

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON TRANSPORT AND REGIONAL SERVICES

Background Paper

Economic and Social Impacts of the Privatisation of Regional Infrastructure and Government Business Enterprises in Regional and Rural Australia

The background paper does not present the views or conclusions of the Committee

Inquiry into the Privatisation of Regional Infrastructure and Government Business Enterprises in Regional and Rural Australia

The House of Representatives Transport and Regional Services Committee is to examine the economic and social impact on regional and rural Australia of the privatisation of infrastructure and government business enterprises.

The committee will examine the benefits and disadvantages of privatisation in the rail, road, aviation, ports, power and industrial manufacturing sectors. It will also consider:

- Ways of assisting the development of world class infrastructure;
- The role of governments and the private sector in providing regional infrastructure; and
- Ways of monitoring, evaluating and reporting government privatisation programs.

A background paper reviewing the process of privatisation is attached. The paper provides a stocktake of assets already privatised. It suggests a range of criteria for assessing the impacts of privatisation and summarises the economic and social impacts. It also identifies emerging issues and the changing role of governments in infrastructure provision.

The paper is intended to assist those who may make a submission and to assist the Committee in the inquiry.

The background paper does not present the views or conclusions of the Committee.

Submissions to the inquiry may respond to all or some of the terms of reference. Details of the terms of reference and making a submission to the inquiry are provided overleaf.

**INQUIRY INTO PRIVATISATION OF REGIONAL INFRASTRUCTURE AND GOVERNMENT
BUSINESS ENTERPRISES IN REGIONAL AND RURAL AUSTRALIA**

Terms of Reference

The committee is inquiring into the impact of privatisation of regional infrastructure and government business enterprises on the achievement of the outcomes reported in the 2001 -2002 annual report of the Department of Transport and Regional Services – namely:

- Transport systems which are safe, more efficient, internationally competitive, sustainable and accessible; and
- Regional communities which have better access to opportunities and services and which are able to take the lead in their own planning and development.

In this context the committee will consider the economic and social impact of the privatisation of infrastructure and government business enterprises in rural and regional Australia, including the benefits and disadvantages of privatisation in the rail, road, aviation, ports, power, and industrial manufacturing sectors. The committee will also consider:

- Policies, measures and other factors that would assist developing world class infrastructure.
- The role of the three levels of government and the private sector in providing regional infrastructure.
- Mechanisms for monitoring, evaluating and reporting on government privatisation programs.

Submissions can be e-mailed to **Trs.Reps@aph.gov.au**

Or sent to: **Transport and Regional Services Committee
House of Representatives
Parliament House, Canberra ACT 2600**

The closing date for submissions is **Friday, 14 November 2003**

Committee's internet site at is at: http://www.aph.gov.au/house_privatisation
A background paper is also available.

Background Paper

Economic and social impacts of privatisation of infrastructure and government business enterprises in regional and rural Australia

Recent privatisation trends

Privatisation activity in Australia was largely a feature of microeconomic reform policy in the 1990s although several key proposed asset sales remain on the Federal agenda, including the remainder of Telstra and the secondary airports of the Sydney Basin. This has also been true at the State level; privatisation has not been a significant issue in recent years.

Nevertheless, the monitoring of the performance of most privatised utilities and other former-government agencies remains a key concern of government because of their central economic role and because many of them have significant power in the marketplace.

As with utility enterprises which remain in the public sector, privatised government business enterprises (GBEs) are subject to regulation under the national competition policy. The economic regulatory agencies of the Federal and state governments such as the ACCC and state price regulation authorities are the main instruments used by Australian governments for monitoring, evaluating and reporting upon the performance of privatised GBEs and infrastructure.

Privatisation stocktake

Key privatisation initiatives at the national (Federal) level in the infrastructure and industry sector are as follows:

- Half of Telstra
- Qantas
- Australian National Rail's passenger operations (mainly affected SA and WA)
- Australian National Rail's freight operations (mainly affected SA and Tas)
- Australian Rail Track Corporation: Track maintenance
- Australian National Line
- Federal Airports Corporation airports
- Moomba-Sydney pipeline
- The National Transmission Network
- Aussat
- ADI
- Aerospace Technologies of Australia
- DAS business units

The pattern of GBE/infrastructure privatisation in Australia varies considerably across the various state and territory jurisdictions. Victoria has had the most active privatisation program, particularly in the power and transport sectors. In contrast, Queensland and Tasmania have not undertaken extensive GBE infrastructure privatisation. Until recently, NSW had also been relatively inactive although the recent sale of its rail freight business is noteworthy.

The following schedule summarises industrial GBE and infrastructure sales at the State and Territory level:-

Industry sector	Enterprise	Jurisdiction
Electricity	Generation companies Loy Yang Yallourn Energy Hazelwood Southern Hydro Newport Jeeralang Transmission PowerNet Victoria Distribution United Energy Citipower Solaris Power Eastern Energy Powercor	Victoria ¹
	Generation companies TXU Torrens Island NRG Flinders Power Transmission Electranet SA Distribution Etsa Utilities	SA ²
	Gladstone Power Station	Qld
Gas	Westar / Kinetic Multinet / Ikon Stratus / Energy 21 Transmission Pipelines Australia GFE Resources GFC Heatane	Victoria
	Sagasco Pipeline Authority of SA	SA
	Alinta Gas Dampier-Bunbury Natural Gas Pipeline	WA

¹ Full asset sales

² Sale of long term leases

Rail Operations	V/Line Freight Corp'n	Victoria
	Westrail Freight	WA
	FreightCorp	NSW
Rail infrastructure	Track maintenance	Various
	Track construction* <ul style="list-style-type: none"> - Sydney Airport Rail Link - Brisbane Airport Rail Link - Sydney Light Rail - Chatswood to Epping link (Sydney) - Alice Springs to Darwin link - Perth urban rail - Spencer St Station redevelopment 	NSW, Queensland, NT, WA
Roads infrastructure	Road maintenance	Various states
	Road construction PPPs ³ <ul style="list-style-type: none"> - M2, M4 and M5 (Sydney) - Sydney Harbour Tunnel - Yelgun-Chinderah - City Link (Melbourne) 	NSW and Victoria
Ports	Port of Geelong Port of Portland	Victoria Victoria
	SA Ports Corporation	SA

Industrial Manufacturing

Benefits

Defence manufacturing plants have a history in Australia dating back to the 1830s. However, they mostly flourished over the decades between the end of WWI and the mid-1980s. They were created as an endeavour to ensure self-sufficiency in the event of a new world-encompassing war, but over the decades proved themselves to be very inefficient, tardy and expensive in

³ PPP denotes public-private partnerships

supplying the ADF with modern equipment. Their corporatisation, mostly into Australian Defence Industries (ADI) commenced in 1982 and continued over the following decade.

Privatisation brought new emphasis for timely delivery of military capabilities, and some improvements in terms of cost-effectiveness. ADI was eventually fully privatised and is now jointly owned by Transfield Holdings and the European defence conglomerate Thales.

Disadvantages

The major disadvantage of privatisation has been the loss of organic manufacturing capacity within Australia. However, the rapid pace of change in defence technology, coupled with the very limited size of the ADF made such manufacturing costly, inefficient, and unlikely to provide effective capabilities for Australia's defence needs.

Below is a list of defence manufacturing plants with a summary of their history and current status. The regional plants are highlighted:

Organisation	Comments	Year Privatised	Comments/ Reference
Ordnance Factory, Bendigo	Taken over by ADI 1989	1999	
Australian Government Clothing Factory, Coburg, Bendigo and Leichhardt	Became part of ADI 1989	1999	
Mulwala Explosives Factory	Became Part of ADI 1989		<i>Transferred back to Defence 1993</i>
Munitions Factory, Benalla	Part of ADI, commenced operations 1995	1999	
Small Arms Factory, Lithgow	Became part of ADI 1989	1999	
Salisbury, SA – rocket motor development/manufacture	Part of ADI Closed in 1993		
Government Aircraft Factories (GAF), Fisherman's Bend & Avalon	198? Became Aerospace Technologies of Australia (ASTA)	1994/95	<i>Privatisation sell off or sell out: the Australian experience, ABC Books, 2000</i>
Ammunition Factory, Footscray	Taken over by ADI 1989 Closed by ADI 1994	1999	
Ordnance Factory, Maribyrnong	Taken over by ADI 1989 Closed by ADI 1993		
Explosives Factory, Maribyrnong	Closed 1990		<i>Defence Industry: Ministerial Statement House Hansard 10 May 1989 p 2343</i>

Albion Explosives Factory	Closed between 1984 and 1989		<i>Defence Industry: Ministerial Statement House Hansard 10 May 1989 p 2343</i>
Williamstown Dockyard	Sold 1987		<i>Defence Industry: Ministerial Statement House Hansard 10 May 1989 p. 2343</i>
Guided Weapons & Electronics Support Facility (GWESF), St Mary's, NSW			
Australian Government Aircraft Plant (AGAP), Bankstown & Lidcombe (operated by Hawker de Havilland)			
Munitions Filling Factory, St Marys	Became part of ADI 1989 Closed by ADI in May 1994		
Garden Island Dockyard	Became part of ADI in 1989	1999	
Cockatoo Island Dockyard	ANI and later closed.		
Australian Submarine Corporation	Commenced operations 1989		
Aircraft Engineering Workshop (AEW), Pooraka, SA	Sold 1987?		<i>Defence Industry: Ministerial Statement House Hansard 10 May 1989 p. 2343</i>

Implications of national competition policy (NCP)

In many instances, in tandem with the competition reform policies of the 1990s, GBEs were split into operational and infrastructure units with the ownership of the infrastructure elements being retained by governments and the operational units being privatised⁴.

These arrangements typically permit 'open access' to the infrastructure by the established operator and by third party operators. Access rights are governed by access principles and policies administered (often by regulatory authorities established by the states and territories) under the national competition policy.

⁴ It is important to recognise that national competition policy does not require governments to privatise GBEs but only that GBEs are managed and operated on a 'competitively neutral' basis – this means that they do not enjoy any particular competitive benefits such as tax relief by virtue of their government-owned status.

It is commonly thought that national competition policy required or encouraged privatisation. This is not the case. However, a key element of the national competition policy is the policy of 'competitive neutrality'. This requires that GBEs operate on a fully commercial basis so that where they compete with private companies, they enjoy no advantage by virtue of their government-owned status.

As a result of NCP, most GBEs now operate fully commercially as if they were privately owned companies. Where governments require GBEs to undertake non-commercial activities to satisfy public interest requirements, they are commonly reimbursed to offset the cost of such activities.

The commercialisation of GBEs has had flow-on consequences for users, employees and regional communities not unlike those which have occurred had the enterprises been privatised, eg as a consequence of shedding excess labour force or adjusting charges to reflect actual commercial costs.

Indeed, privatisation can be considered as being just at one end of a spectrum of measures adopted during the 1980s and 1990s to reform GBEs; other measures included commercialisation, corporatisation and reforms directed at achieving competitive neutrality with the private sector.

Regional economic and social impacts of privatisation

This section briefly reviews some of positive and negative effects of privatisation. It is emphasised that because privatisation was often undertaken in tandem with other measures such as regulatory reform, it is not always feasible to clearly separate out privatisation outcomes from the effects of other concurrent policy and regulatory changes.

Infrastructure	Benefits	Disadvantages
Rail freight	<p>Had been a steady contraction in rail services prior to privatisation – this largely arrested eg in Vic and SA, Networks have not contracted since sale</p> <p>In some instances, private operators have secured freight which had been lost to road eg SA grain traffic</p> <p>Private operators cross State boundaries so have developed a more seamless national network of services</p> <p>Achieved cost savings through labour saving innovation eg Pacific National's and Freight Australia's one person crews</p>	<p>Longer, more efficient trains has tended to result in reduced service frequency choices</p> <p>Labour savings have resulted in loss of employment at key regional rail centres such as Pt Pirie, Pt Augusta, Junee, Bendigo, Werris Creek</p> <p>This has in turn caused a weakening in local regional economies with flow through social implications</p>
Rail passenger	Has allowed retention and growth of rail services whose future was in doubt under government	Fares are sometimes higher eg on GSR's sleeper services

	<p>control eg Indian-Pacific</p> <p>Achieved marketing innovation and market growth through application of private sector specialist skills eg GSR</p> <p>Achieved operating cost savings through labour saving innovation</p>	<p>Labour savings have resulted in loss of employment at key regional rail centres such as Pt Pirie, Pt Augusta, Juneee, Bendigo</p> <p>This has in turn caused a weakening in local regional economies with flow through social implications</p>
Aviation (airports)	<p>To the extent that private ownership of capital city airports has allowed cost savings to be passed through to regional airline operators (in the form of lower airport charges), this should be reflected in lower fares for regional services to major airports</p> <p>Government has protected regional airline access to Sydney airport by guaranteeing slot capacity dedicated to such regional operations</p> <p>The private operators' more ready access to capital funding has allowed substantial upgrading and enhancement of airport facilities, to the benefit of both regional and other airline travellers</p>	<p>Labour savings measures have resulted in loss of employment at key regional aviation centres</p>
Ports	<p>Fall in real port authority charges</p> <p>Faster ship turnaround time</p> <p>Increased labour productivity</p> <p>Increased focus on user pays</p>	<p>Job losses</p> <p>Flow-on social and economic consequences</p>
Power	<p>Pricing reforms have brought charges more into line with costs resulting in economic efficiency gains and more equity in the way in which costs are recovered ('user pays')</p> <p>Has allowed choice of supplier and an increased range of services</p> <p>Lower electricity charges have stimulated business in regional areas</p> <p>Privatisation (eg Vic) or part privatisation (eg ACT) has facilitated integration of gas and electricity companies in a number of areas to form 'energy companies', potentially offering greater flexibility and choices to customers</p>	<p>But these pricing reforms are not unique to the privatised players in the power industry – there has been a national trend towards pricing reform for power utilities (irrespective of whether privately or publicly owned) as part of the National Competition Policy</p> <p>Has been significant loss of employment in some regional areas as electricity supply services have been rationalised in response to commercial pressures eg in the La Trobe Valley, Portland</p> <p>Government bodies remain accountable but lose effective operational control</p>

Emerging issues of privatisation

There are a number of emerging issues in relation to privatisation. These include:

- The increasing inprivate provision, especially in relation to:
 - Roads eg. toll roads in major cities – facilitate quicker, less costly access to regional centres
 - Rail eg Alice Springs / Darwin railway, inter-modal freight terminals
 - Ports eg Victoria
 - Airports eg major capital city airports
 - Power eg privatisation of Moomba link.
- The changing role of the Commonwealth in providing financial incentives for private provision, eg through the tax system;
- **Power:** An emerging concern with privatised utilities is the issue of whether commercial incentives alone are sufficient to ensure continuity in supply during periods of peak demand; recent summer power blackouts involving private providers in South Australia, Victoria, California, the US north-east states and adjoining Canada and in London have raised concerns about the private providers concerned;
- **Airports:** Where Commonwealth has withdrawn from regional airports under the Aerodrome Local Ownership Plan (ALOP), infrastructure has been transferred to local government as a rule, rather than private companies. Some of these local government airports have become quite large and rapidly growing enterprises in their own right. For example Cairns Airport, which is a rapidly growing international and domestic airline hub;
- **Regional railways:** An emerging issue is that of perceived cost shifting from the States to local government with rail branch line closures. The effect has been to transfer heavy grain haulage off of local branch lines onto local government roads with a consequential blow-out in road and bridge maintenance costs;
- **Access to essential infrastructure:** The private management of regional railways in Victoria has been an area of protracted dispute between the State Government and the private rail operator, Freight Australia⁵ in part because the two parties have been unable to agree on terms for third party freight operator access to the Victorian network. This has led to Freight Australia being reluctant to commit to the rail line gauge standardisation program; and
- The Victorian Government has also faced protracted delays in implementing its fast regional rail passenger upgrade programs to centres such as Ballarat, Bendigo and Traralgon. In part this would appear to be an outcome of the loss of direct control which the State Government has over the rail network since privatisation.

⁵ A subsidiary of the US 'short line' (regional) operator, Rail America.

Changing role of governments in infrastructure provision

Privatisation has implications for the role of governments in the provision of infrastructure.

- The overall trend is towards government facilitating the private sector to provide the infrastructure (including through financial inducements) rather than for the government to get directly involved in infrastructure provision, although government remains the main provider of roads and sewer/water systems;
- Where governments endeavour to involve the private sector in infrastructure provision, outcomes tend to be a mid-way house or 'partnerships' eg BOOT (Build, Own, Operate, Transfer). These private financing initiatives can often involve indirect government funding such as through tax concessions, lease deals and / or 'property sale concessions';
- Australian governments have been generally reluctant to completely sell off traditional utility-type infrastructure because of its cornerstone economic / strategic significance; and
- The Telstra network and Victorian power systems are the exceptions. In most other cases such as state and Federal rail networks and the capital city airports, the networks remain in government ownership but are managed by / leased to private operators.

Assessing the consequences of privatisation

Privatisation has often been promoted by governments as a strategy for retiring government debt. Such strategies can bring forth general economy-wide benefits through lower interest rates. They can also be used to finance targeted government spending programs such as (in the case of a small portion of the initial Telstra sale proceeds) the *Networking the Nation* telecommunications and *Natural Heritage Trust* regional environmental programs.

Detailed consideration of the benefits and disadvantages of privatising infrastructure and GBE's from a regional perspective could draw upon a wide range of social, economic and environmental assessment criteria such as:

- Employment generation, training opportunities, labour force diversification;
- Social stability and community cohesion;
- Service quality and choice;
- Cost reduction and other productivity effects;
- Pricing policies and cross subsidisation;
- Competition implications;
- Environmental spin-offs;
- New investment and disinvestment;
- Innovation; and
- Flow ons to local businesses.