

# *Inquiry into Infrastructure and the Development of Australia's Regional Areas*

by the

House of Representatives Standing Committee on Primary Industries and  
Regional Services

Submission by: **The Department of Foreign Affairs and Trade**

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## *Introduction*

Rural and regional Australia continues to be at the forefront of Australia's export performance. From the traditional and strong agri-food and mining sectors to more recent growth sectors such as eco-tourism, rural and regional Australia remains the cornerstone of the nation's international trade performance.

In 1997-98, Australia's total food exports generated over \$18 billion, nearly 60 per cent of which was earned in exports to Asia, despite the economic difficulties in many of these markets. The majority of overall farm production and around a quarter of processed food production is exported. Also, Australia is one of the world's most efficient exporters of mineral commodities. Exports of minerals and petroleum were valued at \$41 billion in 1997-98, or around 36 per cent of Australia's total exports of goods and services. Regional areas also play a key role in tourism, Australia's biggest services exports earner.

If the contribution of rural and regional areas to Australia's export efforts is to continue to grow, it will be important for the quality of infrastructure supporting this vital part of Australia's economy to continue to improve. The Government's objective for regional Australia is to provide the economic, environmental and social infrastructure necessary for Australia's regions to realise their full potential. To achieve this objective, a whole-of-government approach is delivering policy and programme initiatives aimed at promoting economic growth, generating jobs, renewing and extending regional infrastructure and ensuring equitable access to services for people living in regional Australia.

This submission examines the extent to which Australian exporters, including rural and regional exporters, have benefited from economic reform, including greater competition amongst infrastructure providers, which has enabled them to compete more effectively in a globalised economy. It also looks at key infrastructure issues for rural and regional exporters: the need for adequate road, rail and air services as well as the need for appropriate telecommunications infrastructure at a time when electronic commerce is opening up new markets for small-to-medium sized rural and regional exporters.

## *Competitiveness and trade performance in a global economy*

An analysis of export performance is crucial in assessing the economic development of rural and regional Australia. As Australian businesses become more engaged in world markets, exports are becoming increasingly important in providing jobs and delivering improvements in our standards of living. Indeed, exporters are among Australia's strongest businesses. They are more productive per employee than those businesses that do not export, largely reflecting their exposure to international competition. They also pay higher wages and the flow-on benefits of this are clearly visible in communities which host export businesses. (See enclosed: *Trade Liberalisation: Opportunities for Australia*, DFAT 1997)

Australian industry has become much more competitive following reductions in tariffs and other reforms, including the introduction of the National Competition Policy (NCP). These reforms have had a significant and positive effect on rural and regional exporters' ability to compete in international markets and consequently on Australia's trade performance. The establishment of a more competitive market structure helps ensure that Australian exporters have access to lower cost production inputs, such as transport, energy and telecommunications, both in manufactures and services. Australian exporters are thus paying competitive prices for basic inputs and this has contributed to enabling them to compete more effectively in world markets.

For example, according to the National Competition Council, increased competition is reducing prices by 20 per cent for grain haulage in Western Australia (since 1992-93), 25-30 per cent for electricity (in some States), 40 per cent for container rail freight between Melbourne and Perth, and up to 60 per cent for gas in NSW (by the year 2000).

The introduction of greater competition amongst providers of infrastructure and services to regional and rural Australia has helped businesses and exporters continue to succeed in the face of increasing competition from international suppliers in an increasingly globalised marketplace.

The process of globalisation - the increasing integration of world markets for goods, services and capital - has accelerated over the past decade and has had a profound impact on the Australian economy, including on rural and regional Australia. It has been driven by advances in transport, communications and computing technologies; the lowering of trade barriers worldwide; and the freeing up and deregulation of capital markets in many countries. These factors have contributed to facilitating the movement of goods, information and capital around the world.

A middle-sized country like Australia, which must trade vigorously to make its way in the world, cannot resist the forces of globalisation without compromising its living standards. Australia's domestic economy must adjust to the realities of global production and capital flows so that it can take advantage of the opportunities presented by globalisation. This includes ensuring adequate infrastructure is available to enhance Australian businesses' access to the markets of the world.

The advances Australia has made in accessing new technologies and business has recently been demonstrated by the ability of Australian exporters to diversify to other markets after the downturn in regional demand as a result of the East Asian economic crisis. In 1998 Australian exporters, despite a decline in exports of merchandise goods of 7 per cent in regional markets, achieved 5 per cent growth in overall merchandise exports as a result of a 20 per cent growth in non-East Asian markets.

### *Benefits of trade liberalisation*

By becoming more competitive, producers in rural and regional Australia have been able to take advantage of developments in trade liberalisation in recent years. Australia has been a prominent player in the World Trade Organization (WTO), and through its leadership of the Cairns Group, a group of fifteen fair-trading agricultural exporters, played an influential role in the Uruguay Round of multilateral trade negotiations. Australia's strong commitment to ensuring a successful conclusion to the Uruguay Round reflected the fact that the agri-food industry is among the largest sectors of the Australian economy and is one of its biggest export earners. Maintaining existing international trade liberalisation commitments and pursuing further liberalisation continues to be critical to the economic well-being of Australia's rural and food sector and the wider economy.

The Uruguay Round outcome brought, for the first time, agrifood trade under effective multilateral trade rules and disciplines. In particular, the Round was successful in bringing about minimum access commitments, tariff reductions and the removal of non-tariff barriers, especially prohibitive and non-transparent quantitative restrictions and variable levies. The Round also extended disciplines and cuts to export and domestic subsidies.

Some of the market access commitments were of great significance to Australian farmers. For the first time, the lucrative Japanese and Korean rice markets were opened to our farmers.

"Tariffication" or the replacement of all forms of non-tariff barriers with tariffs and tariff quotas signalled a key change in the history of agricultural trade. Tariffication has led to transparent tariff barriers although, in many cases, these barriers remain far too high.

The export subsidy commitments were also particularly important. Developed country members of the WTO were required to cap and then cut budgetary outlays for export subsidies by 36 per cent over the implementation period and the volume of product eligible for subsidies was also to decline by 21 per cent. Also for the first time, domestic or production subsidies were capped and reduction commitments put in place.

It is clear that rural and regional Australia has been a major beneficiary of Australia's efforts at increased trade liberalisation through the creation of jobs and wealth. The most successful regional and rural areas have been those which have broadened their participation in export markets, including through more processing ("value adding") of commodities and selling into specialised niche markets. There are many examples of a successful transition to increased export production in rural and regional Australia following a reduction in the levels of protection and introduction of competition policy reforms. The Darling Downs, exporting horticulture, meat, and education services, and the Murray Valley and Riverina, exporting dairy products, rice and manufactures, are examples.

This is not to say that there have not been areas or agricultural sectors which have suffered the pain of adjustment or that some rural areas have not borne unemployment costs in the process. The wealth created by the improved productivity of Australia's primary producers in response to international competition has, however, had strong flow-on effects in supporting and creating jobs in rural and regional Australia. In the case of the dairy industry in the Goulburn-Ovens-Murray region, the unemployment rate in that region has fallen from around 13 per cent in 1992 to around 7 per cent in 1998.

The results of the Uruguay Round were groundbreaking but much remains to be done to remove the distortions and protection afforded to international agricultural markets. There remain too many subsidies and too many barriers to real market access. This discriminates against Australian producers who are generally globally competitive. The process of continuing, fundamental reform is therefore essential.

*Transport infrastructure and freight distribution – a key concern for rural and regional exporters*

Mindful of the opportunities presented by falling trade barriers internationally as well as Australia's increased competitiveness, the Department of Foreign Affairs and Trade, together with Austrade, worked closely in 1998 with the then Parliamentary Secretary for Trade, Senator Brownhill, to ensure that regional and rural exporters were aware of the range of export related services provided by the Government and of the benefits of more open markets. Over 700 exporters took part in twenty-five roundtables, together with key regional players and government representatives.

Discussions covered a range of export-related issues but transport infrastructure and freight distribution problems were identified by roundtable participants as among the most significant

impediments to export. Key issues for exporters included: high freight charges, delays and slow turnaround times at airports and ports, poor handling of fresh produce by airlines, inadequate infrastructure and the lack of provision for specialty freight. These issues have also featured prominently in the new 1999 series of trade roundtables conducted by the new Parliamentary Secretary for Trade, Mr Larry Anthony.

Clearly, if Australia's rural and regional exporters are to remain internationally competitive it will be necessary for the quality of infrastructure supporting their export efforts to continue to improve. Transport is a critical factor in ensuring that agri-food exports arrive at destination markets on time and in the best condition, maximising shelf-life. Government efforts are directed towards programmes and initiatives that promote efficient and effective transport logistics operations throughout all elements of the supply chain.

These include the Export Gateways Initiative, announced by the Prime Minister in late 1997, which facilitates commercial self-help solutions to logistics issues by bringing together key players in the transport logistics chain. Air and sea freight export councils are being established at major export hubs to foster strategic partnerships and better communication. By bringing together all supply-chain players and addressing common transport and logistics challenges, the councils will maximise communication, minimise impediments to competitive and reliable transport and work towards an export culture that will achieve a cost effective and value added transport and logistics chain.

*Road, rail and air transport - crucial components of rural and regional Australia's freight capacity*

Australia's national road transport system plays an increasingly important role in bringing exports to markets, through the access it provides regional Australia to export facilities at ports and airports. As well as this, the road reserve is also commonly used for the location of other key infrastructure needs, such as gas, electricity, telecommunications and water supply infrastructure. Australia maintains one of the most extensive road networks in the world, in one of the most challenging environments. For each kilometre of road in Australia, there are approximately 23 people. This compares with 41 in the United States, 110 in Japan, and 1123 in China (*Road Facts 96: An Overview of Australia's Road System and Its Use*, Austroads, 1997). This dramatically illustrates the high priority of efficiently providing this crucial part of transport infrastructure.

The total Australian freight task has grown markedly during the past two decades. In the period 1973-93, the overall number of tonne-kilometres annually undertaken has risen from 166.1 billion to 289.9 billion. Road freight rose from 29.9 billion to 98.5 billion tonne kilometres a year, from 18 per cent to 34 per cent of the yearly total freight task. The value of Australia's entire road network is estimated at more than \$100 billion. Every working day, governments spend about \$23 million maintaining and reconstructing the network. (*Road Facts 96*)

In order to ensure that this substantial transport infrastructure asset continues to contribute to Australia's export performance, governments will need to continue to maintain their investment in the Australian road transport system.

Rail transport has been an essential element of the infrastructure necessary for Australia to conduct international trade, in particular its role in linking in-land Australia with coastal ports. Rail transport is therefore an important component of costs for many of Australia's key export sectors, including mining and agriculture. Some of these exporters have raised concerns about the pace and scope of rail reform. For example, in their submission to a recent Productivity Commission inquiry into rail reform, Australian coal exporters have raised the issue of inefficient rail services and, in particular the state governments' pricing policies, as a significant negative impact on their international competitiveness.

Efficient air services for Australian exporters, especially those exporting time-critical products, are likely to be increasingly important to Australia's international competitiveness. Air freight is largely dependent upon the passenger market (according to the International Civil Aviation Organisation 60 per cent of the freight carried by airlines is carried in the cargo-holds of passenger aircraft). The increasing importance of air services to Australia's exporters and tourism and overseas educational sectors suggests that Australia's trade competitiveness will be enhanced by ensuring ready access to fully competitive international air services.

#### *Electronic commerce and telecommunications infrastructure*

Electronic commerce is an emerging area of trade policy which has the potential to affect very positively the development of Australia's rural and regional communities. Slaying the tyranny of distance through increased use of electronic commerce offers significant opportunities to small and medium enterprises located in rural and regional Australia. These can now become involved in export activities more easily, particularly in handling via the Internet the sale and just-in-time distribution of agricultural products and livestock to consumers overseas.

The Internet is a powerful tool for increasing the market reach of companies. Internet-based electronic commerce can lower costs by minimising the need for a physical distribution and after sales presence in some overseas markets. It is ideal for selling digital items such as music and software which can be delivered online. The Internet has also been popular for selling consumer goods such as flowers, books and clothing which do not require after-sale service and can reach consumers through international airmail or other delivery services. The goods can be easily produced in and despatched from areas other than metropolitan Australia. The Internet is also becoming an important element of international manufacturing supply chains, with items such as manufactured automotive and computer components and commodities such as tea and steel being sold online.

DFAT's research in this area (**see enclosed publications - *Driving Forces on the New Silk Road* and *Creating a Clearway on the New Silk Road* (1999)**) has revealed many examples of small companies in regional, as well as isolated parts of Australia, using internet-based commerce to reach customers all over the world. The Department has been actively contributing to strategies for developing Australia's electronic commerce which includes an emphasis on using the internet to improve trading opportunities for rural and regional Australia. Austrade has recently appointed an E-commerce Advisor to pursue e-commerce opportunities for exporters.

The experience of the case studies contained in the *New Silk Road* reports shows that the adequacy of rural telecommunications infrastructure can be a major determinant of competitiveness for business. For example, access to high bandwidth and points of presence on the Internet in the local call area can lead to the development of such IT/electronic commerce related businesses as call centres, software development, multimedia content development and web design. The provision of adequate telecommunications is critical to the performance of regionally based service industries (such as call centres), innovative delivery of regional services (such as banking) and Australia's emerging online economy.

The Government is moving to expand access to high bandwidth data services and to improve telecommunications infrastructure in regional areas. It is bringing forward legislation which will provide an environment in which electronic transactions can flourish. In response to concerns about the cost and availability of bandwidth, particularly in rural and regional Australia, the Minister for Communications, Information Technology and the Arts, has requested that a major study be undertaken of bandwidth availability and pricing. The National Bandwidth Inquiry is intended to provide an authoritative analysis of the issues relating to the current and future capabilities of the Australian telecommunications network to deliver adequate infrastructure support for a full information economy. The Inquiry will focus on the backbone or trunk data

networks and links within Australia (regional and intercapital) and between Australia and other countries.

The National Bandwidth Inquiry builds on the progress made through the five year, \$250 million Regional Telecommunications Infrastructure Fund. The Fund is designed to implement telecommunications projects aimed at overcoming difficulties at a regional level. The Fund provides for additional infrastructure such as establishing Internet hubs which remove the need for long distance calls to access the Internet, funding for projects designed to promote community access to online technology and assistance with relocation and training costs for businesses such as call centres moving to regional areas. The Government has also recently released for public comment an exposure draft of the Electronic Transactions Bill. The draft bill is the blueprint for a uniform national legislative scheme that will remove legal uncertainties for electronic commerce in Australia. The States and Territories are now preparing complementary legislation based upon the Commonwealth's draft Bill.

In addition, telecommunications, valued at around \$A20 billion per year, form a significant business input in their own right. Around 70 per cent of Australian communications output, of which telecommunication services is a large part, was used as an intermediate input in 1993-94. The majority of this input to other industries was consumed by the services sector, currently the fastest growing sector in the Australian economy. (*International Benchmarking of Australian Telecommunications Services*, Productivity Commission, March 1999)

It is clear that the maintenance of a highly competitive telecommunications market is of critical importance to the international competitiveness of exporters in regional Australia. Recent Productivity Commission reports indicate that Australian residential and business telecommunications prices rank about average among benchmarked (OECD) countries although prices in best performing countries are 20-40 per cent below Australian prices on a purchasing parity basis in most market segments.

### Conclusion

The provision of adequate infrastructure for rural and regional Australia is clearly an important factor in maintaining competitiveness of Australian exporters. The Government's Regional Australia strategy, which assists rural and regional exporters in a number of ways, includes action such as the \$250 million Regional Telecommunications Infrastructure Fund, *Networking the Nation*, mentioned above. It also involves \$787 million being spent on the National Highways and Roads of National Importance as well as a range of projects through the \$1 billion Federation Fund.

The economic reforms of the last few years have contributed significantly to exporters' capacity to sustain international competitiveness and to their ability to diversify quickly their export markets in response to the recent fallout from the East Asian economic crisis. Further improvements in Australia's trade performance will be assisted by continued reforms to achieve and maintain a more competitive domestic environment which reduces costs and enables Australian producers to meet the challenges of international competition.