

Regional Development Council

Submission to Productivity Commission

Review of National Competition Policy Reforms

December 2004

This submission is made by the Regional Development Council of Western Australia (the "Council"). The Council previously made a submission to the 1999 Productivity Commission Inquiry "Impact of Competition Policy Reforms on Regional and Rural Australia."

The Regional Development Council is the Western Australian State Government's peak advisory body on regional development issues and reports directly to the Minister for Local Government and Regional Development.

The membership of the Council is made up of an independent chair, the chairs of the nine Regional Development Commissions within Western Australia and two representatives from the Western Australian Local Government Association.

The purpose of the Council is to promote development in all the Western Australian regions, develop policy proposals on development issues affecting regional areas and facilitate liaison and coordination between Local, State and Commonwealth bodies with respect to regional issues.

Council is fully aware of the need for the nation's traded and non-traded sectors to maintain or achieve competitiveness and to sustain productivity over the longer term. Regional WA accounts for around 80 per cent by value of the State's merchandise exports. In particular, regional WA accounts for about 20 per cent of national exports and has done so for more than a decade.

As arguably the most open and trade exposed state economy, WA's continued growth and prosperity is dependant upon regional exporters achieving productivity improvements that are sustained over the longer term and remaining competitive on world markets.

It is Council's view that, to date, the costing and/or audit of the impacts of NCP reforms on regional communities has not been sufficiently comprehensive. In particular, the Productivity Commission in its 1999 Inquiry into the regional impacts of NCP and in the current inquiry has not investigated or analysed the downside of NCP reform to any great depth. Moreover, Council is left with the impression that the Productivity Commission is of the view that the entire export sector could be served a few large centres (including the capital cities). Council does not share this vision of regional Australia.

For regional communities, both the direct and subsequent impacts of a reduction in business activity or withdrawal of services is felt more keenly than in large urban areas and the consequences can be severe for both individuals and the community at large. While this appears to be acknowledged by the Productivity Commission in this report, it is not accompanied by any analysis of depth. In this respect, the lack of consideration given by the Productivity Commission to addressing community

impacts is disappointing. From the Council's viewpoint, there appears to have been little, if any, progress made in coming to grips with the practical and real outcomes of NCP reform in regional areas since 1999.

Moreover, Draft Discussion Report does not address the uni-directional nature of many of these impacts. The links between different segments and members that constitute a community cannot be repaired or rebuilt overnight -unlike a those represented within CGE models employed by the Commission.

Council notes that at least one submission to this Inquiry contends that the benefits of the reforms are diffused compared to vested (and vocal) interests. As pointed out above, in regional communities - particularly smaller regional communities - the flow-on impacts from the closure of a small business or public facility can be widespread. Hence, the cost of reform is not confined to the few but is borne by individuals and businesses other than those directly affected, as well families and entire regional communities. Moreover, the dynamics of the impacts of reform are likely to be different in regional communities than for large urbanised centres. The second and subsequent rounds of adverse impacts in smaller regional communities may not be dampened but instead are likely to be amplified as they spread throughout the community and the three spheres of government. The cost of providing basic services such as health and education can increase as 'in situ' community infrastructure is wound down or removed. The induced reduction in school curricula due to falling student numbers, a consequence of falling employment opportunities and households, may have long term and pervasive consequences in regard to technical skills formation in regional areas.

These are not narrow impacts but are community-wide. Council can see nothing in this Draft Discussion Report or in previous Productivity Commission reports that provides adequate treatment or consideration of the dynamics of NCP reform with regard to regional impacts. Certainly such considerations are not reflected in the algebra of the models used by the Productivity Commission to estimate the impacts of NCP reform.

Given these considerations - the irreversibility of the adverse impacts, the potential for severe consequences at the local community and regional levels and unsympathetic attitudes held by reformers - the conservative approach and scepticism of regional stakeholders with regard to NCP reform is both sensible and understandable.

Council would also like to clear up a misconception that seems to have been drawn by some agencies that made submissions to this Inquiry. In its 1999 submission to the Impact of Competition Policy Reforms on Regional and Rural Australia Inquiry, the Regional Development Council clearly made the point that it is understood by most regional stakeholders that not all reforms impacting upon regional communities arose from National Competition Policy. Council also made the point that the development, promotion and implementation of these reforms were nevertheless highly correlated. Such reforms tended to be:

- motivated by NCP reform,
- highly complimentary to NCP reform or

- implemented under an all-purpose policy umbrella of 'improving competitiveness'.

From a regional policy perspective, it makes little practical sense to unbundle NCP reforms from the suite of reforms that were and are currently being implemented concurrently (most often by the same agency). The complaint that regional residents and businesses don't understand NCP and are raising issues that are technically outside the ambit of NCP is misdirected. The various government agencies charged with overseeing the implementation of such reforms have not been able to deliver a clear message to regional stakeholders that such reforms are both necessary and beneficial. Having failed in this regard, they have resorted to 'sledging' disaffected stakeholders.

Electricity supply in WA provides a good illustration of why regional stakeholders are sceptical. Regional Western Australia has endured chronic underinvestment in power infrastructure coupled with insufficient maintenance of the States interconnected network outside major population centres. The corporatisation of Western Power - intended to deliver improved outcomes for both customers and government- appears to have exacerbated this trend.

Regional users- particularly small and non-contestable customers – see no reason why the proposed reforms of the electricity market will improve electricity quality and reliability while maintaining affordability. The Regional Development Council is regularly provided with anecdotal evidence that small regional enterprises such as supermarkets find it difficult to expand because of the capital expenditure and maintenance policies of Western Power. The development and take-up of new economic and business opportunities that regional communities need to grow and prosper are severely impeded by the lack or inadequacy of power infrastructure.

The Regional Development Council sees two mutually reinforcing reasons for this. Firstly, the economic and financial benefits of these expenditures are only partly captured by Western Power. That is, many of the benefits flowing from this investment are effectively invisible to Western Power which takes little or no account of the economic (and social) returns to the community at large. Secondly, the corporate charter attempts to create a more 'market-based' decision creating an decision-making environment where expenditures needed to be justified on the basis of a favourable business case. Under these two influences, regional infrastructure and maintenance programs simply do not compete in the allocation of scarce funds and resources. There is no mechanism in place that provides an appropriate signal or incentive to allocate, in time and place, capital and maintenance expenditures on the basis of overall economic benefits rather than narrow commercial criteria. NCP reforms will not change this. If anything, the signals and incentives for appropriate investment in regional areas will become weaker and muddier. There seems little prospect that NCP reform in the electricity sector will benefit small regional enterprises and small regional communities that are not in close proximity to large population centres.

The Regional Development Council is also concerned that downstream benefits of NCP reform are not being realised. Under NCP, the fall in farm-gate prices is

expected to flow through to reduced prices for final consumers. However, it appears that this is not always happening.

For example, the prices for carton milk in Perth have risen 14.6 per cent over the four-year period ending September 2004. The CPI rose by 10.4% over the same period. While farm-gate prices have fallen, these price falls have not been passed on. This is not a favourable outcome for either the dairy farmers or consumers. In this instance, it appears that NCP has merely shifted profits from the farm to downstream links in the production-retail chain. Council is concerned that insufficient consideration has been given to the implications of market concentration and market structures occurring downstream from the immediate point of reform. In this instance, the cost of adjustment has been borne by dairy farmers and by the general community to benefit of a highly concentrated industry. This, Council suggests, is a perverse outcome that needs to be addressed.

The Regional Development Council supports an NCP assessment framework such as that proposed by the Productivity Commission. It is vital that an assessment of the distributional of costs and benefits be fully considered and integrated into any reform process. At present, there appears to be a lack of understanding and consideration of the direct and indirect impacts of NCP reforms on regional communities that needs to be addressed.

Council welcomes the emphasis that the Productivity Commission has placed on the COAG guidelines to provide explicit consideration of the impact on NCP reform on (regional) communities. It is not clear that agencies charged with implementing NCP are taking the full impacts on regional communities into consideration. Certainly, the feedback to the Regional Development Council suggests that communities are being left to cope as best they can. At the same time, the capacity of these communities to adjust is being undermined by withdrawal of services and degrading basic infrastructure.