with, and the silence is absolutely deafening.

**Senator LIGHTFOOT**—It seems to me that there is some emulation—albeit a degree of it—between the C.Y. O'Connor pipeline from Mundaring to Kalgoorlie and the proposal to build a pipeline from Esperance to Kalgoorlie.

**Mr McAuliffe**—I agree, or water from any other source, even the centre of the Nullarbor.

**Senator MURRAY**—I want to go to what I thought lay behind Senator Lightfoot's question. Is the Water Corporation subject to the Trade Practices Act in terms of pricing behaviour, or as a state instrumentality, is it protected from it by crown privilege?

**Mr McAuliffe**—I am not really sure on that. Certainly a number of the quasi-autonomous ones or quangos may well come under the requirements of the Trade Practices Act, but I think an instrumentality such as the Water Corporation probably does not.

**Senator MURRAY**—Perhaps the secretariat should research that for us, because federal legislation deliberately puts government business enterprises and corporatised or partially privatised bodies like Telstra as responsible to the Trade Practices Act.

**Senator LIGHTFOOT**—Crown-to-crown prosecution has been tested in the High Court and the interpretation of that may be worth looking at, but the Crown cannot prosecute the Crown.

**Senator MURRAY**—I would be interested because that is germane to some of the problems we have been discussing. It is one thing to have competition policy to which state and federal governments are signatories, and which is being applied, but, if the regulations and the acts cannot be imposed in some ways, it would make it difficult.

**Mr McAuliffe**—Section 109 of the Constitution would indicate that Commonwealth legislation in that area would prevail over state legislation. But, I suppose, if we looked first at the revamped act, because it has been substantially amended in the last 12 months, there may well be an exclusion for straight instrumentalities of that kind.

**Senator MURRAY**—I just wondered if, as a solicitor, you knew. The second thing is that it is apparent in your discussion, as much as in any other witness's—that it is the values which surround national competition policy which are as much being addressed as national competition policy itself. In regional Australia particularly, the abrogation of government responsibilities and the walking away from old service commitments through contracting out, privatisation, downsizing, service reduction, and competition policy, et cetera, is as much being questioned as competition policy itself.

It seems to me that through all of this has come the fact of powerlessness. In our interim report, which is out there, we have talked about a need for greater sensitivity and flexibility. But, where you are dealing with very large issues, my experience has been that sensitivity and flexibility are most likely where there are power relationships of an equivalent nature. I sit on other committees and one of them is the retail inquiry, which is under way at the moment. What we have established in that inquiry, and I think confirmed in this inquiry, is that local governments or local institutions are acted upon and are not acting—they are powerless, they are just conduits. They are not able to determine or influence or adjust national or state policy, and deliberately so.

State government legislation in Queensland, for instance, precludes local governments from doing more than carrying out their planning requirements. They cannot make a judgment as to whether the addition of an extra supermarket would have detrimental effects overall on the community. If the zoning permission is that you can have a supermarket there that is as far as they can go. That is a long introduction but essentially behind that is this question: do you think the principle of acting globally and thinking locally should be applied to national competition policy so that the application of it can be varied or adjusted or made sensitive to regional areas by appropriate institutions tasked with that? That may mean in

some cases a local government body or a regional development commission—whatever the institution is that is given that power—deciding not to introduce competition policy in some way, or adjusting it or diverting it in some way, to ensure that the local perspective is reflected in the interaction with national principles.

**Mr McAuliffe**—Yes, that may.

**Senator MURRAY**—What would be the appropriate body?

**Mr McAuliffe**—I am not sure about that. I do not feel comfortable about it being local government because of the problems that local government have with the composition of the council, the way council tends to operate, the sorts of people who are attracted to councils and the tension that often lies between deliberations or resolutions of councillors as against permanent staff, who operate like a mini public service system. Of course, some regional councils are quite sizeable, such as the city of Kalgoorlie-Boulder, and you can get quite a division of views and opinion internally. I think that could make it very difficult for such an organisation to take on a regional task of applying a national competition policy in a particular way. I think it requires something else—a regional development commission, for example. That may well work, if you have an effective regional development commission.

I think the experience in Western Australia alone indicates that they are not uniform in their levels of success. My answer as to why that should be so is to suggest that we have a look at one that has been successful, and work out what the dynamics are that make it successful and see whether—at least as a model to start off with—we could graft onto that some regional survey unit which could then go on to implement a variation to a national competition policy.

**Senator MURRAY**—The problem, as put to us by witnesses, with an appointed body as opposed to an elected body—and you outlined the difficulties you can have with an elected body—is that an appointed body can have the characteristics of a bureaucracy with all that that implies, both the good and the bad things, but also it can determine the flavour. For instance, if the appointees to the regional commission board are all dry economists, you will go in a particular direction. If they are all social scientists, you will go in another direction. So how you get the flavour of a region appropriately represented is an important political task.

**Mr McAuliffe**—I take your point. I think a revamped regional commission that has some elements of permanency in order to keep the structure together to achieve ultimate objectives—perhaps for term periods so that you do not have the same forces and opinions there forever—with appointees or invitees from other organisations, for example, councillors who themselves are elected, might give it a bit more sensitivity.

**Senator MURRAY**—Assume that we asked government to consider a policy of requiring a national competition council to consult with the equivalent of a regional development commission—however it is devised in the state. I understand there are eight regional development commissions in Western Australia.

**Mr McAuliffe**—It is something like that.

**Senator MURRAY**—Let us just extrapolate them—you cannot, but let us assume that eight by six is 48 for the whole Australia. Consultation is one thing but, unless you give them power, the consultation can have little effect on tough-minded and single-minded people who might run the National Competition Council right now. In our words, to vary a policy, you have to have the power and ability to do that. One of the things national competition policy was constructed to do was to override the instinct of state governments and others to say, ‘We will not do that.’ The way they did it, as you know, was with the financial penalty. If they did not do that, they did not get a financial dividend. How do you react to that view?

**Mr McAuliffe**—I can see what you are saying there about how that might work. I still think it is worth pursuing to see whether one could utilise or vary a regional development commission to put a softening touch into what might be an otherwise immutable national competition policy. In order to make it work effectively from both sides of the equation, maybe there should be some right of appeal against a decision on a certain level of variation. How that might be done, I do not know, but I would make my first port of call the Administrative Appeals Tribunal. That may be the appellate body to sort out what might become an area of difficulty between those who promote the national competition policy against those who seek to blunt it for certain regional regions.

**Senator MURRAY**—Last question. Let us assume it was difficult for the committee or for the government to persuade all of the other states that they might do this but we dealt with Western Australia on its own. There is nothing in principle to prevent the Western Australian government from entering into the appropriate policy compact with an existing regional development commission to reflect with it on issues of competition policy and the management of it, is there?

**Mr McAuliffe**—I agree with that. One would hope they could do it effectively. I really could not answer that part of it though.

**Senator MURRAY**—Thank you.

**Sitting suspended from 12.30 p.m. to 1.57 p.m.**

**KREPP, Mr Douglas Matthew (Private capacity)**

**CHAIR**—Welcome. Mr Krepp, do you have any comments to make on the capacity in which you appear?

**Mr Krepp**—I have been a councillor for the past 20 years with the City of Kalgoorlie-Boulder, and I am also a member of the Goldfields Transport Board. I am not speaking on their behalf but about concerns with those two organisations.

**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 and, at the conclusion of your remarks, I will invite committee members to ask you questions.

**Mr Krepp**—As I have stated, I have been a member of the city council for a number of years. I was a member of the council of the town of Kalgoorlie and continued as a councillor when the two local authorities—the Shire of Boulder and the town of Kalgoorlie—amalgamated to form the City of Kalgoorlie-Boulder.

As far as the matter concerning the national competition policy is concerned, firstly, as I saw it, it was advising the public of what was going to happen and, secondly, seeking any input, before it happened, from the public. I think too often what happens is that we read about these things in the paper, but more so in country areas you seem to be the last to hear about these matters. I say that national competition is great—it may save money—but, in the long run, at whose expense? I say that Telecom and these large organisations obviously need competition because they were government monopolies but, when you get to a place like the Shire of Coolgardie, which is a very small organisation, competition to them can mean the death of some of the services that are in the local authority.

We recently had a policy within local authorities where we could grant a 10 per cent benefit to a local contractor or supplier who was supplying goods and services to the city. We find that a little bit hard to justify now with these competition policies. Recently, we had a \$650,000 sewerage job that the local contractor lost by \$1,200. An outside contractor moved in with his equipment. The local contractor has to put off some of his staff because he has lost out on the job. But he is left behind to pick up the pieces. He is left to unblock the drains and do all the nasty jobs for the 12 months while someone comes in and picks up the cream and away they go. That is the extreme of a lot of things.

Local authorities are always looking at trying to maintain services within the city. Kalgoorlie-Boulder is not as bad as some of the other local authorities. We are a city of 30,000 people. We do have competition between contractors and suppliers by virtue of our size, but when it comes to large contracts we are like the rest of them and we just all fall in line. Price does not mean a better job. Sometimes you give a job out to price and then you find that the contractor you have given that price to is not as good as your local home-grown product. You suffer the consequences then of that job. I raise an issue about a photocopier that was purchased by some people. They got a cheaper price from Perth, but when it came

to service that machine the local supplier said, ‘You did not buy it from me. Why should I service your machine?’

That, in very small essence, is what we would look at in local authorities. We do not look just at the cheapest price that is offered on the day; we look at how we are going to service that business or at how we are going to service the swimming pool. We have local people, the YMCA, running a swimming pool now. We know that they have a backup Australia-wide, so we have a service we can call on with those sorts of people.

The same tendered price may not offer the same terms—that is, a longer guarantee of the product, better repayment terms or financing in buying that product, better product, better quality; they might both be tractors of the same horsepower, but they may not be the same in quality—and the time of delivery or the time of construction. These are all things that local authorities and businesses have to take into consideration when we look at what we are going to buy, not the price. The price sometimes becomes a last consideration. Just recently, the Goldfields Transport Board purchased buses from Malaysia. Those buses had a \$50,000 or \$60,000 saving. They were far superior to what we could buy locally in dollar for dollar terms. It was not our wish to go to Malaysia to buy buses. The steel was sent from Australia, the seating, upholstery and aluminium came from Australia and the glass was manufactured in Perth, yet it was cheaper to assemble these buses in Malaysia. It does not do anything for local business but, if you take the competition to extremes, we were quite within our rights in seeking the lowest price, provided the quality was the same.

The best competition that I have seen in local authorities for some time has been the amalgamation of the local authorities in Victoria. I know it was a very hard decision for the Victorian government to make, but they made that decision. They said, ‘All of you local authorities that are in mindless competition and in duplication of services in not being able to provide services because of your size will amalgamate.’ The same happened in the city of Kalgoorlie-Boulder. My partner and I engineered the amalgamation of this city. It was a battle. It was concluded by some councillors of the day that got both local authorities to agree. Since that time, the elimination of this competition within a city of 30,000 people has meant that we have built an \$18 million swimming pool, we have built new offices and we have new linear parks throughout the city where one would stop at a given line. You would be driving to Boulder and it would say ‘End of speed limit’. Ten yards on, it would have a speed limit of 70 kilometres an hour. That to me is a waste of taxpayers’ money, purely and simply because you had these imaginary lines.

If governments are dinkum about getting competition in local authorities, the first thing they should look at is some of these local authorities—how they operate, their size and what they service—because sometimes being close to the people is not the best. We have the Shire of Coolgardie, which encompasses Coolgardie and Kambalda; we have the Shire of Menzies and all it survives on is Commonwealth government grants. If these two local authorities were amalgamated with the City of Kalgoorlie-Boulder, it would mean that all this duplication of staff, equipment, services and the money that is granted by the federal government in Commonwealth grants to local authorities would find a better home because you would not be distributing to local authorities, all of which have to employ a CEO and an engineer. None of it is in the best interests of competitive policy.

The fringe benefits tax was a classic example of how it has a different effect on the country than it has on the city. In the city it meant that someone might have to do away with his free lunch and might have to pay for car parking, but when you got to a place like Kalgoorlie and its mining environs you found that companies were providing housing for its employees and they suddenly found that they were taxed. The company said, 'We are not going to pay tax on providing houses for employees. We'll put dongas in.' Dongas are world-wide huts where two people sleep in a 10-by-10 section. The company flies employees in and they fly them out. They work for two weeks, they are gone for a week and they come back—nothing for the city. Those people still use our libraries, our swimming pools and our roads but contribute nothing, purely and simply because they do not live here. When it comes time to fill in a form that says something about their place of residence, they say that they live in Perth. So, when the time comes again for the allocation of federal money, we do not get it.

That is part of what I see is happening by way of government legislation that is badly thought of and badly presented. We do not need to go too far to look at banks closing. The water authority has moved to Northam. Telstra is reducing its staff and Australia Post rationalises its services, yet we still pay the same taxes in the country as are paid in the city, only the equity of distribution does not come back to country areas. We are expected to have competition policies that are the same as those in the metropolitan areas.

Competition in metropolitan Perth or in metropolitan Melbourne really does not mean a lot because there was already competition there. Competition is certainly there by the sheer numbers of contractors and people available to supply local government and anyone else who requires their services. The cost of petrol to country WA is about 10c a litre, yet it costs only 5c per litre to bring up a litre of milk in a chiller wagon. The competition is never there in large companies that have the clout. Local government suffers the same because we have to pay the same prices, different from what is paid in Perth. Petrol is 10c a litre cheaper in Perth; ours is far more expensive.

The mining industry is a classic example of how to support local industry. Although they know that they are not getting the best prices all the time, they certainly support their engineering and technical services in a city like Kalgoorlie-Boulder, purely and simply because they know that when the time comes and there is an emergency on they can ring up these people and get 24-hour services. So, when the time comes again for large contracts to be handed out, in a lot of instances you will find that the local contracting firms always get a slice of the cake because the mining companies are interested in keeping them as a service industry for the rest of the year.

My argument always is: why does Canberra think it knows best what is best for Australia? The disparity between city and country is so great that I am sure that some of these people, when they think up these policies, do not take into consideration the impact that these things have on small places throughout Australia. We do not want to be treated any better than anyone else. All we expect is to get the same, and the same sometimes may require subsidies. As I say, we do not get a subsidy on our taxes: they take them away very quickly, never to see them return.

‘Competition’: is it competition or is it socialism? That is how I see it, from where I stand on the political fence. Sometimes I think you are catching the mice while the elephant walks past, because you may be achieving something in some areas but the social impact of what is being generated and done to country Australia is quite remarkable. Sometimes I wonder how some of these little towns actually stay together and do not fold up completely. You can go past places when you drive to Perth and see how these little towns of 1,200 or 1,500 people have virtually disappeared.

I know it is the way things go, but a lot of these things have been created by government. I know that you cannot turn back the clock but I want to see the clock stopped at the present time so that people like you can conduct a review of how it has all come about and whether it is in the best interests of Australia as a whole. It may be in the best interests of metropolitan Australia but it is certainly, from my point of view, not in the best interests of country Australia.

**Senator LIGHTFOOT**—Mr Krepp, what do you mean about stopping the clock? Do you mean stopping the implementation of the national competition policy?

**Mr Krepp**—Yes. I think that it is not widely understood, it is not greatly accepted and it is just another imposition on local authorities and people residing out in the country. We find that, with the way that government is going now, the compliance of government and local government means that you are just employing people to become bookkeepers.

**Senator LIGHTFOOT**—Have you seen anything of a positive nature with respect to the implementation of national competition policy?

**Mr Krepp**—No, I do not say that I ever have. I listen to the grizzles of the people who have to implement these things. I listen to the contractors, local people who miss out on jobs. They ring up and ask, ‘Why did I miss out on a contract by \$1,200?’

**Senator LIGHTFOOT**—There has been something of a sea change in Kalgoorlie over the past two decades with respect to the downgrading of employer numbers and the switch to subcontractors. Do you think that national competition policy, because there are small contractors here, may act too severely upon them in a negative sense?

**Mr Krepp**—It does, because what happens is that small contractors are just not able to compete. They get priced out of particular jobs and, as I said before, are only left with the crumbs. They are not content with the crumbs. They lose their staff to the big contractors when they come in, and there is not a lot of staff loyalty now out in business. They will go to whoever plays the best dollars. The way the mining industry have been steered to quota productivity and to larger machinery means that they are using fewer people now and are just going for productivity. People are the last concern for a lot of industries now.

**Senator LIGHTFOOT**—Kalgoorlie is famous for many things, not least of all gold. I am not going to ask you if there is enough competition in Hay Street, but the other things that Kalgoorlie is famous for are its pubs and its corner stores. What has been the progression or regression of these two items: the corner store and the pub, for which Kalgoorlie was well known?

**Mr Krepp**—I know from the liquor industry, because I have been in it for 26 years, what happens in competition with Coles and Woolworths. If you put a product out for \$25.95, they will put it out for \$23.95. Even if they do not stock it, they will buy it in just to beat you. As for the corner store, which was part of country Australia and metropolitan Perth, you drive around and they are not there any longer. If you go to America, you will see that corner stores do not exist. We are going down that path. I do not think it is the best. We have built a new suburb in Kalgoorlie called O'Connor. We have not got shops in the area and, to get a pint of milk, people have to go two kilometres to the nearest shop. We are not catering for people.

**Senator LIGHTFOOT**—What has happened with the demise of the corner store? Has there been an immediate rise in the prices from supermarkets? Supermarkets came in first, I assume, and that led to the demise of the corner store. But have you seen anything of a manifest nature where the major retailers—Coles Myer, Woolworths and others—have lowered the prices and corner stores have then shuffled off their commercial mortal coil and then the supermarkets have raised prices? Or have supermarkets kept a fairly static pricing arrangement?

**Mr Krepp**—I do not do the shopping, and so I do not know a lot about it, but I do know what has happened with alcohol. Unfortunately, what happens with the corner store is that, when they lose their custom, sometimes they have to put their prices up and then, when they put their prices up, of course they lose more custom. So it is a bit like a dog chasing its tail.

**Senator LIGHTFOOT**—With respect to this committee, should one discriminate between major local authorities like the City of Kalgoorlie-Boulder and the minuscule local authorities like Sandstone, Menzies and Wiluna?

**Mr Krepp**—As long as it is positive discrimination. If it is not positive discrimination, these places will disappear. It may be argued that they do not need to be there in the first instance, but they are there, whether for historical or geographical reasons, because of the large expanse. If these places do not receive Commonwealth grants, they will just fold up anyway—and then all of those people who reside there and require those services get nothing.

**Senator LIGHTFOOT**—But the thrust of national competition policy, it appears to me, and I would like you view on this, is nondiscriminatory between the vast local authority of Brisbane—which I understand is the biggest in the world—and a small local authority like, say, Sandstone, where there are 20-odd ratepayers. There does not seem to be any 'subject to' for those smaller local authorities. Should there be? Is the implementation of the national competition policy accepting that too harsh as a result?

**Mr Krepp**—There should be a line drawn around capital cities—wherever the boundary is defined—to say, 'Competition within here.' All the rest need their support, otherwise we are not getting equal treatment throughout Australia. Some local authorities will survive—in Brisbane, Melbourne or Perth—quite nicely but, once you get out into the country, others will not. Most of our contracts, you must understand, are 10 or 15 per cent dearer for getting something built in Kalgoorlie than they are in Perth.

**Senator LIGHTFOOT**—When you say to get something built, do you mean roads, bridges, infrastructure, houses, commercial?

**Mr Krepp**—I mean roads, bridges, water—anything you do in country Western Australia. I am a registered builder and so I know the difference in pricing. What happens is that we do not get any greater subsidy by the mere fact that we have to provide the same services at a far greater cost. It also means that when you try to bring senior staff into a place like Kalgoorlie you have to offer them housing costs, travel costs, movement costs and other things to encourage them to come to Kalgoorlie.

If you apply for a job in the city of Stirling, the company does not say to you, ‘Where are you going to live or how are you going to live?’ They expect you to have your own house. When they come to Kalgoorlie, the City of Kalgoorlie-Boulder has to provide them with a house—and then the fringe benefits tax comes in on top of that—or pay them \$15,000 to provide their own housing. It is a case of the dog chasing its tail. In the end, it is costing you whichever way you go. Metropolitan Australia does not have these costs.

**Senator LIGHTFOOT**—Do you think country Australia is perhaps misplacing the blame for some of the problems that exist in rural and regional Australia—and they do exist; there is no question about that? You mentioned fringe benefits tax. Are we inclined to overload the national competition policy horse when the blame should be directed at perhaps fringe benefits tax, the implementation of various reports, the preparation for the GST and so on?

**Mr Krepp**—I just raised fringe benefits tax as an example because it compounds the problem we have. When you bring in a competition policy it compounds existing taxes and existing things that you have. There is interaction between every tax that is applied. None of it can be hidden or avoided. We keep getting these impositions. We are getting to the stage where we can no longer afford them or need them.

**Senator LIGHTFOOT**—As a builder, have you seen anything of a positive nature in the building industry, where one would expect that if there was a positive economic reflection that would manifest itself fairly quickly and apparently, since the implementation of NCP?

**Mr Krepp**—No, because the building industry is such a competitive industry. People who are buying a house are very conscious of how many square metres of product they get for their dollars. They take it home and divide 113 square metres into \$70,000 plus another bedroom and they know exactly what they are getting. The days of people accepting things on face value are gone. The competition within the car industry is such that if there was only a Holden in Australia the car would be twice the price. Because there are other imported products and other products generated, that is the competition within the industry itself.

**Senator LIGHTFOOT**—NCP was born in 1985, give or take three or four months. Do you think it was one of those things that seemed like a good idea at the time but events have overtaken us with respect to taxation reform, the Hilmer report and so on and now NCP may be superfluous?

**Mr Krepp**—I read the Hilmer report and I did not see that any of it could be applied to country Australia. I really thought that was someone's idea. I never thought it was something that everyone would grab hold of and say, 'Here is a new department that we can start up and let us do something and implement it.'

**Senator MURRAY**—It is just a reminder that the pen is mightier than the sword.

**Senator LIGHTFOOT**—And the tongue is mightier than the pen. I do not know whether you are read out in the sense that you are exhausted from reading reports. It would seem to me that Hilmer and the NCP were implemented to see whether or not they do work and our evidence is clearly that they do not work in the country. Now we have the Ralph report, and that would seem to me to supersede both of them and the NCP, to some degree. Have you had a chance to read the Ralph report yet?

**Mr Krepp**—No. Is it something that is trying to cover up the errors of the first report or is it trying to improve it? That is what I tend to see of reports.

**Senator LIGHTFOOT**—I think it is just another report on a report on a report. I get the feeling, from the people we have spoken to, that there have been so many changes suggested by so many people over a number of years now that—and there is a lot of doubt about NCP—if what I say is true in that the NCP has not been sold properly, doubt is being created in people's minds as to whether it is being implemented properly. Do you think that that may largely be a conclusion they have drawn because they do not understand it?

**Mr Krepp**—I think that hits it right on the head. The Hilmer report was published and local authorities got copies of the Hilmer report and all that sort of thing. But, as I said, no one thought it would be implemented. They just thought it was an idea for change by some professor tucked away somewhere who got access to the Internet and then produced this report. Country Australia, as you know as a country person, does not think the same as metropolitan Australia. The people are completely different in their attitudes and outlooks. As much as country people are laid back, they are very competitive in their outlook. I believe that a policy which is implemented Australia-wide without thinking of how it will impact on different classes or groups or locations within Australia is wrong because it was not publicised enough. This is obviously why you people are here now.

**Senator LIGHTFOOT**—As my last question, could you tell the committee in a sentence what you think of NCP, without using any expletives? You are protected by parliamentary privilege—except for your dear wife.

**Mr Krepp**—It needs an honest review to see whether it was the right policy in the first instance and whether the parliament has the courage to say, 'This is wrong and we will change it. This is wrong and we will stop it,' or, 'This is wrong. We will make changes that protect certain people within Australia.'

**Senator LIGHTFOOT**—You are saying unequivocally that it is wrong. Is that right?

**Mr Krepp**—Yes. It just has too many things that affect country Australia that are not to its benefit.

**Senator MURRAY**—One of the things coming home to us is a general feeling from country Australia that neither state nor federal government cares enough for the bush or aspires to the old values. In other words, they do not follow policies which maximise population numbers and growth and development and so on in the bush unless they are particularly related to projects. They would be interested in a mining project or in a big agricultural scheme, but the general idea of bringing along the bush is missing. That is just a general impression we get from witnesses.

The question I want to put to you is this: given all the things that are happening, do you think it is time for governments to move back towards a far more vigorous and a far better funded and better focused regional development policy program? I can explain that a little. At present, there is a bias towards country Australia with some policies. For instance, with 45c stamps everywhere, it is plainly cheaper and easier for the mail service to operate in a metropolitan high density market than in country Australia. So that is a customer service obligation, if you like, which advantages the bush, and quite properly I think. They do that with telecommunications and other things. Road and rail infrastructure is often simply to provide access. It is not costed for a return. There is a bias in our system.

But if you asked a politician, ‘Is there a regional development policy which specifically provides major tax advantages or contributory schemes to move people out of the cities into the country, to keep country communities going and to enhance them’—not in terms of an economic value, just as a value of its own—then a politician would answer, ‘No, there isn’t such a scheme.’ Yet regional development policy is very much part of many nations’ policies. In fact, Ireland benefited enormously from many years of EEC policies until it could stand on its own feet. That is a long introduction. If governments were to become more dedicated to preserving country Australia, do you think that would compensate for much of the pain you have had to bear with competition policy, contracting out, privatising, downsizing—all the modern ideology?

**Mr Krepp**—Yes, I do. The federal and state governments need to start looking at what destruction has happened, whether intentional or not, within country Australia and to start addressing these problems—closing of schools and reduction of medical services. If you look at local government, which I am involved in, we are not out there to preserve the dollar; we are out there to offer a service. But we have to have a balanced budget at the end of the year. So we take from the rich part of Kalgoorlie, and we distribute those taxes and rates throughout the city so that it is equalised.

I do not see Australia as being any different from that. The government certainly takes very high taxes from Kalgoorlie-Boulder and the mining industry in general, which I know a lot about, but it is not distributed back into country Australia. You just see it in the services that are being reduced. If the politicians of Australia want to see the majority of people living on the coast in the next 20 years, the way they are going that is what will happen. I myself have no intention of leaving Kalgoorlie, but my wife does. She says, ‘Why should we have to put up with all these things that we can get for nothing in Perth?’

For example, the local authority has to provide the women’s refuge in Kalgoorlie, but if you go to Perth the state government provides all of the women’s refuges. We do not mind doing those things as long as we are compensated for them, as long as the federal grants that

come back into local authorities compensate us for the work that we do, because if we do not do this work people will leave.

We did not exactly want to build an \$18 million swimming pool, but it is part of the quality of life that we have to provide to keep people within our city. When you get people coming from the metropolitan area and being transferred up here as school teachers, unless you provide these quality of life values that they experience for nothing in Perth, you will not keep them. You then just have a shell of a community that is here under sufferance: they are quite happy to serve two years and then they go back to the metropolitan area.

I do not think the politicians want to have that in Australia. We want to have a happy country community. But the way things are closing down and the services are being cut and diminished all in the name of dollars and cents, I just wonder where we are going. Is it equity? That is the thing. Is it equity for us in the country as much as it is equity for people living in the metropolitan areas? I do not have an argument with people living in the metropolitan area. I think they require their services as much as we do. The only thing is that it costs us 10 per cent more to provide those same services.

**Senator MURRAY**—What I am really searching for is this judgment: if the community through its political institutions believes that there is a value in maintaining people in country Australia of its own—that has a value attached to it by itself—then the corollary would be that we must not impose the same requirements of efficiency and economy on the country as we do on the city. If your nurses are less busy, if your teacher has fewer pupils—

**Mr Krepp**—They close the school—

**Senator MURRAY**—If your employment service has less to do, you should not be closing those because they do not meet the standard; you should be maintaining them. It is that kind of subsidy of state and federal economic activity, even if it is less efficient than the norm. Is that what you believe should happen?

**Mr Krepp**—Yes. We do not see a lot of it in Kalgoorlie. When you see a little school out at Hyden closing down because it has 22 students and the difference between those students attending that school is three hours on the bus, that is not equity to my way of thinking.

**Senator MURRAY**—We had an interesting exposition of these thoughts in Perth from some country shire people. They were illustrating the problem of running contracts purely on efficiency and price terms. They said that, when you lose a contract that is locally granted, the money that that person got, even though it was a bit more than would otherwise be paid, went into the local shopkeeper, the local clothes seller, et cetera and circulated within the local community. Therefore, it was more valuable in total economic terms than contracting somebody who spent all their money back in Perth. Do you take the view that the price constraint under which local governments are bound is too restrictive and that you have too little discretion?

**Mr Krepp**—Absolutely. As I said, there are two definite regions of Australia, and we need to define them. We have defined them already in group A and group B tax concessions,

which were worth something once upon a time because country Australia got treated differently. But we do not have that now. We need to define where restrictions should be placed and who should be allowed to have a free rein. Again, it is all very well to contract your major services to a large supplier or whatever, but if in the meantime you lose the local supplier in doing that what have you gained? You have gained nothing because your city is lost.

**Senator MURRAY**—You have lost your rate space, the kid that goes to school, the supporter of the local footy club, et cetera.

**Mr Krepp**—If you walk down Merredin you see the shops that are closed, if you drive through Kellerberrin you see six or seven shops closed and if you go through a place like Tammin that used to have 1,200 people but now has 300 you will see there are shops closed. That has not just happened on its own. A lot of it has been caused by government decisions. I know we cannot turn the clock back, but there is a time in life where we need to say, ‘Hang on, let us have a look where we are going.’

**Senator MURRAY**—When country Australia has real problems such as major drought, major flood or whatever, disaster funds appear. Do you think there is a case for disaster funds to be made available for areas of Australia which are really struggling as a result of all these policies to try to recover them somewhat—to try to develop plans and schemes which will make them viable—or do you think that is trying to turn back history and you will never get there?

**Mr Krepp**—There are times when things are good, and that is when governments should be putting aside disaster funds to deal with the situations of Brisbane and other places that get floods and where the people cannot get insurance. We have also had cases in Western Australia, such as when floods came through Moora and people could not get insurance. We have to have emergency funding available not just for country Australia but for Australia—

**Senator MURRAY**—I was drawing an analogy and you might have misunderstood me. What I mean is that governments always find money for a short-term crisis—that dreadful occasion at Thredbo, a dreadful drought or a dreadful flood—but they seem not to find money for a long-term crisis. Yet it has the same impact on people’s lives in that jobs are lost, life savings are lost and communities collapse.

**Mr Krepp**—There comes a time when people have to absorb their own risks. Droughts are natural disasters as much as floodings are. As long as people are provided with cheap loans—not so much handouts because a lot of people do not accept handouts—if loan funds are provided with the right interest rates, sometimes that is all that people require to get back on their feet.

**Senator MURRAY**—Where I am getting to in my last question is this: this policy has not been described like this but again you can interpret witnesses such as yourselves as saying, ‘This is a Canberra induced disaster at its worst. If it is a Canberra induced disaster, Canberra should be providing policies or funds to correct the problem and to fix it,’ and that is the point I am putting to you.

**Mr Krepp**—Especially by way of Commonwealth grants. As you know, Commonwealth grants are on a per capita basis, but they do not reflect the needs and requirements of a region. If a city is going through a great expansion, they require extra funding or if they are going through a drought or hard times then sometimes they need extra funding because people cannot pay their rates. That is it in a nutshell. If people do not pay their rates, the councils are diminished in the work that they can do. There comes a time when the per capita grants are not necessarily all that should be done. I think there are other reasons that they should look at each year in the local authorities. They should ask, ‘How are you going?’ Kalgoorlie is going through a lean period at the moment, but we have had 20 great years. We should not be propped up because we had one lean year, because we have had a great period for a long period of time.

**Senator MURRAY**—But the country towns in this region might need it?

**Mr Krepp**—That is right. There are other towns—places like Norseman—that have lost most of their mining but where people are still stuck because they are stuck with their houses. They are stuck there on social benefits purely and simply because there are no jobs. They cannot walk away if they still owe the bank \$40,000 on their house.

**Senator MURRAY**—Thank you.

[2.44 p.m.]

**PIPER, Mr Edwin Walter, Director, Corporate Services, City of Kalgoorlie-Boulder**

**CHAIR**—Mr Krepp, you may not know the answer to this but Mr Piper may know it: how much did you get out of the competition bonus payments to your city?

**Mr Krepp**—If we got anything, it would be news.

**CHAIR**—I am sure you would have used it; I just wondered how much you got.

**Mr Piper**—In the order of \$9,000.

**CHAIR**—And how many ratepayers do you have?

**Mr Piper**—We have just over 11,000 assessments, 18,500 electors and a population of about 30,000.

**CHAIR**—So you are talking about 50c a ratepayer?

**Mr Piper**—In that order.

**CHAIR**—I just have a couple more questions of Mr Krepp. Early in your evidence you mentioned the sewage contract and said that it went to a Perth outfit instead of to the local contractor who I presume had been doing this work for some time; is that right?

**Mr Piper**—He had done one previous project for us.

**Mr Krepp**—But they were Kalgoorlie based. They had a shed located in Kalgoorlie and they were all Kalgoorlie employees. We came under a lot of criticism for that one.

**CHAIR**—Mr Krepp, I thank you for your evidence. I now welcome Mr Piper, who has already given us a bit of evidence. 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, and at the conclusion of your remarks we will invite committee members to ask you questions. At the end of your evidence, could you make yourself available to the *Hansard* officer in case there are any issues they want to clarify with you.

**Mr Piper**—First, I would like to apologise for my non-appearance this morning. It was an oversight, and I apologise for that. I am here to discuss two issues. Councillor Krepp certainly would have given you an in-depth insight into the city and the problems with the national competition policy as we see it. Specifically, I would like to address the matter of tenders and the matter of local laws, and the cost in both of them.

In relation to tenders, Councillor Krepp mentioned at the end of his evidence the matter of the sewerage contract being let to a Perth organisation because they happened to be the cheapest. We have been looking for some time at a local content policy—and we did have one beyond five years ago—within our tender documents. However, on advice from people, whether correct or not, we eliminated the local content policy. One reason was that there were some advantages being taken by local contractors, specifically those that supply an article such as a car and getting a percentage on that which to our mind was not warranted. Another reason was the possible impact of national competition policy, and hence it has been eliminated from the tender documents. We believe that currently the local government department of WA are looking at it again, and hopefully they will bring out a model clause and we will put it to council to have it applied in Kalgoorlie-Boulder.

The problem, as we see it, is that, if we go purely on price, most contracts that we let would be, and probably are, let to major Perth organisations. The impact on Kalgoorlie-Boulder and the small operators within Kalgoorlie-Boulder, whilst it has not been felt too greatly to date apart from the odd instance, would become greater and greater. As things tighten up in Kalgoorlie, as they are at the moment, so there will be an impact.

**Senator MURRAY**—Mr Krepp said that your dividend from the competition policy was \$9,000. Why not keep the local purchasing clause in? The maximum you would have lost is \$9,000. What possible penalty could they apply to you if you kept a local purchasing content requirement in your contracts and continued with it?

**Mr Piper**—I guess that is where I am coming from. We do not know what the penalties are and what are the rights of appeal. The \$9,000 was essentially just a dividend back to help us defray some of the costs that we were incurring. For example, when we look at updating our local laws, we budgeted initially this year \$40,000 to review all our local laws and then the necessary advertising in government *Gazettes*.

**Senator MURRAY**—You are not obliged either by law to accept the lowest priced tender, are you?

**Mr Piper**—No, not at all. But we are always subject to appeal, as we were in the case that Councillor Krepp was talking about. Thank goodness that was a local organisation that appealed, but they did not win the contract; they did not win the decision to override it. I guess the concern that we are facing is that, if we do let it to someone other than the lowest tenderer, are we subject to appeal through the national competition policy?

**Senator MURRAY**—Which costs you money.

**Mr Piper**—Yes. So that is where we are coming from on the tendering side of things. The other thing I want to briefly discuss is the local laws. The local government department, under national competition policy, requires us to review all of our local laws to ensure that they are not anticompetitive. I think the minister for local government was quoted as saying that that was ‘to eliminate some of the bureaucracy in local laws’. I mentioned the cost to go with this process, to get the local laws reviewed and then readvertised, is in the order of \$40,000. We anticipate spreading it over this year and next year, so it will be spread over two budgets.

When the minister for local government spoke of eliminating some of the bureaucracy in local laws, those laws are essentially struck to protect the community, as the council of the day said, from happenings that it can correct. Most local authorities review the local laws from time to time, but to review them every eight years will have cost implications. I guess in eight years it will certainly be more than \$40,000 because, whether there is one change or 100 changes to local law, essentially the same amount of administration is required to read it and advertise it. They are the two areas I wanted to discuss. There are many emotive issues that Councillor Krepp has spoken of and I will not repeat them.

**Senator MURRAY**—Would you like to see the committee recommend to the government that an amendment to the enabling legislation is passed such that councils could not be penalised in any way for having a local content policy within their contracts?

**Mr Piper**—I certainly would. It would be appreciated by everybody through the bush. Certainly there is a cost impact in operating from Kalgoorlie as distinct from operating in Perth. Let me give you an example. We are currently looking at upgrading our streetscaping in the CBD and we are speaking of replacing all of the footpaths in Hannan Street, Kalgoorlie and Burke Street in Boulder. The engineer has spoken to me—because I have certain thoughts on training schemes—and has said that it would be far cheaper to engage people from Perth or come up and mobilise from Perth and bring crews from Perth and do the project than to engage a local contractor in Kalgoorlie or Boulder. That is purely on a scale of economics and size.

**Senator MURRAY**—But that is the point. Let me go through a set of steps. If the committee were to recommend such a thing, it would never stop the right of appeal existing, because obviously people have a right to appeal if they believe they have been improperly dealt with in the tender. The next step is that your engineer's remark about local content only relates to a pure economic cost. It does not take into account the multiplier effect of Kalgoorlie people being paid, of them paying rates and having kids. It is not a total evaluation. The next possibility is that the committee could recommend to the government, in every case where an evaluation of an out-of-town tender was to be looked at, that the real cost and the real benefit be addressed in the way I just outlined. The problem we face, if we made such a recommendation, is that, as you know, there are shires that just do not have the resources to do that. They are not professionally equipped to assess that. How do you react to that?

**Mr Piper**—You are certainly right that there are shires and towns that do not have the resources or the manpower within the towns to do the jobs. When it is necessary, I guess, you must look at employing Perth firms.

**Senator MURRAY**—But I am talking about even being able to do the proper analysis. Your people could say, 'The price is 10 per cent more, but we will be using 40 Kalgoorlie people. Their average monthly expenditure is such as such; that runs on to the town, and here is the multiplier effect. Therefore, the overall benefit is greater than the supposed extra cost.' Somewhere like Esperance shire, with 1,400 people and a couple of fellows running it, would not be able to do that evaluation.

**Mr Piper**—It is certainly difficult. I am not sure what the answer is, short of creating another bureaucracy to assist local authorities to assess the local content of tenders. Just defending the engineer's view, in any local authority and in any organisation everyone operates to a budget, and they like to get the best value they can out of a budget. While financial assistance grants are determined with in-built disability clauses to assist in some way with the problems of the bush, I think it falls a long way short of counteracting that sort of issue that we are talking about there where we are speaking of spending \$1 million and his thoughts are that we could get 20 per cent more work out of employing an organisation from Perth than from a local organisation.

**Senator MURRAY**—But then you come to the next point—which was Councillor Krepp's point, if you accept that—that the way to resolve that is in fact for the per capita grant to be higher in country areas than in urban areas, because of the need for you to have a bit more budgetary leniency so that your engineer will not be quite so concerned that he has to take a Perth contractor. Is that viable or does that open up a Pandora's box of bad management, inefficient organisation and so on?

**Mr Piper**—On the issue of financial assistance grants, there is some factor in the formula of a needs basis. Whether that needs calculation is sufficient or not is debatable. There has been many an argument in WA over the adequacy of financial assistance grants. I am not sure of the figures. I cannot quote anything at the moment, short of saying that there is a perceived need in WA for a major review of the whole financial assistance grants issue, because it is unfairly biased towards the two major eastern states.

**Senator MURRAY**—Underlying all of this is a perception that if you were to address the local content-local contractor problem you have to accept essentially a higher cost structure in the short term. If you accept a higher cost structure, your whole grant system has to adjust for that. The reason you are adjusting for that is that you believe it is of greater value to country Australia to source its services and its goods as far as it can from within country Australia, because the money circulates around and around. But, for that value to be given realisation, it has to go all the way up to the Commonwealth government and, of course, it gets wound up in money terms. There is a financial cost attached to it. Really, what we are asking people such as you is: do you believe that the Commonwealth government should wear the extra cost attached to giving more value to country Australia?

**Mr Piper**—Certainly we would like to see a greater emphasis that way and a greater accounting by the federal government for the bush areas. But if the cake is only so big then I think that the distribution may need more looking at. There are certainly many councils in the metropolitan area that are on their maximum grant, which means that essentially they get it to the detriment of other local authorities. I think there is really a problem within the distribution of the financial assistance grants that does not compensate for the issues that we are talking about, one being local content for tenders. We, as a council, would like tenders to go almost totally to local people.

We certainly recognise the benefits of keeping money within the town. Particularly in the slight downturn that we are having now, we are going to aim to keep employment up. The only way to do that is to let contracts within the city of Kalgoorlie-Boulder if we can or at least to insist that, if it goes to an outside organisation, there is a certain percentage of local

employment—that they do not bring up truckloads of men from Perth but employ local people. That, essentially, is what the local content policy that we are after is about. Once we realised the shortfalls in the supply of a vehicle to get a 10 per cent or 20 per cent bonus—or whatever the figure was—we brought in a factor that there had to be a percentage, which I believe was something in the order of 30 per cent, of local labour to attract the local content percentage.

**Senator MURRAY**—You do realise that this policy is at the heart of the current account deficit, do you not? Your lack of a local content policy means that you buy from Perth. Perth's lack of a local content policy means that they buy from Melbourne. Eventually, they all end up buying from overseas.

**Mr Piper**—I agree.

**Senator MURRAY**—If there is no local content policy in a billion dollar project in Queensland, it would not make any sense.

**Senator LIGHTFOOT**—Mr Piper, you mentioned, *inter alia*, that you saw—I think you inferred—a duty to protect the community. I think your phrase was to 'protect the community'. In our terms of reference, the public interest is written into our terms of reference. There is not too much difference between your 'protect the community' and 'in the public interest' that we have in our terms of reference. Where is it that we are not following your 'protect the community'/'public interest'?

**Mr Piper**—I was just making a fairly bland statement that by-laws are created to protect the public interest. To now have to spend \$30,000 or \$40,000 to review those by-laws as a statutory requirement—

**Senator LIGHTFOOT**—To comply with NCP.

**Mr Piper**—to comply with NCP when, in the opinion of the council—following reviews that it takes periodically—it is in fact complying with public interest.

**Senator LIGHTFOOT**—How do you get over the dichotomy of your protecting the community and, say, agreeing at council level to allow the development of, say, a supermarket when you know—and you have been given evidence—that you are going to decimate the corner store or some of the smaller remaining retailers?

**Mr Piper**—This is one of the occasions when I am glad I am part of the bureaucracy and not part of the political process. They are the decisions that councillors have to make, and they are advised by professionals. It is a major problem. It has seen the downgrading of small retailers in Bunbury and Geraldton. My own thoughts are that a major development within Kalgoorlie-Boulder would certainly affect local small shopkeepers.

**Senator LIGHTFOOT**—It has affected them in fact.

**Mr Piper**—It has with Coles and Woolworths, but there is currently talk of another major development, and that will have a greater impact. Whether it is, as Councillor Krepp

says, the ultimate elimination of every small corner shop, I am not sure, but it would certainly have a major impact.

**Senator LIGHTFOOT**—Are there any times when you feel that you are not part of the bureaucracy but part of the political process?

**Mr Piper**—I guess it may be said when it is convenient.

**Senator LIGHTFOOT**—I know the feeling. There has been some good with respect to national competition policy, particularly with respect to deregulation. With gas, for instance, you now have the gas pipeline coming here. That was unthought of before gas was hived off from electricity. The result of that was that gas prices dropped in generic figures from something like \$4 a gigajoule down to something approaching \$1 a gigajoule. That allowed the high capital cost of the gas pipeline to still be feasible. What else do you see as being a good spin-off for the City of Kalgoorlie-Boulder with respect to gas? Could you tell the committee what benefits have occurred as a result of gas?

**Mr Piper**—It is certainly going to encourage more industry to come to Kalgoorlie-Boulder. We are looking to diversify from being perceived to be a mining town to a town in which mining continues to play an important part but which is also a major industrial centre. To that end we have, over several years—and I am sure it is still in the workings—endeavoured to develop as a transport hub for WA with stuff freighted into here and then dispersed from Kalgoorlie through to the north, south and west. Certainly, in the four- to five-year outlook and possibly beyond that, the lower energy prices are a major attraction to encouraging industry into Kalgoorlie.

**Senator LIGHTFOOT**—Councillor Krepp wrote to me some years ago and asked for assistance with respect to the establishment of a stainless steel manufacturing industry in the Kalgoorlie region. Given that you have gas, nickel—an essential ingredient in stainless steel, although not the only one—and the raw material at Koolyanobbing, do you see those sorts of projects under NCP, particularly with deregulation, being possible or probable or do you still see them as being too far away in reaching some sort of commercial consensus to establish?

**Mr Piper**—It is certainly the ambition we have. The combined efforts of the chamber, the council and the Goldfields Esperance Development Commission fund an industry development plan and that is exactly what we are looking at—bringing industry to Kalgoorlie. There is one currently in the pipeline—a competition between us and Northam to get hold of a rare earth project. There is certainly considerable work and effort going into attracting the organisation to come to Kalgoorlie. Part of it is going to be what we can offer.

Certainly there are some hindrances, such as the cost of water and one thing and another, but the City of Kalgoorlie-Boulder is in a fairly unique position in that we own and run the water and sewerage system. We treat seven megalitres a day and we currently use on average four megalitres a day. The other three go to evaporation, waste or whatever. We are currently out to tender now—it closes in four weeks—to totally upgrade our plant and to hold these extra three to four megalitres of water and to sell them. If we can sell them to an organisation that wishes to set up a new industry in Kalgoorlie-Boulder, I am sure that it will be looked on very favourably in lieu of offering water to some organisation which is already

in Kalgoorlie and already has a suitable system and infrastructure through the water authority. If we can assist some new industry with some start-up benefit, I am sure we will.

**Senator LIGHTFOOT**—The City of Kalgoorlie-Boulder also owns the airport.

**Mr Piper**—Yes, that is correct.

**Senator LIGHTFOOT**—Does it own any other major infrastructure or investment projects?

**Mr Piper**—Endowment Block in Hannan Street between the Town Hall and St Barbara Square is owned by the City, and certainly generates some income for the city.

**Senator LIGHTFOOT**—Isn't it fair to say then for all the criticism of NCP that something has flowed from it of a positive nature, that is, gas deregulation, although it may be said that gas deregulation was well on the way to being implemented before NCP was released?

**Mr Piper**—I was going to say that I do not know that NCP was totally responsible for gas coming through Kalgoorlie. If we talk about price comparisons, I still look at airfares between Kalgoorlie and the eastern states or Perth and the eastern states. When you relate it back to miles travelled, I think we more than compensate airlines for their trips between towns over east. I think our prices are still astronomical.

**Senator LIGHTFOOT**—Would you like to see some competition, although there is none now, on the direct route between—and I commend you for this—Kalgoorlie, Boulder and Adelaide? Would you like to see competition on that route? There is none existing now, is there?

**Mr Piper**—There is none existing at the moment. Certainly, had it not been for Qantas being interested and the City offering concessions, I still do not think it would be in existence now. The main company were not interested at all. Whether they are now or not, I am not sure, but certainly part of the brief of the city's airport committee at the moment is to look at attracting flights from Queensland through Alice Springs to Kalgoorlie and through to Perth. To answer your question, I think it could only do good for another competitor to come into that line. The concessions we granted to Qantas have gone now, so they would be operating on an equal footing. Quite frankly, I am astounded that the other crew have not come in.

**Senator LIGHTFOOT**—Isn't it an anomaly, if it is not in direct contravention of the spirit of NCP, that only one airline, one carrier, exists on a major route—that is, between Kalgoorlie and Adelaide?

**Mr Piper**—We would like to see competition, but I guess Ansett have done their sums and feel that it is still not economical to fly two planes out of Kalgoorlie to Adelaide.

**Senator LIGHTFOOT**—Have you seen a difference in transport, which has been somewhat deregulated through NCP in the last couple of years?

**Mr Piper**—No, I cannot say I have.

**Senator LIGHTFOOT**—You have seen no positive results for the city?

**Mr Piper**—No, I cannot really say I have. There may well have been. There may have been marginal decreases in the cost of freight. I must admit that I very seldom go down to that level and look at the invoices that are coming in. We do not go to tender, so I am not aware of the price structure.

**Senator LIGHTFOOT**—Are you aware that the overriding concern of the government is the public interest and not the hard dogma that is often expressed with respect to competition? Is it your considered view that the dogma of competition has paramountcy over public interest? What is your view?

**Mr Piper**—My own view is that I think the perceived benefits in it by people in the eastern states or Canberra or wherever it is are not appreciated by people in the bush. I think it is a dogma and a policy that is being religiously followed, despite the arguments I put up in opposition to it such as the compliance costs. That is my view. I do not think that the problems of the bush are being appreciated.

**Senator LIGHTFOOT**—Is it your opinion then, Mr Piper, that it is possible to finetune NCP for different areas of Western Australia? For instance, I mention the Kimberley, where there is no major town; the Pilbara, where there is a major town of almost city status; the Perth metropolitan area; the south west; and Kalgoorlie, which is different again. Is it possible we could retain NCP not in its present immutable form but a mutation of NCP so there would be benefits for a major mining commodity area like Kalgoorlie or do you think that it is too immutable, that it cannot be changed and that you ought to go back to something that existed in pre-NCP days?

**Mr Piper**—I found very little wrong with the pre-NCP days, to be quite honest. That may be a bit prejudiced or biased, I am afraid.

**Senator LIGHTFOOT**—Do you mean that there were fewer headaches and that there was more for the bottom line, in that it was a bottom line decision?

**Mr Piper**—Local authorities could make their own decisions without the fear of national policy competition policy guidelines being imposed. I go back to what I was saying about tenders—compliance and whether there is an appeal right against the issuing of a tender based on local content.

**Senator LIGHTFOOT**—That seems pretty unambiguous. Just to sum up, you see nothing of a positive nature that warrants the implementation of NCP and that, quite unequivocally, you would rather have pre-NCP days than the current ones.

**Mr Piper**—I would.

**CHAIR**—Thank you very much for your evidence. I think it would be fair to say that we have got some pretty good evidence today about what you people think about competition policy.

**Mr Piper**—You will always get a straight answer out of someone from Kalgoorlie.

**CHAIR**—Indeed. Thank you very much.

[3.18 p.m.]

**PURCELL, Mr Colin John, Acting Chief Executive Officer, Goldfields Esperance Development Commission**

**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. At the end of your evidence, would you make yourself available to the *Hansard* officer in case there are any acronyms or anything that they wish to clear up with you.

**Mr Purcell**—I thank you for allowing me to meet with you this afternoon. We did make a representation to the Senate committee with a paper, and today I would like to address the issues in it. Two of the major national competition policy issues that are facing the Goldfields-Esperance region are that the region, whilst one of the state's most wealthy producers, is one of the poorest in terms of infrastructure and services, and the dependence of the region on resource projects to create the demand for infrastructure upgrades. The region's isolation and sparse population is its major problem in creating a competitive market. Some infrastructure and service markets are unlikely to ever be opened to a competitive market, and the region requires strong community service obligations and access regimes for infrastructure and service needs to be met.

Senators may not be aware that the area of the Goldfields-Esperance region is 771,000 square kilometres, which is twice the area of Victoria, with a population of around 57,000. It is very sparsely populated, and that is one of the major issues that militate against it. I wish to address each of the issues in particular.

Firstly, the area's economy is, as I said, one of the strongest in the state. It produces goods and services here worth in excess of \$3 billion per year. However, most of this wealth is produced from gold and nickel industries in the goldfields and from agriculture in the south-east of the region. Because of the region's reliance on these core industries, the government infrastructure and services it receives are dependent upon the strength of those industries. Projects linked to upgrading the electricity, water, gas and telecommunications markets have largely been predicated upon major new resource projects proceeding.

The problem is that many communities in the region are considered economically unviable and do not have the resource projects to rely on for infrastructure and service upgrades. The GEDC does not believe that the NCP will positively change this situation. The shift towards market orientated government infrastructure and services will put those communities in the region that are without a strong economic base even further behind. A case in point is the move to a national rail market in parallel with the privatisation of Westrail's freight services. The GEDC's concern is that the new operator of this service will concentrate their efforts on improving the Kalgoorlie-Kwinana track, which is part of the national rail market, while paying minimal attention to the economically smaller but regionally significant Kalgoorlie-Esperance track.

Secondly, in terms of government infrastructure and services, the region is very isolated from the rest of the state, let alone from the rest of the country, for the NCP to have much of a beneficial impact. In terms of the Western Australian energy market, only the city of Kalgoorlie-Boulder and the shires of Coolgardie and, to an extent, Ravensthorpe are part of the south-west electricity grid. All the other shires rely on isolated power systems run by Western Power. Likewise, the Goldfields Gas Transmission pipeline only extends as far as Kambalda, which means that a large part of the region has no access to any source of natural gas.

Isolation is an enormously important factor in telecommunications coverage of the region. The vast distances between communities in the region make it very expensive for Telstra to even extent coverage of mobile telephones to these remote communities. Considering Western Australia's isolation from an emerging national energy and gas market, any benefits provided by the NCP are unlikely to be felt by this state. The lack of benefits is further compounded in regional areas like the Goldfields-Esperance region, which is isolated from some of the major infrastructure networks in the state. The GEDC believes that the region's isolation from most government infrastructure and service networks will not see any benefits from the NCP.

Thirdly, with regard to population, coupled with its isolation from the rest of the state, the region's population is another factor against the NCP working in the region. Of concern to the region is the pattern of population growth. Between 1993 and 1998, the region had a population growth rate of 1.9 per cent per annum but there were great growth rate variations across each of the nine shires. The two most populated shires—that is, Kalgoorlie-Boulder and Esperance—had moderately healthy growth rates of three per cent and 2.3 per cent respectively.

The shire of Menzies had a growth rate of 3.6 per cent which, while on the surface appears very strong, is coming off a very low population base of some 343 people. The shire of Ngaanyatjarraku has the highest growth rate of all the shires, having 4.2 per cent per annum growth. However, the shire is the poorest in the region in terms of resource projects, economic development and infrastructure. It does not have great capacity to absorb this growth.

Two shires have virtually negligible population growth. They are the shires of Leonora and Ravensthorpe, possessing a population growth rate of 0.1 per cent and 0.2 per cent respectively. Leonora's growth is especially worrying as between 1997 and 1998 it had a population growth of negatively 3.3 per cent. An obvious cause of this is the reduction in size of the large construction work force at the Murrin Murrin laterite nickel mine. Of equal concern are the three shires that recorded negative population growth. These shires are: Coolgardie, minus 0.9 per cent; Dundas, minus 2.1 per cent; and Laverton, minus 4.8 per cent. An obvious cause of this decline in population is job losses at gold and nickel mines like Higginsville, Bullabulling and Kambalda.

These negative growth rates will have an adverse impact on the ability of the shires and the region to attract new infrastructure and services as there is not the competitive market to support them. Some have argued that the growth of fly in-fly out mining operations has caused a slowdown in the region's population growth and that something should be done to

reverse the trend of these operations. Worth noting is the Department of Commerce and Trade's 'Living in the Regions' study. Only 49 per cent of the people in the Goldfields-Esperance region felt any affinity with the region compared with the average across all regions of 73 per cent, with employment being the main reason why people move to the region at 69 per cent against a regional average of 47 per cent, and with 36 per cent of the population indicating they would leave the region within five years. This highly mobile population with little affinity to the region is unlikely to see high growth rates in long-term settlement in the region.

The GEDC concludes that the region's current population demography will always mitigate against it being able to attract new government infrastructure and services. The NCP is unlikely to change this situation as it is uneconomic for government infrastructure and service providers to cater for declining population in isolated areas. The experience of the infrastructure policy at a state level has made the GEDC uncertain about whether NCP will improve government infrastructure and service provisions to the region as well. The GEDC has been cautious over third-party access provisions which form part of the Westrail freight sale. The GEDC believes that the strength of the access code cannot be determined until they have been actually tested. Third-party access to rail track is vital if the region is going to see competitive freight rates resulting from a privatised system.

Apart from the Goldfields Gas Transmission pipeline, another energy market of concern to the GEDC is the tender for private power generation in the shire of Esperance. As stated previously, the desired outcome of this process is for costs for commercial large energy users to be significantly reduced. However, the terms of reference for this process do not give the GEDC the confidence that this will be the case. The GEDC is uncertain whether NCP will generate enough raw competitive pressure on vital infrastructure and service markets in the region. It believes that some infrastructure policies at a state level have not engendered competition as promised, and it does not believe that the NCP will make that much of a difference either.

In conclusion, the GEDC believes that the national competition policy will be of negligible benefit to the region. The region's government infrastructure and service markets are unlikely to ever feel the full benefits offered from the NCP. This is due to the region's economy, its isolation, its population and its past experience with other infrastructure policies and suggested benefits that have not been realised. The region will also suffer other disadvantages outlined in the Regional Development Council's report on this matter.

The GEDC concludes that there is still a strong role for government to play in the provision of infrastructure and services as a community service obligation. While the region does have a strong economy, the benefits flowing from this are not seen across the region and much of the population is isolated from reliable government services. Further, the region's continued economic and social development warrants a high level of government support. The withdrawal of government support from the region could see the outstanding economic performance of the last decade generated for this country significantly diminish. The economic benefits that Australia receives from these regions demand a community service obligation to provide an equitable standard of services and infrastructure to coastal cities in Australia, notwithstanding the NCP.

**CHAIR**—Thank you very much, Mr Purcell.

**Senator LIGHTFOOT**—You mentioned that some of the shires in the Goldfields Esperance Development Commission had a positive growth and that most of them had a negative growth, albeit slight for some. Let us take Laverton shire, a frontier shire. Nothing much exists eastwards until you get to the Ngaanyatjarraku shire, which is of course 99 per cent Aboriginal and which has had a big growth, although there is very little infrastructure there. But there has been a lot of money poured into the Ngaanyatjarraku shire over the past decade or so. Is that correct?

**Mr Purcell**—Yes, through Aboriginal Affairs and through ATSIC.

**Senator LIGHTFOOT**—There is not a lot of infrastructure in terms of productive commercial enterprises.

**Mr Purcell**—Communications are notoriously bad.

**Senator LIGHTFOOT**—Yes.

**Mr Purcell**—We are trying to address that at this point in time. There has been a lot of money going in from various government departments looking at health. For instance, the lands are serviced in terms of health out of Adelaide. If someone gets sick, they are evacuated from there either to Adelaide or to Darwin by the Royal Flying Doctor Service. It is flying there, as I understand it, about four times a week, so it is an expensive exercise.

**Senator LIGHTFOOT**—It is a very expensive exercise. But what I was getting at was that the lack of infrastructure for that particular Aboriginal shire has nothing whatsoever to do with NCP.

**Mr Purcell**—But it does where we are trying to improve communications, to get to equitable communications. You just cannot interest Telstra or Optus in looking at the lands—there is not a dollar to be made. We got them to look at the Laverton area and there was not a dollar to be made there, except all of a sudden they realised that they were selling \$11,000 worth of phonecards at Murrin Murrin while the work force was there. All of a sudden it became economic to put mobile phone facilities there.

**Senator LIGHTFOOT**—Laverton shire lost the subeconomic mine of Windarra in recent years and that did not improve the work numbers or the population numbers in Laverton, did it?

**Mr Purcell**—No, that is true.

**Senator LIGHTFOOT**—But there has not been enough of a corresponding increase in the production of gold around Laverton?

**Mr Purcell**—Not to make up those numbers from Windarra.

**Senator LIGHTFOOT**—Once again, I want to try and weed out that which is not responsible to NCP. What about Ravensthorpe? There is a big multimetal mine down there. It has enormous potential, but one of the big drawbacks, as you mentioned, was the high cost of electricity in Esperance, which of course is part of the Goldfields Esperance Development Commission. Is Ravensthorpe shire your most westerly local authority?

**Mr Purcell**—Yes.

**Senator LIGHTFOOT**—What part can NCP play—if any—in ensuring that there is a lowering of the electricity tariffs, which are amongst the highest in the nation?

**Mr Purcell**—I am not sure that it can play any. Ravensthorpe is not part of the grid, so it has an independent power supply. I know that the particular mine there, Comet Resources, is looking at what it is going to do: whether it is going to ask Western Power to extend the grid to it at some quite significant cost or—

**Senator LIGHTFOOT**—Would you tell the committee what the power generation is there?

**Mr Purcell**—The power there is diesel generated.

**Senator LIGHTFOOT**—That comes into Esperance's wharf facilities?

**Mr Purcell**—No, Ravensthorpe has its own stand-alone power generation.

**CHAIR**—Diesel again?

**Mr Purcell**—Yes, diesel.

**CHAIR**—What sort of kilowatts?

**Mr Purcell**—Sorry, I would not have that figure.

**Senator LIGHTFOOT**—I understand that it is over 30c a unit or a kilowatt hour.

**Mr Purcell**—It would be per kilowatt hour.

**Senator MURRAY**—That is quite expensive.

**Senator LIGHTFOOT**—That is extraordinary.

**Mr Purcell**—The diesel fuel excise may make some difference to that. That may bring your fuel prices down, but whether that brings them down significantly only time will tell.

**Senator LIGHTFOOT**—It is possible that you could be a bit more positive about that bringing prices down, knowing that the cost of diesel fuel will drop by over 20c a litre. That would have to have a positive effect.

**Mr Purcell**—That is what I said: we will see a reduction.

**Senator LIGHTFOOT**—There is unquestionably going to be a reduction.

**Mr Purcell**—We do not know what price fuel will be. We will then be able to have electricity in those regions.

**Senator LIGHTFOOT**—Yes, and that reduction will be scrutinised by the ACCC.

**Mr Purcell**—Yes, I have no doubt about that.

**Senator LIGHTFOOT**—I have no doubt there will be a reduction. If there is not a reduction, the ACCC will want to know why, and I, as a senator representing Western Australia, will want to know why too. With respect to Menzies, once again a very small shire—

**Senator MURRAY**—Even I have a personal interest.

**Senator LIGHTFOOT**—Yes, even my urban friend has an interest. I think that is commendable too. Thank you, Senator Murray. I assume that the largest population in Menzies is an Aboriginal population, some of which is transient. Is that a reasonable comment?

**Mr Purcell**—A lot of them are transient.

**Senator LIGHTFOOT**—And the population would depend on when the Australian Bureau of Statistics took the censuses there—what time of year; what time of the month. The next day virtually there could be 100 more.

**Mr Purcell**—It is very similar for the Ngaanyatjarraku shire as well.

**Senator LIGHTFOOT**—Indeed, they are a transient population. Let me get onto Leonora then. With a downturn in exploration—for whatever reason—Leonora is probably suffering as much on a per capita basis as Kalgoorlie-Boulder is, perhaps even more. Is there any other reason that there should be a downturn in Leonora, apart from Murrin Murrin, which has largely wound up its infrastructure and personnel?

**Mr Purcell**—I think, to be fair to that area and to the committee, if stage 2 of Murrin Murrin goes ahead—and it looks as though it will now—we will probably see a return to the heady days of a large population boost of another 1,000 people going up there as a work force. I think that the problem with the whole of the region, as I said, is that it is a fluctuating population that depends on resource based projects.

**Senator LIGHTFOOT**—But, once again, is there any way, even indirect, to direct that fluctuation in population towards NCP?

**Mr Purcell**—No. NCP would not have any impact on those resource based projects.

**Senator LIGHTFOOT**—The same would go for Coolgardie, with a downturn at Kambalda, which has been a very important part of the Coolgardie shire for many years now, going right back to the early seventies, if not late sixties. Again, some of the nickel deposits in Kambalda have actually been worked out in a commercial sense. There is still plenty of nickel there. Regrettably, there is too much dirt in between it. But that again is a downturn in Coolgardie. That negative growth in Coolgardie could be due to the downturn in its satellite town of Kambalda.

**Mr Purcell**—That is very true. That was the problem. There was the change in process from sulphide nickel to laterite nickel. So one became economic and the other was no longer economic.

**Senator LIGHTFOOT**—And St Ives, while they still use some of the infrastructure of Kambalda, was not sufficient to take up the haemorrhage of Kambalda. Would that be a reasonable comment?

**Mr Purcell**—Very true.

**Senator LIGHTFOOT**—Again, can we direct NCP towards some of that debilitation?

**Mr Purcell**—No, you cannot. It is straight infrastructure.

**Senator LIGHTFOOT**—So what do you think the implementation of NCP—or the failure to implement NCP—could do to rejuvenate and give some hope to some of these areas that have a worrying loss of their population?

**Mr Purcell**—I think the biggest issue that faces them—and this is the region's perspective—is that they do not see that NCP is going to offer them anything. In fact, they worry that NCP may take away any opportunity that they had of attracting a potential provider of a service—be it Telstra or be it Optus. It is falling at the moment in the telecommunications area and, as I mentioned, in the transport area with rail. We see the Leonora railway line—I did mention in my report that it was the Kalgoorlie to Esperance railway line but it is really the Leonora to Esperance railway line—as a major arterial transport route for the region.

If that line for any reason, even if it is under NCP, is let go to a standard where, let us say, the nickel from Murrin Murrin which comes out of Leonora or the iron ore out of Koolyanobbing goes to the east-west line to the detriment of the port of Esperance, that would have a significant impact on this region. You can lose a company in Perth of 35 or 40 people and the impact is pretty negligible, but if you do that to a town in this part of the region it has a significant impact; you have basically destroyed the town.

**Senator LIGHTFOOT**—It is devastating. Given the potential that the full implementation of GST has—23c a litre off road transport and cheaper trucks. On an average truck such as a Mack truck, if I could call that an average truck, which I think is a very good truck—in terms of its purchase price, it is about an average truck; it is not as dear as a Volvo or a Kenworth but it is certainly dearer than a 'vin ordinaire' Ford, Mazda, Isuzu or something—there is about a \$50,000 saving. Also with rail transport, diesel used to be over

40c, and there will be no taxes on diesel. The same will apply with tax inputs to anything that is exported. Given that, it seems to me from what I have heard in the goldfields—and I have had a lot to do with the goldfields over the past few decades—that we, as part of the goldfields, should be forgetting about NCP and looking forward to the implementation of GST and how that is going to work for the district.

**Mr Purcell**—I think that is probably true, and that is the issue about NCP. We in the region cannot see where NCP is going to give us any benefits, but the concern is that it may make it more difficult to get services provided. Particularly with the state government having to be part of the NCP process, the danger for us is that to get services into this region—and I make no bones about it—requires a big community service obligation from government.

**Senator LIGHTFOOT**—Given that you have one of the biggest nickel mines in the world and one of the biggest cobalt mines in the world on your doorstep at Leonora and Murrin Murrin, and you have got gas and iron ore—and they are all passing very close to Kalgoorlie—what is the Goldfields Esperance Development Commission doing to try to promote or encourage the production of stainless steel within your area of responsibility?

**Mr Purcell**—The interesting one is on the gas, if I may talk about that for a minute. With the Goldfields Gas Transmission pipeline, the cost of the gas from there is so expensive that Murrin Murrin have just announced that they will build their own gas pipeline from Geraldton to Murrin Murrin. The cost of the gas that is being charged to the current users of that line is currently under investigation by the state government. I have not seen the results. Those results have not been published.

**Senator LIGHTFOOT**—What part of the state government is inquiring into that—Fair Trading?

**Mr Purcell**—Fair Trading, yes. One has to ask why a major mine would spend \$100 million putting in their own gas pipeline when there is a gas pipeline already there.

**Senator LIGHTFOOT**—So you think that is a negative part of NCP?

**Mr Purcell**—There is a gas pipeline—and I can say that that pipeline was going in before NCP, so we cannot lay it at the feet of NCP—and the cost of the gas coming off that pipeline is obviously not economic to the users.

**Senator LIGHTFOOT**—I think that is a good point that perhaps my colleague Senator Andrew Murray could take up at some stage. Thanks, Mr Purcell.

**Senator MURRAY**—Today we heard some witnesses describe their frustration against the opposition of the Water Corporation to their project of delivering desalinated potable water from Esperance up here and on to Leonora. Have they involved the commission at all in advocating that and do you have any views on that project and how valuable it will be?

**Mr Purcell**—Very much so. In fact, I will be going to see the Deputy Premier tomorrow for that very reason.

**Senator MURRAY**—As a commission, are you supportive of it?

**Mr Purcell**—As a commission, yes. There are two aspects to it, which obviously would have been discussed this morning. The mining industry do not need potable water because they use salt water in their processes. The facts at the moment are that they use what we call the hyper-saline water, which is six to eight times saltier than sea water—

**Senator MURRAY**—But industry would need potable water, wouldn't they?

**Mr Purcell**—No, there is very little water used by industry which is potable water.

**Senator MURRAY**—Yes, but if there were to be new industry coming in they would need—

**Mr Purcell**—New industry, yes, depending on the type of industry. If it is a mine like Murrin Murrin, then it requires salt water. In fact, if we gave them the potable water, it is corrosive, so it would have to be treated before being put into their boilers, et cetera and used in the process.

**Senator MURRAY**—The earlier witnesses covered the technical things. I would like to bring you back to the national competition policy aspects of this. Senator Lightfoot quite properly said that national competition policy does encourage, for instance, the development of the gas industry—regardless of the fact a lot of it was happening before anyway—and it is probably helpful in that area. This water problem seems right in their purview. Essentially, private investors want to create competition to the Water Corporation in providing water to this region. The allegation is that a government entity, Water Corporation, is obstructing that process. That is the allegation made by the witnesses in my summary of their statement. In those circumstances wouldn't you consider that national competition policy should be helpful to them in pursuing their project—if it were economically viable?

**Mr Purcell**—There are a couple of issues there, and the first is that their project has not been proven to be economically viable. What they are actually asking the government to do is to allow them to complete a feasibility study. However, they want some guarantees that, if they complete this feasibility study and the feasibility study proves itself to be economically viable, their costs will then be covered by the government or by a successful tenderer.

**Senator MURRAY**—That is not what they said to us.

**Mr Purcell**—No, that is what I am telling you and that is what I will be telling the minister tomorrow. I had a briefing myself this morning. If I can just explain to the committee, they have what they call a scoping study, which outlines their project and what they want to do. The bottom line to that is a little paragraph which says that, should they complete the scoping study and it finds that the project is non-viable, they are prepared to wear the costs of that study. And I understand the study is somewhere between \$2.5 million and \$4 million.

**Senator MURRAY**—That is the figure they gave us, yes.

**Mr Purcell**—The second thing is that if the feasibility study proves itself to be viable without any government involvement then they should be allowed to proceed to put the project in because their figures show that they can. So that is the second option.

The third option is that, should the study say it could be viable provided there was some government community service obligation in there to make it viable—that is, the water authority may have to buy a certain amount of water off them—it would then be open to open tender. So they would have done the feasibility study, and the feasibility study says, ‘Yes, it is viable to run this pipeline from Esperance to Leonora,’ but it would need a government input of consumption of a certain amount of water over a number of years to make it viable.

**Senator MURRAY**—So a commitment from the government that it would be a customer?

**Mr Purcell**—Yes. If that were the case, it would have to go out to open tender. What they are then saying is that if it goes to open tender and they are not successful then they would need their costs covered for the feasibility study.

**Senator MURRAY**—Okay.

**Mr Purcell**—Whether that is covered by the government—it would probably be more likely to be covered by the successful tenderer.

**Senator MURRAY**—So they are not substantial costs?

**Mr Purcell**—No, we are still talking of the \$2.5 million to \$4 million.

**Senator MURRAY**—Now I understand. Just before we leave that point, at the heart of competition policy is the idea that, particularly with utilities, alternative sources of supply will be found at a lower cost. So, intrinsically, if this water project worked out, it falls within that view and, therefore, if national competition policy was helpful in overcoming what the witnesses say is an obstructive Water Corporation, that would be a good outcome of that policy. Do you agree or disagree with that?

**Mr Purcell**—I would agree with that and I think it is a necessary outcome.

**Senator MURRAY**—Moving on to the commission itself, we get two perspectives from country Australia. One is that their voice is not properly heard in terms of the negative consequences of not only the implementation of national competition policy but also all the ideologies which are seen to surround it. One option I was exploring today was the possibility that an institution such as yours would be required by law to provide the feedback to the NCC. In other words, the NCC would be required to consult with your commission as an example and say, ‘This is what we are doing. What will be the effects? What is the view of the region as to what we are doing?’ So they get some kind of sensitivity about regional Australia. Firstly, how do you react to that view of the potential use of a local professional institution such as yours?

**Mr Purcell**—I would certainly have no problems with that. What we are trying to do here on behalf of the region as well is to come and put the case for the region. Of course, we work very closely with a federal organisation called the ACC, the Area Consultative Committee. It basically covers the same area as us.

**Senator MURRAY**—But they are members of that same organisation, aren't they?

**Mr Purcell**—Yes.

**Senator MURRAY**—In other words, they are employees. What I am really talking about here is that you would be an independent body with the strength that independence—

**Mr Purcell**—I would certainly have no problems with that at all and I would see it falls within our ambit. From a state government perspective, that is exactly what happens: where there are issues that they may be discussing, they come out to ask us what we believe the impact would be on the regions.

**Senator MURRAY**—The second suggestion goes much further than that, and that is a suggestion of empowerment whereby an institution such as yours would be tasked with adjusting, varying or agreeing to national competition policy in your region. What lies behind that is the view that, where national competition policy has primarily a local flavour, it should be adjusted for local conditions. The national NCC, based in Melbourne, is not equipped by culture or by character to do that job. It would be far better if the power to implement or not implement or to vary or adjust NCP policy were local.

Do you think that would meet the needs of country Australia to have some control over its own destiny with respect to this policy? I probably mean with respect also to the larger ideology that surrounds it, including such things as local content, purchasing, the whole business of contracting out and tendering which aggrieves country shires and country municipalities.

**Mr Purcell**—Yes. I am not sure that the development commissions should be seen in that sort of policing role. I can see that there are some pluses there, but I can see that there are a lot of negatives there as well. It possibly brings us into conflict with local shires for policies that have in fact not been made by us, but we are trying to fix them up. The point I would make is that the policy makers really should consider those issues before the policies are passed as law.

**Senator MURRAY**—The case put to us is that, however well intentioned and capable policy designers are, they can never apply a 'one size fits all' policy and they can never take account of local conditions. If local conditions were to be taken account of, which means that the policy would be adjusted in some way, then you have to find an institution which would do that. Should it be a political institution, which is the municipal council or should it rather be a professional institution, such as yours which is an independent body—it has some bureaucratic characteristics, but it also has a lot of non-bureaucratic characteristics—or should it be a bureaucratic body, which is what the ACC is? Those are the potential choices which might face us.

**Mr Purcell**—I suppose in that case the lesser of two evils would probably be the regional development bodies.

**Senator MURRAY**—Although they have not yet done so, they might recommend to the government that the government accredit, either through state governments or themselves, institutions within regions to have this task. Western Australia has a well-established, well-coordinated situation, as I assess it, of nine regional development commissions. That might be the appropriate route here, but in New South Wales they might not be the equivalent and they might need to go some other route. What I am looking for is how on earth you get that local adjustment away from state metropolitan imperatives and federal national ‘one size fits all’ approach.

**Mr Purcell**—I think the more comfortable solution may be the area consultative committees. The area consultative committees are not political. One of our board members actually chairs the Area Consultative Committee here. They come under the federal sphere and five ministers actually have involvement with the area consultative committees. But they cover the same area and are more focused at looking at employment opportunities in the region. We have a very close relationship between the area consultative committees and the regional development committees in Western Australia.

**Senator MURRAY**—The ACC reports to the NCC, does it not?

**Mr Purcell**—No.

**Senator MURRAY**—Who does it reports to?

**Mr Purcell**—They actually report to a ministerial body of five ministers, including the minister for employment. I forget who the other ministers are. If you like, they are really the federal equivalent of the regional development committee, and they are Australia-wide.

**Senator MURRAY**—And they would normally interact with yourselves?

**Mr Purcell**—They do. There are local people who chair the committees in each of the areas.

**Senator MURRAY**—How are they resourced? Are they as well resourced as you are?

**Mr Purcell**—No, they are not as well resourced, but they do have a permanent chief executive officer and some clerical staff.

**Senator MURRAY**—They have a board which provides the local content?

**Mr Purcell**—Yes.

**Senator MURRAY**—And who selects that board?

**Mr Purcell**—The chairman is selected by the government. I think it is only the chairman who is actually selected by government. I have actually just been put onto the board of the ACC here.

**Senator MURRAY**—Does it have an appropriate mix of people with different interests and abilities?

**Mr Purcell**—Yes, it does, and across the region. We are talking about community, local government and bureaucracy.

**Senator MURRAY**—To go back to the earlier question, do you believe (a) they would be appropriate to provide the sensitivity and flexibility of the NCC through assessing what is happening on the ground on a regular and reactive basis and (b) they should be empowered to alter or change NCP policy where it is local? Obviously, when you are building an electricity system, you cannot really attend to local issues, but where it is local.

**Mr Purcell**—I would see that the Area Consultative Committee, which is a federal government body—they are Australia-wide and right throughout Western Australia, and they basically match with our regional development committees—would probably be a more appropriate body to look at doing what you are suggesting, because it is federal policy.

**Senator MURRAY**—Does the state government ever ask you for your advice on NCP matters? Have they ever said, ‘We’ve got to go off to a COAG meeting,’ or some kind of ministerial discussion on NCP, ‘what do you think about these things?’

**Mr Purcell**—Yes, they would, but we have a regional development council, which consists of the nine chairmen of the development commissions. They collect the information from each of the development commissions and it goes forward as a unified nine commissions. It goes forward from the chairman of the regional development council to government or to wherever.

**Senator MURRAY**—If we were to do a flow chart on this, it starts to look quite attractive, doesn’t it, because you have a federal body going straight through to the federal organisations?

**Mr Purcell**—Yes.

**Senator MURRAY**—And you have a state body going through the state ministers to COAG.

**Mr Purcell**—Yes.

**CHAIR**—I have a couple of quick questions. The pipeline that we have had evidence of earlier today was going to desalinate the water down at Esperance.

**Mr Purcell**—Yes.

**CHAIR**—And then pipe it up to various points in the north. Presumably they are going to be using electricity to desalinate it from a diesel fired—

**Mr Purcell**—No, the proposal is that they will actually extend the gas pipeline from here to Esperance to do that.

**CHAIR**—That would then generate cheaper electricity for the people down in Esperance?

**Senator MURRAY**—You also have a wind farm down there. Is that right?

**Mr Purcell**—Yes.

**Senator MURRAY**—It is not real flash.

**Mr Purcell**—The new part is okay, but the old one has great difficulty at the moment. But yes, that is certainly one of the benefits of the proposal, that we would actually get more competition in terms of how it is done.

**CHAIR**—I got the impression you were leaning towards the local water authority's idea of piping seawater straight up here.

**Mr Purcell**—No. I can tell you my minister has actually told the water authority that there will never be salt water piped inland in Western Australia. I would like to see the environmentalists' attitude if the government decided it was going to pipe salt water into the centre of Western Australia when the biggest problem we have in the state is actually salinity.

**CHAIR**—I have got that clear. Thank you very much.

**Proceedings suspended from 4.05 p.m. to 4.32 p.m.**

**SCALLAN, Mr Richard James, Chairman, Eastern Regional Council, Chamber of Minerals and Energy**

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

**Mr Scallan**—My organisation has already submitted written evidence. I am sure that has been tabled and accepted, so my evidence will be very brief. First and foremost, on behalf of my chamber and my region, we are very pleased with this initiative and would like to compliment the federal government and the Senate on this initiative. It is brilliant and outstanding. I think the public benefit test has been excellent. That you cover gas and electricity regulations and that they are all transparent is very reassuring, particularly the third-party access. Water is included as well, which is very positive.

There are downsides, particularly in our region. In the rural areas, with anticompetitive practices, there is a degree of pain. I am sure you are more aware of it than I am. I really do not speak on behalf of my industry or my chamber on that matter, but it does impact on the farmers and the people whom we deal with. Indirectly, they see this as onerous. Some have lost their opportunities for remuneration, particularly with the farming industry in its current economic situation. Many of those farmers work on our mines and do roads in the area around our mines, for instance, if they have a grader with them. I am sure this is covered. Reading your paper, as I understand it, there is a facility or an opportunity for people to be compensated, should they be unduly disadvantaged. It is mainly the farmers who are somewhat hit. In time, I see no difficulty in people adjusting to this.

The other aspect that is somewhat onerous—and I am talking on behalf of the community, not of my industry—is the tendering process, which is prolonged and causes opportunities to be lost, though, as people adjust to this, it will not happen so much. The process and the costs of the process are also considered prohibitive in some areas in my community and for the farmers we deal with who are associated with our industry. As far as we in the minerals industry are concerned, it is a good move. We welcome it. We feel very comfortable with it. It is how we like to work. It is professional, ethical and a step forward for Australia.

**CHAIR**—Thank you, Mr Scallan. I will go to Senator Murray first.

**Senator MURRAY**—My summary is that for the mining-industrial conurbation to be established and to grow you need three main infrastructural provisions. One is the provision of power, and I think the NCP and the tax changes have combined to allow much cheaper power availability both from the point of view of diesel gas and, indeed, electricity. The second is the provision of transport. I am not yet sure what real benefits NCP has delivered in road, rail and air services, but certainly Kalgoorlie is quite well serviced in those areas so I would not have considered it as being at a disadvantage. Certainly the tax changes will assist, particularly for road transport but also for rail. The third area is water. We have got

C.Y. O'Connor to thank for the early kick-on that Kalgoorlie got, but it is time for the next phase. It is on water that I want to focus my questioning.

We had evidence earlier today on the water issue from the two sponsors of the Esperance-Kalgoorlie potable water project, and we also had evidence from the chief executive officer of the Goldfields Esperance Development Commission, all of whom I understand to have confirmed that this water project should come to the attention of the NCP, should be supported by NCP agencies and should have the support of the state government. And yet I hear today in evidence that this project has been in the air for ten years, and the lack of its progression is holding back the potential development of Kalgoorlie as an industrial complex as well as a mining complex. So, with that long lead-in, Mr Scallan, I would like you to give us your chamber's views of the importance of that water project to Kalgoorlie-Boulder in particular but also to Leonora in terms of the scheme as you understand it.

**Mr Scallan**—Certainly, thank you. Water is as essential to the Goldfields region as gold. Without water, we cannot mine gold. Therefore, C.Y. O'Connor's pipeline and the water that it provided certainly allowed initiative for the mines but, most importantly, for the people that lived here. With that water the mines have been able to operate, but particularly the people have got water to drink, bathe in and use in their gardens and such like. The mines themselves have had to learn, particularly in recent times, that the water they are blessed with—the hypersaline water in the paleo-channels—was the source of water that we could use for our operations. It was cost effective.

Most of the mines have desalination plants to provide a percentage of water required to get the effective separation of the gold in the process. The bulk of the water they use is the hypersaline water that is available in the ground. This was the most cost-effective way to operate at the start. Many of the mines have gone to the expense of putting in desalination units similar to those that have been developed in Israel. The company that I work for, Paddington Gold, has the first of those, and that goes back to 1984-87 time.

**Senator MURRAY**—Are they expensive?

**Mr Scallan**—They are very expensive. It is a big capital outlay. In more recent times, the Cawse nickel mine has gone to the expense of putting in a desalination unit. All the more recent nickel mines—Murrin Murrin and Bulong—have this type of installation to get the purest quality of water to the process. Nowadays, the process particularly associated with nickel is hydrological separation, which is state-of-the-art, year 2000 and onwards type metallurgy, and it requires very good water. They have spent a large sum of money on desalination units to get the best quality water for their operations.

The pipeline bringing salt water or desalinated water from Esperance to the Kalgoorlie region has been on the cards as a concept for the last 10 years. The justification for this is apparent; the economics are possibly challenging in the short term. To bring salt water from Esperance to this region, we would transport 3,000-odd tonnes of salt a day. That is an enormous amount of salt that would have to be disposed of and would have definite environmental issues that I do not believe could be acceptable to this area in the long term. That is a personal view. I am sure the mining industry will be able to understand that in so

much as the costs of water to Australia per se are some of the best in the world. We have very good, cheap water, and maybe we need to consider the importance of good quality water to the goldfields. But this has a big educational demand—in other words, mines operations will have to adjust to this, but they are not designed for it at the moment. In other words, it has to be sold, and that is from the mining companies' point of view.

The real issue on this pipeline, as I understand it, is the water board as it operates here in Western Australia. On hearsay, the water board also has an initiative to bring water in a parallel line, another line, up from Perth and has all sorts of initiatives to compete with this pipeline. The variations of the options mean that nothing is clear. None of these options has been brought to the final feasibility stage, and it is very difficult for the state government or anyone to make an objective decision until that is done. I did not comment on it myself, because it is up in the air. Until the facts and figures are seen, it is difficult to suggest which way it should go.

The major issue is that bringing salt to this area is an issue of environmental importance. The salt needs to be returned to the sea or effectively handled. We have not seen the final presentations on this; it is very hard to say which way which line should go and to make any recommendations to the state government on this. In essence, we have a demand for water that can be met by sea water but, at this moment, there is no clear direction of which option should be considered because we do not even have the final costs. We are not very sure how this water will be desalinated down at Esperance. This is not clear at this stage at all.

The mines would benefit from good quality water certainly in the short term and definitely in the medium and long term. Water is essential to the industry for the future. A solution to the cross structures and the effect of having good quality water could be as much as \$1 a tonne if not \$2 a tonne. That is an enormous percentage of savings if we have good quality water. Again the question is: how much is the water going to cost? Desalinated water is running at about \$3 per kilolitre as opposed to the sea water being pumped up at about \$1 per kilolitre. That is more or less the knowledge that we have at the moment without seeing the final feasibility study.

**Senator MURRAY**—National competition policy has the stated aim of delivering more competition which, as a matter of course, means delivering more competitors so it would like to see a monopoly supplier challenged by another supplier. But the commercial enterprises that you represent would not really care whether there is a monopoly or a duopoly, provided that the cost is as low as possible for their operations. Wouldn't that essentially be your view?

**Mr Scallan**—It is, all things being equal. We have to think of returning value to our shareholders but we also have to do the right ethical thing as well, hence the environmental component needs to be well considered. But, all things being equal, it is making a profit and increasing the value of the operations for our shareholders.

**Senator MURRAY**—The water corporation would run an extra pipeline up for one of two reasons: either the existing pipeline is not of a diameter sufficient to carry the volume required to service the community or they wish to carry up salt water, which they would not want to mix with the potable water. Of course there would be nothing to stop them, if the

first case were so—they simply needed more water coming up here—from putting a desalination plant in Perth if they wished.

**Mr Scallan**—Absolutely.

**Senator MURRAY**—So that would be just as feasible. But, all things being equal, I would assume that the chamber would still like to see the entry of a private, competing water supplier simply because it would keep the monopolist honest.

**Mr Scallan**—Absolutely; this has been the experience with power and—although certainly not in our immediate area—with rail transport so you are correct: with water it would be good to see some competition.

**Senator MURRAY**—Isn't it similar to the provision of power? Many mines have had to provide all three of the infrastructural elements that I outlined: they provide their own roads, their own power and their own water. Wouldn't it be true that if desalinated water could not be delivered at a lower cost to the mines that have got desalination plants, given that they are already desalinating water, they simply would not use it?

**Mr Scallan**—That is correct.

**Senator MURRAY**—So that in itself is an incentive for a new supplier to ensure that it offers a low cost? Is that correct?

**Mr Scallan**—That is correct. They would have to be competitive, otherwise we would not use them.

**Senator MURRAY**—Would you explain to the committee, so that we understand, what the principal cost is with desalination. Witnesses indicated earlier that the biggest cost in this half a billion dollars is in fact the pipeline. But for a mine that is extracting highly saline water from the ground and that has a desalination plant, is it in the capital expenditure or is it in the operating cost?

**Mr Scallan**—It is in the operating cost. Of that \$2 a tonne that I indicated to you—which would be the savings with desalinated water or, in other words, fresh water—a dollar is on maintenance—that would be the saving—and a dollar would be in reagent costs. That is because we have to treat the water to make it amenable in the process.

**Senator MURRAY**—Is that a high energy user desalination plant?

**Mr Scallan**—It is a high energy user. We could not afford to treat all our water because that would just be astronomically costly. Normally we treat a portion of the water so that we can have fresh water for the most important part—for the extraction process. For an average goldmine, 10 to 15 per cent of the water, if that, would be desalinated water.

**Senator MURRAY**—Much of the complaint about competition policy that we have heard is about the pain it has delivered. But in this case, are we not seeing a failure of competition policy to accelerate competition in an area which matters to Kalgoorlie-Boulder?

They have not come in here and said, ‘We want to help you with this water problem,’ have they?

**Mr Scallan**—Certainly not. It is an economic initiative by a group of entrepreneurial people who see an advantage and have a vision for this region. They want to go ahead with the concept of delivering water, which is far beyond the mining industry; it is the development of the whole region. It is going to impact on this region for the next 100 years. It is equivalent to a C.Y. O’Connor initiative. That is what they have in mind. To offset that, the Water Corporation Board has, as I understand it—and this is all hearsay—come up with the alternative proposal of putting in a second pipeline.

**Senator MURRAY**—As I understand it—at least for Western Australia—the National Competition Council has not been proactive on water at all. They have not attended to the Ernie Bridge scheme—even if to evaluate and reject it—and they have not attended to this scheme.

**Mr Scallan**—No. I am not really informed sufficiently to be able to give the correct or the right complexity that people are facing with the Water Corporation Board and the relationship to the government, but there certainly appears to be some sort of hold-up that does not allow for this to progress. The Deputy Leader of the Liberal Party is quite amenable and very interested, but we do not really seem to get through.

**Senator LIGHTFOOT**—I will get on to the NCP. This is part of it, but it is a slight preamble. What about the treatment of some of the hyper/super saline water in the goldfields? Is there sufficient volume supply—not paleo-channels, because I assume they are not being renewed—to consider desalinating the water here rather than from the sea in Esperance?

**Mr Scallan**—The hypersaline water is four or five times and sometimes even six times more salty than the seawater. The source of this water is paleo-channels exclusively. You have to get it from the paleo-channels. Nature does compensate, and statistics indicate that the paleo-channels do get recharged. According to mining statistics that have been kept, particularly in the Murrin Murrin area where our statistics go back to 1970, the channels are continually renewed. There are over 250 bores into the paleo-channel up there. As evidence of the recharging of the paleo-channels, that is a classic example.

There are varying opinions. If one speaks to the environmental movement, particularly the Green movement, there is a definite depletion of the paleo-channels propagated. That might well be the case, but in our operations—even though we go back only 15 years or so—we do not see this depletion. However, I would suggest that, unless the paleo-channels are topped up by a good rainfall—particularly a cyclonic rainfall—and if there is a change in the rainfall pattern and we continue to draw, the paleo-channels will deplete.

**Senator LIGHTFOOT**—What about the trillions of tonnes in Lake Lefroy and Lake Carey, and in the greatest lakes of all, the ones just south of Sandstone, the name of which escapes me? What about the trillions of tonnes of saline water in those places?

**Mr Scallan**—There are enormous quantities there and, really, it is hard to comprehend that we have made much of an impact on the total amount of water available. But in certain areas where mining has taken place, there could well be a depletion. But we do not have sufficient statistics except, for instance, as I said earlier with Murrin Murrin, where there have been operations for 30 years. There is good evidence that Murrin Murrin, at least in stage 1, would be able to keep going with the 250 bores that are in the paleo-channel. I believe there is inadequate water in stage 2, and therefore they are extremely interested in water, but this is in confidence at this stage.

**Senator LIGHTFOOT**—Yes. After listening to some evidence that we have heard with respect to the unfair competition between the Water Corporation of Western Australia, a wholly owned government instrumentality, and the other water project people at Kalgoorlie, the chairman of which is Mr Doug Daws, I would suggest that there seems to be a catch-22 situation emerging. I know there are other problems, but let me set the other problems aside for the moment and tell you what I believe the catch-22 situation is. If the mining companies, such as Murrin Murrin, Paddington and the super pit people committed themselves to a take-out of water that came, potentially, from Esperance, it would be much easier to get the pipeline under way. But the mining companies say, ‘You get the pipeline under way and we will look at taking some of your production.’ That is the catch-22 situation.

**Mr Scallan**—You have got it in one.

**Senator LIGHTFOOT**—Can we break that impasse? I would suggest that, if that impasse were broken, there would be every likelihood that the state government instrumentality, the Water Corporation, would have to capitulate in the interests of competition.

**Mr Scallan**—Yes. The challenge is to break that. Unfortunately, the initiative to break it is going to cost us \$3 a kilolitre, as opposed to \$1 a kilolitre—

**Senator LIGHTFOOT**—You are talking about potable water?

**Mr Scallan**—Yes—which the Water Corporation believe they can supply it at.

**Senator LIGHTFOOT**—If the Water Corporation can supply it for \$1, may I suggest that the private sector could probably supply it for 50c.

**Mr Scallan**—That is a good comment, Senator. I am not qualified to respond technically to that. That is the position at this moment in time. Mr Daws has a brilliant concept: it is going to cost us \$3 a kilolitre; the Water Corporation says it will be \$1. That is where we sit.

**Senator LIGHTFOOT**—When you say, ‘\$3 a kilolitre,’ is that delivered to Paddington or is that delivered to Kalgoorlie?

**Mr Scallan**—Delivered to Kalgoorlie, but we still have the cost of the pipelines and, really, in this present economic environment it is impossible to give any indication because

many of us are short-lived mines. Mining—except for KCGM—particularly gold mining, is very short lived. We have a two- to six-year life, and anybody who has a six-year life is extremely blessed nowadays. The only mines that will continue to have a certain life are the nickel mines—Bulong, Murrin Murrin and Cause.

**Senator LIGHTFOOT**—If you had six years forward sales of gold I would say you were pretty well blessed, too.

**Mr Scallan**—Yes. The Australian goldmining industry has hedges out to the equivalent of \$1.3 billion for a period of 4.1 years ahead of us. But that is just the total industry; individual mines are not so fortunate.

**Senator LIGHTFOOT**—Mr Scallan, I think Central Norseman, in my experience, has only some months reserves ahead of it, but those months reserves have been going on since the 1930s. So what it does not do is establish too many reserves, because it knows it has them, in a sense.

**Mr Scallan**—The conversion of resource to reserve is the step one takes. There is an economic driver that says you only convert to reserves what you need. However, just so you can understand how close to the wind we are operating, the Paddington mine should have been closed last month. It is through initiatives and commercialisation of the mine that we have been able to find two years life without drilling any reserves. We have gone out and become commercial. We treat other people's ores and do things like that just to keep going, because as long as the mills are turning it is fine. What I am really saying to you is that the gold mines per se would find it very difficult to find a pipeline and to pay for water unless it were so attractive that it would be more cost-effective than what we are doing at the moment, which is using hypersaline and a percentage of desalinated water. Kundana takes an element of water from the Water Corporation, but you try to use as little as possible because it costs you.

**Senator LIGHTFOOT**—Do you think that the Chamber of Minerals and Energy has a moral obligation to support the proposed project of Mr Daws?

**Mr Scallan**—I believe they do have, but I have cautioned them that we have not seen the final project feasibility. Until we do that, it is a bit of smoke and mirrors and we do not really know. The cost could be a lot higher than we are led to believe at this stage, and I think hard figures are required before any objective decision can be made.

**Senator LIGHTFOOT**—Do you think there is any valid criticism that could be directed towards the Water Corporation for playing a role that is anticompetitive—that is contrary to national competition policy—and that, even if you removed that national competition policy from the equation, the role that the Water Corporation is playing in this instance is one that is bordering on the immoral, if not immoral?

**Mr Scallan**—I would not be qualified to comment on that; it is hearsay. With competition, when somebody comes up with something new, there are lots of rumours and emotions and everything else. There is nothing in my experience and in my relationship with the Water Corporation that suggests anything to support what you say.

**Senator LIGHTFOOT**—But it does not appear that the Water Corporation is subject to national competition policy.

**Mr Scallan**—It does not appear so, and that is just hearsay as well.

**Senator LIGHTFOOT**—Assuming that it was not hearsay and there was some prima facie evidence or other evidence, perhaps your opinion might change if that were the case.

**Mr Scallan**—Of course. I am not privy to that information.

**Senator LIGHTFOOT**—You are covered by parliamentary privilege here too, incidentally; I just thought I would mention that.

**Mr Scallan**—One must be true, and there is a lot of emotion. Mr Daws, with respect, has a brilliant vision and a magnificent project, albeit very expensive, and he would like to get on with it. He has people who are prepared to invest in it and he is just not getting through. He cannot get the mines to commit themselves one way or the other, and the water board naturally, albeit behind him, have come up with another way of doing it. Neither of them has really secured much support from the mines with short lives that I have described.

**Senator LIGHTFOOT**—Just to finish off then, what positive role do you think national competition policy is playing in the goldfields? What is the potential, if implemented in its fullest sense, that national competition policy will play? And I mean in a negative or a positive way.

**Mr Scallan**—I think it can only be good. If there are any facts and circumstances to support what you were suggesting earlier with regard to the water board, that would be brought to the fore and eliminated. Fair competition would then come to the water issue and objective decisions in the best interests of the people of Australia would be made, and particular of the Western Australia and this region.

**Senator LIGHTFOOT**—Particularly considering the essential role that water plays in the wealth creation of the goldfields.

**Mr Scallan**—Absolutely, and it would be totally immoral if that was not the case.

**Senator LIGHTFOOT**—Yes. Thank you very much, Mr Scallan, it has been very interesting talking to you.

**CHAIR**—Thank you, Mr Scallan. I think that has covered all of the issues that I wanted to see raised. Thank you for giving us the evidence.

**Senator MURRAY**—I have one last question. The C.Y. O'Connor pipeline was a risk at the time.

**Mr Scallan**—Yes.

**Senator MURRAY**—I am not a historian on the project, but I do not think there was much cost-benefit analysis; it was merely thought it was a good thing. Do you think that state governments and federal governments should take a view that sometimes they need to take a risk on major infrastructural projects—that they should not be quite so cautious as they have become?

**Mr Scallan**—A very good question. If we spoke to Lord Forrest—if he were here—and if we spoke Richard Court's father, this state would not be where it is today if it was not for people who took risks and were not advised by accountants. I trust there are none present or, if they are, maybe they are of the enlightened variety. You can do them to death, Senator Murray, and we have got to be cautious of that. Australia has been made by people that took risks, good ones, on gut feelings. We enjoy C.Y. O'Connor's pipeline and the other wonderful benefits in the state which our forefathers or the forefathers that were here brought about. I think there is a degree of risk. One makes decisions on facts and logic, but sometimes you have not got the facts and, as long as your logic is reasonable, the facts come right.

I do believe the government needs to be cautioned, and I think Mr court's father would tell him the same thing. I had the privilege of hearing his father speak just recently. We owe him a lot, particularly in recent times with the developments in the north. To answer your question in a few words: I believe that there is a degree of risk. Our fortune today is economics. We are facing world competition. We are in global competition; it is not just Western Australia and opening up Western Australia again—things have changed.

**Senator MURRAY**—I asked you this question deliberately, Mr Scallan, because you are a mining man who has been in mining a long time.

**Mr Scallan**—45 years this year.

**Senator MURRAY**—Exactly the point. Mines are about long-term investments for long-term returns, and so are all major infrastructural investments—roads, rail, ports, gas pipelines, water pipelines. I do not know of any mining man I have ever met whose feasibility study formed the basis of the ultimate decision. In other words, the ultimate decision is a judgment based on how future markets will be, how future returns will be, what demands for the particular mineral will be, whether there will be upstream or downstream processing possibilities, technological changes—all that sort of thing. And, at the time of the feasibility study, very seldom can those factors be properly calculated. If you looked back at your mine, Paddington, when it was launched, and if you found the feasibility study I would suggest to you that today's circumstances may bear no relationship whatsoever to it. I am asking you the question as a person whose life has been spent in long-term assessments, not short term. Is it your belief that sometimes governments must take a risk on investing in big rail, big port, big transport, big pipeline projects?

**Mr Scallan**—Absolutely. This particular area is, if I can talk outside my industry, just waiting to be developed. If it wishes to be developed, if this needs to be one of the future initiatives and development areas for Western Australia, then government must make this type of decision, because water is essential to the growth of this area. This soil here is some of the most fertile soil in Australia and it is just waiting for water. This could be the

breadbasket of Australia, if not South-East Asia, if I can allow the vision. But water is essential, and this is what government has got to decide on. Timing is essential.

When do you make this type of decision—when it is down or during the depression when they built roads and laid railway lines? We might be getting to that stage; I do not know. The government needs to make big decisions. It needs people of courage and foresight. We do not have to be scared when we make those decision. This is what this region really needs.

**Senator MURRAY**—Especially since the infrastructure is already here.

**Mr Scallan**—It is here. This could be the rail hub of Australia. It could be the distribution centre for transport right throughout Australia and, as I said, it could be the breadbasket as well. I am not an agriculturalist—I am only a miner—but I have always been involved in my community and I sit on the board of the Goldfields Regional Development Commission as well. I think water is essential and it needs courageous decisions. It is just the timing thereof, and I am sure the government will get it right in God's good time. But they need some facts. But, correctly—as you say, Senator Murray—the economics and the accounting is only part of the decision process. You have to have people of vision and strength to make those long-term decisions that develop the country.

**Senator LIGHTFOOT**—Mr Chairman, I mentioned to Mr Scallan a vast salt lake system that existed south of Sandstone and north of Kalgoorlie. For the record, the name is Lake Barlee.

**CHAIR**—Thank you very much. The committee is adjourned.

**Committee adjourned at 5.13 p.m.**

