
1 Introduction

This research paper has been undertaken by the Commonwealth Competitive Neutrality Complaints Office (CCNCO) following a research proposal put to, and agreed by, all States and Territories at the CN Roundtable of December 1999. Subsequently, State and Territory CN complaints units have coordinated their government's informational input to this exercise, as well as provided much appreciated feedback on earlier drafts.

1.1 Background

Wood production from native and plantation forests is a significant industry, contributing about \$3 billion, or 0.5 per cent, of Australia's gross domestic product. Some 15 000 people are employed in forestry and logging operations, with another 15 000 in sawmilling, mainly in regional areas (ABS Labour Force Survey 1998). Employment in other forest products industries such as joinery, pulp and paper, and packaging is also significant.

Forest products industries source wood from both public and privately managed forests, although public forests have traditionally accounted for the overwhelming bulk of wood supplies. Only the Northern Territory does not have government-owned commercial forestry operations.

While private plantations have become a more important source of wood in recent years — partly as a result of the sale of some public plantations — there have been longstanding concerns that underpricing by State forest agencies hampers the development of private plantations. Evidence of such underpricing dates back around 20 years (Byron and Douglas 1981).

There have also been concerns that the underpricing of logs from publicly-owned native forests has the potential to lead to an unsustainable harvest rate, at least in the absence of harvesting controls. Indeed, concerns about the sustainability and environmental impacts of harvesting from native forests were the catalyst for a significant reform program over the 1980s and 1990s aimed at improving the management of State forests.

As well as forest-specific reforms, components of the broader microeconomic reform agenda are influencing the management of State forests, including log pricing practices. This paper looks at one of these reforms — the application of competitive neutrality (CN) requirements to State forest agencies.

1.2 What is CN policy about?

CN policy forms part of the 1995 Council of Australian Governments' agreement on National Competition Policy (NCP), although the concept of competitive neutrality was also a component of the earlier institutional reform program aimed at improving the efficiency of government business activities (COAG 1991).

CN policy aims to promote efficient competition between public and private businesses. Specifically, it seeks to ensure that government businesses do not enjoy competitive advantages (or suffer from a competitive disadvantage) over their private competitors simply by virtue of their public ownership. Under the Competition Principles Agreement (CPA) of the NCP, Commonwealth, State and Territory governments have agreed that, where appropriate, their significant business activities will:

- charge prices that reflect costs;
- pay, or include an allowance for, government taxes and charges such as Goods and Services Tax, capital gains tax, payroll tax, stamp duties and local government rates;
- pay commercial rates of interest on borrowings;
- generate commercially acceptable returns on assets; and
- comply with the same regulations that apply to private businesses (such as the Trade Practices Act and planning and environmental laws).

However, the application of CN in any particular situation is subject to the proviso that the benefits exceed the costs. Moreover, some flexibility is provided to jurisdictions regarding the detailed implementation of the policy. The implications of CN for an individual government business also depend on the nature of that business and on any previous institutional reforms to which it has been subjected. For example, CN may have fewer implications for a corporatised GBE than for a budget sector agency selling some commercial services.

As significant government businesses, State forest agencies are subject to CN. While prior reforms have changed many aspects of forestry management and log pricing, CN may still have ramifications for the supply and pricing of wood. This

paper summarises the implementation of CN in each jurisdiction to date and examines the potential role of CN in addressing log pricing issues.

1.3 Structure of the paper

The remainder of this paper is in four parts.

Chapter 2 presents background information on the forestry industry. It looks at the make-up of the industry and describes the range of institutional reforms undertaken prior to, or independent of, CN.

Chapter 3 summarises some key elements of CN policies as applied to forestry in the individual jurisdictions. It highlights commonalities and differences between jurisdictions, looks at the limited available information about the recent financial performance of State forest agencies and comments on some limitations in the standard performance benchmarks when applied to the forestry sector.

Chapter 4 examines log pricing issues and looks at the impact of log underpricing on private growers. It also identifies some non-price impediments to private investment.

Chapter 5 identifies some emerging policy issues such as the development of more competitive markets for the sale of logs, price transparency and funding of non-wood outputs.