
3 Commission activities

During 1998-99, its first full year of operation, the Commission made special efforts to enhance its consultative processes and actively sought feedback on its work, so as to contribute better to public policy making and community understanding of policy issues. The year has also seen new challenges, with the Commission asked to apply rigorous analysis to policy areas — such as gambling and broadcasting — which have complex social and economic dimensions.

The Productivity Commission is the Commonwealth Government's principal review and advisory body on microeconomic policy and regulation. Consistent with the objective of raising national productivity and living standards, its work covers all sectors of the economy. The Commission's work extends to the private and public sectors and covers areas of State, Territory and local government as well as Commonwealth responsibility. Details of its role, functions and policy guidelines were outlined in the Productivity Commission's first annual report (PC 1998b).

The Commission is expected to contribute to well-informed policy making and public understanding on matters related to Australia's productivity and living standards. Its work is based on independent and transparent analysis from a community-wide perspective and covers many contentious and complex structural policy issues where the potential long-term payoff for the nation from better informed policy making is high. The breadth of the Commission's work is indicated by its publications in 1998-99 (box 3.1).

One of the Commission's distinguishing characteristics is its open, consultative processes and the scope these provide for the public to participate in and scrutinise its work. These processes are integral to its operation. The public hearing process, consultations with individuals and organisations, public access to the submissions made to inquiries and the publication of draft and final inquiry reports are among the better known aspects of its operations.

A feature of the past year has been increased efforts and innovation aimed at enhancing the reach and transparency of Commission processes.

Box 3.1 Commission publications in 1998-99

Government-commissioned projects

Australian black coal industry	Nursing home subsidies
International air services	Battery hen eggs
Pig and pigmeat industries: safeguard action	Meat processing work arrangements
Implementation of ESD	

Performance reporting

Report on government services: education, health, justice, emergency management, community services, housing	Performance of government trading enterprises 1991-92 to 1996-97
Superannuation in the costing of government services	International benchmarking of Australian telecommunications
Implementing reforms in government services	Feedback on the Government Services report

Regulation review

Guide to regulation

Competitive neutrality complaints

Counter terrorist first response services	Cost allocation and pricing
Rate of return issues	Competitive neutrality complaint mechanisms

Annual report suite of publications

Annual report 1997-98	Regulation and its review 1997-98
Trade and assistance review 1997-98	Microeconomic reform 1997-98

Conference proceedings

Microeconomic reform and productivity growth	Industry competitiveness, trade and the environment
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Submissions to other review bodies

Review of NSW Rural Assistance Act	Review of price controls on Telstra
Tasmanian dairy review	Victorian dairy review

Research reports

Aspects of structural change in Australia	The new economy? A new look at Australia's productivity performance
Australia's restrictions on trade in financial services	Design principles for small business programs and regulations
Youth wages and employment	APEC early voluntary sectoral liberalisation
Trade-related aspects of intellectual property rights	Network modelling approach to air service agreements
Minimum wages literature survey	Labour market research agenda
Feedback on waterfront benchmarking	

Enhanced public consultation

Inquiry processes

During the year the Commission sought to enhance the way in which its inquiries draw on and encourage community input, so as to generate ideas and a sound information base for policy making.

- To ensure that the views and experiences of people living and working in rural and regional communities were heard in its inquiry on the impact of competition policy reforms, the Commission undertook extensive round-table discussions in all States and Territories. It visited 75 rural and regional locations — from large regional centres such as Toowoomba, Port Augusta and Broken Hill to smaller, more isolated communities such as Port Hedland in Western Australia and Nganmarriyanga in the Northern Territory. In total, informal discussions were held with around 1000 people representing the interests of private sector businesses, industry groups (covering mining, manufacturing, agriculture, tourism and other services), regional development organisations, community and environmental groups, academics and all levels of government. These discussions provided contact with a wider range of people and localities than would have been possible with the normal initial public hearings. Public hearings on the draft report were also held in major rural centres, as well as some capital cities.
- The gambling inquiry has involved extensive contact with industry, individuals and community and professional groups. The Commission used round-table discussions to tap the expertise of gambling researchers, counsellors, criminologists and academic leaders in the design and interpretation of social surveys. Group meetings with self-confessed problem gamblers also provided valuable insights from people who might not otherwise have been drawn into the inquiry process. In addition, the Commission undertook a national survey of gambling preferences, spending, attitudes and impacts, a survey of problem gamblers in counselling, and a survey of counselling agencies. Widespread and vibrant public discussion following the release of the Commission's draft report testifies to the value of these processes.
- Where inquiries face tight reporting periods which preclude the preparation of a full draft report, the Commission has begun releasing 'position papers' to provide a synthesis of key issues and an early indication of the Commission's preliminary proposals. In its inquiry into nursing home subsidies, for example, this approach was successful in stimulating valuable further input into the inquiry through the subsequent public hearings. The detailed background information, which usually would be contained in a draft report, was circulated

separately to participants and made freely available in advance of the public hearings. Position papers were also released for the inquiries on international telecommunications market regulation and international liner cargo shipping.

The Commission is utilising wider sources of expertise in inquiries where economic modelling is used to provide policy insights. One element of the package of amendments accompanying passage of the Commission's legislation is that, when formal mathematical economic modelling is used, the Commission is required to use two models, or where a single model is relied upon, to have that model assessed independently. In addition to fulfilling this statutory requirement, the Commission is taking the opportunity to hold public workshops to discuss its own modelling and model-based analysis submitted by inquiry participants. Modelling workshops conducted during the year — for the inquiries on the pig and pigmeat industries, international air services, the impact of competition policy reforms on rural and regional Australia, and progress in rail reform — provided useful peer assessments of technical merit and increased confidence in the results.

Open research procedures

Enhanced opportunities for public input to Commission studies of work arrangements have been provided. In its studies of the meat processing industry and large capital city building projects, the Commission released Issues Briefs which outlined the principal areas of interest. It also initiated 'Work-in-Progress' reports, to expose to participants the preliminary views and findings from its research and consultations and to indicate areas where additional information was being sought.

The recent practice of consulting on themes and priorities for the Commission's research program has continued. Each year, the Commission meets with a range of government departments and agencies, peak national employer bodies, community, welfare and environmental groups to discuss current and future research. Meetings are held with academics and others on an ongoing basis. The Commission also participates in collaborative projects with academic institutions. Current partners in such research include the University of Adelaide and the Australian National University on measuring impediments in international trade in services, and the Melbourne Institute of Applied Economic and Social Research, Warwick University and the Centre for Strategic Economic Studies on a range of innovation, labour market, income distribution and productivity issues.

The Commission continues to involve outside policy advisers and researchers through its conference program. As part of its supporting research program this year, the Commission conducted or co-sponsored six workshops or conferences on:

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- the linkages between industry competitiveness, trade and the environment;
 - youth wages;
 - structural adjustment policy issues;
 - modelling adjustment in labour markets;
 - privatisation, regulation and reform; and
 - the implications of the ageing of Australia's population (box 3.2).

The conferences provided an opportunity for an informed exchange of views on policy issues and development. Publication of papers and proceedings has helped to promote wider public understanding of policy issues.

Communications developments

Briefings for parliamentary committees have been useful in explaining the findings of the Commission's inquiry and research work and provided opportunities for an interchange of views. In the past year, the Commission gave such briefings on its draft reports on railways and the impact of competition policy on rural and regional Australia, its telecommunications international benchmarking study, and its regulation review work (appendix E).

Internet technology has increased the accessibility of Commission inquiry and research reports. It has also facilitated speedier and easier notification of developments in, and progress on, inquiries. The Commission is using its website

Box 3.2 Conference on population ageing

The Productivity Commission and the Melbourne Institute of Applied Economic and Social Research jointly convened a conference in March 1999 on the policy implications of the ageing of Australia's population. This cooperative venture drew together leading international and Australian researchers, practitioners and policy analysts from a variety of backgrounds — demographers, planners, health experts, actuaries and representatives of welfare organisations.

A broad range of issues to do with ageing were explored, including its effects on economic growth, government revenue and expenditure, superannuation, health, education, transport, the provision of long-term care and housing arrangements.

The conference showed the value of discussions which bring together a range of perspectives informed by social as well as economic considerations. There was a robust and fruitful debate and suggestions made for further research. The publication of proceedings should provide a valuable resource document which will stimulate ongoing debate (PC/MIAESR 1999).

increasingly to post participants' submissions, thereby increasing opportunities for earlier and less costly public scrutiny of the views and analysis being put to it. The Commission's website was visited approximately 827 000 times by external clients in 1998-99, an increase of 175 per cent over the previous year.

Feedback on the Commission's work

During the past year the Commission has been actively seeking feedback on its work, in order to improve its performance and contribution to policy making.

The Commission undertook a survey in April 1999 to assess external views and perceptions of its performance and, in particular, the quality and effectiveness of its work. More than 85 per cent of respondents considered that the Commission's work made a vital contribution to current policy issues and debates, although less than half considered that the Commission was used effectively by government (appendix B).

Respondents rated the Commission highly in terms of two of its three operating principles — the provision of independent analysis and advice, and the use of processes that are open and transparent. Around two thirds of respondents also agreed that the Commission met its third operating principle — to have overarching concern for the wellbeing of the community as a whole.

The Commission's reports were rated highly in terms of quality, clarity and as a source of reference material. Respondents were also particularly favourable about the Commission's inquiry process with respect to encouraging participation by interested parties and transparency. However, up to half of respondents were more critical of the thoroughness of questioning of participants in public forums, the ease with which participants in the public inquiry process could respond to the ideas of others and the resources needed to participate effectively in an inquiry.

The influence of the Commission's work is reflected in a wide range of recent policy developments which have drawn on its analysis and recommendations:

- The inquiry reports on international air services and the black coal industry were largely accepted by the Government. The Government also concurred with the Commission's preference for measures which promoted industry restructuring over safeguard action against pigmeat imports.
- The Australian Industrial Relations Commission, in its deliberations and decisions, has made use of Commission reports on work arrangements in the black coal and meat processing industries, and research findings on the impact of youth wages on employment.

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- On the basis of the Commission's analysis, the ACT Government concluded that there was a net public benefit in a ban on the sale of battery hen eggs in the Territory.

The impact of the Commission's work on policy debates and outcomes can extend over a number of years. For example:

- Most of the recommendations in the report by the Industry Commission (a predecessor of the Productivity Commission) into private health insurance have now been adopted by the Government. When the Government released the report in April 1997 it supported many recommendations, but said it would need time to consider further the proposal for unfunded lifetime community rating. The Government introduced a bill to enact Lifetime Health Cover in June 1999.
- In the past year the Government implemented assistance recommendations from 1996 Industry Commission reports on packaging and labelling, and machine tools and robots.

The consultative nature of the Commission's work provides it with extensive feedback on the relevance and quality of many of its projects. Much of this feedback is on the public record — for example, submissions on draft reports, position papers or work-in-progress papers, and responses to modelling workshops. As a research body, the Commission also takes note of reactions from research peers.

- The modelling for the international air services inquiry was commended by independent referees as being at the frontier of such work. Airlines are seeking to use the techniques in their business planning.
- The Commission was invited to attend an OECD workshop on international benchmarking of telecommunications because of its work in refining OECD methodology. Telecommunications businesses and regulators from member countries agreed to adopt the Commission's approach in future OECD benchmarking.

Commission inquiry and research reports, from this and previous years, are used extensively by parliamentarians in debates and questions. During the 1998-99 sittings of the Federal Parliament, 83 Members or Senators referred to 33 different Commission inquiries or reports, or to its role in policy processes. The reports on private health insurance, nursing home subsidies and youth wages figured most prominently. Commission reports were also drawn on in parliamentary committee work and in speeches to business and community groups.

One indicator of public interest in the Commission's work is the extent of media coverage. During 1998-99, 23 editorials in major metropolitan newspapers drew on the findings or recommendations in 11 different Commission reports, or referred to the Commission's role in assisting public policy making. The Commission rated an average of 65 mentions a month in the electronic media and an average of 75

mentions a month in print media. The Commission's gambling and broadcasting inquiries and the report on government services attracted significant comment.

Year in review

The Commission's goal of contributing to public policy making and community understanding of productivity issues is pursued through five major outputs. The principal developments in these activities during 1998-99 were as follows.

Government-commissioned projects

The Commission commenced or finalised a broad range of inquiries and other government-commissioned projects in 1998-99 (box 3.3). It had 11 public inquiries under way at some time during the year, including:

- providing an information report on the performance of the gambling industries and their economic and social impacts across Australia, including their impact on the retail, tourism and entertainment industries, and on Commonwealth, State and Territory budgets;
- assessing the impact of competition policy on rural and regional Australia, the influence of long-term demographic and economic factors, measures which would improve the implementation and operation of National Competition Policy and some adjustment issues;

Box 3.3 **Inquiries and government-commissioned research, 1998-99**

Public inquiries

Australian black coal industry	Australia's gambling industries
International air services	Broadcasting
Nursing home subsidies	Progress in rail reform
Implementation of ESD	International liner cargo shipping
International telecommunications market regulation	Impact of competition policy on rural and regional Australia
Pig and pigmeat industries: safeguard action	

Government-commissioned research

Meat processing work arrangements	Battery hen eggs
Work arrangements on large capital city building projects	Environmental performance of commercial buildings

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- reporting on economic infrastructure services such as international air services, railways, international telecommunications and liner cargo shipping;
 - investigating what more Commonwealth departments and agencies could do to implement ecologically sustainable development principles; and
 - reporting on all aspects of broadcasting covered by the Broadcasting Services Act, including free-to-air television and radio, pay television and radio, community and indigenous broadcasting, datacasting, narrowcasting and some aspects of the Internet, and regulation of Australian content and children's television, ownership and foreign investment.

In addition, the Commission conducted the final two of a series of work arrangements case studies — on the meat processing industry and large capital city building projects. Following a request from the ACT Government, the Commission also assessed the animal welfare and economic impacts of legislation to ban the production and sale of eggs produced by hens housed in battery cages.

Further information on the government-commissioned projects undertaken by the Commission and, where available, government responses to reports, is provided in appendices B and C.

Performance reporting and other services to government bodies

The Commission's work under the auspices of the Steering Committee for the Review of Commonwealth/State Service Provision is in its sixth year. The expanding scope and achievements of that work are discussed in chapter 2 and appendix B.

Other publications arising from this program in 1998-99 were a review of the performance of government trading enterprises and an international benchmarking report on Australian telecommunications services. Information on these projects is provided in appendix B.

Regulation review activities

The Office of Regulation Review (ORR), which is part of the Productivity Commission, continued its role in helping the Commonwealth Government, departments and regulatory bodies achieve better regulatory processes and outcomes. The ORR advises the Government, Commonwealth departments, regulatory agencies and statutory authorities on appropriate quality control mechanisms for the development of regulatory proposals and for the review of existing regulations. The Regulation Impact Statement (RIS) process is designed to

assist the formulation of regulation which does not impose unnecessary costs on business and the community. The ORR promotes the appropriate use of regulation through advice on best practice approaches and monitoring compliance with the Government's RIS guidelines (box 3.4)

Box 3.4 Compliance with RIS guidelines in 1998-99

The Commonwealth Government requires the preparation of a Regulation Impact Statement (RIS) — looking at costs and benefits and alternative ways of achieving desired objectives — when policy makers consider new and amended regulation which affects business or restricts competition. The Commission is required to report annually on compliance. Its 'report card' for 1998-99 shows that:

- of the 117 regulatory proposals introduced via *primary legislation*, 61 per cent were accompanied by an adequate RIS when policy approval was sought, while 89 per cent were accompanied by an adequate RIS when tabled in Parliament;
- compliance at the decision-making stage for *delegated legislation* was 88 per cent; and
- compliance with the RIS requirements for those *quasi-regulations* reported to the ORR was 86 per cent at the decision-making stage.

Overall, this represents an improved performance over that achieved in 1997-98.

A full compliance report on these and other areas of regulatory activity (including the Commonwealth's Legislative Review Program, Ministerial Councils and national standards setting bodies) and an assessment of prospects for improved compliance are provided in PC (1999g).

Competitive neutrality complaints activities

The Productivity Commission administers the Commonwealth Government's competitive neutrality complaints mechanism. Competitive neutrality requires that government businesses not have advantages (or disadvantages) over their private sector rivals simply by virtue of their public ownership.

The Competitive Neutrality Complaints Office operates within the Commission to receive and investigate complaints and provide advice to the Treasurer on the application of competitive neutrality arrangements. The Office received six formal complaints in 1998-99, two of which — relating to counter terrorist first response services — were formally investigated. Details of its report, other complaints and action on them, and the advising and research activities of the Competitive Neutrality Complaints Office are reported in appendix B.

Supporting research and activities and annual reporting

The Commission is explicitly empowered to undertake its own research — on matters relating to industry development and productivity — to complement its other activities. It must also report annually on these matters, including assistance and regulation, and has an educative role in promoting public understanding of how productivity and the living standards of Australians can be enhanced.

Information on the Commission's supporting research publications in 1998-99 is provided in appendix D, together with a listing of the 70 presentations and conference papers given by Commissioners and staff in the year.

As noted above, the development of themes and projects for this program of supporting research benefits from wide-ranging consultation. Those consultations, and the Commission's decision to give priority to research on the impacts of microeconomic reform and to the adjustment consequences of policy changes and reform, provide the framework for its ongoing program of research (box 3.5).

Box 3.5 **Supporting research themes and objectives**

Following consultations with government, industry, community groups and academics, the research themes which governed the 1998-99 program of supporting research were:

- the relationship between labour market flexibility, productivity and income distribution;
- competition policy (including international trade and investment);
- the adjustment and regional consequences of economic change;
- microeconomic reform in health services and aged care; and
- microeconomic reform and the environment.

Research to enhance the Commission's use of analytic and modelling techniques was also undertaken.

External and internal consultations during the year broadly reaffirmed these areas as research priorities (PC 1999c). While themes are reviewed annually, some may continue for a number of years. Proposals for research projects in 1999-2000 will be considered against the themes and their relevance to the Commission's overarching objectives for its supporting research program of:

- contributing to understanding the impacts of microeconomic reforms on productivity and living standards; and
- gaining a better understanding of the adjustment consequences of policy changes and microeconomic reform.

Associated reporting

Staffing and management developments and issues in 1998-99 are reported in appendix A.

The audited financial statements for the Commission are contained in appendix F.

In association with this annual report, the Commission will shortly be releasing the following publications:

- *Regulation and its Review 1998-99*; and
- *Trade and Assistance Review 1998-99*.