



HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON BANKING, FINANCE AND
PUBLIC ADMINISTRATION

Reference: Aspects of the national competition policy reform package

CANBERRA

Thursday, 30 November 1995

(OFFICIAL HANSARD REPORT)

CANBERRA

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND
PUBLIC ADMINISTRATION

Members:

Mr Hawker (Chair)

Mr Albanese	Mr McMullan
Mr Anthony	Mr Mutch
Mrs Bailey	Dr Nelson
Mr Causley	Mr Pyne
Mrs Gallus	Mr Willis
Mr Hockey	Mr Wilton
Mr Latham	

Matter referred to the Committee:

The aspects of the national competition policy reform package. The major issues the Committee has been requested to inquire into are:

(1) the appropriate means, including review processes, for applying the 'public interest' tests included in the Competition Principles Agreement:

These tests are a critical feature of this Agreement. They are described in Principle 1(3), which provides that:

without limiting the matters that may be taken into account, where this Agreement calls:

- (a) for the benefits of a particular policy or course of action to be balanced against the costs of the policy or course of action; or
- (b) for the merits or appropriateness of a particular policy or course of action to be determined; or
- (c) for an assessment of the most effective means of achieving a policy objective;

the following matters shall, where relevant, be taken into account:

- (d) government legislation and policies relating to ecologically sustainable development;
- (e) social welfare and equity considerations, including community service obligations;

- (f) government legislation and policies relating to matters such as occupational health and safety, industrial relations and access and equity;
- (g) economic and regional development, including employment and investment growth;
- (h) the interests of consumers generally or of a class of consumers;
- (i) the competitiveness of Australian businesses; and
- (j) the efficient allocation of resources.

(2) the impact of competition policy reform on the efficient delivery of community service obligations including an assessment of:

- (a) existing government policies relating to community service obligations and
- (b) options for the delivery and funding of these services;

(3) the implications of competition policy reform for the efficient delivery of services by local government, including arrangements that have been developed between State Governments and local government authorities for the implementation of the Competition Principles Agreement.

WITNESSES

**GOUCHER, Mr Garry Paul, Director of Policy, National Farmers Federation, PO Box E10,
Queen Victoria Terrace, Australian Capital Territory 2600 217**

**McGAUCHIE, Mr Donald Gordon, President, National Farmers Federation, Brisbane Avenue,
Barton, Australian Capital Territory 217**

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON BANKING, FINANCE AND PUBLIC
ADMINISTRATION

Aspects of the national competition policy reform package

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Thursday, 30 November 1995

Present

Mr Simmons (Chair)

Mr Abbott

Mr Martyn Evans

Mr Bradford

Mr Latham

Mr Braithwaite

Mr Somlyay

Mr Cunningham

Mr Harry Woods

The committee met at 10.48 a.m.

Mr Simmons took the chair.

CHAIR—I declare open this public hearing of the House of Representatives Standing Committee on Banking, Finance and Public Administration in its inquiry into aspects of the national competition policy reform package. This is the final public hearing for 1995. While the inquiry program for next year is yet to be determined, I anticipate commencing hearings again in February. However, we have had a number of queries regarding what will happen in the event of an election being called, and I would like to take this opportunity to clarify the matter.

When an election is called, all standing committees cease to function and all references lapse. The practice followed in the event of an inquiry not being finalised is that, when the committee is re-established after an election, the committee seeks to have the terms of reference re-referred and the committee picks up from where we left off. What that means is that, while an election would interrupt the inquiry, the committee intends to carry on with the inquiry and bring it to a conclusion.

The focus of hearings thus far has been primarily on local government. Today's witnesses will bring a different perspective, that of rural producers. The committee is very interested to obtain the views of the rural sector, and I anticipate that the committee will also provide an opportunity for state organisations to appear before the committee next year.

[10.49 a.m.]

GOUCHER, Mr Garry Paul, Director of Policy, National Farmers Federation, PO Box E10, Queen Victoria Terrace, Australian Capital Territory 2600

McGAUCHIE, Mr Donald Gordon, President, National Farmers Federation, Brisbane Avenue, Barton, Australian Capital Territory

CHAIR—Welcome. I advise you that the evidence that you give at the public hearing today is considered to be part of the proceedings of the parliament and accordingly indicate to you that any attempt to mislead the committee may be regarded as a contempt of the parliament. The committee has received your submission and it has been authorised for publication. Before we begin our questions, would you like to make an opening statement to the committee?

Mr McGauchie—Thank you, I would certainly like to do that. I appreciate the opportunity to talk to you and to answer questions about the submission that we have made without paraphrasing that submission—it is not substantial and I do not want to go over it—but just picking up a few points.

We certainly support the concept of more contestable markets and delivery of services across the economy, and in particular those where there is government involvement. But, whilst supporting the principle for that, there are some issues that we certainly want to pick up and think need to be dealt with in the context of the implementation of that.

Just to highlight some of those issues, there is certainly a requirement for us to have a clear definition of what is considered to be in the public interest to the extent that that also is in the national interest and where those two things fit together. We believe that the process at the moment is fundamentally flawed in that it quite specifically has excluded issues in relation to the labour market.

There are some issues that are now arising with respect to organisations operating within Australia that need to operate in the international market and, because of the small size of the Australian economy with respect to the international marketplace, there are issues of scale and critical mass that need to be dealt with and which are, in essence, in fundamental conflict with companies being of sufficient size and critical mass to deal in the international marketplace but have their size in the domestic market.

There are also some issues of already established practices which are indeed difficult to reconcile with decisions that are likely to be made with respect to the competition policy's implementation. A couple of examples are the oil industry and the retailing sector where already established structures are not likely to be looked at, but people who are positioning themselves to deal with the market power of organisations already in those industries are of great importance.

I would have to say that we are concerned that since the passing of the legislation there has been no political focus on the process of implementation and, in fact, a substantial number of bureaucracies and groups within the bureaucracies of federal and state governments are going their own way at the moment and they are not necessarily, in our view, under the control of the parliamentary process. I think that is because the principles have been laid down and the bureaucracies are going off and doing their own thing and they are not necessarily all doing the same things.

The result of that is the emergence of radically different approaches to implementation within different jurisdictions. We suggest that there are different and unclear definitions of the public interest. There are differing types of forums for conducting reviews. There is no coordination in scheduling of similar reviews across states in areas such as the dairy industry, electricity and water supply. There are no clear means of determining whether the new arrangements comply with requirements of the competition policy in advance of

those arrangements being put in place—and I would instance the wheat industry with respect to that.

The wheat industry is currently trying to resolve its future structure and it is almost impossible for that industry to decide on future structure to have because there is a range of speculation going on about whether some of the arrangements that are being put forward as options are, in fact, going to comply with competition policy. So there is a real chicken and egg issue with respect to that industry resolving its future structure without having a capacity to get some sort of definition of what would be acceptable and what would not be acceptable in advance of their deciding those matters. At present, those issues are either not being attended to, or are being resolved by officials without consultation or discussion with the affected parties, or at least without a structure for that.

For agriculture, the issues surrounding market power and international competitiveness are of paramount importance and must be carefully assessed. I would have to add to that the issue of importing price injury, which is the export industries' equivalent of anti-dumping arrangements. The dairy industry is a very good example of that where domestic arrangements are put in place to support industries against the effect of importing price injury in the international marketplace to the domestic market.

In particular, defining the public interest in relation to the legislation that restricts competition must be carefully considered to see that it is not too simplistic. We need to look at whether removal of legislation will lead to more competition and it can be too simplistic to look at the different effects on consumer prices. Any assessment must be on a comprehensive measure of the net value of economic activity, including what return will come from resources that are displaced from the current activity and whether removal of legislation will simply result in power and economic returns being captured by another point in the value chain with no change in prices and market structure. And that is where I think that the way the retailing sector is structured in Australia is critical.

In some instances, legislation confronts market power elsewhere in the chain but is derived from economies of scale, barriers to entry, or control of information. The ultimate question is: will deregulation produce a market outcome that more closely emulates a perfectly competitive market than the one that currently exists? I think that that is the question we need to apply.

We would submit that agriculture must be allowed the flexibility to organise itself to compete in the international marketplace, to take advantage of emerging opportunities, and to elevate itself beyond the status of producer of raw undifferentiated commodities.

That is my opening statement and, once again, thank you for the opportunity of talking to you.

CHAIR—Thank you, Mr McGauchie. You made reference to a couple of specific industries there, including dairying and wheat. We had public hearings that involved the dairy farmers' organisation where evidence was provided by Pat Rowley in Melbourne a couple of months ago suggesting that, as far as he was concerned, there appeared to be a conflict between the application of closer economic relations with New Zealand and the Competition Principles Agreement. I am not sure whether you or the NFF has had a chance to look at that particular evidence, or whether you would be in a position to comment about that.

Mr McGauchie—Pat has not raised that issue specifically with us, with respect to CER with New Zealand, but I am presuming that the arguments there would not be substantially different from what happens in the rest of the international marketplace. The dairy industries' arrangements essentially allow that industry to set market prices for the domestic market which would be closer to an international market price that would prevail if almost the entire international market were not operating on a dumped price.

CHAIR—The other industry you mentioned there was the wheat industry and some of the difficulties that are currently being envisaged in terms of future marketing arrangements. Could you expand on that concern?

Mr McGauchie—Certainly. Australia uses a system of single desk marketing for wheat in the international marketplace even though the domestic market is essentially totally deregulated. The reason for using that single desk operation is because the international marketplace is so heavily corrupted by the behaviour of the United States and Europe with export subsidies. That single desk marketing structure provides about the only mechanism that the industry has to protect itself from the full effects. It can only give some protection against the effects of those export subsidies, but it does. In fact, an independent inquiry established by the industry but carried out by Booz Allen and Hamilton, who are highly respected international consultants—it is an American group although they are worldwide—concluded that it effectively provided some measure of protection against those export subsidies by enabling the market to operate without necessarily working at a lowest common denominator price. It was able to differentiate markets and obtain a higher price in those markets where there was less effect of export subsidies. Indonesia would be a good example of that.

The industry is currently looking at its structure as to whether or not the Wheat Board should be corporatised or privatised or what arrangement should be in place, but there are some real questions opening up as to whether or not the industry can move in that direction, albeit in the short term still operate effectively on the domestic market with a single structure and still comply with competition policy principles and, if those are in conflict, what is the capacity of the parliament in both legal terms and in terms of its willingness to pass legislation that may be in conflict with the competition policy rules but still provides the necessary national interest protection for that industry. At the moment, the industry would like to have an ability to get several views from people within the bureaucracy, no matter how well intentioned those views may be, about what would be consistent and what would not be consistent with competition policy before they set about putting something to the minister and consequently the parliament.

CHAIR—When you talk about the ministry, are you talking about what the Minister for Primary Industries and Energy?

Mr McGauchie—Yes.

CHAIR—So any discussions on the broader issues of competition policy that would involve, for instance, Treasury would be handled—

Mr McGauchie—Through that mechanism.

Mr Goucher—In the context of that discussion, it is important to take you back to the last point that Mr McGauchie made in his opening statement, that structures like the Wheat Board are fulfilling a very important function of transposing some of the agricultural industries in this country from being raw commodity producers and exporters of raw commodities into something that looks more like a differentiated product which adds value to the product. It provides us with a more secure position in the international market and is consistent with a lot of statements that the government has made, which I am sure the opposition would also support, about developing the output of our agricultural industries into something that is more valuable.

If you take away some of those structures, what you inevitably come back to, if nothing else goes in its place, is that farmers go back to marketing wheat as an undifferentiated commodity because they cannot individually go about market development exercises or get into product development and processing opportunities as individuals. Whilst some development of those structures might be appropriate, what we must always avoid is a situation where we dismantle and throw out what we have there at present. What we ought to be aiming towards is developing and evolving those structures into something that might be more useful and emerges as the markets change.

CHAIR—Are you talking about the statutory marketing authorities that have monopoly powers?

Mr Goucher—Yes. The concern is that application of the competition policy principles might lead to those structures being gutted or dismantled and a loss of the considerable intellectual and human capital that is in them and their market reputations and the value of those organisations as trading entities. We would like to see them developed rather than destroyed.

CHAIR—When you say developed, what are you actually saying? You are arguing the case that existing statutory marketing authorities with those monopoly powers for any sort of domestic and international sales of products should remain in place but somehow be further enhanced, but how does that sit in terms of your understanding of the competition policy?

Mr Goucher—I will not be specific about any of the particular powers, but it is more about the process of evolution than about the specifics of their marketing legislation. The plea, I think, is to make sure that changes are undertaken in a way that allows them time to adjust but make sure that they become more valuable rather than less valuable to the community at large.

Mr CUNNINGHAM—Are you differentiating between what the organisation does in the Australian market and the necessity to have that type of organisation to be competitive in an international market?

Mr Goucher—Overwhelmingly the prime concern is the ability to operate on the international market. They are the biggest market for most of those organisations and they are the most important one for producers and for Australia.

Mr CUNNINGHAM—Is there anything in the international area that allows the present structure to evolve, it will not be pushed into a position where it has to be competitive?

Mr McGauchie—At the moment there is not anything specifically in the international marketplace that would prevent the activities of those organisations where they are not being supported by direct government payments and their activities are not subject to any set of international rules at the moment. They would possibly come into conflict with World Trade Organisation rules if there were subsidies inconsistent with the outcome of the Uruguay Round. That may be an issue that is debated in the next multilateral round and, given that I have come back from Washington late yesterday having talked to Ambassador Cantor and Secretary of Agriculture Glickman, I have no doubt these issues will be raised in the next round, but at the moment they are not. The issue from our point of view is how they fit with domestic rules and where there are what will undoubtedly be conflict between their operations and pure competition policy application.

First of all, we have to have consistency in the way the rules are being applied so that we know what the rules are and they have to be tested and we have to have a policy from a government perspective which works out how we are to reconcile the basic inconsistencies that arise, how we measure them and how we reconcile them and ultimately make a decision about them, because there are essential conflicts. Of course, the other area that I mentioned a moment ago is that those industries have some capacity to know in advance what they are testing themselves against when they look at new structures and new arrangements, some of which are evolutionary structures.

Mr CUNNINGHAM—Could I just take you through to the domestic market a little more and the private deregulated domestic market working in conjunction with the main body. Are there concerns amongst the private operators that there is an advantage being waged in the market against them which would put pressure on that competition?

Mr McGauchie—Absolutely, and there are areas where private operators in the marketplace are very concerned about the activities of some of those statutory marketers and how the relationship between their international and domestic operations can affect those organisations. Those are things where we have got to resolve—we have to have, more importantly, the capacity to resolve—those essential conflicts.

Mr BRADFORD—I do not have a rural background, so just bear with me for a moment. This single

desk arrangement that you are talking about, that is the way it is described, isn't it?

Mr McGauchie—Yes.

Mr BRADFORD—That has both a domestic and an international focus, does it?

Mr McGauchie—No, it does not, unless it is specifically designated that way. If you take the case of the Wheat Board, which is one that we mentioned, the wheat market legislation of 1989 and supported by the amendments to the act in 1992 deregulated the domestic market but continued the single desk operation on the export market. In so doing, the Wheat Board was structured in a way that it could also operate in a commercial sense on the domestic market. So it has single desk powers on the export market but is able to operate in a commercial sense on the domestic market. It is that dual role which causes the issues that we are raising here to be raised by the people involved.

Mr BRADFORD—The Wheat Board is not buying wheat as such now, is it? It used to do that.

Mr McGauchie—It does now. It used to acquire wheat, now it buys it.

Mr BRADFORD—And stores it.

Mr McGauchie—It is stored on their behalf by other organisations, most of which are totally commercial now. I do not think there is a statutory power left anywhere in the country at state level on handling, storage or transport. The Wheat Board in the past acquired wheat under Commonwealth and complementary state legislation. Its role now is to actually buy wheat and people have the choice whether or not they sell their wheat to the Wheat Board. Effectively, this choice is somewhat limited by the fact that they are the only export seller, so, unless you can find a local market, the residual market is the export market which the Wheat Board controls. Whilst there is choice and a lot of people exercise this choice, there is a limit to this choice.

Mr BRADFORD—And what sorts of stocks does the Wheat Board hold of wheat at the moment, for instance?

Mr McGauchie—Of course, it is a highly seasonal industry and wheat is harvested between late August-September in Queensland through to January in southern Victoria. At the time of harvest there is not a lot of this wheat shipped, so this year the Wheat Board, at the end of January, will be holding probably 12 million tons of stock which they will progressively sell through to the start of the next harvest. As a matter of course for marketing purposes, they will hold wheat over from one season to the next so that they can have continuity of supply to their long-term contract markets—domestically and internationally—so their stock position varies.

Mr BRADFORD—Where does it differ from, say, the situation that existed with wool a number of years ago where the whole scheme came unstuck because they were buying and not selling?

Mr McGauchie—The wool industry arrangements were attempting to set a market price; they were trying to use the position of actually setting an international market price. The Wheat Board does not do this; it responds to the marketplace. It has no desire or legislation which tries to drive the market. It sells the product that it has to the best available price in the marketplace, but it responds to the marketplace. Whereas the wool marketing arrangements were totally inflexible, the wheat marketing arrangements are totally flexible and can respond to rises or falls in the marketplace.

Mr BRADFORD—How do they set what they pay for their wheat, then?

Mr McGauchie—It is set in a pool. On the domestic market they will buy for cash. They have to do this on a commercial basis, and so they pitch a price at which they believe they can sell the product. They rarely take substantial positions in the domestic market. They are usually selling on a back-to-back contract basis, so, when they know what contracts they have got, they price accordingly. In the international marketplace it is a pool, and the residue of the pool is distributed to the pool equity holders and so the price

that is paid reflects the price received.

Mr BRADFORD—In terms of planting wheat, are there quotas now in existence?

Mr McGauchie—No, there are no restrictive practices whatsoever. People can plant the quantity and quality of crop that they so choose, knowing that, at the end of the day, they will get whatever that market yields.

Mr BRAITHWAITE—What about futures—

Mr McGauchie—The Wheat Board is, in fact, the largest user of futures on the international exchanges in Chicago and Kansas. They actually operate up to a limit which those boards of trade set.

Mr BRAITHWAITE—Would it be fair to say that, with the recent bad seasons in wheat, your stocks would be low in comparison with what they would normally be?

Mr McGauchie—Rarely does the Wheat Board carry much quantity of wheat across from season to season. This is not an easy country to store wheat in. In the northern hemisphere you have essentially got an enormous refrigerator and, because it is snow covered during the winter time, temperatures are low and insect problems are not high. In Australia we do not have this, and long-term storage is an expensive operation here. We do not enter into it any more than we have to. For the most part, Australia quits the maximum quantity of stock it can during the course of the year. We have, on occasions, carried up to 2 million tons over from season to season, but it is relatively rare and it is only usually if there is a difficult marketing situation or where, for instance, in one year—1991, I think it was—we had a substantial amount of weather damaged wheat. It was very difficult to move quickly, so some of this was held over until it could be sold in a fairly orderly fashion in the international marketplace.

Mr BRAITHWAITE—So you meet the market?

Mr McGauchie—Absolutely.

Mr BRAITHWAITE—What is your percentage of exports as against domestic?

Mr McGauchie—It is around about 80 per cent exports, depending on the size of the yield. Last year, we had 7.8 million tonnes of wheat produced. This year, we will produce something over 16 million. The percentage varies very considerably from year to year.

Mr BRAITHWAITE—I tackle another point using wheat as a base. To what extent do you believe that the application of hidden taxes in Australia is a prohibition against you trading competitively on the export market?

Mr McGauchie—Very substantial. We pay very considerable indirect taxes on Australian agriculture, and I could not apply them specifically to individual industries. The most recent figures that Treasury have given to us applied to the 1991-92 financial year. They showed about \$1 billion of indirect taxes on agriculture that many of our competitors do not have or, through the application of their indirect tax systems, get them rebated. Given the decisions of the last two budgets, we would have seen those indirect taxes rise considerably. Our guesstimate is \$1½ billion to \$2 billion worth of taxes on our inputs.

Mr BRAITHWAITE—We asked the same question about GST. Would you support it?

Mr McGauchie—Our view is that the indirect tax system is a mess in this country and it needs reforming. It is too narrowly based and it does not have a capacity to apply rebates of those indirect taxes in a GATT legal manner. I certainly do not want to be prescriptive about what the best way to solve that is, but it has to be solved. We cannot go on competing internationally where we are paying more taxes than our competitors, and the structure of the tax system does not allow us to effectively apply rebate to those taxes that we can be absolutely confident are GATT legal.

Mr BRAITHWAITE—I ask just one other question. You mentioned in your initial statement that, while there is an exclusion of the labour market, you are not really getting to a competitive base. To what

extent does this whole competition policy fail because we have not included the labour market in it?

Mr McGauchie—It is a totally forward process, unless you include across the board, and has a capacity to end up with industries which are institutionally uncompetitive if it cannot be applied. What we have seen is that some industries have been able to apply arrangements which have taken them to world best practice and they have done quite well. We have had other industries that have been totally unable to move to world best practice and so it is a mixed bag. In a number of critical areas, and two I would instance are the waterfront and the meat processing sector, we have not been able to move Australia to international best practice. We could have industries which are having competition policy applied to them, that then have to compete in sectors of the value chain where they are forced to be uncompetitive, because of practices which are supported by institutional arrangements.

Mr HARRY WOODS—On item 3 in your submission, you list a number of services. With the introduction of competition policy to those and other services, and just going down that road without government intervention, what would your opinion be of how those services would be supplied in the future in rural and remote areas?

Mr McGauchie—A great many of those services in rural and remote communities are likely to be not very competitive in the supply. The capacity of organisations to supply those in a competitive marketplace is going to be pretty thin. Therefore there is a real risk, in a whole range of those, that the rural community will be severely disadvantaged, and therefore that needs to be taken in account in the application of competition policy.

Mr HARRY WOODS—Do you think that there are some principles involved there that we have recognised in the past, but at this stage competition policy really does not, but people are entitled to certain things?

Mr McGauchie—Yes, absolutely. And that has got to be taken into account, while we have spent some time talking about community service obligations and the mechanisms that might be applied to providing those at reasonable prices to remote communities.

Mr Goucher—It is essentially the point of that section that in an openly competitive market you cannot necessarily guess where the level of service, or the quality of service, is going to end up in areas such as those that are listed there. The outcomes from a competitive market in some areas, where the competition might not be as robust as you like—because of the size of the community, or the number of players who are prepared to get out there and offer a service in that area—can lead you to some outcomes that you might not necessarily anticipate.

It is on that basis that we believe that community service obligations need to be defined: defined, in essence, as minimum standards for delivery, which would be ones that the community would expect to be available anywhere in the country. If those community service obligations are established essentially as minimum standards, they do not become any sort of barrier to competition. It merely defines the basis on which the competition is going to take place.

Mr HARRY WOODS—How many of those services mentioned there, have in the past been funded by means of a cross- subsidy within that industry, which gives a certain flexibility to the delivery of that? There are some suggestions that CSOs in the future be funded off-budget. Have you got an opinion?

Mr McGauchie—There are a couple of ways they can be done. They can be funded off-budget, or they can be defined in the legislation which permits competition to those particular service deliveries.

Mr Goucher—It is easy to say—but not necessarily as simple in reality—that there are cross-subsidies. Whether or not something is a cross-subsidy basically depends upon how you define what is a fixed cost, what is a variable cost, and how those fixed costs ought to be distributed.

Mr HARRY WOODS—Do you think that the concept of funding them by a cross-subsidy provides some flexibility that would not be there if it was a budget funding? If you are going to go the budget—

Mr Goucher—Yes, it does. I think you can solve a lot of the problems without needing to get into a debate about cross- subsidies, if you were to accept, for instance, that the transmission grid for electricity—which is required in order to deliver electricity to the community—is essentially a fixed cost; it is part of the decision of having a national electricity supply. If you treat all of that as a fixed cost, you then make a judgment about how you are going to distribute that cost.

You might distribute it equally to every person who is connected to it. You would then have not much in the way of a cross-subsidy. If, alternatively, you say, ‘We are not going to treat this as one unit. We have a grid here, but there is a spur line going up here, and we are going to charge the cost of that spur line to everybody that is connected to it,’ then those people might face a huge cost compared to somebody else over here. It just depends what you define as being the fixed cost, and how you distribute it. A more liberal, or a different, view of what you call a fixed cost and how you distribute it, means that you may not even have to face that cross- subsidy issue.

Mr HARRY WOODS—If the method of funding some of these services was on a budgetary item line, what do you think the effect on those services would be over time?

Mr Goucher—Clearly, they would face a lot of public scrutiny and pressure to—when budgets were tight they would be threatened.

Mr HARRY WOODS—Are you saying that over time there would be pressure to diminish those CSO points?

Mr McGauchie—They would be subject to public scrutiny, and the arguments supporting them would have to be continually faced. But the other side of that coin is that, very often in that sort of situation, you find that people find more innovative ways of actually delivering those services. Indeed, at the end of the day, the overall effect of that on the economy is that resources are much better allocated. Frequently, the method that has been used by a lot of the statutory providers of those services in the past has been highly rigid, and lacked the flexibility that has been introduced to it where competition has been applied.

Mr HARRY WOODS—Do you think that would be likely to happen where you had rigid defining in a budgetary sense?

Mr McGauchie—No, I think it is more likely to happen where you have essentially a bureaucracy delivering the service. A contestable market delivering the service with some support in one way or another—either by legislation within the delivery of the services or by direct off-budget support—is more likely to produce a better result in terms of the allocation of national resources in providing the service.

Mr HARRY WOODS—Nevertheless, just to finish off where I started: to retain or maintain those types of services listed there under competition policy requires government intervention?

Mr McGauchie—It may do. That is what has got to be looked at. It has got to be understood that it may do.

Mr Goucher—At the very least, it requires government to define what is a community service obligation. But it may not be—

Mr McGauchie—Yes, if you are using government intervention in the broadest sense, the answer is yes.

Mr HARRY WOODS—It is us stepping in and saying that these sorts of things have got to be done.

Mr Goucher—That can be simply a matter of defining standards which private operators have to meet.

Mr BRADFORD—Putting aside the costing argument, you say that you consider the minimisation of

price differences between groups of users within a community, especially differences between regions and capital cities, should always be an objective in pricing of CSOs. That is the fundamental issue, I guess. But why?

Mr McGauchie—There is a range of those services that we would argue are fundamental rights for people wherever they live within the country.

Mr HARRY WOODS—You would agree that there are some principles involved that the community generally agree to, that people are entitled to health services and mail services?

Mr BRADFORD—That is part of the debate that is going on. I would like you to tell me why a capital city person should accept that they should subsidise the cost of something for someone that lives in the country.

Mr McGauchie—I think it is the same argument that applies to a lot of services in capital cities; they are equally provided in that kind of way, like public transport. There are different services required by people located in different areas across the country. Some of those services are so fundamental to people's standard of living within a country like Australia that expects to have those services delivered to people, that people expect them. They have essentially become fundamental rights.

Mr BRADFORD—Can you accept that there are some price differentials in providing those services, putting aside the costing argument again, which I accept is part of it? Transportation, which is one you mentioned, is a factor, surely?

Mr McGauchie—Yes.

Mr Goucher—We acknowledge that and that is why we did not say that the price should always be the same. Clearly, there will be some differences in delivery cost which justifiably should go into the price. But, to the extent that it is possible within those sorts of accounting issues that we mentioned, the price difference should be minimised, because what we are doing is taking a community decision that these are some minimum standards that anybody who lives here is entitled to have. It ceases to be an entitlement if you say that one person has to pay twice as much as somebody else for essentially the same outcome.

Mr CUNNINGHAM—How much monitoring are you doing of the Victorian situation at the moment? There really is a tremendous avenue there for research on change which will have a big impact on how you will come at a lot of the legislation, I would imagine, in lots of areas.

Mr Goucher—We are, and I am sure that the Victorian Farmers Federation are. When you get around to meeting with them, I am sure they will give you a fair bit.

Mr CUNNINGHAM—At the national level, are you doing—

Mr Goucher—In a sense they are a bit of a case study, if you like.

Mr CUNNINGHAM—Is the organisation nationally taking that opportunity now to do that?

Mr McGauchie—We will do that. The way we are structured, of course, with our member organisations in each state means that we rely on them. They in fact carry out that sort of a task, then feed that information in to us nationally. So, if we take the organisation in its totality, yes, the Victoria Farmers Federation is our member body in Victoria. They are watching this process very carefully and having an input to it and we will take information back from them which will be of use to us in the national context.

Mr CUNNINGHAM—In this whole competition basis, you are doing a submission for the committee here, but do you have a structure in your organisation now that is following this through consistently? Or is it something that you are just moving towards at the moment? There must be research information coming at you from all directions, I would think, at the moment.

Mr McGauchie—Yes, there is. We have a committee structure which takes account of all of our member organisations on that committee which prepares this basic work and we have somebody who acts as

committee secretary for that process, which in the case of this particular piece of policy is Garry. The national committee has every member organisation represented on that committee, so that if information is fed in via that process, including the staff people at state level as well as elected people, that committee comes together at national level and Garry is the one who is responsible for it. We have a very defined structure for dealing with those sorts of issues.

Mr CUNNINGHAM—I would just like to go back to one little point here, to the 80 per cent export, as an example, in the wheat area versus the local competitive market in the 20 per cent. Is it a concern in the system that because it works to a single desk price—is that differentiated sufficiently in the domestic market to be clear to everybody that it is truly competitive, or is there some element in the system which could be a sticking point in relation to the capacity to move some dollars in the system?

Mr McGauchie—Yes. I am in no doubt that the system is both transparent and well enough administered to ensure that there are not cross-subsidies in the two operations, and that losses on one are not transferred to the other. The only area of difficulty that can produce some uncertainty with people is that the final result on the export market is not known until the conclusion of the pool, whereas people dealing in cash on the domestic market have to base their decisions about buying and selling on the basis of what they expect the outcome to be.

The Wheat Board, since it has had the structure that it currently has of export and domestic arrangements, has always put forward in a totally transparent way the calculations that they make about returns. The ABARE also put out information as to what they expect the pool returns to be, so people can check those up with each other. Some of the companies operating in the international marketplace and domestically, such as the major international grain traders, have their own sources of information with respect to those things. But there is a difference there, and the final price—the benchmark price—against which all domestic trades operate, which is the export price, is not known until the conclusion of the pool.

Mr CUNNINGHAM—Is there anything in the legislative area that you are advising government, at the moment, that is going to clash because of the competition policy?

Mr McGauchie—We are not advising government at the moment. It will be the Grains Council that will put forward proposals to government for options for restructuring the Wheat Board. The issue that is being raised is whether or not a single desk operator, also operating on the domestic market, has some sort of unfair advantage over other entities operating on the domestic market. That is what the debate is about.

Mr CUNNINGHAM—In the farming sector, is wheat the only area where this concern is expressed now, or are there other areas that—

Mr McGauchie—Wheat is the only national one. There is a range of state arrangements for other grains.

Mr Goucher—The rice price is in a very similar situation.

Mr CUNNINGHAM—Right.

Mr Goucher—They are facing the difficulty that they are being reviewed, if you like, for the same issue in a different jurisdiction and via a different process, and it looks like having a very different outcome. There is an argy-bargy, if you like, going on between the federal jurisdiction and the state, in that the state is saying, ‘Well, maybe this should be done at the Commonwealth level.’ Sorry, let me go back a bit. They have reviewed the rice marketing arrangements and seemed to have come to a conclusion that it does deliver a net public benefit.

Mr CUNNINGHAM—Has the state or the federal jurisdiction reviewed that?

Mr Goucher—As it currently stands, it is a state regulation. But, in effect, it is a national regulation because all the rice is grown in New South Wales. The state government is saying, ‘We don’t want to

continue with this process; we want to hand it over to the Commonwealth.’ There is a great deal of concern amongst the industry that, once the responsibility is shifted to the Commonwealth, they will not have any guarantee as to the outcome. They might well lose what they have got in the process of a federal inquiry, notwithstanding the support they have got from the state level. They are being left in quite an invidious position at present. That goes back to one of the points we made at the outset about some coordination between the jurisdictions over some of these issues.

Mr BRAITHWAITE—It surprises me that the states would want to give it up. I can draw the analogy of sugar. Sugar is grown in Queensland and New South Wales. As I understand it, they want the state jurisdiction to control. It is a very easy argument to beg out of if you want to, on a federal basis. But it would surprise me that rice would want to get into it.

Mr Goucher—Not much surprises me in politics, but that is what is being said.

Mr McGauchie—We are reflecting information brought to us by the rice industry. That is the message that they are giving us, that in fact the New South Wales state government is thinking—at least as I understand it—in those terms.

Mr CUNNINGHAM—Are there any others? Is that the only other one?

Mr Goucher—I think essentially we might have some trouble with the notion of them enacting, if you like, a single export desk. They see the control of exports as being a federal power.

Mr BRAITHWAITE—I hope they do not talk to Queensland, because Queensland feels it has the power to operate a single export desk with sugar.

Mr HARRY WOODS—There is no likelihood that Queensland would want to hand anything to the Commonwealth.

Mr BRAITHWAITE—New South Wales has never been in the export market. But I think, all things being equal, these days you have to look at it.

Mr Goucher—I suggest, Chairman, therein lies a further example of what we were saying. Different jurisdictions are reviewing very similar arrangements and taking quite different approaches to the outcomes, which is, in our view, entirely unsatisfactory.

CHAIR—On that particular point, have you got any suggestions for the mechanisms that should deal with that? There is an obvious one, I suppose, when you are talking about COAG, but on a day-to-day basis have you got any suggestion as to how that process of reducing the potential lack of consistency between the Commonwealth and the state bureaucracies can be done?

Mr Goucher—Maybe there is room for a son of COAG, if I can put it that way, which involves politicians from state and federal level that might provide for that coordination.

CHAIR—Rocky IV. Could I perhaps move on to another area. Three weeks ago the committee had, I thought, a very useful group of informal meetings with councils, particularly in remote parts of Queensland, specifically in Longreach and Roma, where a lot of concern was expressed by some of those rural based councils where competition was going to apply into the future. The principal one was in the area of roadworks. The point was being made that being subjected to competitive principles could have a pretty devastating impact on the socioeconomic composition of some of those rather remote communities. In particular, the example that was given to us time and time again was that, if you allow open tendering arrangements, someone big comes in, cuts the ground from underneath the local council, does the job and so reduces the capacity of a local government authority to maintain and continue the supply of heavy equipment that may be required for a broader community obligation when it comes to coping with natural disasters such as bushfires and floods, for example.

I notice that your submission picked up on the point about the efficient delivery of local government

services. I am just wondering whether or not, firstly, you have had any contact through the NFF by some of the remote rural councils in Australia or whether you have a view about the way in which the competition principles agreement is likely to impact. Are their fears justified, in other words, from your perspective?

Mr Goucher—The short answer is no. We have not had any contact from some of those more remote local government authorities. There is some validity in the point that you make that totally taking councils out of providing services such as road making might well limit their capacity to deliver other public services, that is fighting bush fires or controlling floods or the like. What that says is that there is what maybe you could call a community service obligation on the part of council to maintain some capacity in that area. That is probably not inconsistent, though, with allowing some competition in those operations. But, as we also point out in the submission, in a number of areas there probably is not a reasonable market for those services. If you put them up to tender, you might not get much of a response anyway, so it may be that the council has to maintain a capacity in some of those facilities.

CHAIR—Does the NFF have a view about compulsory competitive tendering? That has now been introduced in Victoria in particular for local government, at least I think to about 50 per cent of their tendering arrangements at this stage, which will go higher. Do you have any philosophic view about that concept of compulsory competitive tendering for local government services?

Mr McGauchie—Yes, we do. We think on balance that it is an appropriate way of testing the supply of those services and that the fear of large operators coming in and putting those organisations that are providing that service out of business is overstated, that mostly what is happening is that the very existence of the council operations is putting small individual private operators, who could supply those services very efficiently, out of business. In fact, the opposite is the case that is generally applying.

There will be instances perhaps in extremely remote areas where that is not so, although if you look at places like the Northern Territory and western Queensland, most of the properties are as big as shires and they provide those services themselves. They do not rely on government to supply them at all. There would hardly be a cattle property in the Northern Territory or western Queensland that does not own a road grader or a bulldozer.

There are private operators who supply those services out there in areas other than local government, so there is a range of them. Our view would be that they are being restricted by the fact that they are not being given a chance to compete for the work in those areas, which they could supply very efficiently. If anything, it is the councils that are keeping small operators out of business, not big operators that would put councils out of business.

CHAIR—But is that a little inconsistent with what you said earlier on about perhaps a community service obligation? Some of those more remote councils have to have that equipment almost on stand-by to deal with natural disasters, as an example.

Mr McGauchie—That would have to be measured. If you did find an area where there was not adequate supply of that sort of equipment and service, then there may be a need for councils to supply it. My guess is you would find there were very few of those, if any.

CHAIR—Okay.

Mr McGauchie—But it needs to be watched. That is the purpose of government—to watch those things and to see where they are coming out.

Mr HARRY WOODS—Has the NFF got a definition for what a CSO is?

Mr Goucher—It differs according to what service you are dealing with, but I think, as we have laid out in the submission, essentially we see CSOs as being minimum service standards which all operators in the market should meet.

Mr HARRY WOODS—More after the fact, most CSO definitions say that it is an imposition by government, it is required by government, to a service that would not otherwise be provided.

Mr Goucher—It is hard to generalise without a definition and come up with anything that is useful.

Mr BRAITHWAITE—I did not quite get the message before, but in your opening address you pointed to the difficulties of different state jurisdictions, the different approach between one area and the other. All I can say is that we share your concerns in that regard. We believe the act has been implemented very prematurely, without any discussion basically outside the Commonwealth area. If there was, it was only with premiers' offices, and there is going to be a lot of this having to be decided by higher courts and governments, I believe.

Mr McGauchie—I could do nothing but agree with you in that situation.

CHAIR—Are there any further comments you would like to make in conclusion, Mr Goucher or Mr McGauchie?

Mr McGauchie—No, Mr Chairman, apart from to thank you once again for the opportunity to meet with you today.

CHAIR—Thank you very much.

Resolved (on motion by Mr Martyn Evans):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 11.44 a.m.