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Forming the Productivity Commission

The Federal Government, as part of its broader microeconomic reform agenda, is merging the Bureau of Industry Economics, the Economic Planning Advisory Commission and the Industry Commission to form the Productivity Commission. The three agencies are now co-located in the Treasurer's portfolio and amalgamation has begun on an administrative basis. While appropriate arrangements are being finalised, the work program of each of the agencies will continue. The relevant legislation will be introduced soon. This report has been produced by the Industry Commission.

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Abbreviations

ABS	Australian Bureau of Statistics
AC	Assistant Commissioner
ACOSS	Australian Council of Social Service
ACS	Australian Customs Service
AD	Assistant Director
ADA	Anti-Dumping Authority
AIA	Australian investment abroad
AIMEP	Australian International Management Exchange Program
AIRC	Australian Industrial Relations Commission
ALMP	active labour market policy
ANAO	Australian National Audit Office
AO	Officer of the Order of Australia
APEC	Asia-Pacific Economic Cooperation (Forum)
AQIS	Australian Quarantine Inspection Service
ASEAN	Association of South-East Asian Nations
ASIC	Australian Standard Industrial Classification
BIE	Bureau of Industry Economics
COAG	Council of Australian Governments
CPI	consumer price index
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CTC	competitive tendering and contracting
Cwlth	Commonwealth
DCF	deciduous canning fruits
DFAT	Department of Foreign Affairs and Trade
DIFF	Development Import Finance Facility
DIST	Department of Industry, Science and Tourism
DPIE	Department of Primary Industries and Energy
DVF	dried vine fruits
EFIC	Export Finance and Insurance Corporation
EMDG	Export Market Development Grants
EPAC	Economic Planning Advisory Commission
EU	European Union
FAC	First Assistant Commissioner
FISAP	Native Forest Industry Structural Adjustment Package
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade

GBE	Government business enterprise (includes government trading and government financial enterprises)
GDP	gross domestic product
GDP(E)	gross domestic product (based on expenditure)
GSE	gross subsidy equivalent
HES	Household Expenditure Survey
IC	Industry Commission
IT	information technology
ITES	International Trade Enhancement Scheme
mfn	most-favoured nation
MNE	Multinational enterprise
NIB	National Interest Business
NSE	net subsidy equivalent
NSW	New South Wales
ODA	Overseas Development Assistance
OECD	Organisation for Economic Co-Operation and Development
OGIT	Office of Government Information Technology
OH&S	occupational health and safety
ORR	Office of Regulation Review
PBS	Pharmaceutical Benefits Scheme
PC	Productivity Commission
PMV	passenger motor vehicles
R&D	research and development
RAS	Regional Adjustment Scheme
SCGTE	Steering Committee on National Performance Monitoring of Government Trading Enterprises
SES	Special Executive Service
SMA	Statutory Marketing Authority
TCF	textiles, clothing and footwear
TCFDA	Textiles, Clothing and Footwear Development Authority
TCS	Tariff Concession System
TEXCO	Tariff Export Concessions
UK	United Kingdom
US	United States
USTR	United States Trade Representative
WSD	water, sewerage and drainage
WTO	World Trade Organization
WWW	World-Wide Web

Preface

This is probably the Industry Commission's last Annual Report. The Government intends to establish the Productivity Commission by combining the Industry Commission (IC), the Economic Planning Advisory Commission (EPAC) and the former Bureau of Industry Economics (BIE).

The administrative process to form the Productivity Commission has already commenced. A foundation has been laid to allow public inquiry and policy analysis and research to be extended, while holding to the principles of independence, transparency and an economy-wide view. These principles have underwritten the IC's past work.

The Productivity Commission will examine productivity issues broadly. It will consider impediments to the efficient use of resources across the whole economy and publish research on matters affecting the performance of firms. The scope to achieve greater productivity and effectiveness in social and economic infrastructure needs further investigation. Rigorous analysis supporting public debate should be the Productivity Commission's contribution in these, as well as more traditional industry areas.

This Annual Report continues the practice of going beyond reporting on the year just closed, by discussing current and future policy issues, including a wide-ranging program for reform, and analysing what productivity gains through microeconomic reform mean for equity in our society.

It is appropriate to thank the people and organisations who have contributed so effectively to the IC's work over the years. Through public submissions, public hearings and public debate, many thousands of individuals, companies, organisations and government agencies have offered information and opinions, and tested theories and ideas. Included in these thanks are those who differed with the IC. The Productivity Commission looks forward to the continued involvement of all these people.

I wish particularly to thank past and present Commissioners and staff for their commitment and dedication to enhancing the welfare of Australians.

Bill Scales

CHAPTER 1

Productivity and microeconomic reform

Productivity growth is the key to raising living standards. Productivity benefits are flowing from the microeconomic reform efforts of Australian governments in a number of areas. At the same time, a substantial reform task still lies ahead if Australia is to quicken the pace of improvement in its productivity and living standards.

WHY IS PRODUCTIVITY IMPORTANT?

Broadly defined, productivity refers to the benefits Australia gets from the use of its human and physical resources. The concept of productivity can be applied to the whole economy or to an individual firm. It relates to both social and economic policies.

Productivity growth is fundamental to improving Australia's standard of living. It is the means by which Australians can afford better food, clothing, housing and other products. It also provides the means to protect and improve the environment, to educate, to offer medical care, to support cultural activities, to have increased leisure and to deal effectively with social issues, such as poverty and the care of the aged.

According to leading American economist Professor Paul Krugman:

> Productivity isn't everything, but in the long run it is almost every thing. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker. World War II veterans came home to an economy that doubled its productivity over the next 25 years; as a result, they found themselves achieving living standards their parents had never imagined. Vietnam veterans came home to an economy that raised its productivity less than 10 per cent in 15 years; as a result, they found themselves living no better — and in many cases worse — than their parents (Krugman 1992).

Productivity growth helps, but it does not overcome the conflicts that sometimes arise between competing goals. Well informed debate will help the community choose between competing goals.

HOW CAN PRODUCTIVITY BE IMPROVED?

There are many ways in which the productivity of the nation's resources can be improved. Unemployment is a costly and debilitating waste for the people concerned and for the nation. Higher employment in productive activities will raise living standards significantly.

Productivity will be increased by concentrating on what we do best. This means encouraging resources in the economy (labour, capital and land) to be used by firms and industries which secure the highest aggregate real value of output. Microeconomic reform in areas such as trade, industry assistance and competition policy provides incentives and reduces impediments to achieving this.

In the longer term, productivity improvement arises mainly from technological progress, innovation, and efficient institutional arrangements. To raise productivity, firms, agencies and the workforce need to adopt best-practice production processes and technologies and continually adjust these as technologies evolve. At the same time, changes in consumer tastes and economic and social conditions , in Australia and internationally, require flexible (and sometimes sophisticated) organisation within and between firms, agencies and employees to achieve the highest possible productivity.

What is less appreciated is that microeconomic reform can help to improve the productivity not only of business enterprises, but also of Australia's social infrastructure — its schools, hospitals and other community services. This can make a contribution to improving opportunities and support mechanisms for the most vulnerable.

For a number of years now, Australian governments have been implementing microeconomic reforms aimed at improving Australia's productivity performance. An early initiative of the new Commonwealth Government was to ask the Industry Commission (in conjunction with the Bureau of Industry Economics and the Economic Planning and Advisory Commission) to undertake a stocktake of progress in microeconomic reform. This provided a timely opportunity to take stock of what already has been attempted and achieved, and to look ahead to what more needs to be done. The Commission indicated areas where further action is most needed, including those requiring further information and review (PC 1996).

MUCH HAS BEEN ACHIEVED

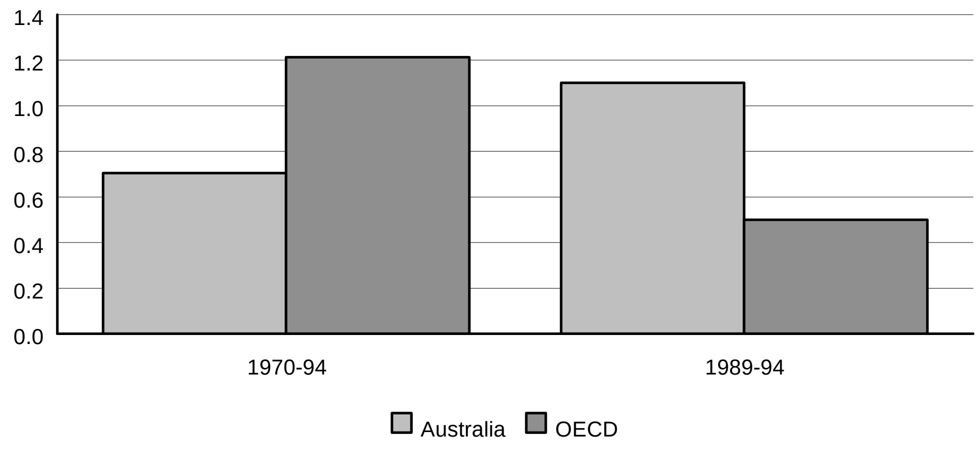
Tariff reductions, exchange rate and financial market deregulation were key initiatives of the 1980s which helped make Australia a more productive, flexible and outward looking economy. Under the growing pressure of international competition and financial market scrutiny, Australian governments have sought better performance from economic infrastructure, revamped approaches to business regulation, introduced greater flexibility in labour market regulation and, most recently, reached the historic intergovernmental agreement for a national competition policy.

Past reform efforts are benefiting the community in a number of ways. For instance:

- some reforms have contributed to direct price reductions for consumers and businesses — falling telephone charges and airfares are two examples;
- in other cases, consumption-based pricing and full cost recovery have reduced the waste of scarce resources and contributed to better environmental outcomes — this is particularly important in areas such as water, which is scarce in Australia, but generally has been underpriced;
- demonstrable benefits to taxpayers are evidenced by increasing payments to governments as a result of the greater commercial orientation of government business enterprises; and
- reforms in areas such as competitive tendering and contracting, when applied appropriately, have been shown not only to reduce costs for agencies but also to improve quality of services for customers.

There are early signs that past reforms are contributing to a structural improvement in Australia's productivity performance. In contrast to its poor relative performance previously, Australia's productivity increased at twice the rate of the OECD between 1989 and 1994 (figure 1.1). While cyclical factors are at work both in Australia and other countries, Australia’s improved productivity performance has been sustained beyond that typically experienced after past recessions.

Figure 1.1: Total factor productivity, annual growth (per cent)



Source: Commission estimates based on Dwyer (1995, p. 2)

To sustain this momentum, it is important to lock in the gains from past reforms and to seek further improvements in efficiency.

PERFORMANCE GAPS

There are many areas of Australia’s performance which are causing concern in the community and where further reforms have considerable scope to improve productivity. For example:

- the performance of much of Australia’s economic infrastructure is still below world best practice despite significant improvement in some areas. For instance, best practice rail freight rates overseas are one third lower than Australia’s best; and the highest rates charged in Australia are 60 per cent above Australia’s best practice rates (BIE 1995i). In addition, only 62 per cent of rail freight arrives within 30 minutes of its scheduled arrival time (SCGTE 1996c); and

- labour markets are not functioning as well as they could. Persistent unemployment remains Australia’s most pressing economic and social problem. Around 800 000 people are looking for work, over a quarter of whom have been unemployed for a year or more. The unemployment rate of 15–19 year olds not in full-time education currently stands at over 20 per cent. Of the two million part-time workers, one-quarter would prefer to be working more hours.

The imperative for higher productivity in all sectors of the economy means that education, health and community services are being examined to determine where improvements in performance can be made. Government expenditure on these services is a large and growing part of the economy, around 12 per cent of GDP in 1994–95, so the potential benefits from even small improvements in productivity are large. Benchmarking of government service provision has revealed major variations in the cost and effectiveness of service delivery across jurisdictions. The extent to which this reflects fundamental differences in productivity is still to be fully tested. Yet there are wide ranging concerns about performance. For example:

- in health, long waiting times to obtain needed care in many public hospitals have been well documented. Within some major cities, there are significant regional imbalances in access to public hospital facilities. There are also concerns that fee-for-service systems for paying doctors can encourage over-servicing; and
- there is much to suggest that significant numbers of Australian students commencing secondary school cannot read and write properly (HRSCEET 1993). Yet until this year, Australia has not even attempted to gather comparable national data which would permit a better understanding of educational outcomes.

THE REFORM TASK AHEAD

Australia needs to raise its national productivity performance. The Commission’s stocktake identified many areas in which immediate action or further review could lead to improved performance. An indication of the scope of the reform program, key actions and the level of government responsible is provided in table 1.1.

Table 1.1: The reform program— key actions

Area	*Key actions* [a]	*Responsibility*
HUMAN RESOURCES		
Industrial relations	• **Facilitate workplace agreements**	Cwlth & states
	• **Ensure enactment of key provisions in Workplace Relations Bill**	Cwlth
	• Review and further consolidate safety net provisions	Cwlth
Other labour market	• Rationalise employment programs	Cwlth
	• Implement workers' compensation and OH&S reforms	Cwlth & states
Education and training	• see SOCIAL INFRASTRUCTURE	
COMPETITION POLICY		
National competition policy	• **Resolve outstanding issues in framework and implement**	Cwlth & states
	• **Bring transparency to exemptions**	Cwlth & states
	• **Ensure legislative reviews are independent**	Cwlth & states
	• Review operation of framework	Cwlth to initiate
Trade Practices Act	• Review elements such as merger policy	Cwlth to initiate
ECONOMIC INFRASTRUCTURE		
General	• **Implement national competition policy** (see above)	Cwlth & states
	• Review ownership, contracting out	Cwlth & states
	• Institute rolling reviews of progress	Cwlth to initiate
Specific areas	• **Reform in transport, especially waterfront, rail and roads**	Cwlth & states
	• Progress electricity, gas, water and communications reforms	Cwlth & states
SOCIAL INFRASTRUCTURE		
Education	• **Review level and form of government support and institutional arrangements**	Cwlth & states
Training	• Review vocational education and training	Cwlth to initiate

Table 1.1 (continued)

Area	*Key actions* [a]	*Responsibility*
Health	• **Review financing and delivery**	Cwlth & states
	• Extend casemix funding	States
	• Apply competitive neutrality principles between public and private providers of hospital services	States
	• Review PBS	Cwlth
	• Enhance performance monitoring	Cwlth & states
Social welfare system	• Review effectiveness, including labour and tax interactions	Cwlth
OTHER KEY REFORM AREAS		
Taxation	• **Comprehensive reform of taxation system a longer term goal**	Cwlth & states
Trade and assistance	• **Continue general tariff phasedown**	Cwlth
	• **Review PMV and TCF**	Cwlth to initiate
	• Review/reform SMAs	Cwlth & states
	• Rationalise budgetary programs	Cwlth & states
	• Review/reform non-tariff measures	Cwlth
	• Implement R&D reforms	Cwlth
Resources and the environment	• Clarify access	Cwlth & states
	• Improve efficiency of environmental protection measures	Cwlth, states, local
	• Review land management	Cwlth to initiate
Regulatory review	• Extend mutual recognition	Cwlth & states
	• Ensure rigorous processes for implementation and review	Cwlth & states
Public administration	• Extend administrative reforms and performance monitoring	Cwlth, states, local
Commonwealth–State financial relations	• **Reduce reliance on tied grants**	Cwlth
	• **Review revenue arrangements**	Cwlth & states

a Bold type indicates priority reforms.
Source: PC (1996)

There are significant economic and strategic advantages in proceeding with reform on a broad front:

- it enables all sectors of the economy to make a greater contribution to the wellbeing of the community. Although individual reforms might not seem significant in isolation, collectively they offer the prospect of a substantial boost in living standards. A range of empirical studies show that the benefits of broad-based reform are significant, widespread and ongoing (PC 1996, p. 31);

- it recognises the interdependence of reforms in delivering the maximum benefit to Australians. Reform in one area can drive and facilitate reform elsewhere. It is widely recognised that tariff reductions and other measures to open the economy to international competition have forced Australia to seek better performance in its transport, communications and energy sectors, among others. Equally, fundamental change in intergovernmental financial relations would make a positive contribution to addressing inefficiencies in state taxation and minimise disincentives for governments to undertake other worthwhile reforms; and
- it improves the prospect that those who lose from one reform will receive offsetting benefits from others. Thus broad-based reform can play a role in reducing adjustment costs. Some illustrations of this are provided in appendix B.

PRIORITIES

There are limits, however, to what can be achieved immediately. A broad sense of priorities is needed. In the Commission's view, these should be directed at making the best use of Australia's human and capital resources.

Better use of Australia's human potential is fundamental to ensuring economic progress in a changing world. The immediate policy priority is the further transformation of the industrial relations environment to facilitate more adaptable and productive workplaces and to reduce unemployment. This is a precondition for enhancing human resource use and development in Australia. The Government's intended industrial relations package includes reforms that are a necessary and important step in this direction.

To make better use of physical capital, the immediate policy priority is early application of the national competition policy principles to economic infrastructure. Australia is a large country, remote from many key markets and sources of supply. High quality and competitively priced transport and communication linkages are therefore vital. As a significant player in these and other infrastructure services, governments must take the lead in getting the basic structure and competitive environment right. The competition policy framework is now in place, but the challenging task of implementing an effective set of arrangements lies ahead. Some areas of infrastructure, like the waterfront, rail and roads, need particular attention.

Governments now need to extend the compass of microeconomic reform to areas such as education and training, health and welfare services. To develop our human resources fully, Australia's education and training systems need to be world class. Education is important to the economic and social development of the nation. Adaptability in the face of global change, especially the increasing relative importance of service-based industries, demands an accessible , high quality general education system to provide the foundation for the acquisition of new skills. Further, it is a large sector which has experienced significant change. A broad review is required to develop proposals for, and to foster acceptance of, productivity enhancing change.

Enhancing people's wellbeing also means developing Australia's social capital through reforms in health and community services. These areas must become more flexible and adaptable if they are to meet community welfare objectives more effectively and support economic change. A mix of some possible early reforms along with a comprehensive review is again required.

In some areas, more informed community debate is required before progress can be made. For example, the current structure of Commonwealth and state taxes is inefficient, impeding productive investment and imposing considerable costs on the community. Major weaknesses relate to the structure of corporate and personal income taxes, inefficient and inequitable commodity taxes, distorting state and territory taxes and high compliance costs. The structure of taxation also discourages saving, making it more costly to fund the investment needed for future growth. However, without wide community support, broad-ranging reform of Australia's narrowly based tax system will be difficult.

There is substantial overlap between economic and social objectives in much of the new reform program. For this reason, care needs to be exercised in where and how competition and other market-based incentives to improve performance are introduced. For example, in areas such as health, there is community concern that access to services should not be denied to those on low incomes or to the chronically ill. In such situations, the task is to find arrangements which promote improvements in efficiency and simultaneously recognise these values. Although there should be no preconception that economic instruments hold all the answers, the contribution that such instruments can make should always be explored.

Although the introduction of competition and other market-based incentives is sometimes feared and resisted, these can empower people (including the most disadvantaged) and give them a choice of service provider. The purchasing choices of seemingly powerless individuals collectively provide the competitive discipline which plays off the strength of one supplier against that of another. They keep supplier power in check and ensure that the benefits of improved efficiency are passed on to consumers in the form of lower prices. Where there is effective competition, the quality of service and care provided will be important to the survival of suppliers because satisfying people’s needs is the basis for competition. Chapter 2 provides a wider consideration of the link between equity and efficiency issues.

IMPLEMENTATION STRATEGIES

For reform to be successful in raising productivity and improving social outcomes, careful attention must be given to making the reform program as broad as possible and to the implementation processes and strategies.

Successful reform requires well informed policy-making processes and considerable effort to explain the benefits of reform. Careful analysis of reforms, and the provision of information to the community on their benefits, as well as costs, make it harder for sectional constituencies to override change which is in the national interest. Effort is required to inform the community about reform successes and the costs Australia would face if it fails to meet the global challenge.

Successful reform also requires proper accountability. Those overseeing reform must assign responsibilities clearly, and specify timetables for the various steps in reform processes. There is also a need for specific coordinating mechanisms where reforms require action by more than one government. The Council of Australian Governments should continue to play a leading role in this regard.

Effective implementation requires monitoring of performance and the publicising of developments. This is essential to ensure that reforms, once implemented, work to meet their objectives. Ongoing monitoring can reveal changed circumstances which require further policy responses. In this context, diligent monitoring by the National Competition Council of the implementation of the national competition policy is vital. The Commission also considers that continuing performance monitoring of economic and social infrastructure and the benchmarking of best practice, both between areas within Australia and internationally, can help to inform the community about significant performance gaps.

An important aspect is the need to maintain policy credibility and consistency and political commitment to reform. For example, exemptions to the application of agreed national competition policy principles should be granted only where they are supported by a rigorous and transparent public interest test. Allowing exemptions outside such a test would reduce the potential gains from reform and reopen opportunities for reinstating inefficiencies.

This also applies to protection reform. Past governments have committed themselves to ongoing tariff reductions which have benefited many Australian producers and consumers — often in the face of significant opposition from powerful interest groups. Any reversal of the commitment, or exemptions for special interest groups or industries, has the potential to undermine the gains from reform.

The Commission appreciates that the reform program described above involves change which can result in costs for some people but benefit the community as a whole. Many of the benefits may take some time to be realised and to flow through into higher living standards. Chapter 2 explores some of the equity effects of a broad-based reform program, including those in areas of social policy.

CHAPTER 2
Equity and microeconomic reform

Microeconomic reform is compatible with equity when undertaken on a broad front and prudently applied. However, some specific reforms, while increasing productivity and average living standards, can have detrimental effects on equity, particularly in the short term. Where people are harmed by reform, the social security and welfare system has an important role to play in assisting them. Furthermore, social policies (for example, education, health and public housing) must be improved continually to ensure that they raise the general welfare and productivity of the community.

The Commission has identified a comprehensive microeconomic reform program which, if implemented, will assist in improving living standards in Australia (chapter 1 and PC 1996). In addition to traditional economic areas, such as trade policy, industry assistance and economic infrastructure, the program includes areas with more obvious and direct equity considerations, such as education, health, community services and some aspects of the labour market.

Some sections of the community are concerned that reforms in these areas pursue higher productivity to the detriment of equity. In particular, there are concerns that microeconomic reform:

- is proceeding at a pace beyond the capacity of the community to adjust;
- is not benefiting some groups, or that some groups are bearing a disproportionate part of the cost of reform;
- implies a general lowering of expenditure on government services; and

- is hindering equitable access to services such as health and education.

For example, the Australian Council of Social Service has stated that:

> There is ... a genuine feeling that too many have been excluded from participating in the processes of change which are reshaping our nation. There is an emerging sense of loss of belonging ...
>
> Competition policy has fostered a spirit of national entrepreneurship and encouraged initiative. It also has the potential to sacrifice quality to short term economic gains, and to undermine the fabric of our civil society which relies on cooperation and mutuality, if it is uncritically applied to all areas of life (ACOSS 1996, pp. 2 & 3).

The Commission is conscious of these concerns in its work program which incorporates areas where both economic management and equity issues are at the forefront. Examples include inquiries into public housing, workers' compensation, occupational health and safety, charitable organisations, urban transport and private health insurance. The relationship between equity and microeconomic reform was also explored in the Commission's recent conference on *Equity, Efficiency and Welfare* (IC 1996d).

Equity is difficult to define or measure. It has a number of facets, including the distribution of income, wealth and opportunities, the material wellbeing of the disadvantaged and access to basic services. Equity concerns change over time and perceptions of what is equitable vary across different sections of the community.

EQUITY EFFECTS OF REFORM

In the long run, microeconomic reform and equity are compatible. Reforms aimed at improving the general productivity of the Australian economy can encourage economic growth, improve the prospects of the unemployed and generate the wealth to assist the disadvantaged.

However, especially in the short run, the net benefits of microeconomic reform may not be distributed evenly across the community. Where there is conflict between achieving higher productivity and equity, it can be addressed with skilful policy design and administration. But some conflict may persist. In these circumstances, it falls to governments, on behalf of the community, to decide if the balance between higher productivity and equity, and between short-term and longer-term gains, is appropriate.

The relationship between microeconomic reform, productivity and equity is complex. What is clear is that the equity effects of reform cannot be established by analysing one reform in isolation, or simply by looking at the immediate effects of reform. For the debate on the equity effects of reform to be constructive, it must:

- distinguish the effects of reform from the effects of other changes;
- separate microeconomic reform issues from issues related to the size and allocation of government budgets;
- consider the indirect as well as the direct effects of reform, over the short and the long-run; and
- examine the effects of broad-based reform (rather than of individual reforms in isolation).

CHANGE AND MICROECONOMIC REFORM

Although microeconomic reform has intensified, it is not the only source of change with potential effects on equity. In open and dynamic economies, a large component of economic change occurs independently of policy reform. For example, activities expand and contract as new technologies are adopted, consumer needs evolve, aggregate demand fluctuates and demographics change. One of the objectives of microeconomic reform is to remove unnecessary rigidities within the economy, so that adjustments to these pervasive changes can occur more smoothly.

Although change affects all markets, it is often most apparent and of most concern to the community when it affects labour markets. As the structure of the economy changes, employment opportunities shift from shrinking industries to those that are growing. As a result, some skills may be no longer demanded. People do not adjust easily to such change. However, to try to prevent or even delay this change within the labour market may not only be futile, but can harm the very individuals or groups whose interests are of most concern.

The Commission has examined trends in the rates of job creation and reduction over the last two decades or so to obtain some empirical understanding of the contribution of microeconomic reform to structural change in the labour market (box 2.1). Although the measures used require further development, it seems that changes in the rates of job creation and job reduction have arisen mainly from the business cycle, rather than from microeconomic reform.

Box 2.1: Job creation and job reduction

There are concerns that microeconomic reform has increased disruption in the labour market. If this has been the case, it is likely to show up as an increase in the rate of job reduction since the late 1980s, the period in which microeconomic reform has intensified (see figure below). The measures of job creation and job reduction were calculated from employment in 54 industries. The measure of job creation is the increase in employment (in all industries in which employment is growing) as a percentage of total employment in the economy. Job creation can increase if there is growth in the number of industries in which employment is expanding, or if employment in these industries grows more quickly. The measure of job reduction is the decrease in employment (in all industries in which employment is declining) as a percentage of total employment in the economy.

Although these measures have limitations,[1] what they suggest is that the major determinant of change in the labour market is the business cycle. For example, the peaks in the rate of job reductions occurred in 1982–83 and 1990–91, which coincided with recessions. The underlying trend in the rate of job reduction does not appear to have increased since the late 1980s. Indeed, the rate of job reduction was the same in 1994–95 as in 1972–73. The rate of job creation is highly variable, but appears to have increased slightly.

Job creation and job reduction, 1971–72 to 1994–95 (per cent)

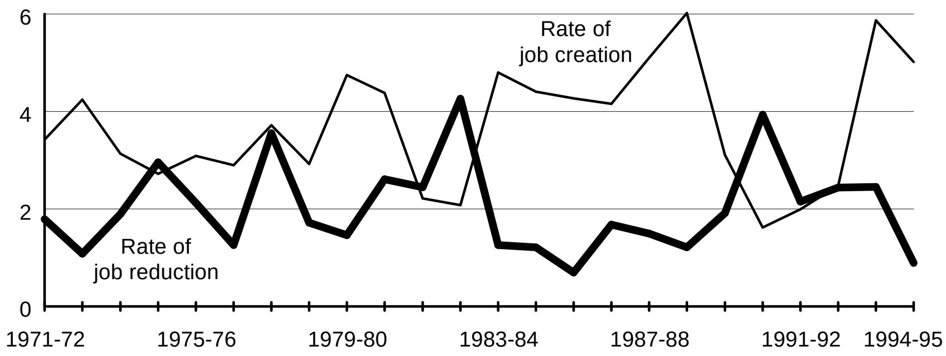


Figure source: IC calculations based on ABS (1996d)

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[1] The main limitation of the measures of job creation and job reduction is that they do not capture offsetting job increases and decreases within each of the 54 industries.

MICROECONOMIC REFORM AND THE SIZE OF GOVERNMENT BUDGETS

Discussion of the effects of microeconomic reform is also made more difficult because it is intertwined with debate about the appropriate size of government budgets and the level of government expenditure on certain items, including social and economic infrastructure.

A distinction can be drawn between the size of government budgets and the effectiveness and efficiency with which they are used. Reform is mostly about the design of policies, programs and regulations. Poor design and administration can hinder the performance of even well funded programs. It may be that for a program to be fully effective, it must receive additional funding. In other cases, it may be possible to maintain the quality and level of service with smaller outlays. In practice, budget constraints have provided an impetus for reform, as governments have sought to make their limited dollars go further. However, microeconomic reform in particular areas may result in more or less spending by governments in those areas — the outcome depends on the specific reform.

DIRECT AND INDIRECT EFFECTS OF INDIVIDUAL REFORMS

Community concern about the pace and extent of microeconomic reform can be heightened because the direct, or first round, effects of individual reforms are often the most visible, while beneficial indirect effects are less evident. The indirect effects can be large and they must be considered in an analysis of the equity effects of reform. The longer run benefits of individual reforms should also be considered. By increasing competition and removing unnecessary impediments to economic growth, reforms can increase incomes and employment. Economic growth provides the greatest opportunities for many, including the disadvantaged, to improve their standards of living.

The Commission's inquiry into *Competitive Tendering and Contracting by Public Sector Agencies* (IC 1996a) found that contracting out government services involves significant reductions in public sector employment. However, the Commission has observed that concern about the concentrated job losses in the public sector resulting from reform such as this rarely takes account of the job gains in the private or not-for-profit sectors, which are more dispersed. Similarly, there is little discussion about the community's resources which are released to fund other community services, or reduce general taxation.

Prices, as well as employment, can be affected directly by individual reforms. The prices of some basic goods and services may increase as government business enterprises (GBEs) adopt user-pays pricing methods. Price increases can have a disproportionate effect on low-income and other disadvantaged groups (although this may be offset by community service obligations).

But the direct effects of some individual reforms can be positive, and can benefit disadvantaged groups. For example, in the *Urban Transport* (IC 1994a) inquiry, the Commission found that changing the regulation of taxi licences would encourage lower fares and a wider range of services. This would be of particular benefit to elderly, disabled and low-income passengers, who tend to spend a greater proportion of their income on taxis than others in the community.

Although the indirect, or second round, effects of individual reforms are often less visible, it is here that many of the benefits of reform may be found. For example, even though productivity improvements within GBEs have kept price increases in check, pricing reforms in some states have increased the electricity charges faced by some households. However, as cross-subsidies have been reduced or removed, the cost of electricity to many businesses has been reduced, making it possible for these businesses to lower the prices of some consumer goods.

Modelling the effects on households of changes to electricity and water, sewerage and drainage (WSD) prices since 1990–91 illustrates the importance of considering the direct and indirect effects of reform (box 2.2 and appendix A). This modelling work is not designed to present a complete picture of the distributional effects of reform. [2]

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[2] A number of simplifying assumptions needed to be made. For example, an average price change is used for all households. As a result, differences in price changes between states and regions and between high and low-income households (as a result of changing concessions) are not captured. The results are also sensitive to the choice of starting year (from which price changes are calculated). Increases in dividends to governments are not modelled. It is assumed that changes in business

The direct effects of the changes to prices is that households at all points of the income distribution pay more for their electricity, water and sewerage. The increase is small, although it is a higher proportion of the incomes of low-income households than of higher-income households. However, for most households, the indirect effects (through lower business costs) more than offset the direct increases. When both direct and indirect effects are considered, most households receive some benefit from the price changes. However, the gains and losses are not distributed evenly, with many low-income households experiencing small cost increases. Even for low-income households, a failure to take account of the indirect effects overstates the negative effects of the reforms.

These results also do not include the longer-term gains from pricing reform. Households are likely to reduce their consumption in response to higher residential charges for electricity and water. This not only lowers their electricity and water accounts, but conserves environmental resources.

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prices are passed on to consumers and that households do not change their consumption patterns in the face of changing prices.

Box 2.2: Direct and indirect effects of changes to some GBE prices

Increasing the commercial focus of GBEs in the electricity and WSD sectors has led to higher productivity and reductions in cross-subsidies from households to businesses, which have changed prices.

In appendix A, estimates of changes in household expenditure as a result of electricity and WSD price changes since 1990–91 are reported. On average, residential electricity and WSD prices have increased and business prices have fallen. [3] The direct effect on households is the increase in residential charges. The indirect effect is the fall in the prices of some other goods and services (assuming businesses pass on the cost savings from lower business charges). The effects on households within different income groups are presented in the table below. It was estimated that households in the lowest income group, on average, needed to spend an extra $17 a year (less than one tenth of one per cent of household expenditure) to buy the same amount of electricity on their residential accounts. However, they saved, on average, $40 a year on their indirect consumption of electricity. Changes in WSD prices were estimated to increase expenditure of low-income households on residential accounts, on average, by $27 a year, and increase expenditure on other goods and services, on average, by $1. Considering only the direct effects is likely to overstate the negative effects on households, in many cases considerably so.

Changes in annual household expenditure — dollars (per cent)[a]

	Electricity		*WSD*		*Total*
Income group[b]	*Direct*	*Indirect*	*Direct*	*Indirect*	
lowest	17 (0.08)	-40 (-0.19)	27 (0.13)	1 (0.00)	5 (0.02)
second	18 (0.07)	-51 (-0.19)	32 (0.12)	-4 (-0.02)	-5 (-0.02)
third	22 (0.06)	-75 (-0.19)	43 (0.12)	-9 (-0.02)	-19(-0.04)
fourth	22 (0.05)	-87 (-0.19)	43 (0.10)	-11 (-0.02)	-33 (-0.07)
highest	21 (0.04)	-99 (-0.19)	45 (0.09)	-12 (-0.02)	-45 (-0.09)

a Numbers in parentheses are the change in expenditure as a per centage of total household expenditure.

b Households were ranked by their incomes (adjusted for household size and composition). The lowest income group consists of households in the bottom 20 per cent of the ranking, the second income group consists of households in the next 20 per cent and so on.

Source: Commission estimates

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3 Between 1990–91 and 1994–95, real residential electricity pri ces increased by about 3 per cent, averaged across states and territories. The increase in prices in Victoria (18 per cent) was substantially greater than those in other states. Excluding Victoria, there was an average price decrease of 1.5 per cent, which would mean that the lowest income group benefited on average (rather than being made worse off).

EFFECTS OF BROAD-BASED REFORM

It is important to establish whether the distributional effects of a number of individual reforms reinforce or offset each other.

To understand more about the distribution of the gains and losses from reform, the Commission has attempted to quantify the effects of a group of reforms (electricity, telecommunications, competitive tendering and contracting of government services and ongoing reductions in tariff levels), taking economy-wide effects into account.

Modelling in appendix B illustrates the advantage of systematic quantitative assessment, although it should be understood that this is an early exploration of a challenging question. Notwithstanding that the models used here are a simplification of the real world and do not fully represent all its complexities, particularly within the labour market, they do play an important role in providing insights into the workings of microeconomic reform on industry and income distribution. The analysis here is a long-term assessment of the effects of these reforms, when all markets have adjusted.

Analysing the reforms as a group, it was found that although one reform was estimated to reduce employment within an industry, other reforms would create offsetting employment opportunities within the same industry (box 2.3). As a result of these offsetting effects, it was found that undertaking the four reforms simultaneously would reduce the amount of adjustment of employment between industries as compared with each reform being undertaken sequentially. This implies that the adjustment requirements can be reduced through a broad program of reform.

Furthermore, it was estimated that the gains from these reforms (in aggregate) would be distributed fairly evenly (box 2.3). The offsetting nature of the simultaneous reforms seems to distribute the income gains and losses across households more evenly.

Box 2.3: Broad-based reform: illustrative evidence

To illustrate the distributional effects of broad-based reform, the effects of four recent reforms (electricity, telecommunications, competitive tendering and contracting of government services and ongoing reductions in tariff levels) on the incomes of 15 000 households were modelled. Details and results are reported in appendix B. Using the Monash general equilibrium model, the effects of these reforms on incomes and employment in the economy were estimated. These results were combined with household income data to estimate the effects of these reforms on household incomes.

The results indicate that, in terms of industry employment, reforms can have offsetting effects. For example, as shown in the table below, tariff reforms are likely to reduce employment in some manufacturing industries, while other reforms are likely to increase employment in these same industries.

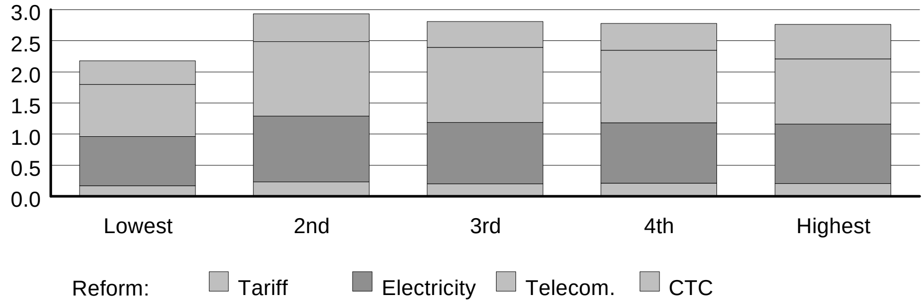
The results also indicate that the benefits of the reforms are distributed fairly evenly. As shown below, it was estimated that each reform will increase average incomes in all income groups. Slightly larger gains (in relative terms) were estimated for the second lowest income group, with relatively smaller gains in the lowest income group. Income decreased in households where individuals became unemployed. However, the modelling does not take into account that these unemployment spells may be short-lived and hence may overestimate the decrease in incomes for these households.

Changes in employment (per cent)

Industry			*Reform*		
	Tariff	*Electricity*	*Telecom.*	*CTC*	*Total*
Manufacturing	-0.3	-0.2	1.2	0.6	1.3
eg. clothing	-1.8	0.1	0.2	0.3	-1.2

Table source: Commission estimates

Changes in household gross incomes, by income group[a] (per cent)



a Income groups as defined in box 2.2.

Figure source: Commission estimates

DEALING WITH THE DISTRIBUTIONAL EFFECTS OF REFORM

The illustrative evidence presented indicates that microeconomic reform, when undertaken on a relatively broad front, increases the incomes of the great majority of households. However, the evidence also suggests that some households will be made worse off from the modelled reforms. Programs and support mechanisms providing assistance to those in need (including those adversely affected by reform) must be up to the task.

Community support for reform is more likely if there is fair treatment of those adversely affected by reforms which benefit the community as a whole. In addition, if the process of transition involved in reform is ignored or not handled well, transition costs can reduce the overall community benefits.

The Commission believes that the primary (but not necessarily the only) form of assistance to address any adverse consequences of reform should be the social security and welfare system and generally available adjustment assistance. There are several reasons for this.

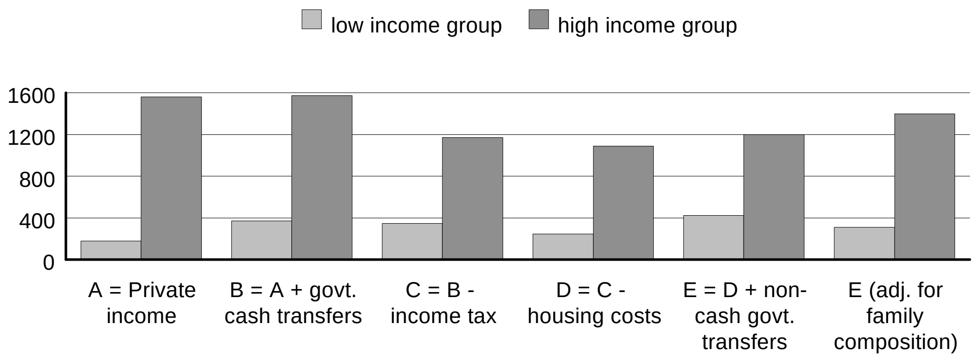
First, the social security and welfare system and generally available adjustment assistance are purpose-built to address the adverse consequences of all types of change and hardship, regardless of their source. These programs should be just as capable of addressing the needs of someone who loses a job through a reform program as someone who loses a job through any source of change taking place in the economy. Such assistance treats people with similar needs in a similar fashion. Studies have shown that the social security and welfare system has narrowed the distribution of income in Australia (box 2.4), although whether it has done so at a cost to national output is a matter of debate.

Box 2.4: The redistributive effects of government transfers and taxation

In Australia, government transfers and taxation have large effects on the distribution of income. As shown in the figure below, private incomes (wages and salaries, investment income, etc) are distributed unevenly, with families in the top 20 per cent of the income distribution receiving on average nine times the private incomes of those in the bottom 20 per cent. Harding (1995) estimates that by taking into account government cash and non-cash transfers, income taxation and housing costs, this ratio falls to just under three.

The distribution of wage incomes has become less equal (through changes in wage rates and hours worked) in Australia and many other OECD countries over the last decade or so. Although the evidence is not definitive, a number of studies have concluded that government transfers and taxation have offset the widening of the distribution of wages income to some extent.[4] This has not necessarily been the case in other countries. In the UK, changes to the social welfare system have amplified the widening of the distribution of private income over the last decade.

Comparison of high and low family incomes,[a] taking government transfers and housing costs into account, May 1995 ($ per week)



a Income in each income group is the average income of families in that group. Income groups are defined using family income adjusted for family composition after cash transfers have been included and income tax and housing cost have been deducted.

Figure source: Harding (1995, p. 200)

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4 See, for example, Johnson, Manning and Hellwig (1995) and Raskall and Urquhart (1994).

Second, these programs address the net effects of reform, concentrating on support for those in genuine need. This is preferable, for equity and administrative purposes, to compensating for the adverse effects of every individual reform.

Third, the social security and welfare system and generally available adjustment assistance directly support individuals and families affected by reform, rather than supporting their industry of employment. Policy instruments such as industry protection are poorly targeted, costly and often regressive ways of assisting people. For example, the Commission estimated that, in 1988–89, households in the highest income group lost 4 per cent of their disposable income as a result of higher prices stemming from import tariffs, whereas lower income groups lost over 6 per cent (IC 1992). Furthermore, jobs in protected industries often come at the expense of employment in other industries. In particular, tariffs increase input costs to user industries and reduce the competitiveness of export industries. In turn, this reduces employment opportunities in those industries.

Finally, using measures such as firm or industry-specific subsidies or tariffs to address distributional issues reduces overall productivity. This ultimately will diminish the community's capacity to assist those in need. We cannot share what we do not produce.

The design and administration of the social security and welfare system and generally available adjustment assistance programs should be improved where possible, and kept under constant review to ensure that they are capable of most effectively and efficiently assisting those in need. In particular, governments should bear in mind the positive as well as the negative incentives created by different design features.

The social security and welfare system and generally available adjustment schemes may not be sufficient to deal with every case. In some circumstances it may be necessary to adopt more targeted programs. The Commission's inquiry into *Impediments to Regional Industry Adjustment* (IC 1993a) suggested that circumstances in which specific assistance could be warranted include those where an adjustment shock is large relative to the size of the regional economy, placing the general support infrastructure under excessive strain. But to work effectively, a specific approach to assisting adjustment requires greater management and monitoring than general measures. Such assistance must also be designed carefully to avoid becoming an impediment to adjustment.

Phasing reform can ease adjustment pressures , but is not costless. A reform delayed is a benefit forgone. Delaying reform in one area can add to the adjustment burden on business and workers elsewhere in the economy. Phasing must be assessed in this light. For example, in the *Urban Transport* (IC 1994a) inquiry, the Commission's preferred option for taxi deregulation was a gradual increase in the number of taxi licences issued, leading to a gradual reduction in the value of licences. The proceeds from the sale of new licences would be used to compensate existing licence holders.

ECONOMIC REFORM IN AREAS OF SOCIAL SERVICES AND INFRASTRUCTURE

The Commission believes that the community will gain and equity will be enhanced if broad-based reform is extended into areas of social services and infrastructure, such as education, health and community services. These areas are major users of resources and are significant contributors to the wellbeing of society. Furthermore, they are a means of providing the opportunity for a more equitable distribution of wealth and access to essential services. The Commission has found through its recent work program that to ensure that the right people get the right service at the right time requires careful consideration of:

- the services provided;
- the deliverer of the services;
- the design of policies and programs delivering the service; and
- the extent and rigour of progr am monitoring and evaluation.

To determine the appropriate services and the most effective and efficient means of delivery requires clearly specified goals (including those regarding access) and knowledge of the full costs and benefits (including an economy-wide perspective) of achieving those goals.

A wide variety of groups provide social services, including government agencies, private companies, not-for-profit organisations and families. In its inquiry into *Charitable Organisations* (IC 1995d), the Commission described the 'mixed economy' of welfare provision, in which community social welfare organisations provide services in conjunction with government agencies and for-profit firms. The Commission noted that:

> Given that each sector has strengths and weaknesses in particular situations, heavy reliance on any single sector for the delivery of welfare services, or inhibiting the interaction or the mobility of service delivery between sectors could lead to inferior outcomes. Arrangements for the delivery of welfare services which draw on the strengths of each are likely to lead to better services for users (IC 1995d, p. 8).

The aim is to find the mix of providers that will deliver social services most efficiently and effectively. For example, even though governments may fund many social services, they are moving towards having others provide these same services. In its inquiry into *Competitive Tendering and Contracting by Public Sector Agencies* (IC 1996a) the Commission found that contracting service provision in areas such as some hospital services and employment assistance is yielding improvements in service quality and reductions in costs.

Market mechanisms (such as competition and pricing in relation to cost) often can work to provide better outcomes in some aspects of service provision.

By providing choice, competition in the provision of services can empower recipients. It gives them the opportunity to walk away from inadequate services and to choose something better. Competition can also provide the incentives for providers to reduce their costs while improving service quality. Indeed, competition can be productive in areas seemingly far removed from commercial considerations. For example, in its inquiry into *Charitable Organisations* (IC 1995d) the Commission found that making the selection of community welfare service providers for government funds more contestable, transparent and open would increase the choice of those in need and encourage quality outcomes and efficient service delivery.

However, care must be taken in choosing whether to use competition or market-based delivery mechanisms. In some cases, market-based incentives may be inappropriate or can weaken incentives to achieve equitable outcomes. In its inquiry into *Workers' Compensation* (IC 1994b), the Commission found that competition in some areas could be beneficial, while in others it should be curtailed. For example, competition between states to lower costs of long-term claims created positive pressure to design more effective and efficient rehabilitation systems. On the other hand, the drive by states to lower workers' compensation premiums could lead to unjustifiable reductions in injured workers' benefits, and transfer much of the cost of the accident to those workers.

Similarly, although user-pays policies may act to temper over-supply and over-consumption of valuable services, they will also reduce the access to services of some low-income groups. The community may desire that access to some services be distributed more equally than the distribution of income.

In some cases, it is possible to promote more efficient outcomes without compromising other equity objectives, by combining market-based mechanisms with other policies. Ensuring equitable access can be 'built in' to other reforms that promote efficiency. The move to casemix funding aims to make hospitals more efficient by relating their revenue to the types and amounts of services they provide. In achieving these gains, casemix also can create the incentive to discharge patients prematurely from hospitals. When implemented effectively, negative impacts of early discharge from hospital can be addressed largely by other measures, including increased access to complementary after-care services, such as home nursing.

CONCLUSION

The Commission has identified a comprehensive reform program that aims to improve the living standards of all Australians by improving the effectiveness and efficiency with which we use our resources. The Commission believes that this program can enhance equity, as well as encourage higher productivity.

Many of the concerns about adverse equity effects of microeconomic reform do not consider the full effects of reform , or attribute the effects of other sources of change to reform. Many of the benefits of microeconomic reform are not direct and accrue over time. The illustrative studies presented in this chapter suggests that these effects provide benefits to households, including low-income households. The studies also suggest that the net benefits of reform are distributed more widely when the reform program is broad-based.

Moreover, a broad-based reform program increases the adaptability of the economy and increases opportunities (including employment opportunities) which provide the greatest scope for many of those suffering economic disadvantage to improve their circumstances.

This is not to argue that some individuals will not be made worse off from reform. An effective and efficient social security and welfare system and adjustment assistance program are vital to assist the disadvantaged. The answer is not to delay reform (as this ultimately will reduce the means to assist those in need), but to improve and monitor the social security and welfare system to ensure those in need (as a result of reform and other sources of change) are neither left behind nor discouraged from work.

Reform of social infrastructure, such as health and education, should aim to improve quality and access through the appropriate use of competition and market-based mechanisms, effective performance monitoring and other means. Social infrastructure reforms will need to be designed to ensure that the community's goals in these areas are met.

CHAPTER 3
Operations of the Commission

The Commission maintained a challenging work program in each of its core activities, and continued to make progress on a range of corporate management matters during the year. Of particular significance was work associated with forming the new Productivity Commission.

This chapter reports on the operations of the Industry Commission, as well as the former Bureau of Industry Economics which was amalgamated with the Commission in March 1996. The third of the three organisations merging to form the Productivity Commission — the Economic Planning Advisory Commission — has a statutory obligation to report in its own right until its legislation is repealed.

Further information is contained in appendices I (staffing and management), J (inquiry and related activities and reports) and K (financial statements).

CORPORATE OVERVIEW

A key development during the year was the Government's announcement on 8 March 1996 of the formation of the Productivity Commission. Until such time as legislation establishing the Productivity Commission is in place, activities consistent with the expected functions of the new Commission are being undertaken under the *Industry Commission Act 1989* (Cwlth). A summary of the steps taken to form the Productivity

Commission on an administrative basis is provided towards the end of this chapter.

ROLE, FUNCTIONS AND CORE ACTIVITIES

During the year, the Industry Commission continued its role as the major independent review and advisory body on industry policy for Australian governments. As a catalyst for structural reform in the Australian economy, the ambit of Commission investigations is wide — encompassing agriculture, mining, manufacturing and services (including social services) — and covers broad issues that affect many industries, consumers and the environment.

The Commission's functions derive from the *Industry Commission Act 1989.* They are to conduct public inquiries and provide reports on matters which are referred by the Commonwealth Government, and to undertake other work incidental to that function. The Commission is required to report annually on the performance of Australian industry and on developments in industry assistance and regulation.

In fulfilling its functions, the Commission engages in five core activities — public inquiries, independent studies, performance monitoring, general reporting and research, and review of business regulation.

Following the change of government in March 1996, revised administrative arrangements saw the Bureau of Industry Economics (BIE) merge with the Industry Commission. The BIE's role had been to conduct economic research into Australia's manufacturing and service industries, and into the progress of microeconomic reform. It also evaluated and reviewed industry programs and analysed trends in the Australian and world economies. Before its merger with the Industry Commission, the BIE was a division of the Department of Industry, Science and Technology — now the Department of Industry, Science and Tourism (DIST).

ORGANISATIONAL STRUCTURE AND MEMBERSHIP

The Commission consists of a Chairperson and up to 11 full-time and part-time Commissioners. The Minister may also appoint Associate

Commissioners from time to time. The Commission is supported by staff employed under the *Public Service Act 1922* (Cwlth).

The structure of the organisation and names of Commissioners and senior staff are shown in figure 3.1. The main structural change during 1995–96 was the addition of an organisational unit comprising the former BIE. Also of significance was the filling of a Head of Office position to provide support to the Chairman in undertaking work associated with the formation of the Productivity Commission and in managing the more diverse organisation.

During the year, Mr Gary Banks was reappointed as Executive Commissioner for a five-year term. Dr Max Parker retired as a Commissioner on 31 August 1995.

In November 1995, the *Industry Commission Act 1989* was amended to allow for the appointment of part-time Commissioners. Previously, Commissioners could only be appointed on a full-time basis. The change is expected to allow consideration of a greater range of candidates for future Commissioner appointments.

The number of Industry Commission operative staff fell from 223 at 30 June 1995 to 193 at 30 June 1996. In large part, the reduction was due to non-replacement of staff in preparation for the possible merger of the Commission with the BIE and the Economic Planning Advisory Commission (EPAC) to form the Productivity Commission.

BIE operative staff numbers declined to a lesser extent, falling from 78 to 75 over the period.

Further details of Commissioner appointments and staffing are contained in appendix I.

ORGANISATIONAL DEVELOPMENTS IN 1995–96

Planning for the new Productivity Commission, and implementing associated changes, consumed considerable management effort. This overshadowed or required the deferral of a number of other organisational matters. Nevertheless, some notable achievements included:

- the Industry Commission's corporate plan, in respect of the organisation's vision, mission and values statements, was settled and the year's goals substantially agreed. Further work in this regard will be undertaken in the Productivity Commission context, once structural and staffing issues are more settled;
- an Access and Equity Plan for the Industry Commission was developed, as a means of formalising the steps necessary to promote compliance with the Government's access and equity guidelines;
- management, staff and union agreement was reached on a Workplace Agreement for the Industry Commission. A new agreement, which has regard to the provisions of existing agreements of the three agencies forming the Productivity Commission, will need to be considered;
- a three-year strategic plan for the Productivity Commission's information technology requirements was completed; and
- a staff opinion survey was undertaken by the Australian Bureau of Statistics to obtain information about staff perceptions and attitudes on a range of issues. A similar survey was held in 1992. The survey results are providing an important input in helping shape management approaches and decisions.

During the year there was one request, which subsequently lapsed, for information under the Freedom of Information legislation.

SOCIAL JUSTICE AND EQUITY

As outlined in previous Annual Reports, the Commission's processes contribute to the Government's social justice and equity objectives in a number of ways.

First, the statutory requirement that the Commission approach industry policy issues from the perspective of the community as a whole, rather than from any particular industry or group, is intended to promote fairer outcomes.

Second, the transparency of its operations through open and public inquiry processes provides the opportunity for anyone with an interest in a Commission inquiry to make their views known and to have these considered.

Third, the Commission actively seeks out those who are likely to have an interest in an inquiry, so that a range of views and circumstances can be considered.

An example of addressing social issues, drawn from the *Work, Health and Safety* (1995m) inquiry, is outlined in box 3.1.

As mentioned, the Commission developed its Access and Equity Plan during the year. The plan was developed in consultation with the Commonwealth Office of Multicultural Affairs. This followed a Commission-initiated consultancy in 1994–95 to assess compliance with the Commonwealth Government’s access and equity objectives. While publication of the Plan has been deferred pending formation of the Productivity Commission, many of its elements are being implemented.

The Commission has initiated a World-Wide Web site on the Internet to improve public access to information about the Commission and its work. Material now accessible includes an introduction to the Commission, contacts within the Commission, material relevant to current inquiries and a list of Commission publications. The range of information on the World-Wide Web is being extended progressively.

INTERNAL AND EXTERNAL SCRUTINY

The Commission’s work is subject to external scrutiny as a result of the public inquiry process, its practice of releasing draft reports for comment before finalising reports on individual inquiries, and the public release of its inquiry and research reports. These processes provide the opportunity for comment by interested parties and others on the processes and content of the Commission’s work.

Box 3.1: *Work, Health and Safety* inquiry — dealing with a social issue

Work-related injury and disease can lead to significant social disadvantage. The Commission's inquiry in 1994–95 revealed that there were an estimated 330 000 persons of working age who were suffering a work-related health problem. About half of them had been unable to work because of their condition. Of those unable to work:

- over 85 per cent had been unable to work for over a year, and 35 per cent had been unable to work for over five years;
- their average annual income was less than $10 000; and
- prior to their injury, nearly all had been with their employer for over a year.

The contrast between their stable employment experience prior to being injured, and their disadvantaged position after injury, highlights the social cost of work-related injury.

The Commission also estimated the cost of work-related injuries, and its distribution between injured workers, employers and the community. The Commission found that:

- for minor incidents, nearly all of the cost was borne by employers;
- for serious incidents such as permanent incapacity, employers bear only 40 per cent of the cost.

Serious injuries cost injured workers on average over $130 000, mainly from uncompensated lost future earnings.

The Commission expects that its recommendations will redress these adverse social impacts through prevention. Regulatory reform, combined with more effective enforcement, will ensure that more employers meet their responsibilities for health and safety by ensuring that their workplaces are safe.

These recommendations complement the Commission's recommendations in the *Workers' Compensation* report. If adopted, social outcomes will be improved for injured workers and there will be greater opportunity and encouragement for injured workers to return to work.

Source: IC (1995m)

The Commission also regularly seeks feedback from stakeholders — for example, by means of surveys. In respect of public inquiries, surveys of participants cover a range of matters including the inquiry process, accessibility to the Commission and the likely usefulness of recommendations in developing government policy. By way of example, the results of the survey of participants in the *Work, Health and Safety* inquiry are outlined in box 3.2. The Commission uses such surveys to help refine and improve its processes.

Box 3.2: *Work, Health and Safety* inquiry — survey of participants

Following completion of the inquiry, the Commission undertook a survey of those who had made submissions to the inquiry. Comments were sought on the inquiry's processes and the quality of the draft and final reports. Around one-quarter of participants responded to the survey.

Overall, the responses indicated a high level of satisfaction, with an 80 per cent favourable response on most questions. In particular, 93 per cent of respondents said that the inquiry was conducted openly, 87 per cent said the Commission was open to a diverse range of views, and 88 per cent said the report was written and presented in a readable style.

Areas suggested for improvement related to the time participants have to respond to draft reports and access to submissions. While 84 per cent of respondents were satisfied with the quality of the draft and final reports, 23 per cent believed it was unlikely to produce a worthwhile result in terms of policy information and reform.

Feedback from stakeholders was also employed to assist the Commission in enhancing the effectiveness of its external communications. For example, the Commission is:

- endeavouring to improve communication of its messages in its reports following external feedback about matters such as report readability;
- tailoring marketing strategies for individual reports following an external analysis of market exposure;
- aiming for an appropriate distribution of its range of reports by periodic reviews of its mailing lists;

- refining its regular newsletter after obtaining constructive suggestions from a readership survey; and
- ceasing publication of its annual compe ndium of reports following survey results indicating low reader interest in information in this form.

Two external reviews of aspects of the Commission’s operations were conducted. One was by the Australian National Audit Office (ANAO) and the other by Comcare.

The ANAO examined the process of preparing annual financial statements by Commonwealth departments and agencies. In respect of the Commission, the study found that there was room for improvement in a number of areas, including greater involvement of senior management and quality control. The Commission has been working with the ANAO during the year to address these matters. One initiative already taken was the establishment of an Audit Committee to operate from 1 July 1996.

The Comcare review was a performance audit of the Commission’s Melbourne office to determine compliance with occupational health and safety legislation. The audit took the form of discussions with focus groups, a review of Commission documentation and an inspection of the office by the Comcare investigator. The final report indicates that the Commission had complied with all legislative requirements.

The good ratings achieved in the Comcare audit are consistent with a projected reduction in the Commission’s insurance premium for workers’ compensation, from 1.15 per cent of salary expenditure in 1995–96 to 0.76 per cent in 1996–97. This compares with a fall from 1.7 to 1.6 per cent for Commonwealth employees generally (excluding government business enterprises).

While outcomes such as these indicate that the Commission is moving in the right direction in respect of occupational health and safety, it recognises that more can be done.

TRAINING AND DEVELOPMENT, AND PERFORMANCE PAY

A continuing emphasis on training and development is recognised as a high priority for the Commission. Guidance on the nature of training and development requirements was obtained through a range of mechanisms during the year, including:

- a consultancy which related staff perceptions of their skills and knowledge levels to the skills and knowledge requirements across the Commission. The resulting gap analysis provided a useful basis for formulating training and development programs;
- bi-annual performance appraisals at all levels remained a significant avenue for identifying training and development needs, as well as for discussing performance between managers and their staff; and
- confidential questionnaires and exit interviews for departing staff were another fruitful source of information about training and development issues, as well as for management matters generally.

Priorities for training and development during the year included induction, middle management training and enhancing information technology and report writing skills. These priorities were supplemented with many other forms of training and development, including on-the-job training and a significant component of professional development through attendance at conferences, seminars and similar forums. Another priority identified, which will be addressed in 1996–97, was project management skills.

In 1995–96, expenditure by the Commission on training and development amounted to just under $230 000, representing 2.1 per cent of the annual salary budget. For the former BIE, the relevant figures are around $60 000 and 1.5 per cent of the salary budget. These figures do not include the salary costs of staff while undertaking training, or the considerable on-the-job training undertaken. In addition, the Commission provided awards totalling just under $30 000 for staff to undertake full-time postgraduate studies or to pursue overseas development opportunities.

Within the Commission, Senior Executive Service (SES) and Senior Officer staff continued to participate in performance pay schemes. The amount distributed in relation to 1995–96 was around $144 000. This is considerably less than in the preceding year, reflecting changes to the scheme introduced by the Commonwealth Department of Industrial Relations. In the BIE, only SES staff participated in a performance pay scheme — the amount distributed was just under $13 000, again significantly less than in the preceding year.

PROGRAM PERFORMANCE

Performance reporting for the year has been complicated somewhat by the formation of the Productivity Commission. First, significant resources were diverted into the planning and implementation processes. Second, the Commission is required to report on the activities of the BIE for the entire year, even though responsibility was not assumed until March 1996. And third, a number of major projects were undertaken in the context of the Productivity Commission which drew on resources from the Industry Commission, BIE and EPAC.

Subject to these complications, the following sections report on performance against each of the Commission's five core activities, on the activities of the BIE, on Productivity Commission–specific tasks, and on corporate services.

A summary of the financial and staffing resources of the Commission and the BIE is shown in table 3.1. For individual activities, the performance reporting includes a statement of objectives, the resources applied, performance indicators and an outline of performance against the various indicators. Resources are expressed in 'staff years' (including Commissioners as appropriate) and 'expenditure' (which includes salaries, administrative expenses and an allocation for corporate overheads).

Table 3.1: Staff and financial resources summary

	1994–95	1995–96		
	IC	*IC*	*BIE*	*Total*
Commissioners and staffing at 30 June	*(No.)*	*(No.)*	*(No.)*	*(No.)*
Commissioners (including Chairperson)	9	8	na	8
Associate Commissioners (fixed term only)	3	3	na	3
Operative staff[a]	223	193	75	268
Expenditure	*($m)*	*($m)*	*($m)*	*($m)*
Salaries and allowances[b]				
Holders of Public Office[c]	1.2	1.3	0.0	1.3
Staff	9.0	9.6	4.1	13.7
Superannuation[d]	na	1.8	0.8	2.6
Administrative expenses				
Inquiry (non-salary) expenditure	2.2	2.6	0.0	2.6
Non-inquiry expenditure[e]	3.6	2.3	1.7	4.0
Property operating expenditure	1.7	1.8	0.7	2.5
Other	5.4	0.5	0	0.5
Total expenditure[f]	**23.1**	**19.8**	**7.3**	**27.1**

na Not applicable.
a Those not absent from duty for 12 or more weeks.
b Salary figures between 1994–95 and 1995–96 not directly comparable due to a number of APS-wide initiatives.
c Commissioners and Associate Commissioners.
d Commission only assumed responsibility for superannuation payments from 1-7-95.
e Includes corporate expenditure and non-salary expenditure for activities other than inquiries.
f Totals may not add due to rounding.

PUBLIC INQUIRIES

Objective

- To provide industry policy advice through the conduct of public inquiries into matters referred by the Government.

Resources

- Staff years — 75
- Expenditure — $11.3 million

Performance indicators

The Commission aims to provide public inquiry reports which:

- are influential on Commonwealth, state and territory microeconomic policy;
- respond fully to the terms of reference received and are well informed, with clear analysis and recommendations;
- provide appropriate opportunity for participation by interested members of the community; and
- are timely and conducted economically.

Information on these performance indicators is derived in a number of ways, including feedback from governments, inquiry participants and others, the contribution to the public debate through the media and conferences, the extent of public participation, report completion dates and inquiry costs.

Performance

During 1995–96, the Commission was engaged in ten formal public inquiries of which the following five were completed:

- *Work, Health and Safety*;
- *Competitive Tendering and Contracting by Public Sector Agencies;*
- *Packaging and Labelling;*
- *Tourism Accommodation and Training;* and
- *The Pharmaceutical Industry*.

The reports completed in 1995–96 covered a diverse range of issues, such as government regulations, enforcement provisions, government purchasing decisions, factors influencing company investment decisions and labour force training.

The Commission received terms of reference for five further inquiries during the year. These are included in the inquiry program summarised in table 3.2.

Table 3.2: Industry Commission inquiry program[a]

	1994–95						**1995–96**												1996–97					
Month	**J**	**F**	**M**	**A**	**M**	**J**	**J**	**A**	**S**	**O**	**N**	**D**	**J**	**F**	**M**	**A**	**M**	**J**	J	A	S	O	N	D
Work, Health and Safety																								
Competitive Tendering and Contracting by Public Sector Agencies																								
Packaging and Labelling																								
Tourism Accommodation and Training																								
The Pharmaceutical Industry																								
Medical and Scientific Equipment																								
The Machine Tools and Robotics Industries																								
State, Territory & Local Government Assistance to Industry																								
Implications of Firms Locating Offshore																								
Book Production in Australia																								

a Shaded area indicates inquiry duration.

Trends in inquiry activity and participation are shown in table 3.3.

Table 3.3: Inquiry activity, 1993–94 to 1995–96

	1993–94	*1994–95*	*1995–96*
Inquiries completed	8	7[a]	5
Inquiries commenced	7	5	5
Submissions received	1 495	2 082	1 329

a Excludes completion of the Independent Committee of Inquiry into the Winegrape and Wine Industry. The Chairperson of the Commission chaired the Committee, which was supported by Commission staff.

Assessment of how well the Commission has responded to the terms of reference for particular inquiries is highly subjective. Even more subjective is determining how influential the Commission's reports have been in shaping government policies, particularly because of lags between the release of reports and subsequent government action.

Nevertheless, various indicators suggest that the Commission's reports do make a significant contribution to the public debate on policy issues and in shaping government policies. One such indicator is the extent to which the Commission's recommendations are accepted by government — a summary of the recommendations of recent Commission reports and of government responses is included in appendix J. Other indicators are the significant media coverage of most inquiries, and the many invitations to the Chairman, Commissioners and staff to address or participate in conferences and similar forums.

In 1995–96, the Commission continued its practice of consulting widely with interested parties from industry, government departments and agencies, unions, academia and the broader community. The number of visits conducted and public hearing days held are shown in appendix J.

One relatively new feature of the public consultation process was the increased use of round-table discussions, rather than traditional public hearings. Round-table discussions have the advantages of encouraging discussion between participants, as well as time and cost savings.

Delays were experienced in completing each of the inquiries in 1995–96. The delays ranged from two to eight weeks and arose for various reasons. These included the breadth and complexity of issues, internal scheduling and resourcing, and requests from inquiry participants for more time to prepare submissions.

The Commission endeavours to conduct its inquiries in an economical manner. For the inquiries completed in 1995–96, total costs (covering salaries, administrative expenses and an allocation for overheads) ranged from $1.4 million for *Packaging and Labelling* to $2.1 million for *Work, Health and Safety*. Variations in the cost of inquiries arise from the extent and nature of public consultation, the number of inquiry participants, the complexity and breadth of issues, the need for overseas travel, printing costs and the duration of the inquiry.

INDEPENDENT STUDIES FOR OTHER AGENCIES

Objective

- To contribute to the development of public policy issues by undertaking studies which utilise the Commission's inquiry, analytical and modelling expertise, within the framework of independence, transparency and an economy-wide perspective.

Resources

- Staff years — 6
- Expenditure — $0.7 million

Performance indicators

Work undertaken within this activity is judged by how well it meets the terms of reference, timeliness, quality and, where appropriate, cost.

Performance

The tasks performed in 1995–96 under this activity were studies for the New South Wales Government into New South Wales electricity generation, for the South Australian Government on the South Australian electricity market and on the Australian pig and pigmeat industries for the Commonwealth Government.

The New South Wales electricity generation study was a 45 day project which was completed on time. The Commission's principal recommendation was that Pacific Power — the state-owned electricity generation business — be disaggregated. In October 1995, the New South Wales Government announced its decision to split Pacific Power into two state-owned generating companies, one of which was to be a holding company with two subsidiaries. The cost of this study was around $120 000.

The study into the South Australian electricity market was 13 weeks in duration and was completed as agreed with the South Australian Government. The study assisted the South Australian Government in its deliberations on the structure of the state's electricity industry. The government accepted some, but not all, of the Commission's recommendations. The cost of the study was around $195 000.

The study into the Australian pig and pigmeat industries was completed on time, three months after the receipt of the terms of reference. No response has been made by government. The cost of the study was around $280 000.

PERFORMANCE MONITORING

Objective

- To provide secretariat and research services to Steering Committees established by the Council of Australian Governments (COAG) in respect of monitoring the performance of government trading enterprises and developing performance indicators for government service providers.

Resources

- Staff years — 10
- Expenditure — $1.2 million

Performance indicators

The two secretariats work under the guidance of the respective Steering Committees. The Chairman of the Industry Commission chairs both Steering Committees. Their performance can be judged by how well the needs of the Committees are met in respect of timeliness, quality and ultimately the usefulness of the work to the enterprises, governments and others.

Performance

The work relating to government trading enterprises is summarised in SCGTE (1996b). The report presents information on the performance of government trading enterprises using a broad range of financial and other indicators.

This year's report was published in June, compared with April in the previous year. This was due to difficulties experienced in the development of a new database system.

A survey, conducted during 1995–96, established that the Steering Committee's annual reports are well regarded by readers in both the public and private sectors. This was manifested by a strong demand for the Committee's annual reports and other publications, not only by the enterprises themselves, but by government agencies and the private sector.

The new database system was developed to improve the efficiency of this activity. It also allowed significant improvements in the presentation of information in the 1996 annual report.

In addition the Committee completed a report entitled *An Economic Framework for Assessing the Financial Performance of Government Trading Enterprises* (SCGTE 1996a).

Other projects commenced by the secretariat during 1995–96 include:

- a research paper on the accounting treatment of contributed assets;
- research into the use of data envelopment analysis techniques to measure efficiency of Australian and New Zealand port authorities; and
- the assessment of investment risk for government trading enterprises, determining the opportunity cost of capital and appropriate financial rate of return targets.

The first report on government service provision was produced on time in December 1995. The performance information contained in the report was recognised by government agencies and the media as an important step towards improving the effectiveness and efficiency of government service provision. The report is being used widely as a resource document in government departments across Australia.

The success of the report encouraged the Steering Committee to widen the scope of its next report due in February 1997. Work was commenced to expand the range of indicators and the coverage of government services, and on additional approaches for measuring performance to improve the consistency and comparability of the data collected.

The Steering Committee commenced work on reporting reforms in service delivery. A number of service-specific case studies will be undertaken. The aim is to report on successful reforms and identify principles for effective and efficient service provision.

GENERAL REPORTING AND RESEARCH

Objectives

- To provide objective reports on the performance of Australian industry and developments in assistance and regulation (as required under the *Industry Commission Act 1989*).
- To develop frameworks of analysis and elicit information on policy issues relevant to the Commission's charter.

Resources

- Staff years — 47
- Expenditure — $5.0 million

Performance indicators

The following performance indicators are used to judge the performance of general reporting and research publications:

- influence on Commonwealth, state and territory microeconomic policy;
- contribution to public debate;
- the number and scope of publications; and
- timeliness.

Performance

In addition to providing research for its public inquiries, the Commission undertook and reported on a number of projects during 1995–96. The Commission's Annual Report discusses developments in industry performance, assistance, regulation and industry policy. The Commission also published a number of information papers:

- *Implementing the National Competition Policy: Access and Price Regulation;*
- *The Impact of APEC's Free Trade Commitment;*
- *Merger Regulation: A Review of the Draft Merger Guidelines Administered by the Australian Competition and Consumer Commission;*
- *Regulation and its Review 1994–95;*
- *Extending Patent Life: Is it in Australia's Economic Interests?;* and
- *Land Degradation and the Australian Agricultural Industry.*

In November 1995, the Commission held a conference on *Equity, Efficiency and Welfare*. The aim of the conference was to increase the Commission's understanding of the theoretical and practical relationships between these concepts. The conference brought together a range of academics, researchers and practitioners in the welfare area and officials from central policy agencies. The proceedings of the conference were published in 1996.

The major part of the Commission's research effort was directed towards Commission inquiries, performance monitoring and independent studies for other agencies. The output of this work is covered elsewhere.

Feedback on the quality and relevance of the Commission's general reporting work was generally favourable. For example, many of the suggestions in the *Merger Regulation* paper were subsequently adopted in the new Merger Guidelines published by the Australian Competition and Consumer Commission. Most of the Commission's publications received extensive press coverage, contributing to the public debate of policy issues. External deadlines for submitting material were met.

REVIEW OF BUSINESS REGULATION

Regulation review matters are dealt with principally by the Office of Regulation Review (ORR) which is part of the Industry Commission. The activities of the ORR are covered in a separate publication, *Regulation and its Review: 1995–96* (1996).

Objectives

- To improve the quality of regulations developed and administered by Commonwealth departments and regulatory agencies.
- To support the Council on Business Regulation.

Resources

- Staff years — 13
- Expenditure — $1.4 million

Performance indicators

A range of qualitative indicators is used to gauge performance:

- the influence and role of the ORR in developing national regulatory review strategies;

- the extent to which Commonwealth departments and regulatory agencies are guided and assisted by the ORR;
- the number and scope of published reports and presentations on regulatory issues, and the impact they have on policy or on the regulatory environment; and
- the influence of the ORR on international efforts to improve the quality of regulation making.

Performance

The ORR influenced national regulatory review strategies in 1995–96 by assisting in the development of the Commonwealth's legislative review program, in helping shape the Legislative Instruments Bill (Cwlth) and in contributing to the work of the Small Business Deregulation Task Force.

The most significant influence of the ORR was in respect of a four-year program of review of Commonwealth legislation to meet the requirements of national competition policy. The ORR's role was to provide secretariat services and advice to the Council on Business Regulation which, in turn, recommended to Ministers legislation warranting review. The program, announced by the Government in June 1996, differed little from that proposed by the Council.

The ORR worked with the Attorney-General's Department and the Treasury in developing the Legislative Instruments Bill. This was to meet the Government's intention of putting in place systematic and effective controls over subordinate or delegated regulations.

The ORR contributed to the work of the Small Business Deregulation Task Force by seconding a senior staff member to the secretariat, providing briefings on regulatory issues, suggesting initiatives and by responding to proposals and papers prepared by the secretariat.

On the second of the performance indicators, the ORR continued to develop a customer-oriented approach to regulatory agencies. For example:

- it readily agreed to requests from the National Food Authority to brief state, territory and local government officials responsible for health and food premises inspections about the findings of an ORR report *Enforcing Australia's Food Laws* (ORR 1995a); and

- ORR staff assisted the Environmental Protection Agency to develop a regulation impact statement on the National Pollutant Inventory.

Further, the ORR prepared and widely distributed *A Guide to Regulation Impact Statements* (1995b) for use by regulatory agencies. An international comparison of similar guides prepared by an independent consultant for the OECD describes this publication as outstanding for its clarity and coherence (OECD 1996).

The ORR made major contributions to a number of Industry Commission publications and published in its own right a report titled *An Economic Analysis of Copyright Reform* (1995c). Press coverage of the reports suggests they were influential on the relevant policy debates.

The ORR continued to liaise with state and territory regulation review bodies — it hosted a meeting in April where officials exchanged best practice experiences. Various public presentations were made. A paper was prepared and presented at the OECD, describing Australia's regulatory reform initiatives.

BUREAU OF INDUSTRY ECONOMICS

Objectives

- To be an advocate for sound public policy on i ndustry matters.
- To help generate a more informed climate for the development of policy by publishing its research, and promoting analysis and discussion of factors affecting manufacturing and service enterprises.

Resources

- Staff years — 78
- Expenditure — $7.3 million

Performance indicators

A range of performance indicators are used:

- the number and scope of published re ports and other activities;

- the quality and relevance of the work and its influence on decision makers; and
- the timeliness of the work.

Performance

During the past year, the BIE completed 26 research reports. Other publications included nine working papers and several conference papers authored by individual members of staff. The main areas of work covered benchmarking of government infrastructure and services, analysis of microeconomic reforms, environmental issues, innovation and the growth of firms, development and internationalisation of industry and the design and evaluation of government and industry development programs.

In addition, outputs from the Bureau's function of monitoring and assessing the performance of the Australian economy included:

- regular monthly and quarterly briefings to Ministers on the release of economic statistics;
- parliamentary briefings;
- various presentations on Australia's economic performance; and
- two issues of *Australian Industry Trends* and several issues of *Industry Briefs* covering the manufacturing, services and small business sectors.

Another major activity was as a sponsor and host of the annual *Conference of Industry Economics* and as organiser of a *Policy Forum on Infrastructure Pricing*. These conferences attracted up to 90 participants, featured prominent speakers and produced a range of contributed papers.

The Bureau sought formal feedback from its clients during the financial year, including on the design and development of its research program. Such feedback continued to be favourable. Most of the Bureau's work received significant coverage in the media.

Various organisations (in addition to DIST) drew on BIE reports for their own work or commented on it in their publications. These bodies included the Industry Commission, EPAC, the Business Council of Australia, state treasuries and government business enterprises. The Industry Commission, for example, drew on the results of BIE research in its inquiries into *The Pharmaceutical Industry*, the *Implications for*

Australia of Firms Locating Offshore and *State, Territory and Local Government Assistance to Industry*.

A further indication of the value of the Bureau's work is the extent of external sponsorship received from government agencies and the private sector. Some 15 per cent of the cost of running the BIE came from sponsorship of specific projects. During 1995–96, sponsors included the Industry Commission, the Textiles, Clothing and Footwear Development Authority, the Department of Environment, Sport and Territories, various divisions of DIST and a number of firms from the private sector.

The Bureau mostly met deadlines for its core and sponsored research projects. Internal targets for other work were somewhat flexible to accommodate deadlines for key projects.

PRODUCTIVITY COMMISSION–SPECIFIC PROJECTS

The first task of the Productivity Commission was to carry out a stocktake for the Government on the progress on microeconomic reform, and to provide proposals for labour market benchmarking.

Resources

- Staff years — 2
- Expenditure — $0.2 million

Performance Indicators

Productivity Commission–specific reports aim to provide well informed and timely reports, which fully address the terms of reference.

Performance

The stocktake of progress in microeconomic reform was conducted as a joint exercise with the BIE and EPAC. In line with the Government's intentions, the stocktake was wide-ranging, covering virtually all sectors of the economy. A detailed reform agenda of some 150 items was identified for immediate action or further review. The Treasurer has indicated that the report will require 'careful and detailed consideration by the Government' (Costello 1996c). The three month project was completed on time.

The labour market benchmarking study also was a joint exercise of the three organisations. It addressed a request from the Treasurer to provide advice on a work program to identify restrictive work practices and significant labour market arrangements which add to the costs of doing business. This scoping study outlined areas where additional information is needed, and projects which could meet those information needs. The recommended work program included projects on workplace terms and conditions, case studies on work practices, and vocational education and training.

The study will be an input to the establishment of an initial work program for the Productivity Commission, and will be drawn upon also from time to time by the Treasurer in the ongoing development of the Commission's work program. The three-month study was completed on time.

CORPORATE SERVICES

Objectives

- To manage and develop the Commission's corporate resources.
- To provide effective and efficient support services in p ursuit of the Commission's core activities.

Resources

- Staff years — 43
- Expenditure — $3.1 million[5]

Performance indicators

Performance indicators include:

- contribution to the core functions of the Commission;
- quality of services and client satisfaction; and
- cost effectiveness of service provision.

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5 This amount also has been included in the overhead allocation to other activities.

Performance

Corporate Services Branch continued to support the core activities of the Commission through the provision of a range of services relating to human resource management, finance and office services, information technology, library and external communications. There were no significant changes to the range of services provided over the year.

Forming the Productivity Commission on an administrative basis resulted in many services being extended to staff of the former BIE and EPAC. These agencies had been serviced previously by the former DIST (in the case of the BIE) and the Department of Prime Minister and Cabinet (in the case of EPAC).

An assessment of service quality and client satisfaction relies largely on subjective judgements based on a range of feedback mechanisms (for example, client groups, surveys) and anecdotal evidence. Such feedback ranged from individual instances of poor to high quality service. Little specific feedback is provided on the great bulk of services which are routinely provided.

A more formal and objective approach to determining service quality was implemented during the year in respect of library services provided by the Commission to the National Competition Council and its secretariat. The contract includes a range of service quality indicators, all of which have been met or bettered over the initial six month period of the contract.

Greater effort was devoted during 1995–96 to staff training and development, information technology and expenditure monitoring. In respect of external communications, various readership surveys were undertaken to better inform decisions about maintaining or changing a number of publications.

Improving the efficiency of corporate services is an ongoing process. The completion of an information technology strategic planning project showed that the cost of providing information technology services within the Commission compares favourably not only with the average cost of providing such services within the Commonwealth, but also in the private sector. On the other hand, steps were taken during the year to improve the preparation process for end-of-year financial statements following a benchmarking exercise by the ANAO.

Some elements of the recommendations contained in the Management Advisory Board – Management Improvement Advisory Committee report on Achieving Cost Effective Personnel Services were implemented during the year and, for example, have clearly improved recruitment services.

The benchmarking of other corporate service activities was hampered by the more pressing demands of forming the Productivity Commission. Benchmarking will be reinstated when staffing and processes stabilise.

The Commission is conscious that significant improvements in efficiency and user satisfaction could be achieved by modernising its human resources and financial management information systems. Such steps have been delayed pending an announcement by the Office of Government Information Technology (OGIT) on preferred systems, consistent with its desired approach of reducing the number of systems used within the Commonwealth Government. OGIT expects to announce the outcome of its evaluations in October 1996.

FORMING THE PRODUCTIVITY COMMISSION

A key development during the year was the Government's announcement on 8 March 1996 of the formation of the Productivity Commission. The new Commission is being formed by merging the functions of the Industry Commission, BIE and EPAC.

Formal establishment of the Productivity Commission will require the passage of appropriate legislation. In the interim, the Treasurer requested the Industry Commission's Chairman, Mr Bill Scales, to form the Productivity Commission on an administrative basis by 30 June 1996.

This task was undertaken by establishing a planning group comprising representatives from each merging agency. The group's role was to make recommendations to Mr Scales on key aspects of the Productivity Commission, as well as on an implementation process. An extensive program of consultation with staff and the Commonwealth Public Sector Union was integral to the planning and implementation process.

Outcomes of the planning process were:

- the main functions of the interim organisation should encompass five areas:

  - major projects (mainly public inquiries commissioned by government);
  - research projects (self-initiated and covering a range of contemporary policy issues);
  - performance monitoring (in response to COAG and including government trading enterprises and services provision);
  - benchmarking (both domestic and int ernational, including economic infrastructure and government services); and
  - review of business regulation;
- the structure of the organisation should reflect these main functions together with a corporate services capability;
- the need to operate within a budget declining from just under $31 million in 1995–96 to around $19 million in 1998–99;
- a reduction in staff numbers from just over 300 in 1995–96 (the combined total of the three merging agencies) to around 215 by 1998–99;
- a continuation of a two-city structure with headquarters in Melbourne. The Melbourne and Canberra offices are to account for about 55 and 45 per cent, respectively, of the organisation's overall staffing; and
- a merit selection process to determine the staffing of the new organisation.

To facilitate the staff communication and implementation process, an amalgamation task force was established, again with representation from each merging agency. A major focus for the task force was to promote, to the maximum extent possible, a smooth transition to the new organisation.

By 30 June 1996, the Treasurer's directive that the Productivity Commission be established on an administrative basis was largely achieved.

Ongoing activities include the management of staff into the new structure, the redeployment of excess staff and the consolidation of office accommodation in Canberra.

FINANCIAL PERFORMANCE

The audited financial statements for the Commission are contained in appendix K. The statements have been prepared on an accrual accounting basis.

The statements cover the operations of the Commission for the full financial year, and the former BIE for the period 11 March to 30 June 1996. The amalgamation of the two organisations has required the Commission to make provision in its statements for the leave liabilities of former BIE staff as well as for a significant number of voluntary retirement packages. Factors such as these account for the large excess of expenses over revenue at the end of the reporting period. Funds have been set aside in the 1996–97 budget to cover such liabilities.

APPENDIX A

Household price effects of GBE reform

This appendix examines direct and indirect expenditure by households on electricity and water, sewerage and drainage services. Indirect expenditure arises because firms include the expenditure on these services in the prices of the goods and services they sell to households. Direct expenditure by households on these services exceeds their indirect expenditure, but the difference decreases as the level of income rises. Price reforms in electricity and water, sewerage and drainage that reduce cross-subsidies from firms to households cut the cost of producing the other goods and services that households buy, offsetting at least in part any direct price increases that households experience. Average national price changes from 1990–91 to 1994–95 are used to illustrate these effects. For electricity, the overall effect is a reduction in total household expenditure. For water, sewerage and drainage, it is an increase. There is much variation across households, however.

Many studies assess the impacts on households of reform in government business enterprises (GBEs) by focussing only on the change in the prices of the GBE services for households. Often neglected are the effects of changes in GBE prices on the costs of the other goods and services purchased by households. The Industry Commission undertook some modelling to illustrate these effects (see box A.1 for a brief description of the method). Full details are provided in a separate publication (IC 1996h). The results for electricity and water, sewerage and drainage (WSD) are summarised in this appendix.

The results are based on changes in national average prices from 1990–91 to 1994–95. Actual price changes from 1990–91 to 1994–95 vary across states and cities. Tariff structures for electricity and WSD also differ across states. A single average price was used in the calculations. Indeed, one feature of electricity and WSD price reform is the development of pricing schemes that promote efficiency and conservation by charging consumers based on their use of, access to, and cost of service. Therefore, the estimated changes in household expenditure should be understood as Australia-wide averages which point out the sources of the indirect effects of reform on households and provide a feel for their magnitude compared to average direct effects. In addition, price changes provide incentives to producers and consumers to adjust production and consumption. These adjustments change household incomes. These and other changes, such as productivity improvements, are investigated in appendix B.

HOUSEHOLD ELECTRICITY AND WSD PURCHASES

This section discusses how direct and indirect purchases of electricity and WSD vary across commodities and households. In particular, it relates direct and indirect purchases of electricity and WSD to household income.

INDIRECT PURCHASES OF ELECTRICITY AND WSD BY COMMODITY

The share of electricity and WSD in the cost of a good or service includes both its direct use in the production of the good or service and its use in the production of other inputs which in turn are used to produce the good or service.[6]

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[6] See IC (1996h) for a detailed explanation.

Box A.1: Method for computing changes in household expenditure

The production and household expenditure databases used to calculate changes in household expenditure are for 1989–90 and 1988–89, respectively. As such they are a useful starting point to illustrate the effects on household expenditure of price changes since 1990. Changes in household expenditure are computed in three steps:

Step one: Price changes in electricity and WSD services to households and business are defined, here based on average national price changes from 1990–91 to 1994–95.

Step two: Changes in the prices of other goods and services are calculated. This uses cost of production shares implied by the production database and the price changes calculated in step one, assuming that the quantity of inputs and outputs of every industry and the returns to labour and capital in every industry except the GBE are fixed.

Step three: The percentage change in household expenditure, as identified in the household expenditure database, is calculated, assuming the quantities purchased by the households are fixed, by multiplying the respective price change of each good and service, calculated in step two for other goods and services, by its respective share in household expenditure and then summing.

The assumption of fixed quantities, though restrictive, simplifies calculations and is common in studies of the direct effects on households of GBE price reform. Here, it is a useful starting point to illustrate the relative magnitudes of direct and indirect effects inherent in price changes and, in particular, to highlight how indirect effects can offset direct effects.

The production database is a modified version of the ABS 1989–90 input–output table (Kenderes and Strzelecki 1995). The household expenditure database is the 1988–89 ABS (1989) Household Expenditure Survey (HES). It contains information about 7225 households in Australia.

Share sizes are small because the electricity and WSD sectors are small compared to the economy, but there is considerable variation across commodities and services (table A.1). For example, electricity's share in personal care items (1.25 per cent) is more than three times its share in tobacco (0.40 per cent). The low shares of electricity and WSD in tobacco reflect, in part, the high level of tax on tobacco.

Table A.1: Shares of electricity and WSD in the cost of other goods and services and the share of goods and services in household expenditure (percent)

Commodity	*Share in the cost of other goods and services*		*Commodity share in household expenditure*
	Electricity	*WSD*	
Current housing costs excluding water and sewerage rates [a]	0.88	1.70	12.19
Water and sewerage rates	3.71	na	0.87
Fuel and power excluding electricity	0.72	0.32	0.52
Electricity	na	0.36	1.82
Food and non-alcoholic beverages	1.25	0.51	17.40
Alcoholic beverages	1.00	0.34	3.08
Tobacco	0.40	0.13	1.25
Clothing and footwear	0.86	0.26	5.57
Household furnishings and equipment	0.91	0.24	6.80
Household services and operation	1.15	0.29	4.39
Medical care and health expenses	1.08	0.54	3.96
Transport	0.72	0.22	14.69
Recreation	1.00	0.38	11.42
Personal care	1.25	0.30	1.80
Miscellaneous goods and services	0.87	0.36	7.09
Other capital housing costs	0.95	0.21	4.08
Superannuation and life insurance	0.82	0.63	3.06

na not applicable.

a Payments on mortgage principal are excluded as they reflect a change in debt–equity, not consumption.

Source: Commission estimates

High shares do not necessarily correspond with high use because different user groups may pay different prices. For example, WSD charges were often assessed in 1989–90 according to property values rather than the level of WSD service provided. Melbourne Water estimated that charges assessed according to property values before WSD reform led a residential user in a house to pay an effective price of $0.66 per kilolitre of water and an office tower in the Melbourne central business district to pay an effective price of $10.16 per kilolitre of water (Tasman Economic Research 1992). Thus the high cost share of WSD in superannuation and life insurance, for example, may reflect these considerations.

VARIATION IN DIRECT AND INDIRECT EXPENDITURE ACROSS INCOME GROUPS

Many household characteristics can influence household expenditure on electricity and WSD. One important characteristic determining household expenditure patterns is income. Table A.2 presents a summary of the shares of direct and indirect expenditure on electricity and WSD in total expenditure according to income groups. [7] Before forming income groups, household incomes are adjusted by household size and composition. [8] This adjustment is common in income distribution studies and recognises that large households need more income to achieve the same general standard of living than do small households.

There are three features of the shares worth noting. First, the shares are small for each category. Second, direct shares are greater than the indirect expenditure shares, but their difference typically (though not uniformly) decreases as income increases. Third, direct and indirect expenditure shares tend to decrease with increases in income, except for indirect expenditure on electricity, which remains relatively stable.

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7 Throughout this appendix income groups are income deciles. Households were ranked by their incomes (adjusted for household size and composition). The lowest income group (decile) consists of households in the bottom 10 per cent of the ranking, the second income group is the next 10 per cent and so on.

8 See Agrawal (1987) for a description of the weight scheme applie d to household size.

Table A.2: Direct and indirect shares of electricity and WSD in household expenditure by household income group (per cent)

	Electricity		*WSD*		*Total*
Income group	*Direct*	*Indirect*	*Direct*	*Indirect*	
First (lowest)	2.46	0.95	0.91	0.64	4.96
Second	2.86	0.97	1.30	0.60	5.73
Third	2.38	0.97	1.07	0.56	4.97
Fourth	2.23	0.97	0.99	0.53	4.72
Fifth	1.97	0.97	1.01	0.47	4.42
Sixth	1.82	0.96	0.84	0.50	4.12
Seventh	1.66	0.96	0.87	0.48	3.97
Eighth	1.54	0.96	0.73	0.50	3.73
Ninth	1.47	0.97	0.71	0.51	3.66
Tenth (highest)	1.30	0.97	0.75	0.50	3.51
Average	**1.82**	**0.97**	**0.87**	**0.51**	**4.17**

Source: Commission estimates

COST EFFECTS OF GBE PRICE REFORM

This section considers the changes in household expenditure that arise from the observed changes in average national electricity and WSD prices from 1990–91 to 1994–95. 1990–91 is taken as a starting point because in July 1991 the Special Premiers' Conference agreed to examine a proposal to start a national electricity grid (IC 1995h). The effects of price changes in each sector are considered individually and collectively. In so doing, the estimates illustrate how, from 1990–91 to 1994–95, the indirect effects on households of price reductions to business could offset direct effects of price increases to households and how the degree of offset varies across households.

Price reform — changes in residential and business prices — is a consequence of a number of aspects of GBE reform, including the elimination of cross-subsidies from business to households, the reduction of GBE costs through more productive use of labour and capital, and pricing schemes that recover the full costs of capital (IC 1995h). That said, year-to-year movements in prices will also reflect changes in the cost of primary inputs, for example, the cost of coal in electricity generation, and changes in the costs of other inputs. Consequently, observed price changes cannot be attributed solely to GBE reform. In addition, caution must be exercised in applying the estimated average effects to any individual household or business. Nevertheless, the results should give approximate indications of the relative and absolute sizes of direct and indirect cost effects of electricity and WSD price reform.

ELECTRICITY PRICE CHANGES

Electricity price changes from 1990–91 to 1994–95 vary across states. All states except Victoria had relatively stable residential prices over the four-year period (table A.3).[9] In contrast, New South Wales, South Australia and Western Australia had significant reductions in the prices charged to business. Consequently, the average residential price increased by 3 per cent and average business price fell by 13 per cent over the four-year period. On average, cross-subsidies have been reduced by keeping residential prices relatively stable in real terms and lowering prices to business. Victoria, in contrast, chose to pass on cost savings initially to taxpayers by increasing the return to existing capital with consumers to benefit later as competition in electricity generation is introduced (IC 1995h).

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9 Price changes for the previous four years are given as points of comparison.

Table A.3: Change in real electricity prices from 1986–87 to 1990–91 and from 1990–91 to 1994–95[a] (per cent)

	Residential		*Business*	
State	*1986–87 to 1990–91*	*1990–91 to 1994–95*	*1986–87 to 1990–91*	*1990–91 to 1994–95*
NSW	-4	-1	-5	-24
Vic	-6	18	-18	-8
Qld	-22	-4	-18	1
SA	-6	1	-14	-20
WA	-6	-4	-11	-17
Tas	1	4	-4	3
NT	-19	-1	-22	-1
ACT	-1	0	2	-5
Total	**-8**	**3**	**-12**	**-13**

a Calculated from residential, commercial and industrial prices using consumption quantities for 1990–91.

Source: ESAA (1992, 1996)

Applying the estimated price changes to household expenditure patterns, the effect — taking into account both direct and indirect effects — is a reduction in household expenditure of 0.14 per cent or $50 a year per household (table A.4). The reduction in expenditure tends to increase in both percentage and dollar terms as income increases.

Table A.4: Change in total household expenditure from changes in electricity prices by income group[a,b]

Income group	*Per cent*	*1995–96 $ a year*
First (lowest)	-0.11	-29
Second	-0.11	-18
Third	-0.12	-29
Fourth	-0.13	-37
Fifth	-0.13	-50
Sixth	-0.14	-56
Seventh	-0.14	-63
Eighth	-0.14	-68
Ninth	-0.15	-71
Tenth (highest)	-0.15	-84
Average	**-0.14**	**-50**

a Calculated assuming that the underlying quantities purchased do not change.

b Dollar values have been inflated from the 1988–89 values in the HES to aid interpretation. In so doing, two points are worth noting. First, changes in the CPI reflect, in part, the reform that has been introduced to date. Second, the CPI is based on the expenditure pattern of a representative household and this may not be representative for each income group.

Source: Commission estimates

Household consumption patterns vary within income groups. Although expenditure in each income group declines on average after the electricity price changes, it increases for 5 per cent of households by an average of $9 a year per household (table A.5). This compares with an average reduction of $50 a year per household for all households (table A.4). In the lowest income group, household expenditure increases for 11 per cent of households. Most households in the lower three income groups whose household expenditure increases, have government payments as their principal source of income.[10]

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[10] These include age, invalid or wife’s pensions; sole parent or widow’s pensions; unemployment benefits; sickness benefits; veterans affairs pensions; and family, student, child endowment or other government benefits.

Table A.5: Share of households by income group whose expenditure increases after changes in electricity prices[a,b]

		Households whose expenditure increases		
Income group	*Share whose expenditure increases (per cent)*	*Average change in cost (per cent)*	*Average change in cost (1995–96 $ a year)*	*Proportion whose principal source of income is government payments (per cent)*
First (lowest)	11	0.09	11	74
Second	13	0.07	6	93
Third	6	0.10	11	86
Fourth	6	0.05	7	38
Fifth	3	0.05	7	10
Sixth	2	0.03	5	0
Seventh	3	0.10	15	1
Eighth	3	0.03	7	0
Ninth	1	0.06	10	0
Tenth (highest)	2	0.08	14	0
Average	**5**	**0.07**	**9**	**57**

a Calculated assuming that the underlying quantities purchased do not change.

b Dollar values have been inflated from the 1988–89 values in the HES to aid interpretation. In so doing, two points are worth noting. First, changes in the CPI reflect, in part, the reforms that have been introduced. Second, the CPI is based on the expenditure pattern of a representative household and this may not be representative for each income group.

Source: Commission estimates

Often a household's receipt of government payments entitles it to electricity and WSD price concessions. No attempt was made to estimate changes in electricity and WSD concessions to these groups that may have occurred from 1990–91 to 1994–95. Any increased concession that offset an average price increase would lessen the impact of residential price increases on concession groups. The estimated increase in expenditure would overstate what actually occurred. By the same token, increased concessions would also mean that households that did not receive these concessions would pay prices greater than the estimated average, although the difference is likely to be small because there are more households that do not receive concessions than households that do.

WSD PRICE CHANGES

Data were not available to assess changes in WSD prices throughout Australia. Instead data from water authorities in Sydney, Melbourne and South Australia were used to calculate the price changes. Price changes have been relatively modest for these water authorities except for those to commercial and industrial users by the Sydney Water Corporation and those to residential and other users by the Melbourne Water Industry (table A.6).

Table A.6: Change in real WSD prices, 1990–91 to 1994–95 (per cent)

Municipality	*Residential*	*Commercial*	*Industrial*	*Other*
Sydney Water Corporation	7	-31	-18	1
Melbourne Water Industry [a]	23	2	8	21
Engineering and Water Supply Dept (Metropolitan) [b]	2	-4	5	-2
Engineering and Water Supply Dept (Country) [b]	5	10	5	-4
Average [c]	**12**	**-15**	**-6**	**9**

a The Melbourne Water Industry is a statistical aggregation of the three retail water businesses and the wholesale water business created when Melbourne Water was disaggregated on 1 January 1995.

b The Engineering and Water Supply Department was corporatised to form the South Australian Water Corporation from 1 July 1995.

c Calculated using revenue weights from 1990–91.

Source: SCGTE (1996c)

The direct effect on households of WSD price changes is an increase in expenditure. The indirect effect on households is a reduction in the cost of other goods and services because of reduced WSD prices to commercial and industrial users. The net effect is an increase in the average household expenditure for each income group (table A.7). In percentage terms, the increase in expenditure tends to decrease with income. The dollar value of the cost changes varies with income with a slight and uneven upward trend.

Table A.7: Change in total household expenditure due to WSD price changes by income groups[a,b]

Income group	*Per cent*	*1995–96 $ a year*
First (lowest)	0.11	29
Second	0.15	26
Third	0.11	27
Fourth	0.10	30
Fifth	0.09	35
Sixth	0.08	32
Seventh	0.08	34
Eighth	0.07	31
Ninth	0.06	30
Tenth (highest)	0.07	36
Average	**0.08**	**31**

a Calculated assuming that the underlying quantities purchased do not change.

b Dollar values have been inflated from the 1988–89 values in the HES to aid interpretation. In so doing two points are worth noting. First, changes in the CPI reflect, in part, the reform that has been introduced to date. Second, the CPI is based on the expenditure pattern of a representative household and this may not be representative for each income group.

Source: Commission estimates

Although households, on average, may spend more after WSD price changes, 13 per cent of households actually spend less (table A.8). For the remaining 87 per cent, the average increase in expenditure per household is $37 a year compared to the average $31 a year for all households (table A.7 and table A.8). In the lowest income group, household expenditure decreases for 16 per cent of the households with the increase for the remaining 84 per cent being $36 a year per household.

Most households in the lower three income groups whose expenditure increases also receive government payments as a principal source of income. As discussed above, any increase in concession tied to the receipt of a government benefit would offset the estimated increase in expenditure.

Table A.8: Share of households by income group whose expenditure increases after changes in WSD prices[a,b]

		Households whose expenditure increases		
Income group	*Share whose expenditure increases (per cent)*	*Average change in cost (per cent)*	*Average change in cost (1995–96 $ a year)*	*Proportion whose principal source of income is government payments (per cent)*
First (lowest)	84	0.15	36	63
Second	90	0.18	30	81
Third	87	0.15	33	62
Fourth	87	0.13	36	31
Fifth	90	0.11	40	9
Sixth	90	0.09	37	5
Seventh	87	0.10	42	2
Eighth	84	0.09	40	0
Ninth	86	0.08	37	1
Tenth (highest)	88	0.08	44	0
Average	**87**	**0.10**	**37**	**25**

a Calculated assuming that the underlying quantities purchased do not change.

b Dollar values have been inflated from the 1988–89 values in the HES to aid interpretation. In so doing, two points are worth noting. First, changes in the CPI reflect, in part, the reform that has been introduced to date. Second, the CPI is based on the expenditure pattern of a representative household and this may not be representative for each income group.

Source: Commission estimates

BROADENING REFORM

In this section, electricity and WSD price changes are considered jointly to illustrate how they interact.

For most income groups, the average savings to households from electricity are larger than the average increases from WSD price changes (table A.9). Therefore, the average expenditure decreases for households in these income groups. For the second income group, the average savings from electricity price changes are less than the average cost increases from WSD price changes. Therefore, average household expenditure increases for households in this income group.

Table A.9: Combined change in expenditure due to electricity and WSD price changes by income group[a,b,c] (per cent)

Income group	*Electricity*	*WSD*	*Total*
First (lowest)	-0.11	0.11	0.00
Second	-0.11	0.15	0.05
Third	-0.12	0.11	-0.01
Fourth	-0.13	0.10	-0.03
Fifth	-0.13	0.09	-0.04
Sixth	-0.14	0.08	-0.06
Seventh	-0.14	0.08	-0.06
Eighth	-0.14	0.07	-0.08
Ninth	-0.15	0.06	-0.09
Tenth (highest)	-0.15	0.07	-0.09
Average	**-0.14**	**0.08**	**-0.05**

a Calculated assuming that the underlying quantities purchased do not change.
b Dollar values have been inflated from the 1988–89 values in the HES to aid interpretation. In so doing, two points are worth noting. First, changes in the CPI reflect, in part, the reform that has been introduced to date. Second, the CPI is based on the expenditure pattern of a representative household and may not be representative of the expenditure pattern of each income group.
c Totals may not add due to rounding.
Source: Commission estimates

The average reduction in expenditure for most income groups masks the variation of outcomes across income groups. For example, household expenditure increases for 39 per cent of all households (table A.10). Most households that experience reductions in expenditure are in the upper seven income groups, although expenditure does decrease for 47 per cent of those in the lowest income group.

Table A.10: Share of households by income group whose expenditure increases after combining electricity and WSD price changes[a,b]

Income group	*Share whose expenditure increases (per cent)*	*Households whose expenditure increases*		
		Average change in cost (per cent)	*Average change in cost (1995–96 $ a year)*	*Proportion whose principal source of income is government payments (per cent)*
First (lowest)	53	0.15	28	65
Second	66	0.19	25	85
Third	55	0.16	26	72
Fourth	45	0.14	27	35
Fifth	39	0.11	28	14
Sixth	32	0.10	25	9
Seventh	30	0.12	33	2
Eighth	30	0.09	27	1
Ninth	21	0.10	29	2
Tenth (highest)	24	0.11	35	0
Average	**39**	**0.13**	**28**	**39**

a Calculated assuming that the underlying quantities purchased do not change.

b Dollar values have been inflated from the 1988–89 values in the HES to aid interpretation. In so doing, two points are worth noting. First, changes in the CPI reflect, in part, the reform that has been introduced to date. Second, the CPI is based on the expenditure pattern of a representative household and may not be representative of the expenditure pattern of each income group.

Source: Commission estimates

As before, most households in the lower three income groups whose expenditure increases after combined price changes also receive some government payment as their principal source of income. Any increases in concessions in electricity and WSD charges to these groups would reduce the estimated increase in expenditure. In addition, as only two sectors are considered here, it is quite possible that the households whose expenditure increases after electricity and WSD price changes would gain in an even broader package of GBE price changes.

APPENDIX B

Reform and income distribution: an economy-wide approach

The combined effects of electricity and telecommunications reform, increasing the competitive tendering and contracting of government services and reductions in tariffs on the Australian economy and the distribution of income are estimated using an economy-wide framework.

The analysis indicates that these reforms increase the incomes of low and high-income households and that these income gains are fairly evenly distributed. It also demonstrates that the effects of reforms can be offsetting. It was estimated that although one particular reform reduces employment in a particular industry, other reforms generate offsetting employment gains within that industry.

The Commission is developing several approaches to investigate the distributional effects of microeconomic reform. The aim in this appendix is to report on the development of a modelling framework that can be used to estimate the effects of specific reforms on the distribution of household incomes. A more detailed exposition of this framework and the results can be found in *Reform and the Distribution of Income — an Economy-wide Approach* (IC 1996h).

The effects of reforms on household incomes are investigated in an economy-wide framework, using detailed information about the origin of household incomes. The main features of the approach are summarised in box B.1.

Box B.1: Framework of analysis

The framework used in this appendix comprises two models: the Monash model and the Monash Income Distribution (Monash–ID) model. The Monash model is used to analyse the economy-wide effects of reform. Projections for output, employment and capital use by industries reflect the structural adjustments that occur as a result of reform. Changes in incomes to labour and capital are also projected. The results from the Monash model represent the changes to the economy after firms and households have fully adjusted to the modified policy environment. The projections are conditional on macroeconomic and wage policies. In particular, aggregate employment is assumed to be fixed and real wages are assumed to adjust in response to changes in the aggregate demand for labour.

The Monash–ID model uses the changes in wage and capital income projected by the Monash model to estimate the effects of reform on household incomes. The model is particularly well suited to an analysis of the effects on incomes of changes in employment status (by occupation), wage rates, returns to the ownership of property, unincorporated income and unemployment benefits.

Source: Industry Commission (1996h) and Dixon et al. (1996)

The general approach is to simulate the effects of specific reforms on the distribution of household incomes. Directly estimating the effects of microeconomic reform by observing real world outcomes (long) after the event is not possible. As discussed in chapter 2, there are many factors at play in changing the distribution of income. The simulation approach (used extensively in analysing the distributional effects of policy change) allows the effects of specific policy reforms to be identified.

The modelling approach is complementary to the work of others who analyse the distributional effects of changes in government taxes and transfers (for example Harding 1995). The major difference in the approach used in this appendix is the use of a general equilibrium model to simulate the economy-wide effects of reform. This has two advantages. First, it provides the scope to analyse reforms, such as tariff reform, that affect households through changes in wage and capital income. Second, it allows the effects of changes in the behaviour of households and firms as a result of reform to be incorporated in the analysis.

This approach also complements the work detailed in appendix A. In appendix A, the effects of price changes (resulting from reforms to electricity and water, sewerage and drainage) on households according to their consumption patterns is analysed. The model used in this appendix focuses on the changes in the incomes of households resulting from the effects that reforms have in labour and capital markets.

An important determinant of the effects reforms have on the distribution of household income is the resulting change in the structure of the economy. In view of this, reforms that are expected to require relatively large adjustments of employment between industries are considered.

REFORMS CONSIDERED

Four reforms are analysed:

- the projected reductions in the levels of tariffs on imports of manufactured goods from 1996 to 2000;
- reforms currently underway and foreshadowed for the electricity industry;
- reform of the telecommunications industry; and
- the extension of competitive tendering and contracting (CTC) of government services.

The main features of the reforms and their direct effects on the industry (assumed for this appendix) are detailed below. Further information can be found in *Reform and the Distribution of Income — an Economy-wide Approach* (IC 1996h).[11]

Reductions in protection from foreign competition are scheduled to the year 2000 (IC 1995b). The general tariff is maintained at 5 per cent. It is anticipated the major decreases in tariff levels occur in the passenger

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[11] Specific details of these reforms and their anticipated effects on the industry can be found in various Commission reports. For a discussion of the effects of GBE reforms see *The Growth and Revenue Implications of Hilmer and Related Reforms* (IC 1995h, pp. 140–155 and 223–290), *Australian Gas Industry and Markets Study* (IC 1995c), and *The Electricity Industry in South Australia* (IC 1996b). For details of tariff reform see *Assistance to Agricultural and Manufacturing Industries* (IC 1995b), and for CTC see *Competitive Tendering and Contracting by Public Sector Agencies* (IC 1996a).

motor vehicles (PMV) industry (decrease to 15 per cent) and in the textile, clothing and footwear (TCF) industries (decrease to between 10 and 25 per cent).

Reform in the electricity industry aims to facilitate the creation of a national electricity market and increase the commercial focus of electricity distribution. It is envisaged this will reduce the costs of generation and distribution and result in the removal of the cross-subsidy of residential customers by business users. The anticipated direct effects of reform in the electricity industry are summarised in box B.2.

Box B.2: Direct effects of electricity reforms

Productivity improvements	*Fuel substitutions*
Improved capacity utilisation	Substitution away from black coal
Reduced construction costs	Substitution away from brown coal
Employment reductions	Substitution towards gas

Associated changes in price structure

Prices reduced for bulk users
Prices reduced for business users
No changes for residential customers
Reduced gas price due to interconnection

Source: IC (1995h)

Underpinning the price changes outlined in box B.2 are anticipated improvements in productivity. Best practice techniques for electricity generation indicate that capacity utilisation can be improved, resulting in a 4 per cent fall in unit capital costs. International comparisons of labour productivity indicate that output could be maintained with 50 per cent of the 1990–91 workforce. A combination of competitive pressures and a switch to smaller coal and gas-fired plants are expected to result in a 20 per cent decrease in costs of constructing electricity generation capacity.

Reform in the gas industry is also expected to affect the way in which electricity is produced. Interconnection of the state gas markets is expected to reduce the price of gas by 4 per cent and nearly double its use in the production of electricity at the expense of black coal (expected to experience a reduction of 1 per cent), and brown coal (expected to experience a reduction of 36 per cent).

The reductions in costs (as a result of the productivity improvements) and the removal of the cross-subsidy are expected to reduce prices to businesses by 29 per cent and to bulk users by 26 per cent. It is assumed that residential prices do not change.

In the telecommunications industry, government price controls and increased competitive pressures in the mobile phone, long distance and local markets are expected to reduce prices of telecommunications services by 20 per cent. It is anticipated that these price decreases come through reductions in costs as a result of productivity improvements. Productivity comparisons across providers suggest that current output levels could be maintained with a 45 per cent reduction in the workforce and a 22 per cent reduction in equipment costs.

The fourth reform is the increase of CTC of government (including government business enterprises') services (see IC 1996h for details of the increase in CTC assumed for this appendix). The increased use of CTC in the provision of services is assumed to reduce current expenditures of Australian governments and government business enterprises by 3.3 per cent. The savings are assumed to be achieved through a combination of productivity improvements and reductions in wages and conditions of employment. [12]

ANALYSIS OF RESULTS

The results presented here illustrate the impacts on industries and the economy when reforms are implemented separately and in combination. The aggregate or economy-wide results are shown in table B.1.

It is estimated that reforms in electricity, telecommunications and CTC yield significant gains in GDP. These increases mainly come from anticipated improvements in productivity.

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[12] In modelling the effects of CTC, the impacts on the telecommunications and electricity industries are omitted in order to avoid double counting when modelling the reforms specific to those sectors.

Benefits from electricity reform also come in part from removing cross-subsidies in electricity pricing. The gains from this part of the reform are obtained through resource reallocation rather than through changes in productivity. Although smaller than the gains associated with the productivity improvements in the electricity industry, the allocative gains are an integral part of the overall benefits.

The gains from tariff reform (as measured by the estimated increase in GDP) result from a more efficient allocation of resources in the economy. Tariff reform reduces the price of imports relative to that of domestically-produced goods. By allowing industries to obtain cheaper inputs, tariff reform benefits industries that use imports intensively, but can be detrimental to the industries that directly face more competition.

Table B.1: Aggregate effects of reforms (percentage changes)

	Electricity	*Telecom.*	*CTC*[a]	*Tariff*	*Total*
Real GDP	1.22	0.61	1.26	0.14	3.23
Real consumption	1.25	0.51	1.25	0.13	3.14
Export volume	0.01	2.24	1.17	0.70	4.12
Import volume	0.16	1.69	1.13	0.63	3.61
Real wages	1.29	1.08	0.51	0.28	3.16

a The estimated change in GDP from the increase in CTC is lower than that found in IC (1996a) because it excludes the impacts of CTC on the provision of electricity and telecommunication services. This avoids double-counting the impacts of CTC that are part of the electricity and telecommunications reforms. The estimated impacts are larger than those obtained in IC (1995h) as the coverage here is broader than the coverage of CTC in that report (for details, see IC 1996a, pp. 599–603).

Source: Commission estimates using the Monash model

It is estimated that real wages increase as a result of each reform. Each reform increases the aggregate demand for labour. With the assumption that aggregate employment is fixed, the increase in the demand for labour increases real wages. [13]

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[13] An alternative formulation of the model could allow for increased total employment rather than increased real wages.

SECTORAL IMPACTS

The impact of reforms on output and employment within broad industry sectors is shown in table B.2.

Table B.2: Changes in output and employment by industry (per cent)

	Electricity	*Telecom.*	*CTC*	*Tariff*	*Total*
Output					
Primary	0.62	1.71	1.58	0.43	4.34
Manufacturing	0.39	1.36	0.86	-0.14	2.47
Electricity, gas and water	1.91	1.01	1.38	0.15	4.45
Construction	0.07	2.79	1.30	0.06	4.22
Trade, transport, and comm.	0.57	1.49	1.09	0.20	3.35
Finance and business services	0.86	1.10	1.20	0.13	3.29
Public services	1.21	0.49	1.55	0.11	3.36
Rec. and personal services	1.12	0.58	1.29	0.13	3.12
All industries	**0.75**	**1.28**	**1.23**	**0.09**	**3.35**
Employment					
Primary	-0.70	1.03	0.67	0.23	1.23
Manufacturing	-0.24	1.17	0.63	-0.33	1.23
Electricity, gas and water [a]	-24.06	0.59	-2.50	-0.05	-26.02
Construction	0.06	2.72	0.93	-0.03	3.68
Trade, transport, and comm.	0.32	-1.83	0.19	0.05	-1.27
Finance and business services	0.36	0.87	0.76	-0.01	1.98
Public services	1.05	0.41	-1.37	0.08	0.17
Rec. and personal services	0.64	0.31	0.69	0.03	1.67
All industries [b]	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

a The large percentage changes in employment shown for this sector are the result of large changes in employment in the electricity sector (on a relatively small base).

b Total employment is assumed to be fixed.

Source: Commission estimates using the Monash model

Reforms in the electricity and telecommunications sectors are projected to reduce employment in these sectors. The associated productivity improvements lower the costs to user industries which increases their production and demand for electricity and telecommunications services.

Employment reductions in the public services industry as a result of increasing CTC reflect the more efficient use of labour in the provision of services. This results in effects similar to those observed in the electricity reform simulations. Reducing tariffs on imports of manufactured goods increases the competition faced by domestic producers. As a consequence, output in relatively highly assisted manufacturing industries falls. Resources are reallocated to other industries, especially primary industries, but also manufacturing industries.

Offsetting effects of reforms

The impact of different reforms on industries can be offsetting. The combination of the four reforms increases output in all sectors, but by different proportions. The combined reforms cause employment shifts to sectors with relatively large output expansion.

The results illustrate how broad-based reform can reduce the amount of adjustment of employment between industries compared to a sequential implementation of reforms. For example, tariff reform is estimated to reduce employment in the manufacturing sector by 0.2 per cent. It is also estimated that telecommunication reform will increase employment in the manufacturing sector by about 1.2 per cent. [14] It is estimated the four reforms together will increase employment in the manufacturing sector by 1.2 per cent. Implementing the reforms simultaneously avoids some of the structural adjustment of employment associated with implementing them sequentially.

REFORMS AND THE MIX OF OCCUPATIONS

Potentially, the largest contributor to changes in the income of most households is a change in employment status. As reforms change the structure of the economy, the aggregate mix of skills required changes. Demand for those occupations which are used intensively in expanding

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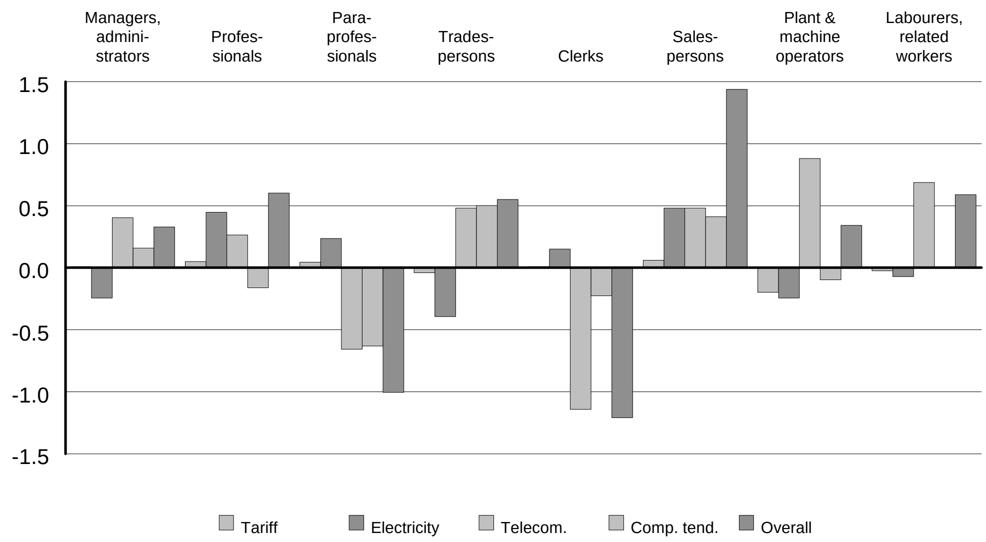
[14] It is estimated that telecommunications reform will increase output in the telecommunications industry. This in turn is expected to increase output in the manufacturing industry, as much of the equipment used in telecommunications is produced in the manufacturing sector.

industries grows, and demand for those occupations used intensively in declining industries falls.

The impact of reforms on employment within eight occupational major groups is shown in figure B.1.

Figure B.1: Change in employment due to reforms by major occupation groups (per cent)



Source: Commission estimates using the Monash and Monash–ID models

In some occupations, the new job opportunities associated with one reform are offset by a reduction of jobs associated with another reform. For example, telecommunications reform encourages the creation of jobs for plant and machine operators and labourers, while these two occupations experience job losses from electricity reform.[15] In other cases, the impact of one reform reinforces the effect of another. The combination of the four reforms results in a net creation of positions for managers, professionals, tradespersons, salespersons, plant and machine

[15] The large percentage increases in the employment of plant and machine operators, and labourers is associated with the expansion of manufacturing (see previous footnote). As a large proportion of plant and machine operators and labourers are employed in manufacturing, this in turn leads to a large increase in employment in these occupations.

operators and labourers and a net reduction of positions for para-professionals and clerks.

CHANGES IN EMPLOYMENT AND INCOME BY INCOME GROUPS

Wages and salaries are the main source of household income, accounting for nearly 70 per cent of gross income across all households (IC 1996h). Changes in aggregate real wage income in an income group occur through changes in real wage rates and in employment. [16,17] Real wage rates increase by the same proportion for all employed workers. The changes in employment within occupations discussed in the previous section translate into the changes in employment within income groups as shown in panel A of figure B.2. The changes in employment patterns projected are determined by the changes in the structure of occupations as a result of the reforms and the initial distribution of workers with these skills. Figure B.2 shows that within income groups the effects of different reforms on employment can be offsetting. For example, increased CTC reduces employment in the sixth to ninth income groups. Electricity reform offsets these effects.

Overall, implementing the four reforms results in net decreases in employment in the third and upper four income groups. The large employment gains in the lowest two income groups reflect the fact that some people who were unemployed before the reforms gained employment because they have the skills required by the new industry structure.

Changes in employment and real wage rates translate into the changes in real wage and salary incomes shown in panel B. The variations between

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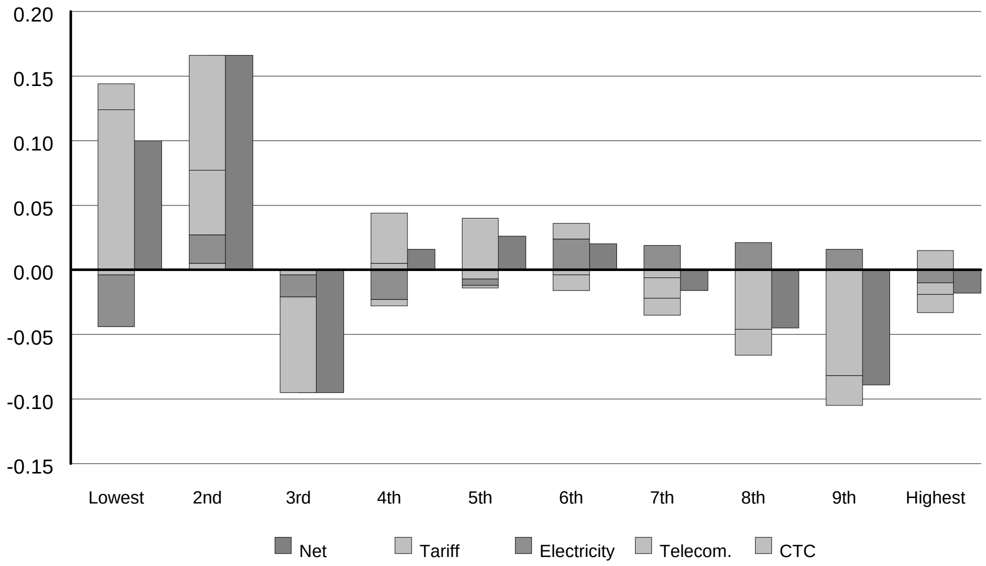
16 Aggregate employment is fixed by assumption, but employment within an income group can change as a result of adjustments in the occupational structure of employment.

17 Households were ranked by their incomes. Incomes were adjusted for household size and composition (see Agrawal 1987 for a description of the weight scheme applied to household size). The lowest income group consists of households in the bottom 10 per cent of the ranking, the second income group is the next 10 per cent and so on.

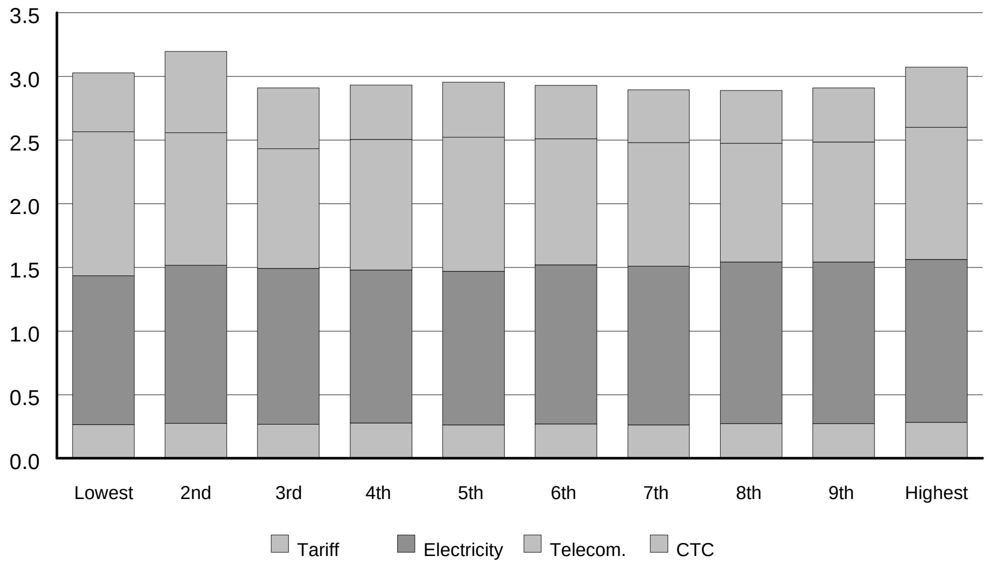
income groups mainly reflect the changes in employment shown in panel A.

Figure B.2: Changes in employment and real wage income, by income group (per cent)

Panel A: Employment



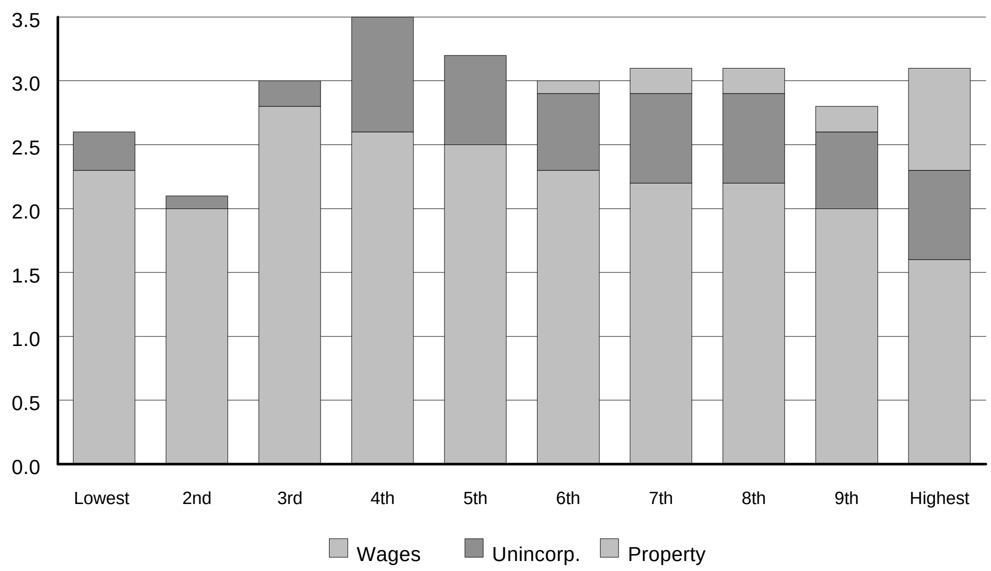
Panel B: Real wages and salaries



Source: Commission estimates using the Monash and Monash-ID models

Although changes in wage incomes are the main contributors to changes in household gross income, income from unincorporated enterprises and property income also contribute to household incomes. The contribution of changes in the components of household gross income for each income group are shown in figure B.3.

Figure B.3: Change in gross income from all reforms, by income group[a] (per cent)



a In this analysis households are not reallocated to new income groups when their incomes change as a result of the modelled reforms.

Source: Commission estimates using the Monash and Monash–ID models

Major determinants of the percentage change in gross income within an income group are the initial sources of income for that group. For example, in the second income group, wages and salaries, relative to other income groups, comprises a smaller proportion of gross income. Even though wages and salaries in that income group increase the most in percentage terms (panel B figure B.2) this does not translate to as large a percentage increase in gross income.

It is estimated that average household gross income increases within each income group. The increases are fairly similar, ranging from 2.2 per cent in the second income group to 3.5 per cent in the fourth income group.

Changes in government benefits are too small to appear in figure B.3. The only portion of these benefits directly affected by reform are unemployment benefits. The changes in unemployment benefits are small since they are related to the net changes in employment shown in panel A of figure B.2.

Most increases in unincorporated income are associated with net increases in primary, retail and personal services activities. The effects of the reforms on property income are concentrated in the higher income groups and contribute significantly to the income gains projected for those groups. This is a reflection of the initial pattern of asset ownership.

SUMMARY

The effects of four microeconomic reforms on household incomes are modelled. Although the models used here are a simplification of the real world and do not fully represent all its complexities, particularly within the labour market, the results provide useful insights into the relationships between reform and changes in household incomes and economic structure.

It is estimated that these reforms increase incomes, on average, for households in all income groups. These income gains are fairly evenly distributed, although households in the middle of the income distribution gain relatively more than households at the lower end of the distribution.[18]

The projected changes in the industry and occupational structure indicate that adjustments in the labour market are required. However, implementing reforms on several fronts reduces the amount of adjustment required compared with implementing reforms one at a time.

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[18] Further investigation is required to identify specific groups in the Australian population (within income groups) which might not gain from the reforms modelled.

APPENDIX C
Export measures

Commonwealth support provided to exporters, as measured by the more readily quantifiable programs, was around $1.3 billion in 1995–96, a decrease of 5 per cent from the previous year. Support for exports is expected to decline by a further 16 per cent in 1996–97, to $1.1 billion. This follows cuts to export programs announced in the 1996–97 Commonwealth Budget. These include the termination of the International Trade Enhancement Scheme, the Innovative Agricultural Marketing Program and the Development Import Finance Facility. Also the Export Market Development Grants Scheme has been reduced.

This appendix reports on support provided to Australian exporters under the Commonwealth's more readily quantifiable export facilitation and assistance programs. Trends in the aggregate level of support over recent years are reported in the next section. The major changes recently announced to existing programs, together with developments in other export programs, are then reported. The final section examines the sectoral distribution of the support provided.

TRENDS IN EXPORT MEASURES

The level of support for exports is estimated to have declined by $65 million to $1.3 billion in 1995–96. With the major changes recently announced by the government, Commonwealth export support is budgeted to decrease further by $220 million to $1.1 billion in 1996–97 (table C.1).

Table C.1: Commonwealth export measures, 1991–92 to 1996–97 ($ million)

	1991–92	*1992–93*	*1993–94*	*1994–95*	*1995–96*	*1996–97*
DIRECT EXPORT MEASURES						
Export finance & insurance services						
Development Import Finance Facility	98.0	120.0	120.0	130.0	126.5	19.6
EFIC Government Guarantee [a]						
– Commercial account	13.0	10.0	10.5	1.1	8.2	ne
– National Interest Business (NIB)	1.1	1.8	2.7	4.7	8.3	ne
Other assistance from NIB account	ne	ne	ne	ne	ne	ne
Export Finance Facility interest subsidy	10.9	9.4	6.0	5.1	0.1	–
Export marketing and promotional services						
Agri-food industry program	–	0.2	1.3	3.3	2.5	2.5
Asia Business Links	–	0.1	1.6	2.1	2.6	–
Asian Infrastructure initiative	–	–	–	3.0	1.3	–
Asia Pacific Fellowship program	3.9	3.2	3.3	1.0	1.0	–
Australia in Asia	–	0.2	5.7	2.8	2.9	1.4
Australian Horticultural Corporation	1.5	2.5	2.2	1.5	1.3	1.0
Australian Tourist Commission	69.5	74.5	77.2	79.3	80.3	76.8
Australian Wool Corporation: wool export promotion	32.1	25.0	20.0	–	–	–
Clean Food Export Strategy	–	..	2.0	1.2	2.4	–
Export Access program	1.0	4.2	6.1	5.4	3.1	3.4
Export Market Development Grants scheme	134.0	148.0	209.7	211.3	219.5	204.6
Export Prawn Promotion	–	–	–	–	0.2	0.8
Innovative Agricultural Marketing program	4.5	3.8	3.8	5.0	5.0	–
International Business Services (Austrade)	112.1	125.5	138.0	142.2	143.5	72.3
International Trade Enhancement scheme	20.7	20.8	32.0	39.1	–	1.1
Primary Industries Marketing Skills program	1.0	1.3	0.9	1.2	0.8	0.2
Project Marketing Loans Facility	0.6	1.7	0.7	0.2	–	–
Quarantine & export inspection services [b]	8.4	9.7	–	–	–	–
– AQIS meat export inspection subsidy	–	–	–	7.3	6.5	12.0
Rural Enterprise Network program	–	–	0.4	1.0	1.4	0.4
Wine Industry Export Development Grant	–	–	–	0.3	0.4	0.3

Table C.1 (continued)

	1991 –92	*1992 –93*	*1993 –94*	*1994 –95*	*1995 –96*	*1996 –97*
Trade facilitation schemes						
Duty drawback[c]	59.1	68.8	78.6	83.9	90.6	85.0
Information Technology						
– Development program	–	0.3	0.3	1.7	2.2	–
– Vendor Qualification scheme	1.2	1.2	1.2	–	–	–
PMV export facilitation scheme[c,d]	161.1	418.1	275.4	209.0	186.9	185.0
TEXCO (Tariff Export Concessions)[c]	37.7	26.0	21.5	43.5	49.0	45.0
TCF import credits scheme[e]	31.4	74.3	105.2	132.0	120.0	110.0
Sub-total	**802.8**	**1 150.5**	**1 126.3**	**1 118.1**	**1 066.5**	**821.5**
OTHER MEASURES AFFECTING EXPORTS						
Bounties[f]						
– Computers	34.0	34.2	35.6	35.2	29.3	25.8
– Machine tools and robots	8.0	4.3	4.2	4.1	3.2	1.8
– Photographic film	12.0	6.0	–	–	–	–
– Shipbuilding	20.2	19.9	22.2	19.4	19.0	12.8
Dairy products – market support[c]	148.4	140.5	143.5	160.8	147.0	145.0
Partnerships for Development	ne	ne	ne	ne	ne	ne
Factor f – pharmaceuticals[f]	17.4	27.4	42.2	49.9	56.1	99.8
Private Sector Linkages program	–	–	1.0	3.0	3.7	–
TCF Industry Development Strategy						
– Further Wool Processing program	–	20.1	14.9	–	–	–
Sub-total	**240.0**	**252.4**	**263.6**	**272.4**	**258.4**	**285.2**
Total	**1 042.8**	**1 402.9**	**1 389.9**	**1 390.4**	**1 324.9**	**1 106.7**

ne Not estimated.
– Program not operating or discontinued.
.. Less than $50 000.
a Commission estimates. Assistance is assumed to equal the difference in interest payable on EFIC’s borrowings at a market interest rate relative to a government riskless rate of interest.
b Represents the deficit associated with recoverable expenditures.
c Figure for 1996–97 is a Commission estimate.
d Estimates of revenue forgone are for calendar years 1991, 1992, 1993, 1994 and 1995.
e DIST financial year estimates, representing the actual value of import credits issued, which equals the duty forgone when credits are used. Data for 1995–96 and 1996–97 are Commission estimates.
f Figures for bounty programs and Factor f relate to the export component of the program, except for the photographic film bounty for which data on the export component are not available.

Source: Commonwealth Budget Papers, relevant departmental annual reports and program performance statements, TCFDA (1995) and Commission estimates

Some government programs provide assistance which is clearly linked to exports, while others may have a number of objectives which include the encouragement of exports. As shown in table C.1, direct export measures accounted for over 80 per cent of total support for exports in 1995–96. Other programs, like the pharmaceutical Factor f program and support payments for manufactured dairy products, have wider objectives but indirectly support exports. The proportion of direct export support is estimated to decline to around 75 per cent of the total in 1996–97.

The major programs accounting for changes in the value of support for exports in 1995–96 were increases for the Export Market Development Grants (EMDG) scheme and the Factor f program, and decreases for the textiles, clothing and footwear (TCF) import credits scheme, the passenger motor vehicle (PMV) export facilitation scheme, dairy market support payments, the Development Import Finance Facility and the export finance facility interest subsidy. In 1996–97, there are to be significant reductions in direct export measures, offset to some extent by higher payments for the Factor f program. Recent developments affecting these programs are discussed below.

RECENT POLICY DEVELOPMENTS

Substantial changes to export support were announced in the 1996–97 Commonwealth Budget. Programs including the Development Import Finance Facility (DIFF), International Trade Enhancement Scheme (ITES), Innovative Agricultural Marketing program, Asia Business Links, Rural Enterprise Network program, Asia Pacific Fellowship program, Primary Industries Marketing Skills program, Information Technology Development program and remaining bounties are to be abolished. The EMDG scheme has been modified and expenditure capped.

EXPORT MARKET DEVELOPMENT GRANTS SCHEME

Under the EMDG scheme, administered by Austrade, companies can obtain a grant to offset marketing costs incurred when entering or developing export markets. The maximum yearly grant available through the scheme is $200 000, with the average grant around $60 000.

In 1995–96, grants totalling $220 million were paid to almost 3700 claimants. Total exports generated by firms receiving grants under the EMDG scheme amounted to $5.7 billion over the year. This implies an average rate of export assistance of approximately 4 per cent for firms participating in the scheme. However, for marginal export sales the rate of assistance may be higher.

A number of modifications to the scheme were announced in the 1996–97 Budget. The announced changes are intended to simplify the scheme and focus it more on assisting new small to medium exporters in defraying costs associated with export promotion. Some eligibility criteria have been changed, overall expenditure on the scheme has been capped and the range of claimable expenses has been narrowed.

Under the new criteria, the scheme is restricted to companies generating less than $50 million in total sales. (Businesses with exports of more than $25 million are already ineligible.) The minimum expenditure required to become eligible for grants has been reduced from $30 000 to $20 000. Claimable expenses, however, have been limited to six main criteria: the cost of overseas representatives; market development allowances; communications; product promotion; trade fairs, literature and advertising; and marketing consultants. Expenses such as preparing tenders, obtaining patents, air fares, gifts and language training are no longer claimable. The Government has also increased the rate of payment for tourism operators to the standard 50 per cent (from 25 per cent previously).

Budgetary outlays for the scheme in 1996–97 are expected to be $205 million, a decrease of 7 per cent on 1995–96. From 1997–98, the program is to be capped at $150 million a year. Under the cap, Austrade will allow reimbursement of up to $50 000 initially. Remaining rebates will be paid on a pro rata basis depending on the funds available.

INTERNATIONAL TRADE ENHANCEMENT SCHEME

The International Trade Enhancement Scheme provided concessional loans to assist export marketing activities. Although funding of $15 million was appropriated for the 1995–96 financial year, no expenditure was incurred. While the scheme has been terminated, funding for 1996–97 is $1 million, reflecting outstanding loan commitments.

DEVELOPMENT IMPORT FINANCE FACILITY

DIFF was an Overseas Development Assistance (ODA) program which provided grants to developing countries which entered into ODA contracts with Australian firms. The DIFF grant was normally combined with concessional finance provided by the Export Finance and Insurance Corporation (EFIC). To be eligible, the equipment or service had to be wholly or mainly of Australian origin.

Export support provided through the DIFF scheme was $127 million in 1995–96. Although the scheme has been abolished, $20 million has been allocated in 1996–97 to cover outstanding commitments.

BOUNTIES

The computer, machine tools and robots, and shipbuilding bounties include support for exports of these products. Based on available data, exports receive around half of the bounty payments on computers and machine tools and robots and about 80 per cent of the bounty for shipbuilding.

In the 1996–97 Budget, the Government announced that the machine tools and robots and shipbuilding bounties would terminate on 20 August 1996, while the computer bounty would cease on 30 June 1997. Bounty payments, however, will still be made in 1996–97 and 1997–98 for outstanding contractual obligations and work-in-progress that would have been eligible for assistance in the absence of early termination.

In 1995–96, expenditure on these bounties supporting exports amounted to nearly $52 million. This is to fall to around $40 million in 1996–97.

OTHER PROGRAMS

The Innovative Agricultural Marketing Program, Asia Pacific Fellowship program, the Asian Infrastructure initiative and the Information Technology Development program together accounted for around $10 million in 1995–96, $1 million below 1994–95. These programs have been terminated, with no funding provided in 1996–97.

DEVELOPMENTS IN OTHER EXPORT PROGRAMS

PMV EXPORT FACILITATION SCHEME

As part of the PMV industry plan, the export facilitation scheme provides credits to those involved in the program, equal to the value-added in their exports. The credits allow the holder to import passenger motor vehicles and components duty-free.

For example, for $100 of value-added in its PMV exports, a firm would earn $100 of export credits and could therefore import $100 of automotive products duty-free. At the current tariff rate of 25 per cent, the firm's export credits of $100 would entitle it to a duty reduction of $25 on $100 worth of PMV imports. As it is linked to the tariff, the rate of assistance to automotive exports is declining in line with the Government's tariff reduction program for the PMV industry.

In 1995–96, duty forgone on goods imported duty-free under the PMV export facilitation scheme decreased by 11 per cent to $187 million. This is equivalent to 11 per cent of passenger motor vehicle and component exports in that year.

TCF IMPORT CREDITS SCHEME

The TCF import credits scheme forms part of a wider TCF Industry Development Strategy designed to restructure the sector. The scheme provides companies with credits based on the value-added in eligible exports of TCF products. The credits allow the holder to reduce the duty payable on eligible imports.

The rate of assistance to exports through the scheme depends on the specified proportion of value-added used in calculating import credits. Originally this proportion was 30 per cent but declined to 25 per cent in July 1996 and is to fall to 20 per cent in 1998 and 15 per cent in 1999. For example, for $100 of value-added in its TCF exports, a firm currently earns import credits of $25 and is entitled to a duty reduction of $25 on its TCF imports, regardless of the tariff rate applying to those imports.

TCF import credits are estimated at $110 million in 1996–97, a decrease of $10 million on the previous year. This reflects the declining proportion of value-added used in calculating import credits.

PHARMACEUTICAL FACTOR F SCHEME

The Factor f scheme was introduced to compensate manufacturers of pharmaceutical products for the low prices brought about by the Pharmaceutical Benefits Scheme (PBS) and also to encourage domestic drug production, exports and research. Under the scheme, approved companies receive payments, funded by the Government, to raise returns received for selected products listed on the PBS. In return for these additional payments, the participating companies make a commitment to increase domestic product development, local drug manufacture, research and exports.

In 1995–96, export support provided through the pharmaceutical Factor f program was estimated to be $56 million, $6 million higher than in 1994–95. Support for exports provided through the program is budgeted to increase substantially to almost $100 million in 1996–97. (For details of the recommendations of the Commission's recent report on pharmaceuticals, see appendix J.)

THE DISTRIBUTION OF EXPORT SUPPORT

In analysing the distribution of export support among sectors (box C.1), it is important to recognise the differing objectives of particular programs and the way in which support is delivered. As noted earlier, most programs covered in this appendix have the objective of directly supporting exports. Of these, some are targeted at specific industries while others apply more generally. Also, a variety of programs support exports indirectly — most of these focus on particular industries but have wider objectives than export support. In addition, in the case of export facilitation for PMV, support for exports depends on the overall rate of tariff assistance to the industry.

While Commonwealth Government support for exports as measured in this appendix increased slightly in 1994–95, it continued to represent less than 2 per cent of the value of goods and services exported. However, this understates greatly the importance of export support for some Australian industries.

The distribution of export support between and within each sector is uneven, with the manufacturing sector receiving a disproportionately large share, relative to its contribution to exports (figure C.1). In 1994–95, the manufacturing sector received just over 75 per cent, or $1.1 billion, of export support. This represents approximately 2.4 per cent of the value of manufacturing goods exported.

The mining sector, which accounted for 17 per cent of exports in 1994–95, receives little export support. In 1994–95, it received only 0.4 per cent of the identified export support (figure C.1).

Box C.1: The distribution of export support

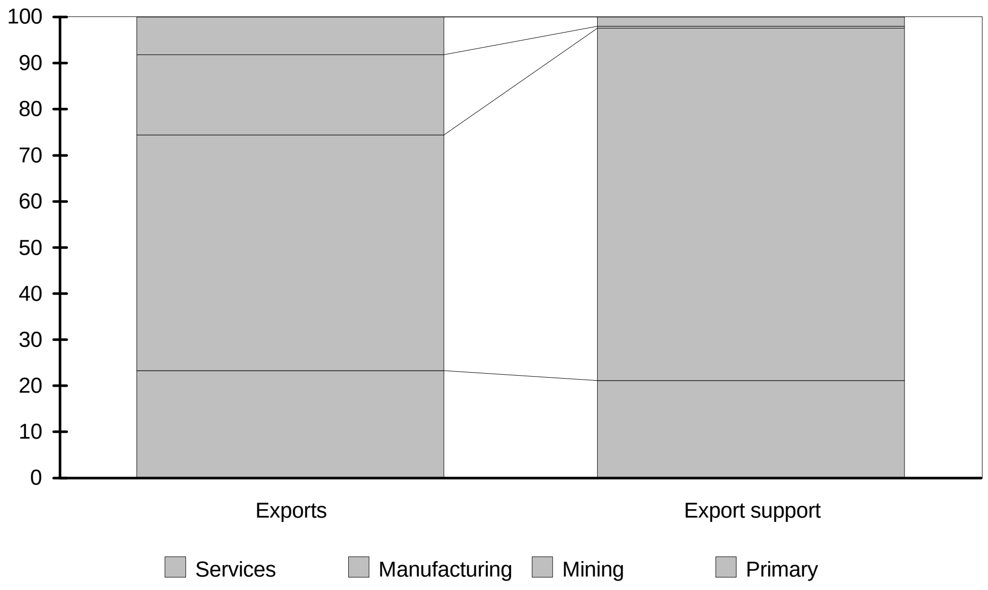
For this analysis, the recipients of government support for exports are divided into four industry groups: primary production, mining, manufacturing and services. The beneficiary is defined as the industry or industries most likely to benefit from the export support when it is claimed. However, secondary flow-on effects from one sector to another are also likely to occur. For example, dairy products receiving export support are classified as benefiting the manufacturing sector. However, such support is also likely to benefit primary production through higher returns for the agricultural industry than otherwise would have been the case.

The allocation of export support is based on the Australian and New Zealand Standard Industrial Classification system. For comparisons to be consistent, exports (as published by the ABS) are also allocated using the same classification system. The principal effect of this is higher manufacturing exports and lower primary and mining exports than would be the case if exports were allocated on a commodity basis. Using the above example, dairy products such as cheese and butter are classified as manufactured exports, while under a commodity-based system these products would be classified as exports from the primary production sector.

Support for the primary production sector as a proportion of total export support has declined in recent years, principally due to the achievement of full cost recovery for export inspection services. Primary production, which accounted for 8 per cent of total exports, received 2 per cent of government support for exports in 1994–95.

The proportion of export support received by the services sector is closer to its contribution to exports. In 1994–95, this sector accounted for 23 per cent of total exports, while receiving 21 per cent of export support.

Figure C.1: Exports[a] and export support by sector[b], 1994–95 (per cent)



a Exports comprise merchandise trade and services credits.

b Export support is allocated on an industry basis using the ANZSIC system. For comparisons to be consistent, exports are also measured using the same industry classification system, as opposed to measurement on a commodity basis.

Source: Commission estimates and ABS (1996a, 1996b)

Appendix D
Budgetary support for industry

The Government's 1996–97 Budget proposed substantial changes to budgetary support for industry. All bounty programs are to cease and the tax concession for research and development is to be reduced. A range of AusIndustry and export support programs have been reduced or terminated.

Commonwealth budgetary outlays on industry are expected to decline to $1.8 billion in 1996–97, a nominal decrease of 8 per cent on 1995–96. In real terms, this is the lowest level of support for the eight year period examined. Outlays are expected to fall by a further 7 per cent in nominal terms in 1997–98.

While some of the budget changes are not to take effect until 1997–98, outlays on all sectors are to fall in 1996–97. Manufacturing continues to receive the largest share (41 per cent), but expenditure is expected to decline slightly to just under $750 million in 1996–97. Outlays on primary production are expected to fall by 8 per cent to around $560 million and on services by almost 20 per cent to $410 million. Mining sector estimates indicate a small reduction, to about $120 million.

Commonwealth revenue forgone from preferential tax measures which support industry rose substantially to almost

$1.4 billion in 1994–95, the latest year for which data are available.

This appendix analyses Commonwealth budgetary outlays supporting industry and reports on preferential tax measures. It also provides summary estimates of state, territory and local government budgetary support from the Commission's current public inquiry (IC 1996i).

The analysis examines Commonwealth budgetary assistance measures which potentially increase returns to activities in four sectors:

- primary production, comprising agriculture, forestry and fishing (table D.4);
- manufacturing (table D.5);
- mining and energy (table D.6); and
- selected services industries (table D.7).

An indication of Commonwealth government revenue forgone from preferential tax arrangements is given for the period from 1989–90 to 1994–95 (table D.3).

The method used for this appendix is outlined in box D.1.

TRENDS IN COMMONWEALTH OUTLAYS

Commonwealth budgetary outlays on programs reported in this appendix accounted for 1.6 per cent of total outlays in 1995–96. This is expected to decrease to 1.4 per cent in 1996–97.

Commonwealth budgetary outlays on industry decreased slightly in 1995–96 to $2 billion and are expected to fall by 8 per cent to $1.8 billion in 1996–97. In real terms, budgetary outlays for 1996–97 are expected to decline to their lowest level in the eight year period reported (figure D.1).

The manufacturing sector receives the largest proportion of budgetary support, accounting for 38 percent of total government outlays on industry in 1995–96. This is expected to increase to 41 per cent in 1996–97. Outlays supporting primary producers accounted for around 30 per cent, and those for selected service industries for 26 per cent in 1995–96. Outlays on service industries are expected to decline to 22 per cent of the total in 1996–97. At 6 per cent, budgetary support for the mining sector remains relatively minor.

Box D.1: Method

The estimates report Commonwealth Government budgetary outlays on the main programs directed at Australian industry. Programs covered focus on those which discriminate between industries or activities, such as exporting. Programs which have major social objectives overriding assistance goals have been excluded — for example, outlays on education and health.

The relationship between program expenditure and assistance received is not always straightforward. In cases where government outlays support an increase in local production or industry returns, budget expenditures usually represent assistance. For example, production bounties, like tariffs, assist industry against import competition. On the other hand, some budgetary outlays may be necessary to increase output in situations where markets fail to deliver the most efficient resource outcomes for the community.

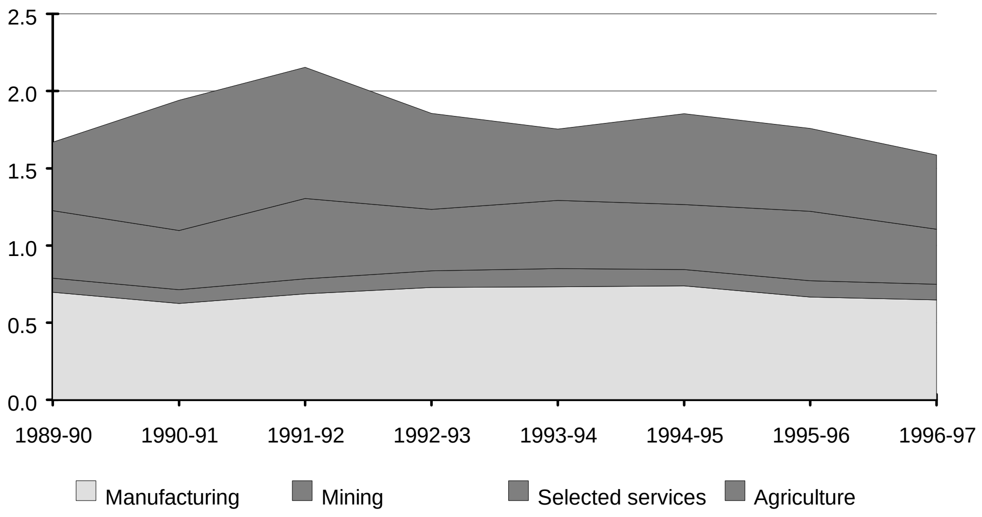
Data are reported net of industry contributions. This distinction is important for agricultural programs where industry levies are often a significant source of program funding. For example, for wool industry programs, the proceeds of industry levies were estimated at $186 million in 1995–96, whereas the net Commonwealth contribution was less than $12 million.

Where data permit, programs conferring benefits across sectors are apportioned between recipients. For example, data are available on the use of Austrade's Export Market Development Grants scheme by the four sectors. In other cases, expenditure is allocated to the sector receiving the most benefit.

Commonwealth preferential tax measures which support industry are reported separately. These are provisions of the Australian taxation law which effectively tax certain classes of taxpayers or particular types of activity differently from the chosen benchmark. These estimates are derived from Treasury (1995).

Reductions in many programs are to be realised over a number of years. In nominal terms, Commonwealth industry support in 1997–98 is estimated to fall by a further 7 per cent. Expected reductions in outlays on agriculture (13 per cent) and manufacturing (5 per cent) account for most of this fall.

Figure D.1: Real Commonwealth budgetary outlays on industry[a] by sector,[b] 1989–90 to 1996–97 ($ billion)



a Outlays on selected services excludes services programs which have major social objectives overriding assistance goals — for example, outlays on education and health.

b In 1989–90 prices. Values for 1995–96 are based on revised Commonwealth Budget estimates and 1996–97 values are based on Budget estimates. Outlays have been deflated by the annual GDP(E) implicit price deflator.

Source: Budget, Budget related papers, ABS (1995a), departmental annual reports (various years) and Commission estimates

RATE OF BUDGETARY OUTLAYS

Agriculture receives by far the greatest budgetary outlays relative to gross sectoral product (GSP) — 3.2 per cent in 1995–96 (table D.1). This ratio has fluctuated significantly, reflecting the volatility of agricultural prices and external factors. Typically, support has been highest at times when the value of sectoral product was comparatively low. The ratio of budgetary outlays to sectoral gross product has been more stable for the other sectors.

Table D.1: Real budgetary outlays[a] by sector, and as a proportion of sectoral gross product, 1991–92 and 1995–96

	1991–92		*1995–96*	
	Real outlays *$m*	*Share of GSP* *%*	*Real outlays* *$m*	*Share of GSP* *%*
Agriculture	850.7	5.6	537.5	3.2
Manufacturing	687.0	1.3	665.8	1.0
Mining	97.2	0.6	105.4	0.6
Selected services	519.7	0.3	449.9	0.2

a In 1989–90 prices.

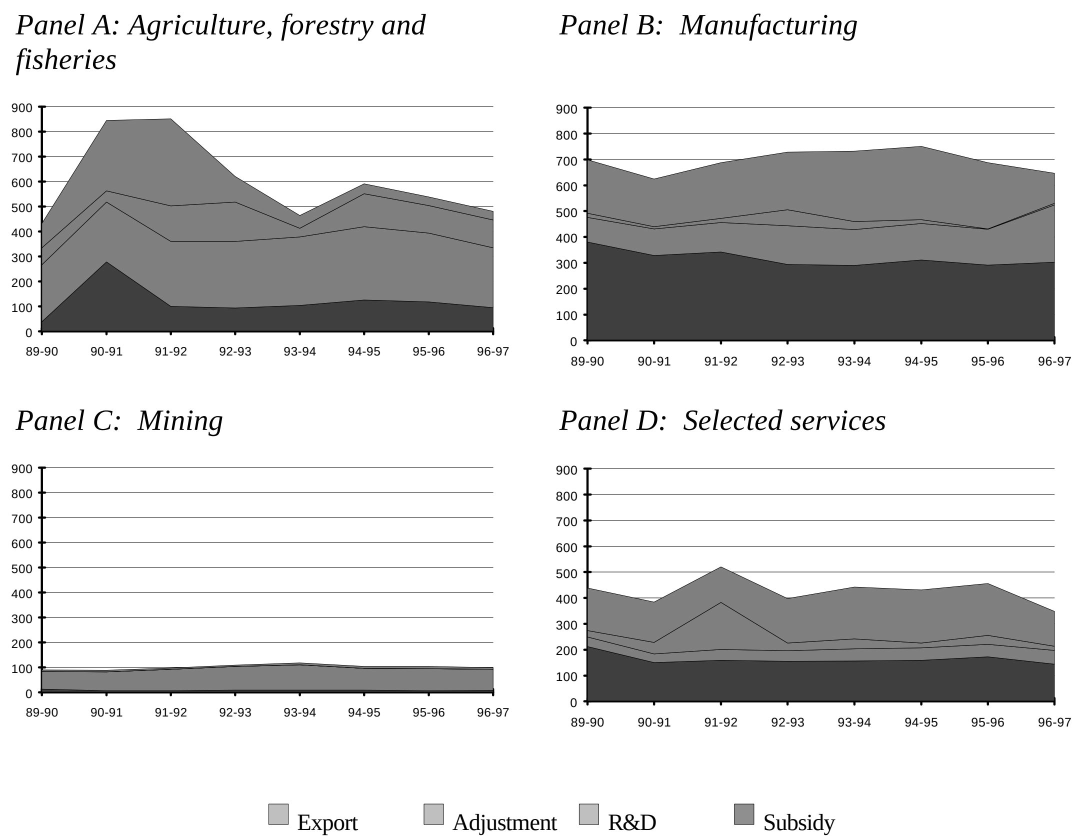
Source: ABS (1995a), ABARE (1996), Budget Papers and Commission estimates

COMPONENTS OF BUDGETARY OUTLAYS

Budgetary outlays on each sector have been disaggregated and classified into four areas of support: export; adjustment; research and development (R&D); and subsidies. Figure D.2 gives an indication of the importance of each type of outlay to the four sectors. For primary production and mining, outlays supporting R&D have been predominant in recent years. Export support and other subsidies make up most of the outlays on the services sector. While this generally has also been the case for manufacturing, R&D funding is expected to exceed export support in 1996–97.

The share of each type of support remained relatively constant between 1994–95 and 1995–96. For 1996–97, export support is estimated to decrease in each sector by an average of 37 per cent. Subsidies and adjustment support are also expected to decline. Funding for R&D support is expected to increase in this period, with manufacturing being the main beneficiary.

Figure D.2: Components of total real budgetary outlays[a] by sector, 1989–90 to 1996–97 ($ million)



a In 1989–90 prices. Values for 1996–97 are Commonwealth Budget estimates. Outlays have been deflated by the annual GDP(E) implicit price deflator.

Source: Budget, Budget related papers, ABS (1995a), departmental annual reports (various years) and Commission estimates

PROGRAM CHANGES

In its 1996–97 Budget, the Government announced the termination of a range of programs supporting industry and reductions in others. The main changes in programs affecting each sector are reported below. Changes in export support are discussed in appendix C.

PRIMARY PRODUCTION

The main programs supporting primary production are the Rural Adjustment Scheme, the National Landcare Program and CSIRO research programs for plants and animals. Together, these programs make up 56 per cent of total outlays on primary production for 1995–96. Outlays on the Rural Adjustment Scheme have fluctuated with the changing fortunes of the agricultural sector, ranging from 23 per cent of primary production outlays in 1992–93 to less than 5 per cent in 1993–94 and 16 per cent in 1996–97. The National Landcare Program, introduced to promote sustainable land management, has accounted for more than 10 per cent of total primary production outlays since 1993–94. CSIRO plant and animal research represents around half of all Commonwealth budgetary outlays on R&D in primary production.

The 1996–97 Budget announced major changes to many programs. A number of programs have been abolished, with others being reduced.

Programs abolished include the Clean Food Export Strategy and the Innovative Agricultural Marketing Program. The Agribusiness Program also will be terminated, with funding allocations provided only to fulfil existing obligations. The Supermarket to Asia Strategy is intended to replace these programs. This will be coordinated through DPIE and DIST. A high-level council has been established to address impediments to food export markets in Asia and assist the industry to expand exports. Details of the program are still to be announced.

The Farm Household Support Scheme will be also terminated in 1996–97. The scheme was established to support farm families who were unable to get commercial finance. Demand for the scheme has been falling since October 1993. It is intended that those families who currently receive payments will be able to apply for other social welfare support.

Funding for the Commonwealth Development Bank to subsidise lending rates will cease in 1996–97. In 1995–96, $21 million was provided to subsidise business borrowers, with an emphasis on small businesses and primary producers.

The National Landcare Program is to receive significantly reduced funding in 1996–97 — $62 million compared with $83 million in 1995–96.

The Native Forest Industry Structural Adjustment Package (FISAP) is to receive a significant increase in funding in 1996–97. The program is intended to reduce the adverse effects on native forest industry businesses and workers of the Deferred Forest and Regional Forest Agreements. It also aims to facilitate structural change in the native forest industry in response to changes in the availability of forest resources. Funding of $33 million will be provided in 1996–97.

MANUFACTURING

In 1995–96, the main programs providing support to the manufacturing sector were the computer bounty, the pharmaceuticals Factor f program, CSIRO Institute of Industrial Technology, the Export Market Development Grants (EMDG) scheme and the Development Import Finance Facility (DIFF). The computer bounty and the Factor f program made up approximately half of all subsidy payments to the manufacturing sector in 1995–96. The CSIRO Institute of Industrial Technology and Industry Innovation Programs together accounted for 75 per cent of all R&D funding in 1995–96. EMDG and the DIFF made up over 70 per cent of all export-related funding in that year.

Significant reductions in many manufacturing industry programs have been announced. All bounty programs are to cease. Bounties for books, machine tools and robots, shipbuilding and ethanol were terminated on 20 August 1996. The computer bounty will terminate on 1 July 1997.

Other schemes abolished include the Australian Made Campaign, the Information Technology Development Program, the Best Practice Demonstration Program and the Support for Australian Suppliers program.

The Cash Grants for Winemakers Scheme also will be terminated. This scheme was put in place to offset the wholesale sales tax increase in July 1995. Increases in demand have offset the effects of the tax somewhat, prompting the Government to end the scheme one year ahead of schedule.

Funding for two major programs, the Factor f program and industry innovation, has increased. Outlays on the Factor f program are to increase substantially from $106 million in 1995–96 to an estimated $189 million in 1996–97. Funding for industry innovation programs is to increase from $51 million in 1995–96 to $118 million in 1996–97. The *Start* Program, which replaces the R&D Syndication Program, accounts for this increase. This program replaces and adds to existing R&D support measures. Details of the program are still to be announced.

MINING AND ENERGY

CSIRO research into minerals and energy is the major program supporting the mining industry, accounting for 58 per cent of total outlays in 1995–96 for this sector.

Support measures for the mining and energy sector have been relatively stable and changes in 1996–97 are comparatively minor. Funding for energy sector initiatives, amounting to $1 million in 1995–96, will be terminated. In addition, funding for the Energy R&D Corporation is to be reduced from $12 million in 1995–96 to $7 million in 1996–97. These reductions will be partly offset by an increase of $2 million in the Commonwealth's contribution to the National Electricity Market Systems Development Project in 1996–97.

SERVICES

In the services sector, the principal funding allocations are for the Australian Tourist Commission, the Australian Film Finance Corporation and export promotion. In 1995–96 these accounted for 66 per cent of service industry outlays.

The main changes to programs in this sector include the termination of funding for Ausmusic, the Asian Infrastructure Initiative and the Multi-Function Polis, and cuts in export promotion. The Ships Capital Grants scheme will be reduced this year and will terminate in June 1997 in accordance with existing legislation.

PREFERENTIAL TAXATION MEASURES

The Commonwealth Government also uses the tax system to benefit some industries and discriminate against others. Table D.3 provides an indication of revenue forgone by the Commonwealth to support industry.

Total tax revenue forgone has varied with changes in tax rules. The provision of income tax averaging for primary producers reinforces this variability. Revenue forgone from tax averaging has ranged from $288 million in 1989–90 to $27 million in 1992–93. The abolition of the gold mining income tax exemption in 1991 substantially reduced tax revenue forgone in 1991–92. These were major factors in reducing revenue forgone to $574 million in 1991–92 from almost $900 million in 1990–91.

From the six year low of $532 million in 1992–93, tax revenue forgone by the Commonwealth increased to $844 million in 1993–94 and to nearly $1.4 billion in 1994–95. This was principally due to a significant increase in the cost of the tax concession for eligible R&D, and the impact of the 10 per cent investment allowance introduced as a short-term measure in 1993–94. The manufacturing sector has been the main beneficiary, accounting for over three-quarters of total Commonwealth tax revenue forgone in 1994–95.

When revenue forgone is combined with budgetary outlays, total Commonwealth budgetary support for industry amounted to around $3.4 billion in 1994–95. Because more recent data on tax revenue forgone are not available, it is not possible to provide combined estimates for subsequent years.

As announced in the 1996–97 Budget, the R&D tax concession will be reduced from 150 to 125 per cent, resulting in a decrease in revenue forgone in future years. It is intended that the *Start* program will partly offset this reduction.

The Government has also announced a review of concessional taxation arrangements. The review will examine the effectiveness of taxation concessions in delivering intended outcomes. The Government considers that replacing tax concessions with outlay measures would more effectively target the intended beneficiaries, resulting in a more efficient use of tax revenue. This approach is reflected in the changes announced to R&D support.

STATE GOVERNMENT BUDGETARY SUPPORT

States and territories also provide substantial assistance to industry (table D.2).

Until the Commission’s inquiry on *State, Territory and Local Government Assistance to Industry* (IC 1996i), data on this assistance had not been compiled in any comprehensive way. Total budgetary outlays by state governments on assistance to industry have been estimated by the Commission to be just under $2.5 billion in 1994–95, with local governments spending a further $220 million. This exceeded the estimated $2 billion on Commonwealth outlays in that year. The level of state budgetary outlays on the main sectors for 1994–95 is similar to that of the Commonwealth in the cases of agriculture, manufacturing and mining, but slightly higher for services.

The Commission found that there are considerable differences in the level of outlays between states. Together, New South Wales and Victoria accounted for nearly 60 per cent of total budgetary outlays supporting industry.

In per capita terms, assistance was generally greatest in states and territories with lower populations. The Northern Territory had the highest levels of per capita assistance, with South Australia and Tasmania also significantly above the average. The Northern Territory also had the highest levels of per capita assistance for each of the four sectors. Other states which provided relatively high per capita levels of budgetary assistance were:

- Tasmania and Western Australia for agriculture;
- South Australia and Victoria for manufacturing;
- Western Australia and South Australia for mining; and
- Tasmania and South Australia for services.

Table D.2: State and territory government budgetary outlays on industry, 1994–95 ($ million)

	Agriculture	*Manufact-uring*	*Mining*	*Services*	*Total*	*Per capita ($)*[a]
NSW	274.0	263.2	40.9	253.4	831.5	140
Vic	93.0	325.8	29.4	169.2	617.4	137
Qld	112.5	108.7	16.7	102.5	340.4	104
WA	96.4	64.8	23.7	55.1	240.0	139
SA	52.5	112.1	19.2	93.2	277.0	188
Tas	31.1	32.9	4.8	31.4	100.2	212
NT	22.6	16.6	3.3	19.9	62.4	359
ACT	0.1	0.8	..	7.3	8.2	27
Total	**682.2**	**924.9**	**138.0**	**732.0**	**2 477.1**	**139**[b]

a Population as at June 1995, ABS (1995b).

b Weighted by population in each state and territory.

Source: IC (1996i)

The breakdown of assistance between sectors within the states and territories also varied. New South Wales, Queensland and Tasmania had roughly even splits between agriculture, manufacturing and service industries. Over half of Victorian budgetary assistance went to the manufacturing industry. In Western Australia, agriculture received the largest share, and mining received a higher share than in all other states. In South Australia, manufacturing received the largest share of assistance. Nearly 90 per cent of budgetary assistance in the ACT went to the services sector.

The Commission also found that states and territories have forgone revenue to benefit industry through payroll tax thresholds and exemptions. The Commission's preliminary estimate of the revenue forgone across all states and territories was about $4.8 billion in 1993–94.

Table D.3: Commonwealth taxation revenue forgone, 1989–90 to 1994–95 ($ million)

	1989 –90	*1990 –91*	*1991 –92*	*1992 –93*	*1993 –94*	*1994 –95*[a]
AGRICULTURE						
Deduction for conserving or conveying water	na	na	na	na	na	56
Exemption of Wool Testing Authority Ltd income from tax (abolished July 1990)	1	–	–	–	–	–
Expenditure on acquiring and establishing grape vines deductable over four years	–	–	–	–	–	2
Immediate deduction for certain capital expenditures on conservation measures	na	na	na	10	4	5
Income Equalisation Deposits Scheme	-2[b]	11	7	3	9	9
Income tax averaging for primary producers	288	235	34	27	79	98
Total agriculture	**287**	**246**	**41**	**40**	**92**	**170**
MANUFACTURING						
General investment allowance of additional 10 per cent tax deduction on qualifying plant and equipment, ordered from 9 February 1993 and used before July 1994[c]	–	–	–	–	130	440
Brandy excise preferential rate	7	7	7	7	6	6
Exemption of funds established by business for university research and development[c]	na	na	na	na	na	15
Immediate deduction of expenditure to obtain patent, design or copyright[c]	26	30	29	27	26	23
Tax concession for eligible research and development[c]	200	275	305	400	525	630
Total manufacturing	**233**	**312**	**341**	**434**	**687**	**1 114**
MINING						
Exemption of gold mining from income tax (abolished January 1991)	280	290	145	–	–	–
Total mining	**280**	**290**	**145**	**–**	**–**	**–**

Table D.3 (continued)

	1989–90	*1990–91*	*1991–92*	*1992–93*	*1993–94*	*1994–95[a]*
SERVICES						
Accelerated depreciation of Australian trading ships commissioned after July 1977	11	13	17	40	43	41
Concessional (10 per cent) rate of tax on eligible income from an offshore banking unit	–	–	–	–	na	10
Film industry 100 per cent capital deduction	42	32	30	18	22	24
Total services	**53**	**45**	**47**	**58**	**65**	**75**
Total	**853**	**893**	**574**	**532**	**844**	**1 359**

– Nil.
na Not available.
a Preliminary figures subject to revision on receipt of 1994–95 tax data.
b Scheme produces positive taxation as deposits are withdrawn and tax paid.
c Benefits may accrue to other sectors such as agriculture.
Source: Treasury (1995)

Table D.4: Commonwealth budgetary outlays on primary production, 1991–92 to 1996–97[a] ($ million)

	1991 –92	*1992 –93*	*1993 –94*	*1994 –95*	*1995 –96*	*1996 –97*
AGRICULTURE						
Crops						
Australian Horticultural Corporation	1.5	2.5	2.2	1.5	1.2	1.0
Australian Plague Locust Commission	1.1	3.2	3.0	0.4	1.2	1.2
Citrus industry market diversification subsidy	–	–	–	0.3	2.4	2.2
Sugar Industry Program	–	–	3.1	4.3	2.2	10.5
Trade sanctions compensation – Iraq	32.9	–	–	–	–	–
Tri-State fruit fly strategy	–	–	–	0.2	0.2	0.1
Wheat underwriting[b]	–	–	1.1	–	–	–
Wine Industry Package – Grant to Wine Grape Council	–	–	0.1	–	–	–
Wine industry – loan conversion	–	–	–	–	–	1.5
Sub-total	**35.5**	**5.7**	**9.5**	**6.7**	**7.2**	**16.5**
General agricultural activities						
Agribusiness programs[c]	–	–	–	6.6	7.2	1.4
– Primary Industries Marketing Skills Program	1.0	1.3	0.9	c	c	c
– Rural Development Incentive Scheme	–	–	0.2	c	c	c
– Rural Enterprise Network Program	–	–	0.4	c	c	c
– Rural Industries Business Extension Service	–	1.0	2.1	c	c	c
– World Best Practice Incentive Scheme	–	–	0.7	c	c	c
Austrade – Export Market Development Grants scheme	2.7	3.8	5.3	5.3	5.5	5.1
– export promotion operating expenses	2.8	3.1	3.4	3.6	3.5	1.8
Clean food export strategy	–	–	2.0	1.2	2.4	–
Clean Food Production Program	–	–	–	–	1.7	0.5
Commonwealth Development Bank subsidy	–	–	6.6	9.5	9.5	–

Table D.4 (continued)

	1991 –92	*1992 –93*	*1993 –94*	*1994 –95*	*1995 –96*	*1996 –97*
Drought Relief Payments Scheme	–	–	–	10.6	–	–
Farm Household Support Scheme	–	0.9	4.9	3.4	1.0	0.5
Innovative Agricultural Marketing Program[d]	4.5	3.8	3.8	5.0	5.0	–
National Landcare Program	–	57.3	73.7	76.0	83.2	62.3
National Soil Conservation Program	24.5	–	–	–	–	–
Quarantine & export inspection services[e]	15.7	12.3	–	–	–	–
– AQIS meat inspection subsidy	–	–	–	7.3	6.5	12.0
Rural Adjustment Scheme	138.6	151.7	24.7	135.4	104.0	88.8
Rural Communities Access Program [f]	–	–	10.7	12.6	12.1	8.6
– Business advisers for rural areas	0.9	1.8	1.8	g	g	g
– Rural counselling	5.2	7.0	g	g	g	g
Tasmanian Freight Equalisation Scheme	1.4	1.2	1.3	1.6	1.7	1.7
Sub-total	**197.3**	**245.2**	**142.5**	**278.1**	**243.3**	**182.7**
Livestock, poultry etc.						
Australian Animal Health Laboratory	5.5	6.0	5.9	6.2	5.8	6.0
Bovine brucellosis & tuberculosis eradication campaign	7.9	5.3	2.7	3.5	3.3	3.1
Dairy products underwriting	22.0	–	–	–	–	–
Exotic disease preparedness programs	1.7	1.3	2.5	3.6	2.3	1.5
National residue survey	–	–	0.9	0.4	0.4	0.4
Wool – interest subsidy	22.5	22.5	–	–	–	–
– international promotion	32.1	25.0	20.0	–	–	–
– supplementary support payments	44.2	–	–	–	–	–
Sub-total	**135.9**	**60.1**	**32.0**	**13.7**	**11.8**	**11.0**
Research & development[g]						
Cooperative Research Centres	3.5	6.7	16.5	18.6	23.8	26.1
CSIRO Institute of Animal Production and Processing	75.8	65.5	66.8	70.0	64.1	h

Table D.4 (continued)

	1991 –92	*1992 –93*	*1993 –94*	*1994 –95*	*1995 –96*	*1996 –97*
CSIRO Institute of Plant Production and Processing	90.9	93.8	84.8	89.1	85.0	h
CSIRO plant and animal research	–	–	–	–	–	100.9
Grains (wheat and other[i])	14.8	15.7	21.2	23.3	21.3	29.1
Horticulture	4.4	8.3	9.6	10.7	11.4	14.6
Land and Water Resources R&D Corporation	13.3	10.4	11.1	11.1	10.4	9.6
Other rural research[j]	12.4	18.8	21.3	25.5	28.0	30.7
Meat research	20.8	23.8	22.1	25.1	22.6	22.3
Rural Industries R&D Corporation	8.4	10.5	10.5	10.5	10.5	5.5
Water resources – assessment and research grants	0.3	0.3	0.7	0.2	0.2	0.2
Wool	13.8	13.2	12.0	15.1	11.7	11.6
Sub-total	**258.4**	**267.0**	**276.6**	**299.2**	**289.0**	**250.6**
Total outlays on agriculture	**627.1**	**578.0**	**460.6**	**597.7**	**551.3**	**460.8**
FORESTRY						
Commonwealth–NSW Forest Industry Package	–	–	–	–	1.9	5.1
Commonwealth-Tasmanian Forest Industry Package	4.2	12.5	6.4	3.1	8.6	–
Commonwealth-Victorian Forest Industry Package	4.7	1.3	–	–	–	–
Forest Industry structural adjustment package	–	–	–	–	4.4	32.7
National Afforestation Program	0.4	0.1	–	–	–	–
National Forest Policy Program	–	0.7	1.5	2.2	3.3	6.9
NSW Southeast Forests Package	0.1	–	–	–	–	–
Plantation initiatives – National Forest Policy Program	–	0.5	0.3	–	0.5	–
– North Queensland Community Rainforests Revegetation Program	–	–	0.9	1.5	1.2	–
Tasmanian Freight Equalisation Scheme	1.2	1.4	1.3	1.6	1.7	1.7

Total outlays on forestry	**10.6**	**16.5**	**10.4**	**8.4**	**21.6**	**46.4**

Table D.4 (continued)

	1991 –92	*1992 –93*	*1993 –94*	*1994 –95*	*1995 –96*	*1996 –97*
FISHERIES						
Export prawn promotion	–	–	–	–	0.2	0.8
Fisheries industry adjustment	1.3	–	–	–	–	–
Research and development	7.8	8.5	10.7	12.7	12.9	17.5
Fisheries resources research	2.7	2.9	2.2	2.0	1.8	2.2
Total outlays on fisheries	**11.8**	**11.4**	**12.9**	**14.7**	**14.9**	**20.5**
Total outlays on agriculture, forestry and fisheries	**649.5**	**605.9**	**483.9**	**620.8**	**587.8**	**527.7**
National interest business (NIB) [k]	243.7	53.9	14.8	24.0	17.4	27.9
Total outlays on agriculture, forestry and fisheries including net NIB outlays	**893.2**	**659.8**	**498.7**	**644.8**	**605.2**	**555.6**

– Nil.

a 1996–97 data are Budget estimates.

b In respect of the 1986–87 wheat pool.

c The Agribusiness programs were formed in 1994 to manage five existing programs.

d Some Innovative Agricultural Marketing Program projects should be classified to the manufacturing sector. However, as most assistance is usually to agriculture and detailed information is not available, the program has been classified to agriculture.

e Outlays for quarantine and export inspection services represent the deficit associated with expenditures which were considered to be recoverable.

f The Rural Communities Access Program, introduced in 1994–95, combined several existing programs.

g Estimates are derived in part from the Science and Technology Budget Statement 1996–97.

h CSIRO Research Institutes were restructured in 1995–96. Outlays are now apportioned by research purpose.

i Other includes barley, grain legumes and oilseeds.

j Other industries, including dairy, chicken meat, pig meat, eggs, cotton, dried vine fruits, grapes and wine, honey, sugar and tobacco.

k The estimates reported in this section are net National Interest Business outlays. These payments are insurance pay-outs, which in 1991–92 were mainly connected with Australia’s imposition of trade sanctions against Iraq. Unlike the ‘Trade sanctions compensation – Iraq’ payments reported elsewhere in the table, these outlays were in response to insurance claims for which premiums had been paid. Because any difference between the National Interest Business scheme’s borrowing and lending rates is underwritten by the Commonwealth, the scheme may provide assistance to agricultural exporters. However, net National Interest Business outlays provide only a weak indication of any assistance provided.

Source: Commonwealth Budget and Budget related papers (various years), departmental annual reports (various years) and Commission estimates

Table D.5: Commonwealth budgetary outlays on the manufacturing sector, 1991–92 to 1996–97[a] ($ million)

	1991 –92	*1992 –93*	*1993 –94*	*1994 –95*	*1995 –96*	*1996 –97*
Bounties						
Bed sheeting	2.6	2.4	2.0	1.0	0.1	–
Books	21.5	21.4	22.3	23.3	21.9	10.1
Citric acid	0.7	0.7	0.1	–	–	–
Computers	74.5	74.9	78.0	74.8	64.1	56.5
Ethanol	–	–	–	0.5	2.2	0.4
Machine tools and robots	16.0	8.6	8.4	8.4	6.5	3.6
Printed fabrics	2.8	1.5	0.8	0.1	0.1	–
Sensitised photographic film	12.0	6.0	–	–	–	–
Ships	24.4	24.2	25.9	23.0	23.7	16.0
Textile Bounty Capitalisation Grants scheme	39.1	14.5	–	–	–	–
Textile yarns	51.1	32.0	21.0	15.6	5.9	–
Sub-total	**244.7**	**186.2**	**158.5**	**146.7**	**124.5**	**86.6**
Other industry-specific programs						
Agri-Food Industry Program	–	0.2	1.3	3.4	2.5	2.5
Australian Magnesium Metal Technology Initiative	–	4.9	12.3	2.8	–	–
CSIRO pulp mill research	1.9	1.9	1.9	–	–	–
Equity in the Australian Technology Group	–	30.0	–	–	–	–
Ethanol research and development	–	–	1.6	2.2	–	–
Heavy Engineering Adjustment and Development Program	1.2	–	–	–	–	–
Information Technology Development Program[b]	–	0.3	0.3	1.7	2.2	–
– Vendor Qualification Scheme	1.2	1.2	1.2	–	–	–
Malaria Joint Venture	9.4	–	–	–	–	–
Metals-based Engineering Program	5.6	1.4	0.1	0.1	–	–
Motor Vehicles and Components Development Grants scheme	2.3	–	–	–	–	–

Table D.5 (continued)

	1991 –92	*1992 –93*	*1993 –94*	*1994 –95*	*1995 –96*	*1996 –97*
National Space Program	5.7	5.4	5.5	4.5	1.5	1.7
Pharmaceutical industry Factor f program	26.3	51.9	80.0	95.0	106.3	189.1
Steel study project	–	0.8	0.3	–	–	–
Tasmanian wheat freight subsidy	3.2	2.9	2.7	2.2	2.2	1.2
TCF programs						
– TCF Industries Development Strategy	16.0	66.1	34.8	16.0	0.7	–
– TCF 2000 Strategy	–	–	–	–	–	7.1
Wine Industry Package – Grants to wine makers	–	–	–	0.6	1.9	–
Sub-total	**72.8**	**167.0**	**142.0**	**128.5**	**117.3**	**201.6**
General industry programs						
Australian Made Campaign	2.0	2.0	2.0	1.5	1.9	0.1
Best Practice Demonstration Program	10.0	15.6	6.8	4.8	2.4	0.4
Commonwealth Development Bank subsidy	–	–	3.9	5.6	5.6	–
Cooperative Research Centres	3.0	10.7	23.5	26.6	34.1	37.3
CSIRO Institute of Industrial Technologies	64.2	67.6	63.0	69.7	66.8	c
CSIRO manufacturing research	–	–	–	–	–	98.2
Enterprise Development Program [d]	–	–	23.0	29.1	28.5	25.8
– National Industry Extension Service	21.1	16.4	d	d	d	d
– Small and Medium Enterprise Development Program [e]	2.4	1.4	1.0	–	–	–
Enterprise Networking Program	–	–	–	4.0	6.5	9.3
Greenhouse Response Strategy	–	–	–	–	0.6	1.4
Industry innovation programs [f]	–	43.5	40.3	46.9	51.4	117.9
– Advanced Manufacturing Technology Development Program	0.1	0.6	e	e	e	e
– Grants for Industry R&D	32.2	34.3	e	e	e	e
– National Procurement Development Program	4.4	5.4	e	e	e	e

Table D.5 (continued)

	1991 –92	*1992 –93*	*1993 –94*	*1994 –95*	*1995 –96*	*1996 –97*
– Technology Development Programs (including National Teaching Company Scheme)	3.2	3.1	e	e	e	e
Investment Promotion and Facilitation Program	–	–	–	9.3	8.1	0.2
Investment Promotion Strategy	8.0	–	–	–	–	–
Support for Australian suppliers	–	–	–	1.7	2.4	–
Tasmanian Freight Equalisation Scheme	27.7	27.3	32.0	33.2	35.9	35.0
Sub-total	**178.3**	**184.5**	**195.5**	**232.4**	**244.2**	**325.6**
Total – excluding export outlays	**495.8**	**537.7**	**496.0**	**507.6**	**486.0**	**613.8**
Export outlays						
Austrade						
– Asia Business Links[g]	–	0.1	1.6	2.1	2.6	–
– Asia Pacific Fellowship	3.9	3.2	3.3	1.0	1.0	–
– Export Market Development Grants scheme	50.0	60.7	83.9	84.5	87.8	81.8
– export promotion operating expenses	44.8	50.2	54.1	56.9	56.2	28.9
– International Trade Enhancement Scheme	20.7	20.8	32.0	39.1	–	1.1
Development Import Finance Facility	95.1	89.8	103.1	105.8	108.8	16.9
Export Access Program	1.0	4.2	6.1	5.4	3.1	3.4
Interest subsidy for financing eligible export transactions (EFIC)	10.0	6.9	6.3	4.0	0.1	–
Private Sector Linkages Program	–	–	1.0	3.0	3.7	–
Wine Industry Package – export development grant	–	–	–	0.3	0.4	0.3
Total export outlays	**225.5**	**235.9**	**291.4**	**302.1**	**263.7**	**132.4**
Total manufacturing	**721.3**	**773.6**	**787.4**	**809.7**	**749.7**	**746.2**

– Nil.

a 1996–97 data are Budget estimates.

b In 1994–95 the Vendor Qualification Scheme was combined with the Information Technology Development Program.

c CSIRO Research Institutes were restructured in 1995–96. Outlays are now apportioned by research purpose.

d In 1993–94 the National Industry Extension Service became the major component of the Enterprise Development Program.

e The Small and Medium Enterprise Development Program has been combined with the National Industry Extension Service.

f From 1993–94 disaggregated information on the schemes included under the Industry Innovation Programs are not available. In the *Working Nation* statement, the programs were merged into a single program for which multiple criteria apply. Funding for the *Start* Program is included here.

g Previously known as the Australian International Management Exchange Program (AIMEP).

Source: Commonwealth Budget and Budget related papers (various years), departmental annual reports (various years) and Commission estimates

Table D.6: Commonwealth budgetary outlays on the mining and energy sector, 1991–92 to 1996–97[a] ($ million)

	1991–92	*1992–93*	*1993–94*	*1994–95*	*1995–96*	*1996–97*
Austrade – Export Market Development Grants scheme	3.1	2.5	5.2	5.3	5.5	5.1
– export promotion operating expenses	2.8	3.1	3.4	3.6	3.5	1.8
Coal Australia Promotion Program	–	–	–	–	1.2	–
Cooperative Research Centres	3.2	6.7	11.3	12.7	16.3	17.8
CSIRO Institute of Minerals, Energy and Construction	73.2	80.5	85.3	69.0	68.4	b
CSIRO minerals and energy research	–	–	–	–	–	72.9
Energy R&D Corporation	11.8	11.6	11.0	11.0	11.8	6.6
Energy sector initiatives	–	–	0.5	2.0	1.0	–
National Energy Efficiency Program[c]	4.5	7.8	7.3	6.5	4.4	4.7
National Electricity Market Management and Code Administrator Companies – establishment subsidy	–	–	–	–	–	0.7
National Electricity Market Systems Development Project	–	–	–	–	0.7	2.7
Office of the Supervising Scientist of the Alligator Rivers Region Research Institute[d]	1.9	1.9	1.6	4.9	4.5	4.3
Rehabilitation of former uranium mine sites	0.7	0.4	0.3	0.2	0.1	0.1
Tasmanian Freight Equalisation Scheme	0.9	1.0	1.0	1.2	1.3	1.3
Total outlays on mining and energy	**102.1**	**115.5**	**126.9**	**116.4**	**118.7**	**118.0**

– Nil.

a 1996–97 estimates are Budget estimates.

b CSIRO Research Institutes were restructured in 1995–96. Outlays are now apportioned by research purpose.

c Previously the Energy Management Program.

d Until 1993–94 a levy on uranium exports was collected to cover three-quarters of the cost of the Supervising Scientist. Thus one-quarter of the cost has been reported. Estimates for subsequent years are net of the annual contribution from the Environmental Protection Agency.

Source: Commonwealth Budget and Budget related papers (various years), departmental annual reports (various years) and Commission estimates

Table D.7: Commonwealth budgetary outlays on selected services industries, 1991–92 to 1996–97[a] ($ million)

	1991–92	*1992–93*	*1993–94*	*1994–95*	*1995–96*	*1996–97*
Ausmusic	–	0.6	1.2	1.2	1.2	–
Austrade – Export Market Development Grants scheme	78.3	81.0	115.3	116.2	120.7	112.5
– export promotion operating expenses	61.7	69.0	74.3	78.2	77.2	39.8
Australia in Asia programs	–	0.2	5.7	2.8	2.9	1.4
Australian Film Commission	16.6	17.1	17.9	19.8	20.5	27.6
Australian Film Finance Corporation & Film Australia[b]	75.6	67.8	63.4	60.4	56.5	54.9
Australian Tourist Commission	69.5	74.5	77.2	79.3	80.3	76.8
Asian Infrastructure Initiative	–	–	–	3.0	1.3	–
Bass Strait passenger subsidy	–	–	0.3	0.4	0.4	0.4
Building research	0.3	0.3	–	–	–	–
Capital Grants Scheme for purchase of trading ships (contingent on lower crewing levels)	15.9	0.1	24.0	5.6	31.1	10.0
Commercial television production fund	–	–	–	–	20.0	8.3
Commonwealth Development Bank subsidy	–	–	3.8	5.6	5.6	–
Construction industry reform and development	–	–	–	1.9	–	–
Cooperative Research Centres	0.5	5.1	11.8	13.1	16.8	18.3
CSIRO Institute of Information Science and Engineering	42.3	37.9	38.1	37.9	37.8	c
CSIRO services industry research	–	–	–	–	–	43.1
Development Import Finance Facility	2.9	30.2	16.9	17.2	17.7	2.7
Film industry multimedia development subsidy	–	–	–	–	1.9	–
Interest subsidy for financing eligible export transactions (EFIC)	0.9	2.5	1.3	1.1	–	–
Multi-Function Polis	2.7	1.5	1.6	3.0	3.0	–
Pharmacy Restructuring Authority grants	36.4	8.3	6.4	8.7	7.1	8.6

Table D.7 (continued)

	1991 –92	*1992 –93*	*1993 –94*	*1994 –95*	*1995 –96*	*1996 –97*
Remote air services subsidy	1.1	1.1	1.2	1.2	1.3	1.3
Remote commercial television subsidy	–	–	–	1.0	1.2	1.1
Shipping Industry Reform program	12.5	0.7	11.2	1.2	–	–
Tasmanian Freight Equalisation Scheme	1.7	1.7	1.7	2.0	2.1	2.1
Towage industry reform	5.3	–	–	–	–	–
Waterfront industry reform	121.5	22.9	–	–	–	–
Total outlays on services	**545.7**	**422.5**	**473.3**	**460.8**	**506.6**	**408.9**

– Nil.

a 1996–97 data are Budget estimates.

b The 1991–92 figure does not include Film Australia Pty Limited.

c CSIRO Research Institutes were restructured in 1995–96. Outlays are now apportioned by research purpose.

Source: Commonwealth Budget and Budget related papers (various years), departmental annual reports (various years) and Commission estimates

APPENDIX E

Anti-dumping and countervailing activity

The anti-dumping system is intended to discourage what are perceived to be unfair pricing practices by foreign suppliers. However, its effects can be similar to those of other forms of border protection. While the system is of benefit to some import-competing activities, anti-dumping action can reduce competition and raise costs for downstream processors and consumers. Countervailing action against subsidised imports can have much the same effect.

Anti-dumping and countervailing initiations were at a relatively low level in 1995–96. But the number of cases subject to existing measures remains high. A review of anti-dumping and countervailing administration was announced in June 1996. A review of the legislation governing the operation of the system is scheduled for 1997–98, as part of the Commonwealth's review of legislation which restricts competition.

ANTI-DUMPING AND COUNTERVAILING IN 1995–96

The number of anti-dumping and countervailing cases initiated remains low (table E.1). While the 11 cases commenced during 1995–96 was almost double the activity of the previous year, this was substantially lower than in any year during the 1980s and early 1990s.

Box E.1: Dumping, anti-dumping and countervailing

Dumping occurs when a foreign supplier exports goods at a price which is lower than the 'normal value' of the goods in its home market. Under international trade rules and Australia's legislation, anti-dumping action can be taken against dumped imports only when the dumping causes or threatens 'material injury' to the Australian industry producing like goods.

Action can essentially take two forms:

- the foreign exporter may make a formal undertaking that all future exports to Australia will be made at a non-injurious price; or
- a dumping duty may be imposed on imports of the relevant goods.

Similar rules apply where the injury is caused or threatened by imports which benefit from certain subsidies. In this instance, 'countervailing' action may be taken.

Table E.1: Anti-dumping and countervailing activity, 1991–92 to 1995–96

	1991 –92	*1992 –93*	*1993 –94*	*1994 –95*	*1995 –96*
New cases[a]					
New cases initiated	88	77	51	6	11
Cases where measures imposed					
– at preliminary finding stage	70	19	16	5	2
– at final finding stage	43	27	19	4	1
Measures in force					
Cases subject to measures at 30 June	77	75	103	101	101

a Cases are defined as one commodity from one country. Cases where dumping and subsidisation are alleged for the same country and commodity are counted as two distinct initiations.

Source: ACS (1996a,b)

Anti-dumping duties were imposed in only one case during 1995–96. Despite this, the number of anti-dumping and countervailing measures in place is still high. The number of cases for which measures are in force (101 cases) is the same number as in 1994–95, which is the second highest since 1987–88. Of these, 15 cases involved countervailing action.

INDUSTRY AND COUNTRY INCIDENCE

As in previous years, the chemicals industry accounted for a large share of the initiations in 1995–96 (around half). Almost all of the remaining cases involved machinery and equipment and fabricated metal products (table E.2). Nearly half of the initiations in 1995–96 were against Asian countries (table E.3).

Table E.2: Anti-dumping and countervailing cases, complaints formally initiated by industry,[a] 1991–92 to 1995–96

						Five-year period	
ASIC subdivision	*1991 –92*	*1992 –93*	*1993 –94*	*1994 –95*	*1995 –96*	*total no.*	*per cent*
Food and beverages	18	10	–	2	–	30	12.9
Textiles	–	2	10	–	–	12	5.2
Paper and paper products	2	9	–	–	–	11	4.7
Chemical and petroleum products	32	18	16	2	5	73	31.3
Metallic mineral products	–	–	–	–	-	–	-
Non-metallic mineral products	13	–	4	–	-	17	7.3
Basic metal products	–	3	4	–	-	7	3.0
Fabricated metal products	7	–	–	1	2	10	4.3
Transport equipment	4	1	–	–	-	5	2.1
Other machinery & equipment	–	2	4	1	3	10	4.3
Miscellaneous manufacturing	12	32	13	–	1	58	24.9
Total	**88**	**77**	**51**	**6**	**11**	**233**	**100.0**

– Nil.

a Cases are defined as one commodity from one country. Cases where dumping and subsidisation are alleged for the same country and commodity are counted as two distinct initiations.

Source: ACS (1996a)

Table E.3: Australian initiations of anti-dumping and countervailing cases by target country,[a] 1991–92 to 1995–96

	1991 –92	*1992 –93*	*1993 –94*	*1994 –95*	*1995 –96*	*Total*	*Share of dumping cases per cent*	*Country import share[b] per cent*
Belgium–Lux	2	3	–	–	1	6	2.6	1.0
Brazil	1	4	1	–	–	6	2.6	0.6
China	8	3	2	1	1	15	6.4	5.2
France	6	3	1	–	–	10	4.3	2.4
Germany	2	5	1	–	–	8	3.4	6.3
Hong Kong	1	3	2	–	–	6	2.6	1.2
India	2	4	–	–	–	6	2.6	0.7
Indonesia	4	5	1	1	–	11	4.7	2.0
Italy	7	1	2	2	–	12	5.2	2.9
Japan	4	1	2	–	–	7	3.0	13.9
South Korea	5	6	5	–	2	18	7.7	2.9
Malaysia	3	5	3	–	1	12	5.2	2.1
Netherlands	3	1	3	–	–	7	3.0	0.9
Singapore	2	5	6	–	–	13	5.6	3.4
South Africa	–	3	6	2	2	13	5.6	0.6
Spain	2	–	1	–	–	3	1.3	0.7
Taiwan	7	3	5	–	–	15	6.4	3.3
Thailand	7	6	1	–	1	15	6.4	1.3
UK	4	1	2	–	2	9	3.9	6.3
USA	4	3	2	–	1	10	4.3	22.6
Other	14	12	5	–	–	31	13.3	19.9
Total	**88**	**77**	**51**	**6**	**11**	**233**	**100.0**	**100.0**

– Nil.

a Cases are defined as one commodity from one country. Cases where dumping and subsidisation are alleged for the same country and commodity are counted as two distinct initiations.

b Share of Australia's total merchandise imports accounted for by imports from each country in 1995–96.

Source: ACS (1996a) and ABS (1996b)

Box E.2: Dumping — fair or unfair trade?

Anti-dumping procedures are often viewed by local industry as a mechanism to safeguard against ‘unfair’ pricing practices by overseas competitors. But in many circumstances, sales at prices which do not cover all costs are consistent with rational commercial behaviour. This can be the case, for example, in periods of depressed demand or over-capacity when only variable costs may be recouped. Also, differences in transport costs and other natural advantages may enable firms with some domestic market power to finance more of their fixed costs from domestic customers. In such cases sales into distant markets could be priced closer to variable cost. In addition, export prices will generally be lower than domestic prices where an exporter benefits from tariff protection in its domestic market.

A concern often raised by industry in support of anti-dumping action is the predatory intent of foreign exporters. Predation occurs where a foreign supplier attempts to drive local producers out of the market with a view to raising its prices once the competition has been eliminated. Theoretically, the short-term gains to consumers can be outweighed eventually by the losses from higher prices in the long term.

While predation was one aspect of Australian legislation directed at dumping earlier this century, predatory intent does not figure in current anti-dumping assessments and forms no part of the Australian legislation or of World Trade Organization (WTO) requirements. In any event, the circumstances in which predation would be of concern in international trade are rare. For predatory dumping to be effective, there would need to be only one foreign supplier, or effective collusion, and barriers to the re-entry of local producers. In Australia, dumping complaints are often made against exporters from several countries at a time.

Complaints of unfair trade would seem to have more substance in countervailing cases — where competition is from exporters which benefit from government subsidies, rather than from firms merely selling at a lower price in a foreign market than at home.

INTERNATIONAL TRENDS

Australia accounted for around 4 per cent of anti-dumping and countervailing cases initiated internationally in 1994–95. While Australia's rate of initiations in that year was lower than in any year during the 1980s, its share of new cases globally was still high relative to its share of world trade.

Seventeen countries initiated anti-dumping or countervailing cases during 1994–95. Typically, the United States (US), the European Union (EU), Australia and Canada have been the major initiators of actions. In 1994–95, Mexico and Brazil replaced Australia and Canada in the top four.

However, in terms of measures in place, Australia remains the third highest user of anti-dumping and countervailing action. At 30 June 1995, the US and EU accounted for 60 per cent of the measures in force. Australia's share was 11 per cent, with Canada only slightly lower.

RECENT DEVELOPMENTS

The major developments during the year were the announcements of separate reviews of anti-dumping administration and legislation.

ADMINISTRATIVE REVIEW

On 26 June 1996 the Minister for Small Business and Consumer Affairs announced a review of anti-dumping and countervailing administration. The objective is 'to improve existing anti-dumping and countervailing procedures to ensure Australian producers are not disadvantaged' (Prosser 1996).

The review, headed by Mr Lawrie Willett AO, was requested to examine ways to implement the Government's commitments to:

- reduce the time limit for cases from 245 to 155 days (and from 265 to 185 days for complex applications);
- require reviews to be held before expiry of the five year sunset period — currently the Anti-Dumping Authority (ADA) is required to advertise that the measures are due to expire and, if there is no application for renewal, the measures automatically expire;

- ensure that material injury tests do not require virtual decimation of the local industry before action is taken; and
- simplify information requirements for local complainants.

These potential changes continue the trend over recent years of making anti-dumping and countervailing action ‘quicker, cheaper and easier’ for industry to invoke.

In a letter to the review, the Commission pointed to the potential for overlap between the administrative and policy aspects of anti-dumping. One such area in the terms of reference for the review is the Government’s desire to ensure that material injury tests do not require ‘virtual decimation of the local industry’ before action is taken.

The requirement to demonstrate material injury forms part of Australia’s international commitments under the WTO Agreements. The ADA has interpreted ‘material’ as ‘not immaterial, insubstantial or insignificant’. It has judged that, for dumping to cause or threaten material injury, it must have detrimental effects greater than are likely to occur in the ‘normal ebb and flow of business’ (ADA 1989). These interpretations serve to illustrate that it is not possible to define precisely some of the key concepts involved in anti-dumping and countervailing administration.

The Commission argued that, in important respects, the material injury test and its application is more of a policy issue than one of administration. It therefore will need to be examined carefully in the forthcoming review of anti-dumping and countervailing legislation.

The Commission also provided the review with extracts from recent reports in which it commented on the anti-dumping system (IC 1995a,b; PC 1996). These reports have highlighted the anti-competitive effects of anti-dumping action and the costs it imposes on other industries and consumers.

LEGISLATIVE REVIEW

Anti-dumping and countervailing legislation is to be reviewed in 1997–98. The review is part of the Commonwealth’s legislative review commitments under the national competition policy framework.

Dumping duties, price undertakings given by foreign firms as a result of dumping actions, and even the threat of initiating anti-dumping action can reduce competition and adversely affect downstream users. The potential penalty to users is often many times higher than prevailing tariff rates. In three-quarters of the cases examined by the ADA since its inception in 1988, maximum dumping margins have exceeded 20 per cent, with margins in one-third of cases being over 40 per cent.

Current Australian legislation does not provide a formal mechanism through which both the costs and benefits of anti-dumping and countervailing action can be taken into account.

In its *Stocktake of Progress in Microeconomic Reform* , the Productivity Commission noted that:

> The competition policy principles agreed to by COAG discourage predatory activity which would limit competition, but recognise the benefits from price competition generally. Australia’s anti-dumping arrangements limit import competition even where there is no predatory intent. Competition laws in Australia and New Zealand have applied to relevant anti-competitive conduct in trans-Tasman trade since 1990. (PC 1996, p. 127)

It recommended that the forthcoming review should examine the scope for basing assessments on economy-wide costs and benefits, as well as for competition policy alternatives to the current arrangements.

APPENDIX F
Assistance to agriculture and manufacturing

Measured assistance to agriculture remained constant in effective rate terms at 11 per cent in 1994–95. Reductions in assistance to tobacco, dried vine fruits, wool and wine grapes were offset by increases for market and manufacturing milk and rice. Disparities in assistance within the sector increased slightly.

For the manufacturing sector, measured assistance continued to decline. The average effective rate of assistance fell from 9 per cent in 1994–95 to 8 per cent in 1995–96. It is projected to decline to 5 per cent by 2000–01. Recent changes to the Tariff Concession System will affect assistance to manufacturing insignificantly.

The general tariff reduction program ended July 1996. Around 95 per cent of manufacturing output is still assisted by tariffs, predominantly no more than 5 per cent. But, even by 2000, assistance levels for the textiles, clothing and footwear (TCF) and passenger motor vehicle (PMV) industries will remain several times above the manufacturing average.

Most agricultural assistance is provided by domestic marketing arrangements. Reforms to these arrangements and other farm support programs has been ongoing. However, the counter-cyclical nature of much of that support means that although assistance to agriculture is lower in 1994–95 than in the early 1990s, it is above late 1980 levels.

From July 1996, almost all tariffs are a maximum of 5 per cent, marking the end of the general tariff reduction program begun in March 1991. This substantially reduced assistance to the manufacturing sector. Tariffs on textiles, clothing and footwear (TCF) and passenger motor vehicles (PMV) will remain much higher, despite continuing to fall through to 2000.

In its *Stocktake of Progress in Microeconomic Reform* , the Productivity Commission recommended extending the general tariff reduction program to remove tariffs for most goods by July 1998. It also recommended further reform of agricultural marketing, non-tariff measures and other assistance arrangements (PC 1996).

This appendix reports on recent developments in assistance to agriculture and manufacturing. Details of the Commission's estimates of assistance for these sectors are provided. These estimates cover the major Commonwealth Government interventions which selectively assist activities. However, because they do not incorporate the entire range of assistance provided by the government (box F.1), the estimates are supplemented by reporting on export measures (appendix C), budgetary support (appendix D) and anti-dumping activity (appendix E). The Commission also has released a draft report examining state, territory and local government assistance (IC 1996i).

ASSISTANCE TO AGRICULTURE

Estimates of agricultural assistance for 1993–94 have been revised and preliminary estimates presented for 1994–95. Estimates for 1994–95 are mainly based on preliminary ABS data on the value of output. The tables in this appendix summarise:

- assistance to agriculture by form (table F.1);
- price distortions induced by the assistance and associated transfers of income to producers, or producer transfers (table F.2); and
- nominal and effective rates of assistance by activity and standard deviations for the sector (table F.3).

Box F.1: Measurement methodology and coverage

The Commission principally uses nominal and effective rates as standard measures in reporting on levels of industry assistance. The *nominal rate of assistance on output* for an activity is the percentage by which government assistance allows the average gross returns per unit of output to increase, relative to the hypothetical situation of no assistance. The *effective rate of assistance* is the percentage increase in returns to an activity's value-added per unit of output, relative to the hypothetical situation of no assistance. (Value-added is the return to land, labour and capital from the production process.) These measures are production-weighted (rather than trade-weighted) and facilitate comparisons of the relative incentive effects of assistance on different industries within a sector and over time.

Two related measures of the value of assistance are the gross and net subsidy equivalents. The gross subsidy equivalent (GSE) is the notional amount of money, or subsidy, necessary to provide the same amount of assistance as is provided by an industry's nominal rate on output. The net subsidy equivalent (NSE) is the notional subsidy required to assist an industry to the same extent as its effective rate.

The focus is on trends and disparities in assistance levels within a sector. The Commission measures and monitors assistance so as to identify the major government interventions which differentially assist industries. Such consistent measures, over time and between industries at disaggregated levels, are useful tools for assessing the resource allocation implications of assistance. However, reflecting their relative importance and data limitations, the forms of assistance measured are broader in agriculture than in manufacturing. Hence, care is needed in making intersectoral comparisons.

The measures reported cover the major Commonwealth Government interventions which selectively alter incentives between activities. The estimates include assistance provided via tariffs, quantitative import restrictions, local content schemes, certain export incentives and, for agricultural commodities, domestic pricing arrangements and income tax concessions. The estimates do not cover the entire range of assistance provided by the Commonwealth. For example, assistance arising from government procurement policies, the Factor f scheme for pharmaceuticals and anti-dumping activity is not included.

State government interventions of national significance which raise the prices of agricultural commodities are included in the estimates. However, any assistance (positive or negative) which may arise from government provision of infrastructure is excluded due to the difficulty of quantifying the level of assistance involved.

TRENDS IN SECTORAL ASSISTANCE

In 1994–95, the average nominal rate of assistance to agriculture fell from 4 per cent to 3 per cent. Increases in nominal assistance to milk and rice were partly offset by decreases for tobacco, dried vine fruits, wool and wine grapes.

Assistance to value-added (the effective rate of assistance) remained constant at 11 per cent in 1994–95. While the effective rate of assistance fell for tobacco, dried vine fruits, wool and wine grapes, assistance to rice and to the already heavily assisted market and manufacturing milk sectors increased.

Disparities in assistance between agricultural industries rose marginally in 1994–95. The standard deviation of the effective rate of assistance increased from 56 to 61 percentage points, while the disparity in the nominal rate of assistance remained unchanged at 13 percentage points.

In its *Stocktake of Progress in Microeconomic Reform* , the Productivity Commission (1996) recommended further reform of agricultural marketing arrangements, the phased removal of tariffs on agricultural commodities and a rationalisation of budgetary support. Consistent with the Competition Principles Agreement, it recommended that statutory marketing arrangements be terminated, unless found by an independent and transparent review to satisfy a public benefit test. Based on previous reviews, it also called for:

- reforms to market milk arrangements to be extended to all states and to the farm gate level by July 1999;
- continued phasing out of support for manufacturing milk by 2000;
- termination of the regulatory arrangements for the sugar and rice industries;
- an independent review of the wheat export monopoly, which should be retained only in markets where price premiums resulted — and there should be scope for other suppliers to provide the monopoly service;
- Western Australia and Tasmania to deregulate their egg industries and Queensland to continue reforms; and
- Government guarantees on borrowings by the Australian Wheat Board and Wool International to terminate as scheduled.

DEVELOPMENTS AFFECTING THE SECTOR

Rural adjustment

Commonwealth funding to agriculture through the Rural Adjustment Scheme (RAS) increased by $15 million in 1994–95 to $120 million. This mainly goes to the beef and wool industries — these accounted for around half of all funding in 1994–95.

Research

The Commonwealth provides funding for R&D, through the Rural Research and Development Corporations and the CSIRO. This support increased by $4 million in 1994–95 to $160 million. Beef, wool and wheat received most funding, together accounting for around 55 per cent of total funding in 1994–95.

Tariffs and domestic pricing arrangements

Assistance provided by tariffs on imports of agricultural commodities decreased from $30 million in 1993–94 to $26 million in 1994–95. This was primarily due to the reduction in tariffs on wine grapes from 12 per cent to 10 per cent.

Domestic pricing arrangements provided increased assistance in 1994–95, up $51 million to $556 million. Market and manufacturing milk accounted for most of the increase in this form of assistance in 1994–95.

The penalty imposed on agriculture by tariffs on materials and capital inputs declined marginally to $60 million in 1994–95. While tariff rates on inputs were lower, this was mainly offset by increased use of capital and material inputs.

TRENDS IN COMMODITY ASSISTANCE

Dairy

Separate assistance arrangements apply to manufacturing and market (liquid) milk. Manufacturing milk production is assisted by Commonwealth support provided to dairy products. Additional assistance is provided to market milk through state government price controls and production quotas.

Assistance to market milk rose in 1994–95. The nominal rate of assistance increased from 76 per cent to 80 per cent. The effective rate remained over 200 per cent.

Assistance to manufacturing milk, through market support payments on exports, increased by $8 million in 1994–95. The nominal rate of assistance increased from 8 per cent to 9 per cent, while the effective rate increased from 17 to 21 per cent.

To meet Australia's GATT obligations, new arrangements for assisting manufacturing milk have applied from 1 July 1995. These arrangements replaced market support payments with rebates of a newly introduced dairy produce levy. The rebate provides similar incentives to export and levels of assistance to dairy products. The new arrangements continue to phase out support to dairy products by 2000.

Tobacco

The Tobacco Industry Stabilisation Plan and the Local Leaf Content Scheme ceased from 1 January 1995. Imports of tobacco leaf, manufactured tobacco and tobacco products are duty-free.

To facilitate adjustment, a one-off subsidy was provided in 1994–95 to buy out the production quotas of tobacco growers leaving the industry. Australian cigarette manufacturers provided $10.8 million of this subsidy, while the Queensland, New South Wales and Victorian Governments matched the subsidy dollar for dollar.

As part of the Commonwealth Government's tobacco industry restructuring package, manufacturers agreed to enter into three-year production and price contracts (with the potential to extend the contract by another two years) with growers electing to remain in the industry. After this, domestic prices are to be renegotiated to be competitive with imports. Thus, assistance to tobacco growing from these arrangements can be expected to fall to zero over the five year transition period (assuming the two year extension is used). The Commission's assistance estimates assume that domestic prices will fall uniformly to import parity over the transitional five year period, because detailed domestic prices for tobacco leaf agreed by manufacturers are not publicly available from 1993–94.

Based on this assumption, nominal and effective rates of assistance to tobacco decreased significantly in 1994–95, due to the new arrangements. The measured nominal rate of assistance to tobacco in 1994–95 fell from 75 per cent to 50 per cent. The effective rate remained at over 200 per cent in 1994–95.

Sugar

Sugar production is assisted by Queensland's statutory marketing arrangements for raw sugar and a specific tariff of $55 per tonne (less 5 per cent of the free-on-board import value for preferential impo rts). These arrangements allow domestic prices to be raised above export parity prices. These arrangements, including future tariff rates, are currently being reviewed by a joint Commonwealth–Queensland Government Working Party, due to report in February 1997.

The methodology used to calculate assistance to the sugar industry in 1994–95 was revised partly due to data limitations. The revised approach constructs domestic prices on the basis that the maximum they can be above export parity is given by the amount of the tariff and freight payable on preferential imports. Assistance estimates were revised back to 1990–91, the beginning of the current series.

According to the revised estimates, the nominal rate of assistance remained unchanged at 4 per cent in 1994–95, while the effective rate of assistance increased from 13 to 14 per cent.

Wool

Assistance to wool growers fell significantly in 1994–95. The nominal rate of assistance fell from 4 per cent in 1993–94 to 1 per cent in 1994–95, while the effective rate fell from 14 per cent to 6 per cent. Assistance declined for two main reasons. Firstly, funding for wool promotion ($20 million in 1993–94) ceased in 1994–95. Secondly, the estimated value of the government guarantee on wool loans (measured by the difference between the 'assessed' market and the government-guaranteed interest rates) fell from $70 million in 1993–94 to $30 million in 1994–95.

Dried vine fruits

The tariff on imported currants, raisins and sultanas (dried vine fruits) fell to 10 per cent in 1994–95, from 12 per cent in 1993–94. The tariff will decline from 8 per cent in 1995–96 to 5 per cent in 1996–97. As production of currants and raisins is import competing, growers are assisted by the tariff.

Sultana production, despite being export orientated, also benefits from tariff protection. Statutory marketing arrangements for sultanas limit domestic competition and enable higher prices to be maintained by diverting supplies to export markets. Exports are controlled by the Australian Dried Fruits Board. In 1994–95, however, the excess of domestic over export returns narrowed sharply, and producer transfers fell significantly from $6 million in 1993–94 to less than $2 million. The industry's exemption from section 45 of the *Trade Practices Act* was removed in October 1992. In principle, this would be expected to reduce the scope for the Australian Dried Fruit Association to price discriminate between domestic and export markets.

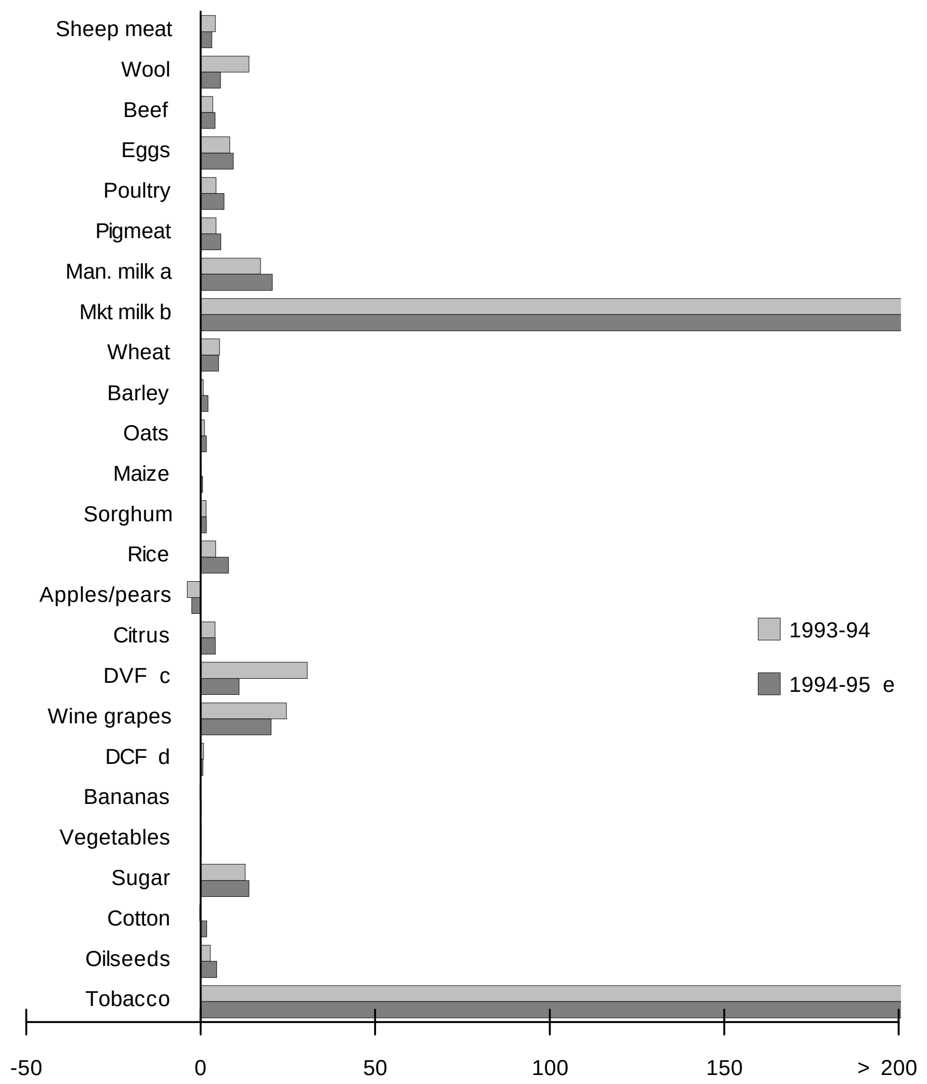
Assistance to dried vine fruits production continued to fall substantially in 1994–95. The nominal and effective rates of assistance dropped from 13 to 4 per cent and from around 30 to 11 per cent, respectively, in 1994–95.

DISPARITIES IN ASSISTANCE

Disparities in effective rates between agricultural activities are important indicators of the potential for inefficiencies in resource use. Highly disparate nominal rates of assistance also indicate the potential for losses of consumption efficiency arising from distorted consumer prices.

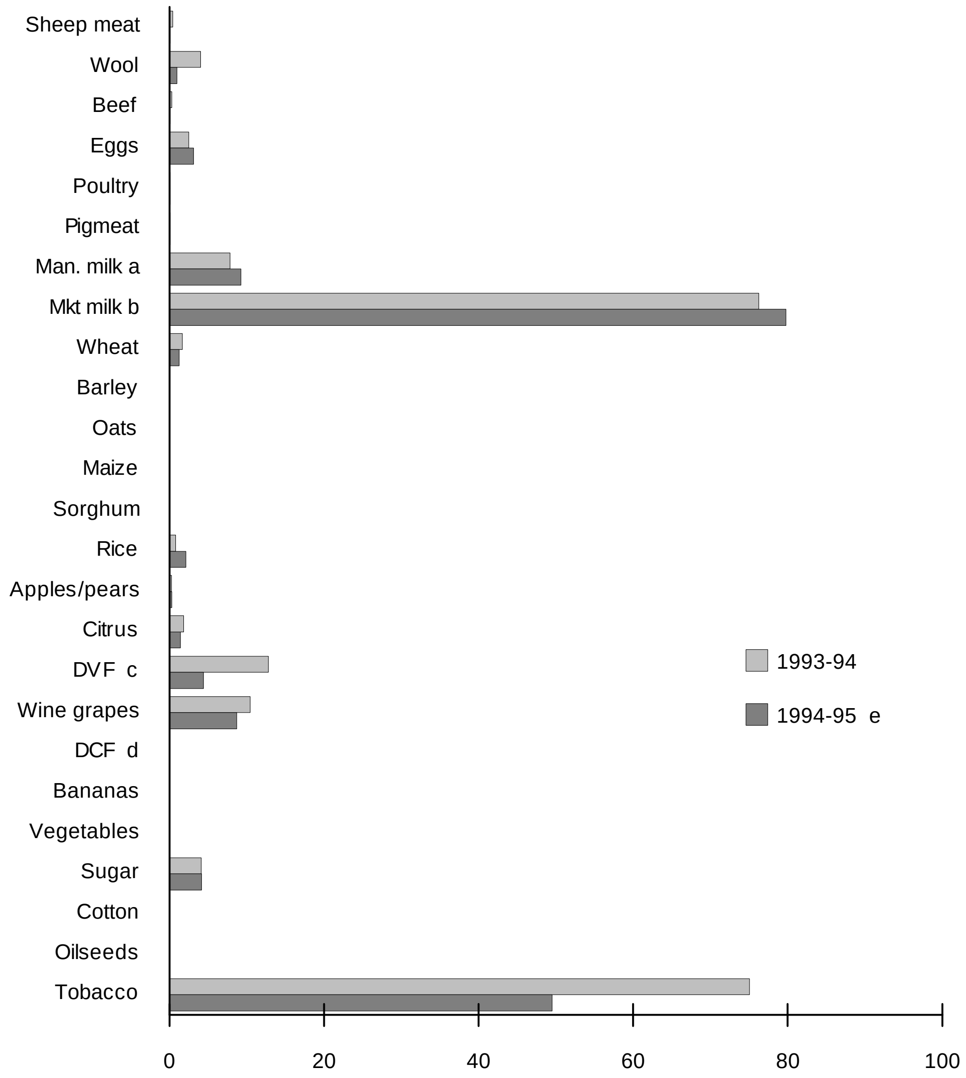
Assistance varies significantly among agricultural commodities (figures F.1 and F.2). As measured by the standard deviation, disparities in the effective rate of assistance increased from 56 per cent in 1993–94 to 61 per cent in 1994–95 (table F.3). Disparities in nominal rates, however, remained unchanged at 13 per cent.

Figure F.1: Average effective rates of assistance to agricultural commodities, 1993–94 and 1994–95 (per cent)



a Manufacturing milk.
b Market milk.
c Dried vine fruits.
d Deciduous canning fruits.
e Preliminary estimates.
Source: Commission estimates

Figure F.2: Average nominal rates of assistance to agricultural commodities, 1993–94 and 1994–95 (per cent)



a Manufacturing milk.
b Market milk.
c Dried vine fruits.
d Deciduous canning fruits.
e Preliminary estimates.
Source: Commission estimates

ASSISTANCE TO MANUFACTURING

This section reports on recent changes in assistance to the manufacturing sector. It also provides an update of developments affecting future manufacturing assistance including:

- reviews of the TCF and PMV industries; and
- changes to the Tariff Concession System (TCS).

TRENDS IN MANUFACTURING ASSISTANCE

Most tariffs fell to 5 per cent in July 1996, marking the end of the general tariff reduction program begun in March 1991. However, the PMV and TCF industries continue to receive assistance several times higher than other manufacturing activities. The tariff on PMVs declined to 25 per cent in January 1996 and is to phase down to 15 per cent by 2000. The maximum tariff rate applying to TCF goods declined to 37 per cent in 1996, and will be 25 per cent by 2000.

The tariff reduction program has substantially reduced measured nominal and effective rates of assistance for manufacturing. The (production-weighted) average nominal rate for manufacturing was 5 per cent in 1995–96, compared with 8 per cent when the program commenced in 1990–91. With the most recent tariff reduction, the nominal rate will decline to 4 per cent in 1996–97. By 2000, it is projected to fall to 3 per cent as a result of scheduled reductions to PMV and TCF tariffs.

The sector’s effective rate of assistance fell from 9 per cent in 1994–95 to 8 per cent in 1995–96. It will fall to 6 per cent in 1996–97, and to 5 per cent by 2000, when it will be about a third of its 1990–91 level. The dispersion in assistance is also declining, with the standard deviation of effective rates falling from 12 percentage points in 1994–95 to 11 percentage points in 1995–96. It will fall a further percentage point in 1996–97.

Australia’s reductions in protection from the mid-1980s to 2000 have been estimated to increase GDP by some $4 billion. Nevertheless, the cost of remaining tariff protection is high. The net subsidy equivalent (NSE) of assistance to the manufacturing sector will amount to over $4billion in 1996–97. By 2000 the NSE will still be $3.5 billion.

Recognising the direct benefits in terms of better resource allocation and lower costs to business, the Productivity Commission concluded in its microeconomic reform stocktake that it was 'time to finish the job of dismantling remaining tariff and non-tariff barriers' (PC 1996, p. 121). It recommended that:

- general tariff reductions continue beyond July 1996, with tariffs for most goods being phased out by July 1998;
- the scheduled reviews of post-2000 assistance arrangements for the TCF and PMV industries proceed in 1996;
- remaining production bounties be terminated no later than general tariffs in July 1998;
- the Export Market Development Grants scheme be terminated; and
- a range of other budgetary and non-tariff measures cease or be reviewed.

The government is yet to take a stance on tariffs. But some other recommendations, such as the termination of bounty assistance, were addressed in the 1996–97 Commonwealth Budget (see appendices C and D).

OTHER DEVELOPMENTS AFFECTING MANUFACTURING ASSISTANCE

Reviews of TCF and PMV

Protection for the TCF and PMV industries imposes significant costs on other industries and consumers. Together, the TCF and PMV industries account for around half of the remaining assistance to the manufacturing sector.

The effective rate of assistance for the PMV industry was over 30 per cent in 1995–96, and is expected to fall to around 20 per cent in 2000. In August 1996, the Government sent to the Commission a nine-month inquiry into the automotive industry. The terms of reference require the Commission to examine a range of matters, including assistance arrangements for the industry from January 2000.

The effective rate of assistance for the textile industry was 27 per cent in 1995–96, and is expected to fall to 17 per cent in 2000–01. For the clothing and footwear industry, the effective rate was 56 per cent in 1995–96 and is to decline to 34 per cent over the same period. A review of the post-2000 assistance arrangements for the TCF industries is also scheduled to commence in 1996.

Changes to the tariff concession system

The Government implemented changes to the Tariff Concession System (TCS) from 15 July 1996.

The TCS allows concessional tariff entry of imports for which there are no domestically produced goods ‘serving similar functions’. The previous ‘market test’, where a tariff concession was also given where it was not likely to have a significant adverse effect on the market for the substitute good, has been abolished. As a result, substitutability with locally produced goods is now the sole criterion for determining whether to grant a tariff concession order.

The revised arrangements also reduced the value of the concession. A duty of 3 per cent now applies to tariff concession orders for business inputs. However, consumer goods entering under the TCS remain duty-free. Over recent years, the number of new tariff concessions granted had increased considerably, from 1366 in 1990–91 to 4521 in 1994–95. New concessions fell to 2888 in 1995–96.

Changes were also made to Policy By-laws. These provide for the concessional entry of goods under a range of specified circumstances, and to satisfy particular government objectives. In line with changes to the TCS, the duty rate applying to several Policy By-laws was increased to 3 per cent. For example, under Item 47, machinery that incorporates or is imported with other goods which render the machinery ineligible under the TCS now attracts the 3 per cent duty rate. Several administrative changes were also made to restrict the availability of By-law concessions.

In commenting on the changes in its microeconomic reform stocktake, the Productivity Commission concluded that:

> In terms of resource allocation effects, the announced changes to the TCS are a step in the wrong direction. Much of the revenue raised will be a tax on imported business inputs for which there are no domestically produced alternatives. Taxing business inputs is costly to the economy. It would also

> be preferable to avoid the double adjustment costs on industry from reinstating duties at the same time as reducing tariffs more generally. The TCS will become redundant with the elimination of general tariffs (PC 1996, p. 122).

The changes will raise tariff revenue of over $320 million in 1996–97 — $310 million for the TCS and $13 million for Policy By-laws. This represents a significant additional tariff impost on business.

However, the changes to the TCS will have a minor effect on manufacturing assistance. Because the TCS applies only where goods serving similar functions are not being produced in Australia, the changes do not affect the nominal rate of assistance to local production. Rather, by increasing the tariff penalty on inputs used in the production process, the changes reduce the effective rate of assistance for user industries. The penalty is borne by producers in agriculture, mining and services, as well as manufacturing.

Available data on industry usage patterns of the concessions is limited. Nevertheless, the imposition of the 3 per cent duty rate for concessions is estimated to have little effect on effective assistance. With rounding, the manufacturing average effective rate will remain the same in both 1996–97 and 2000–01. At the Australian Standard Industry Classification (ASIC) subdivision level, only assistance to other machinery and equipment (subdivision 33) is expected to change, with the effective rate falling by one percentage point to 5 per cent in 1996–97.

Table F.1: Assistance to agriculture by form, 1990–91 to 1994–95 ($ million)

	1990–91	*1991–92*	*1992–93*	*1993–94*	*1994–95*
Assistance to outputs					
Domestic pricing arrangements [a]	445	450	382	505	556
Tariffs	29	33	28	30	26
Local content schemes	21	22	30	21	–
Export incentives	1	1	3	2	3
Export inspection services [b]	37	8	9	16	6
Marketing support	59	56	50	22	1
Underwriting arrangements	22	–	–	–	–
Government guarantees	82	113	120	106	58
Wool supplementary support payments	300	–	–	–	–
Total	**996**	**683**	**622**	**702**	**650**
Assistance to value-adding factors					
Adjustment assistance [c]	68	139	106	105	120
Agricultural research	159	150	167	156	160
Income taxation concessions [d]	19	27	78	79	98
Natural disaster relief	9	5	4	2	1
Sugar industry program	–	–	–	3	4
Total	**255**	**321**	**355**	**345**	**383**
Assistance to inputs					
Disease control [e]	11	8	5	3	3
Tariffs on inputs [f]	-100	-103	-105	-87	-77
Tariffs on plant and machinery [f]	-76	-68	-66	-63	-60
Total	**-165**	**-163**	**-166**	**-147**	**-134**

– Nil.

a Estimates include the effects of import restrictions which enable the domestic price to exceed the landed duty-free price of competing imports (for example, tariffs on dried vine fruits and sugar imports). For 1994–95, estimates include transitional assistance to tobacco following the removal of the local content scheme.

b Based on shortfalls from 100 per cent cost recovery.

c Estimates from 1992–93 include improved measurement of assistance provided under the Rural Adjustment Scheme. Figures reflect actual Commonwealth interest subsidies provided to farmers.

d A small amount of assistance supports activities for which nominal and effective rates are not estimated.

e Covers assistance provided by the bovine brucellosis and tuberculosis eradication campaign.

f The additional costs incurred due to assistance raising the prices of inputs. The current series includes the effect of tariffs on materials used in non-traded inputs.

Source: Commission estimates

Table F.2: Price distortions and producer transfers for agricultural commodities,[a,b] 1990–91 to 1994–95

Activity/commodity description	*1990–91* Price distortion	*1990–91* Producer transfer	*1991–92* Price distortion	*1991–92* Producer transfer	*1992–93* Price distortion	*1992–93* Producer transfer	*1993–94* Price distortion	*1993–94* Producer transfer	*1994–95* Price distortion	*1994–95* Producer transfer
	%	*$m*	*%*	*$m*	*%*	*$m*	*%*	*$m*	*%*	*$m*
Horticulture										
Dried vine fruits[c]										
Sultanas	31	15	28	10	26	11	15	6	4	1
Currants	17	1	15	1	14	1	12	1	10	1
Raisins	17	1	15	1	14	..	12	..	10	..
Wine grapes	15	22	14	28	13	25	12	27	10	23
Citrus	4	7	2	5	2	3	1	3	1	3
Tobacco[d]	35	21	36	22	62	30	75	21	50	12
Extensive irrigation and high rainfall crops										
Sugar[e]	39	64	30	46	23	36	19	38	17	38
Rice[f]	14	4	14	4	13	4	6	2	6	5
Intensive livestock										
Eggs[g]	13	30	8	17	3	8	2	4	2	5
Manufacturing milk										
Cheese	15	62	15	62	12	53	9	44	10	47
Butter	23	23	21	22	16	18	14	12	15	17
Skim milk powder[h]	24	16	22	15	14	10	13	12	13	12
Whole milk powder	21	6	22	5	15	4	13	4	13	5
Casein	29	1	26	..	15	..	16	..	16	..
Fresh milk[i]	38	198	53	253	44	230	71	344	114	375

.. Producer transfer less than $0.5 million or price distortion between -0.5 per cent and 0.5 per cent.

a The price distortion is the proportional difference between the assisted price of a commodity and the price that would prevail without assistance. For export-competing commodities, it is the proportional difference between domestic or constructed import parity and comparable export prices. For import-competing commodities, it is the proportional difference between the domestic and import (landed duty-free) prices. In the case of tariff assistance, the price distortion is the tariff rate applying to imports as a percentage of the landed duty-free price.

b Producer transfers represent the income transfer to farmers from domestic consumers/users due to domestic prices being maintained above export/import parity. The transfers are derived for export industries either by multiplying the difference between domestic or constructed import parity and comparable export prices by domestic sales or by multiplying the difference between the average prices received by farmers and comparable export prices by production. With the exception of sugar, it is assumed that all transfers accrue to the farming activity.

c Includes price raising effects of tariffs used in conjunction with the domestic marketing arrangements. The price distortion for sultanas is based on the difference between the lower of either average domestic or constructed import parity returns and comparable export returns to packers.

d Transfers derived by applying the price differential between Australian green leaf and comparable imported green leaf to the domestic sales of Australian leaf. Following the removal of the local leaf content scheme in January 1995, the methodology used for calculating producer transfers and price distortions was revised for the 1994–95 estimates. See text for further details.

e Producer transfers were estimated in accordance with the industry formula used for dividing raw sugar returns between millers and growers. The price distortion was calculated by comparing a constructed domestic price with estimated export returns. The revised methodology used to calculate producer transfers and price distortions has been used for the current series of estimates (1990–91 to 1994–95). See text for further details.

f Estimated by comparing domestic and export prices for medium- and long-grain rice. Estimates for 1990–91 include producer transfers associated with Queensland production. The price distortion for rice grown in Queensland is based on the difference between the average domestic and comparable export prices for rice grown in New South Wales. Queensland production accounts for approximately 2 per cent of Australian production.

g Estimates are derived using a weighted average of retail prices for eggs in the deregulated states to determine a benchmark retail price. This benchmark price is compared to the average retail prices in the regulated states in order to make an estimate of assistance provided at the retail level. Finally, this retail-level assistance is estimated on a pro rata basis from the value of retail prices to provide an estimate of assistance at the farm-gate level.

h Includes buttermilk.

i Estimates are based on the difference between the state fresh milk price and the local manufacturing milk price plus an allowance of 20 per cent of the average Australian manufacturing milk price (to represent the cost of assurance of out-of-season supply).

Source: Commission estimates

Table F.3: Average nominal and effective rates of assistance by agricultural activity and standard deviations for the agricultural sector, 1990–91 to 1994–95

	Nominal rate of assistance on output [a]					*Effective rate of assistance* [b]				
Activity/commodity description	*1990–91*	*1991–92*	*1992–93*	*1993–94*	*1994–95*	*1990–91*	*1991–92*	*1992–93*	*1993–94*	*1994–95*
Horticulture										
Apples and pears	1	..	..	..	..	-5	-5	-5	-4	-3
Dried vine fruits [c]	19	16	28	13	4	43	35	85	31	11
Wine grapes	15	14	13	10	9	31	29	29	25	20
Citrus	5	3	2	2	1	29	5	5	4	4
Deciduous canning fruits	..	..	..	..	..	3	3	1	1	1
Bananas	..	..	..	..	..	..	..	..	..	..
Tobacco [d]	35	36	71	75	50	119	123	>200	>200	>200
Vegetables	..	..	..	..	..	-1	..	..	..	..
Average	**4**	**3**	**4**	**3**	**2**	**7**	**7**	**8**	**6**	**4**
Extensive cropping										
Wheat	5	1	2	2	1	12	5	6	5	5
Barley	..	..	..	..	..	..	1	1	1	2
Oats	..	..	..	..	..	2	1	1	1	2
Maize	..	..	..	..	..	2	..	1	..	1
Sorghum	..	..	..	..	..	2	1	1	2	2
Oilseeds	..	..	..	..	..	2	3	3	3	5
Average	**3**	**1**	**1**	**1**	**1**	**8**	**3**	**4**	**4**	**4**
Extensive irrigation and high-rainfall crops										
Sugar [e]	9	8	5	4	4	24	24	13	13	14
Cotton	..	..	..	..	..	-4	-3	-2	..	2

Table F.3 (continued)

Activity/commodity description	Nominal rate of assistance on output [a] 1990–91	1991–92	1992–93	1993–94	1994–95	Effective rate of assistance [b] 1990–91	1991–92	1992–93	1993–94	1994–95
Rice[f]	4	2	2	1	2	11	6	10	4	8
Average	**4**	**3**	**2**	**2**	**2**	**9**	**8**	**7**	**7**	**9**
Extensive grazing										
Beef	1	..	..	..	..	4	3	3	3	4
Wool	10	6	6	4	1	26	15	17	14	6
Sheepmeat	3	..	..	..	..	9	4	5	4	3
Average	**6**	**2**	**2**	**2**	**..**	**14**	**8**	**8**	**7**	**5**
Intensive livestock										
Pigs	..	..	..	..	..	2	3	4	4	6
Poultry	..	..	..	..	..	1	4	2	4	7
Eggs[g]	13	8	3	3	3	41	23	9	8	9
Milk production	28	28	19	25	28	55	73	54	75	93
Manufacturing milk	20	16	9	8	9	43	33	20	17	21
Fresh milk[h]	41	45	37	76	80	129	160	118	>200	>200
Average	**13**	**13**	**10**	**13**	**15**	**42**	**45**	**31**	**44**	**52**
Total agriculture										
Average	**6**	**4**	**4**	**4**	**3**	**15**	**11**	**10**	**11**	**11**
Standard deviation[i]	**(9)**	**(9)**	**(8)**	**(13)**	**(13)**	**(22)**	**(24)**	**(25)**	**(56)**	**(61)**

.. Between -0.5 per cent and 0.5 per cent.

a Average nominal rates on outputs are weighted by the unassisted value of output of each activity.

b Average effective rates are weighted by the unassisted value-added of each activity.

c The estimates of assistance to sultanas have been revis ed and are based on a comparison of the lower of either domestic or constructed import parity returns with the export returns.

d Transfers derived by applying the price differential between Australian green leaf and comparable imported green leaf to the domestic sales of Australian leaf. Following the removal of the local leaf content scheme in January 1995, the methodology used for calculating producer transfers and price distortions was revised for the 1994–95 estimates. See text for further details.

e Producer transfers were estimated in accordance with the industry formula used for dividing raw sugar returns between millers and growers. The price distortion was calculated by comparing a constructed domestic price with estimated export returns. The revised methodology used to calculate producer transfers and price distortions has been used for the current series of estimates (1990–91 to 1994–95). See text for further details.

f Estimated by comparing domestic and export prices for medium- and long-grain rice. Estimates for 1990–91 include producer transfers associated with Queensland production. The price distortion for rice grown in Queensland is based on the difference between the average domestic and comparable export prices for rice grown in New South Wales. Queensland production accounts for approximately 2 per cent of Australian production.

g Estimates are derived using a weighted average of retail prices for eggs in the deregulated states to determine a benchmark retail price. This benchmark pr ice is compared to the average retail prices in the regulated states in order to make an estimate of assistance provided at the retail level. Finally, this retail -level assistance is estimated on a pro rata basis from the value of retail prices to provide an estimate of assistance at the farm-gate level.

h The producer transfer was estimated by multiplying the difference between the fresh milk price and the local manufacturing milk price plus an allowance of 20 per cent of the average Australian manufacturing milk price to represent the cost of assurance of out-of-season supply.

i The standard deviation in percentage points measures how far from the average items are located in a frequency distribution, thereby measuring the extent of variation or dispersion in the distribution. The larger the variability amongst individual activities’ nominal and effective rates, the larger the standard deviation.

Source: Commission estimates

Appendix G
International trade in services

Continuing negotiations within the World Trade Organization (WTO) since 1995 in financial services, basic telecommunications and maritime transport under the General Agreement on Trade in Services (GATS) have so far produced disappointing results. These setbacks have reaffirmed the difficulties in achieving sector-specific agreements in multilateral negotiations. The sectoral focus of its core commitments is a major structural weakness of the GATS.

Australian services excluded from its GATS sectoral commitments cover an estimated one-third of services production, based on updated 1992–93 data. Moreover, its most liberalising sectoral commitments mainly relate to the less important areas of services production in Australia. Such commitments also generally apply to services trade that has already been liberalised. The GATS has resulted thus far in little liberalisation of Australia's service industries.

The services sector dominates the Australian economy, contributing two-thirds of GDP and employing some three-quarters of the labour force. Services directly contributed 23 per cent of Australia's total trade (exports plus imports) in 1994–95. Australia's annual average growth in service exports of 9 per cent since 1987 has substantially exceeded that for service imports (in US$ terms). Over the same period, growth in world service exports averaged 11 per cent annually (DFAT 1995).

Across all OECD countries, over 60 per cent of GDP is attributable to services industries. Global trade in commercial services is currently worth over US$1000 billion annually, and in 1993 comprised 22 per cent of world trade in goods and services. World services trade has grown faster than merchandise trade over the period 1980 to 1993, averaging nominal growth (in US$ terms) of over 8 per cent annually.

Services, like goods, are not only used in final consumption, but provide essential intermediate inputs for producing downstream products (and services). In Australia, almost one-third of services produced are consumed in this way. Services provide the necessary infrastructure — construction, transport, telecommunications, finance, education, and so forth — for investment and economic growth. Ensuring efficient provision of services is therefore an important means of improving an economy's overall productivity. As countries' income levels rise, services production and trade increase in relative importance.

THE STRUCTURE OF THE GATS

The creation of the General Agreement on Trade in Services (GATS) within the World Trade Organization (WTO) during the Uruguay Round has provided a rules-based framework for international trade in services and for its future liberalisation. This is similar to the multilateral framework for trade in goods under the General Agreement on Tariffs and Trade (GATT).

However, the GATS has a much weaker general framework than the GATT, with 'scheduled' sectoral commitments making up the core of the agreement.[19] While there are a number of general obligations which apply to all services — including unconditional 'most-favoured-nation' (MFN) treatment — its main commitments (especially on national treatment and market access) cover only sectors specifically 'scheduled'. All countries excluded at least some major service sectors from the core commitments of the GATS by not scheduling them (such as Australia's exclusion of coastal shipping). Moreover, countries scheduled many sectors with minimal or no obligations across modes of supply to provide these core

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[19] A fuller discussion on the GATS, and its structural weaknesses, is given in appendix G (IC 1995a).

commitments to foreign suppliers.[20] By contrast, the GATT has a strong central framework that permits tariffs as the only trade restriction, except in specified and limited circumstances.

A significant difference between the agreements is the coverage of the fundamental commitments of MFN and 'national treatment':

- MFN treatment requires that governments maintain restrictions equally against all members. Any favour afforded one member must be extended to all others.[21] In both Agreements, MFN treatment is a general obligation. Under the GATS, however, one-off exemptions to MFN were allowed; and

- national treatment requires foreign service suppliers to be granted treatment 'no less favourable' than that accorded domestic service suppliers. In the GATT, national treatment is a general obligation, with tariffs being the only generally permitted exception to equal treatment of domestic and foreign 'like products'. In contrast, under the GATS, national treatment applies only to those sectors scheduled.

'Market access', another core obligation of the GATS — and one that is not mentioned specifically in the GATT — also applies only to scheduled sectors. Market access requires that, for the four modes of supplying services, each party accords all foreign providers access no less favourable than that provided for under the terms and conditions agreed in its schedule. The market access provisions overlap those of national treatment; to the extent the provisions differ, market access arrangements relate to government restrictions on access to markets by *all* potential suppliers rather than just foreign suppliers.[22] Thus it involves competition policy as well as trade policy. Competition policy is addressed also in the articles on monopolies and exclusive service providers, and on business practices. The intent of these articles is to restrain anticompetitive practices in sectors subject to specific commitments.

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20 The four modes of supply covered by GATS are cross-border supply, consumption abroad, commercial presence and temporary movement of people ('natural persons').

21 Exceptions apply to customs unions and free trade areas, and preferences which existed in 1947 or are for or between developing countries.

22 See Snape and Bosworth (1996) for further discussion of market access provisions and competition policy implications.

The GATS has resulted so far in little liberalisation of services trade. Core sectoral commitments made by countries in the GATS have generally amounted to 'standstill' obligations not to apply new restrictive measures against foreign suppliers. The capacity of the GATS as a mechanism for facilitating future services trade liberalisation therefore relies heavily on the core commitments scheduled by members, thus increasing the importance of sectoral negotiations. This sector-specific focus of the GATS limits the scope for making cross-sectoral trade-offs in negotiations. It also assists industry lobbies with vested interests in specific negotiations to resist liberalisation. Such groups can focus attention on the costs of liberalisation to their sector, without being pressured to make concessions to achieve gains from liberalisation in other sectors, and to the economy in general. The problems associated with the GATS' sectoral specificity have been evident in the unsatisfactory outcomes achieved so far in negotiations held since 1995.

CONTINUING SECTORAL NEGOTIATIONS

Reaching agreement in particularly sensitive sectors has been difficult in the GATS. Negotiations in financial services, the movement of people, basic telecommunications and maritime services were incomplete when the WTO came into existence in January 1995. Rather than defer the launch of the WTO, negotiations in these sectors were extended, with initial commitments in these areas put on hold pending their outcome.

Financial services, basic telecommunications and maritime services are some of the largest and most important service sectors. [23] Clearly any agreement on services trade would be substantially weakened by their exclusion. It was therefore hoped that a round of intensive negotiations in each of these troublesome sectors would achieve additional progress. However, results have been discouraging.

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[23] The international basic telecommunications industry alone, for example, generated an estimated US$513 billion of revenue in 1994.

FINANCIAL SERVICES

Negotiations on financial services concluded on 28 July 1995, but with only limited success. After a one month extension, an interim agreement was reached, though without the participation of the US. Australia is a party to the interim agreement. The agreement covers banking, insurance, funds management, securities trading and related advisory services. It is scheduled to expire in December 1997 when negotiations are due to recommence.

Although under the agreement some concessions were made to relax foreign equity participation and operational restrictions, they fell well short of that required to open financial markets significantly. Substantial restrictions on foreign entry and investment in domestic institutions remain, particularly in ASEAN economies. Moreover, commitments made by some countries were much looser than existing arrangements, thereby enabling future backsliding. The US claimed that many offers, especially from some Asian and Latin American countries, were inadequate, and invoked an MFN exemption. This allows the US to open its financial markets to trading partners on a selective basis. [24]

Australia, along with most developed countries, adopted the 'Understanding on Commitments in Financial Services'. It scheduled only those measures inconsistent with these provisions. Prudential measures, not being covered by the GATS, were omitted from Australia's schedule.

The principal limitations in Australia's schedule relate to conditions imposed on entry of foreign banks, and to restrictions on foreign ownership of major Australian banks. Foreign banks wishing to establish in Australia branches accepting 'retail' deposits must do so as locally incorporated banking subsidiaries, holding capital reserves domestically.[25] This is seen by Australia as a prudential requirement.

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[24] The US nevertheless agreed to Japan and the EU receiving MFN status in its financial market, provided they implemented measures agreed bilaterally and maintained their WTO commitments.

[25] Foreign bank branches in Australia must confine their deposit-taking activities to 'wholesale' markets, ie deposits from incorporated entities, non-residents and bank employees. Initial deposits and other funds of less than $250 000 are not permitted from other sources (individuals and non-corporate institutions).

Foreign shareholders also cannot acquire a controlling interest in any of Australia's four major banks. In addition, state and territory governments retain the right to prohibit foreign ownership in state-owned or controlled banks. Many of these issues may be considered by the current Wallis inquiry into the financial system, due to report in March 1997.

Concerns over Australia's offer in financial services mainly related to the foreign investment laws and their enforcement (primarily by the Foreign Investment Review Board). Australia's offer, as for all other sectors, is subject to Australian foreign investment policy guidelines, including the 'national interest' test applied to foreign investment. Foreign banks seeking authorisation to operate in Australia are expected not only to increase competition, but also to bring specialist skills and other economic benefits. Many countries, including the US, wanted Australia to adopt WTO market access rules covering foreign investment that would provide binding MFN entry for foreign financial institutions.

BASIC TELECOMMUNICATIONS

Negotiations on basic telecommunications were suspended in 1996, following failure to reach agreement by the initial end-April 1996 deadline. Negotiations are due to recommence in January 1997, and be concluded by 15 February 1997. Standstill commitments are to apply until then. It is still anticipated that the scheduled date of 1 January 1998 will be met for the implementation of the telecommunications accord.

Negotiations stalled when the US rejected many of the offers from other members. Its main concern was that carriers having home country monopolies could exploit the competitive US market to gain monopoly returns on calls between the US (and other liberalised markets) and their home country (one-way bypass). The adoption by only half of the participants of a reference paper on regulatory principles, aimed at obtaining important market access commitments, added to US concerns.

The Australian offer on basic telecommunications, as well as adopting the reference paper, includes the proposed liberalisation of the Australian telecommunications market from 1 July 1997. The current duopoly for fixed network provision shared by Telstra and Optus Communications is to be terminated to allow an unlimited number of basic telecommunication carriers. The offer also encompasses liberalising the mobile phone market to permit additional providers to Telstra, Optus and

Vodaphone. New carriers would not be subject to foreign ownership restrictions, although these will continue to apply to existing carriers. Under the proposals, Optus Communications would be required, for example, to maintain majority Australian ownership, and Vodaphone must reduce its foreign ownership to a maximum of 49 per cent by 2003. These changes are subject to the enactment of the necessary legislation.

The offer retains reserve powers to prevent the misuse of market power by an operator. It does not reflect the Government's plan to partially privatise Telstra.[26]

The successful conclusion of the telecommunications accord would significantly improve market access, and facilitate the development of an internationally competitive telecommunications system. Developing countries would also benefit from opening their telecommunications market to foreign investment to provide the necessary infrastructure for future economic development.[27]

An indication of the potential benefits from the international liberalisation of telecommunications markets is given in box G.1.

MARITIME SERVICES

Maritime services negotiations broke down well before the 30 June 1996 deadline. The US made no offer and withdrew from the negotiations. These negotiations covered cabotage policies maintained by many countries, including Australia, to shelter domestic shipping from foreign competition. Negotiations are due to recommence with the next scheduled round of GATS negotiations in the year 2000.

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[26] The Government's proposal is to sell one-third of Telstra, with foreign participation limited to one-third of this level. No national coverage requirements will be imposed on new entrants. All carriers nevertheless will be required to contribute a levy to cross-subsidise regional and remote areas. The partial privatisation of Telstra is subject to passage of the necessary legislation through parliament.

[27] The World Bank has estimated that developing countries need to spend US$60 billion over the next five years to update their telecommunications systems.

Box G.1: Gains from telecommunications liberalisation

The benefits to users of a basic telecommunications accord has been estimated to be more than US$1000 billion over the next 14 years (Petrazzini 1996). This estimate includes savings resulting from lower costs as well as improved quality of service. Cost savings from liberalisation include lower per-minute rates for domestic and international services, lower monthly fees for basic services, elimination of the accounting rate system, and lower prices for equipment. This estimate of potential savings to consumers was derived from a study of OECD countries with more liberalised telecommunications markets (Pepper 1995).

According to this study, cost savings were estimated at:

- 18 per cent for business users; and
- 14 per cent for household users.

The study also estimated the gains to users from improvements in the quality of services provided. These were:

- increases in cellular telephone density of 118 per cent;
- increases in pay phone density of 42 per cent;
- decreases in waiting time for telephone services of 97 per cent;
- decreases in call failure rate of 17 per cent;
- decreases in faults per 100 lines of 39 per cent; and
- increases in phones digitalised of 34 per cent.

Liberalising telecommunication markets also produces general, less quantifiable, economy-wide benefits. A competitive telecommunications market plays a vital role in fostering economic growth.

THE MOVEMENT OF PEOPLE

Negotiations on the movement of people ('natural persons') were held concurrently with financial services. The negotiations aimed to achieve better temporary entry conditions for senior executives and professionals supplying services. Like the financial services negotiations, these too concluded unsatisfactorily on 28 July 1995. Only a few countries, including Australia, made improved offers in the course of the negotiations. There are no plans to resume negotiations before the next scheduled round of GATS negotiations in the year 2000.

AUSTRALIA'S COMMITMENTS UNDER THE GATS

Australia's commitments under the GATS cover a relatively large number of sectors, but the extent of the commitments varies markedly among sectors.[28] Australia made only 'unbound' commitments on the use of measures that restrict the temporary movement of people for scheduled services. This means that Australia is not committed to providing national treatment and market access to foreign services supplied through people temporarily moving to Australia.

Australia also did not schedule a number of important service sectors, thereby excluding them from its core GATS commitments. For these sectors, no limitations apply to the use of discriminatory measures against foreign suppliers. These sectors included postal and courier services, transport services (such as coastal shipping), air, rail, space and certain road transport, primary and adult educational services, certain health services (such as hospital services), and entertainment.

Scheduled industries with the most liberal commitments appear to be business services, where Australia mainly 'bound' itself to provide market access and national treatment to foreign suppliers across all modes of supply, except for the temporary presence of people. Other areas with relatively liberal commitments include certain narrow segments of transportation, such as freight forwarding, and high value-added telecommunications, such as electronic mail, voice mail and electronic data interchange.

In other 'scheduled' sectors Australia made 'unbound' commitments for modes of supply other than the presence of people, thereby setting potentially fewer constraints on the use of restrictive trade and investment measures that infringe national treatment and market access.

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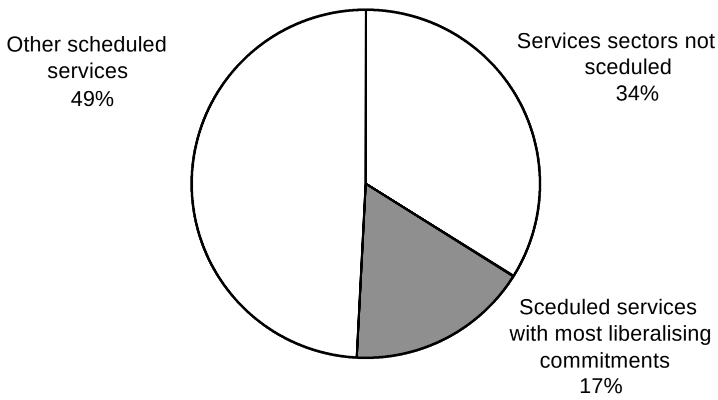
[28] This section updates production coverage estimates of Australia's commitments under GATS for 1992–93, using the latest ABS input–output data. Estimates for 1989–90 were presented in the Commission's *1994–95 Annual Report* (1995a, appendix G).

An important first step in assessing the possible implications of Australia's GATS commitments on liberalising its barriers against foreign service suppliers, is to assess the extent to which its services production is affected by liberalised ('bound') sectoral commitments.[29] Clearly, the scheduling of a large number of sectors in GATS would have less impact if sectors scheduled under GATS omitted a significant share of Australia's production of services. Estimates of the production coverage of Australia's GATS commitments are summarised in figure G.1 and provided by sector in table G.1.

Figure G.1: GATS coverage of service sectors for Australia, 1992–93



Source: Commission estimates, based on ABS Cat. No. 5209.0 (1996b)

Service sectors 'scheduled' by Australia under GATS cover an estimated two-thirds of its gross value of output of services, equivalent to $311 billion of 'scheduled' services out of a total services production of $469

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[29] Liberalised commitments can be thought of as those sectoral obligations ma de in the GATS that provide standstill obligations not to introduce new restrictive measures against foreign service suppliers. Such commitments mainly cover 'bound' obligations by members not to maintain any restrictive measures against foreign service suppliers (or, in the case of 'partial' commitments, not to introduce new restrictive measures to those stipulated in their schedules). However, since these commitments were generally confined to services that were already liberalised, the GATS has resulted so far in the removal of few, if any, restrictive measures.

billion (1992–93 data).[30] In other words, one-third of Australia's production of services is not covered by core commitments under the GATS.[31]

The effectiveness of the GATS as a means of opening Australia's service industries is reduced further by the apparent uneven distribution of its liberalising commitments across production of those services scheduled. Australia's most liberalising commitments — estimated for this exercise to be those service sectors where market access and national treatment were 'bound' across all modes of supply, except for the temporary movement of people — cover about one-quarter of its production of services scheduled under GATS.[32] For other scheduled services, additional 'unbound' commitments were made relating to modes of supply other than the presence of people.

These estimates suggest that the incidence of 'unbound' commitments is biased towards those services produced most in Australia. Thus, the use of restrictive measures appears potentially less constrained by GATS sectoral commitments in those services produced most in Australia.

The disappointing outcomes so far achieved in the continuing sectoral negotiations have not extended the coverage of Australia's GATS commitments. The exclusion of basic telecommunications and coastal shipping, both relatively important sectors, weakens GATS, and Australia's commitments. Successfully concluding these negotiations is therefore important. Although it is still expected that the basic telecommunications negotiations will be concluded in early 1997, maritime transport negotiations have been suspended until 2000. Moreover, it is important that the interim agreement on financial services be strengthened and its membership expanded in late 1997, when negotiations are due to recommence.

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30 These figures, taken from the input–output statistics, represent the sales value of services. The sales value includes value-adding inputs (such as labour and capital) and intermediate goods and services used in production. It cannot be compared with GDP which includes only value-adding factors.

31 Services supplied in the 'exercise of governmental authority' are not covered by the GATS. These are defined as any 'service which is supplied neither on a commercial basis, nor in competition with one or more service suppliers' (article I).

32 Australia made no (ie only 'unbound') commitments to provide market access and national treatment for people moving temporarily to Australia to supply services.

Although estimates of production coverage are not, to the Commission's knowledge, available for other countries, they are likely to exhibit similar patterns to those for Australia. Services markets in APEC economies appear to be subject to significant barriers to services trade, particularly in many of the sectors where Australia is known to maintain restrictions (PECC 1995).[33]

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[33] The study analysed the GATS' schedules of APEC economies as a means of estimating the extent to which service markets may be impeded. Assuming that the sectors for which countries were not prepared to make liberalising commitments were likely to be the most restricted, the study found that the most restricted sectors in the APEC economies included postal services, space transport, internal waterways transport, basic telecommunications, health and social services, transport, education and audio visual services. The most constrained modes of supply across APEC economies with very few 'bound' commitments were found to be commercial presence (foreign investment by service providers) and the temporary movement of people.

Table G.1: Australia's GATS commitments and production of services,[a] 1992–93 ($ million)

Service sector	*Service subsectors*	*Domestic production*[b]
1. Unscheduled sectors		
Business	agricultural	252.1
	exploration	1 579.3
	machinery repairs and hire	14 171.1
	quantity surveying and technical services	3 755.2
	business administration	1 268.4
	hairdressing, beauty and personal	2 154.3
	commercial art and display	1 960.1
	laundry and dry-cleaning	436.4
	photographic film processing	448.6
	funeral and cemetery	581.6
Communication	information storage and retrieval	103.6
Financial	banking	16 663.0
	money markets and finance	6 840.4
Government	administration	25 929.8
	judicial	1 295.6
	defence	8 964.0
	police, fire brigade and corrective centres	4 332.7
Health	hospitals and nursing homes	16 637.0
	medical services	6 838.7
	community health and childminding	5 424.4
	ambulance	455.9
Tourism and travel	clubs	2 724.6
Recreational, cultural	motion picture and sound recording	1 204.9
and sporting	radio and television	3 002.2
	theatre, creative arts and performing arts	803.8
	library, museum, art gallery	561.0
	lottery, gambling, casino, totaliser and other	2 426.4
	other recreation	1 583.0
Transport	passenger transport	11 007.5
	freight	4 571.7
	parking	452.8
	freight forwarding	1 336.6
	other transport	3 247.1

Table G.1 (continued)

Service sector	*Service subsectors*	*Domestic production*[b]
	postal and courier	2 903.3
Other	religious organisations and interest groups	2 324.2
Total production of services excluded from commitments		**158 241.3**
Total production of services		**469 411.9**
Share of total services production excluded from GATS core commitments (%)		**33.7**
2. Scheduled sectors		
2(a) Sectors covered by 'most liberalising' commitm ents		
Business	architecture and urban planning	985.6
	taxation[c]	
	engineering and integrated engineering	2 433.1
	dental	1 717.4
	veterinary	430.0
	computers	4 675.4
	social science R&D[d]	1 338.1
	ship leasing without crew	38.8
	aircraft leasing without crew	366.2
	other transport leasing	1 294.2
	other machinery leasing	2 501.3
	advertising	3 119.2
	market research and management consulting	5 458.2
	agriculture and forestry consulting	924.3
	fishery consulting	na
	mining consulting	15.3
	energy distribution consulting[e]	na
	security, conventions, telephonic, interpreters and interior design	1 143.9
	surveying	486.4
	photographic	536.0
	duplication and mailing lists	2 339.6
Communication	electronic mail, voice mail, enhanced facsimile services, code and protocol conversion, electronic data interchange, on-line retrieval[f]	11 980.0
Distribution	commission agents and wholesale trade	33 987.7
	franchising	na
Tourism and Travel	tourist guides[g]	

Table G.1 (continued)

Service sector	*Service subsectors*	*Domestic production*[b]
Recreational, cultural and sporting	news agency	79.5
	sporting	3 765.6
	other including parks and beaches	400.8
Transport	rental of crewed vessels	336.6
	maritime freight forwarding[h]	
	maritime preshipment inspection	na
	computer reservation systems[i]	
	fuel pipelines	140.2
	other pipelines[j]	
	non-maritime freight forwarding	1 336.6
	non-maritime preshipment inspection	na
Total services with most 'liberalising' commitments		**81 830.0**
Total services 'scheduled'		**311 170.6**
Share of 'scheduled' services with 'most liberalising' commitments (%)		**26.3**
2(b) Other sectors		
Business	accounting and auditing	4 086.4
	legal	4 936.3
	real estate	59 057.2
	personnel	785.9
	building cleaning	1 428.2
Construction	general construction for buildings, installation and assembly and completion and finishing	33 201.8
	work for civil engineering	15 358.5
Distribution	retailing	34 953.7
Education	secondary in private institutions, private tertiary education and others including English language	21 129.8
Environmental	sewage, refuse and sanitation	984.3
Financial	insurance	9 447.4
	banking	10 164.1
Health	podiatry and chiropody[k]	1 491.7
Tourism and travel	hotels and restaurants	13 544.6
	travel agencies and tour operators	1 122.5
Transport	international maritime transport	2 704.2
	maritime storage and warehousing[l]	
	maintenance and repair of aircraft[m]	909.3

Table G.1 (continued)

Service sector	*Service subsectors*	*Domestic production*[b]
	road passenger transport	1 010.9
	road freight transport	11 748.1
	non-maritime storage and warehousing	1 275.6
Total other services		**229 340.5**
Total services scheduled		**311 170.6**
Other services as a share of scheduled services (%)		**73.7**

na Not available.

a Australia's scheduled sectors have been classified according to the level of commitments made under the GATS. Since 'unbound' commitments were given regarding the temporary movement of people for all scheduled services, 'most liberalising services' include those sectors where all other modes of supply were subject to 'bound' commitments. Those sectors which had additional 'unbound' commitments on other modes of supply are included as 'other services'.

b Concordance between United Nations' Central Product Classification (CPC) and Australia New Zealand Standard Industrial Classification (ANZSIC) is not exact. Thus some values include some non-scheduled services. Figures are gross value of output figures taken from ABS input–output tables. The latest data available is for 1992–93.

c Aggregated with accounting and auditing.

d Aggregate of all disciplines.

e Figures aggregate energy generation and distribution and were therefore not used.

f The six commitments under communications are within one CPC classification and the level of commitment is the same for each.

g Output of tourist guide services includes travel agents and tour operators.

h Aggregate freight forwarding only available.

i Aggregated with computer data services.

j Values are aggregated with fuel pipelines.

k These values capture 'other' medical services including optometry and are therefore overestimates.

l Aggregate storage and warehousing only available.

m Includes other types of repairs.

Source: Compiled from ABS Cat. No. 5209.0 (1996b)

APPENDIX H

Progress on microeconomic reform

Since 1989–90, the Commission's *Annual Report* has included a review of microeconomic reforms undertaken by Commonwealth, state and territory governments. This appendix discusses the major areas of change and lists microeconomic reforms reported as implemented during 1995–96.

Microeconomic reform is directed at improving the use and allocation of Australia's resources. It often involves changes in government policies intended to create an operating environment that is more conducive to the effective and efficient operation of businesses and government agencies.

Information on microeconomic reform initiatives implemented by Commonwealth, state and territory governments is collected annually by the Commission and used to compile a 'review' of reforms. In compiling the list, the Commission checks information provided by the jurisdictions for consistency (for example, whether initiatives submitted have been implemented rather than proposed) and balance in the description. [34] The Commission does not attempt to check for omissions systematically or to verify the nature and significance of reforms. The following discussion should be viewed in this light.

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[34] Difficulties can arise in defining when reforms have been implemented. For instance, implementation of a reform could occur when a process has been initiated (for example setting up a task force for privatising a utility). It also could be deemed to have been carried out when the process is complete (for example when the utility is actually sold). In addition, some reforms are ongoing in nature so that the reform occurs gradually (for example tariff reductions and enterprise agreements).

OVERVIEW OF REFORMS

This section provides an overview of reforms implemented by jurisdictions during 1995–96 under the following headings:

- implementing the national competition policy;
- industry-specific;
- general;
- trade;
- labour market;
- environmental management; and
- government business enterprises (GBEs).

IMPLEMENTING THE NATIONAL COMPETITION POLICY

At the April 1995 meeting of the Council of Australian Governments (COAG), Commonwealth, state and territory governments signed a number of agreements designed to broaden the scope of competition policy and extend it to previously exempt sectors of the economy (see box H.1).

A feature of the intergovernmental agreements is that the Commonwealth has undertaken to provide a series of competition payments to states and territories that meet specific reform commitments. An initial payment (commencing July 1997), is conditional on states and territories giving effect to the intergovernmental agreements, meeting prescribed deadlines in relation to the review of regulations and competitive neutrality, and effectively implementing COAG agreements on electricity arrangements through the National Grid Management Council, the national framework for free and fair trade in gas, and road transport reforms (COAG 1995).

A second payment (commencing 1999–2000) is conditional on continued compliance with stage one reforms as well as meeting COAG agreements on the establishment of a competitive national electricity market and the strategic framework for the efficient and sustainable reform of the water industry. To receive the third series of payments (commencing in 2001–02), jurisdictions must continue to meet obligations set out in the intergovernmental agreements and COAG commitments on electricity, gas, water and road transport.

Box H.1: Intergovernmental agreements

The intergovernmental agreements are a major component of the competition policy package.

- The *Conduct Code Agreement* sets out the basis for extending the coverage of the *Trade Practices Act 1974* (Cwlth) and consultative processes on modifications to competition laws.
- The *Competition Principles Agreement* establishes principles on structural reform of public monopolies, competitive neutrality between the public and private sectors, prices oversight of government business enterprises, a regime to provide access to essential facilities, and a review program for legislation restricting competition.
- Under the *Agreement to Implement the National Competition Policy and Related Reforms*, the Commonwealth will provide payments to states and territories which give effect to the intergovernmental agreements, and meet reform commitments in electricity, gas, water and road transport.

Source: IC (1995h) and COAG (1995)

In responding to the Commission's request for information on microeconomic reforms implemented during 1995–96, all jurisdictions submitted reforms that are aimed at meeting competition policy reform commitments. Table H.1 summarises progress in implementing competition policy reforms. The individual reforms are described in more detail in the list of reforms.

Table H.1 shows that jurisdictions have taken action in a range of areas, aimed at complying with the requirements of intergovernmental and related agreements.[35] For instance, all states and territories have passed legislation extending the application of the *Trade Practices Act 1974* (Cwlth) to government businesses and the unincorporated sector,

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[35] The extent to which these actions meet the conditions for jurisdictions receiving competition payments will be assessed by the National Competition Council.

published policy statements on competitive neutrality and the application of competition policy principles to local government, as well as timetables for the review of legislation.

Table H.1: Competition policy reforms

Agreed reform	*Cwlth*	*NSW*	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*
Extend coverage of Trade Practices law	✓	✓	✓	✓	✓	✓	✓	✓	✓
Competitive neutrality statements	✓	✓	✓	✓	✓	✓	✓	✓	✓
Timetable for legislation reviews	✓	✓	✓	✓	✓	✓	✓	✓	✓
Statement on the application of national competition principles to local government	nr	✓	✓	✓	✓	✓	✓	nr	✓
COAG related reforms:									
Electricity: admin. arrangements for the national market	✓	✓	✓	✓	nr	✓	nr	✓	nr
Gas: third party access to networks	✓	✓		✓	✓	✓			✓
Water: pricing reforms		✓	✓		✓	✓	✓		✓
Road transport: heavy vehicle licences, registration and mass limits	✓	✓	✓	✓	✓	✓	✓	✓	✓

nr not relevant.

Source: Information provided by the Commonwealth, state and territory governments

Also prominent were initiatives applying to electricity, gas, water and road transport. Some of these reforms were implemented in 1994–95. In 1995–96, New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory agreed to establish the key organisations required to operate the national electricity market: the National Electricity Market Management Company (NEMMCO) and the National Electricity Code Administrator (NECA). They also signed an intergovernmental agreement committing governments to enact cooperative legislation to support the application of the National Electricity Code (which underpins the operation of the national market) in each participating state and territory. New South Wales and Western Australia reported access initiatives to help facilitate free and fair trade in natural gas. Most states and territories (except Queensland and the Australian Capital Territory) reported water pricing reforms. All jurisdictions have now passed legislation giving effect to the national heavy vehicle reforms, including consistent registration charges, mass limits and licensing and registration requirements.

INDUSTRY-SPECIFIC REFORMS

Many of the industry-specific reforms implemented by governments were aimed at promoting competition and reforming regulatory structures applying to specific industry sectors.

In 1995–96, governments implemented several measures designed to promote competition in specific industries. For instance, the Commonwealth Government granted a third licence to an Australian designated international air carrier, facilitated the entry of private competitors to the interstate rail network and established an access regime for broadband cable infrastructure. In a move to increase competition in the housing finance market, the New South Wales and Queensland Governments removed duty on the refinancing of home loans. The New South Wales Government also established third party access rights to the gas reticulation network, opened up the solicitors' monopoly on commercial conveyancing and removed advertising restrictions on optometrists, physiotherapists and podiatrists. Additional taxi licences were issued in South Australia and Tasmania, and provision was made to extend participation in the gaming and wagering markets in Victoria and Tasmania. In agriculture, several statutory marketing authorities were dismantled or had their powers reduced. For instance, statutory marketing of tobacco ended in New South Wales and Queensland. New South Wales also removed price floors on wine grapes and tomatoes. The Western Australia and Northern Territory Governments deregulated grain marketing.

Reforms to industry-specific regulations involved abolishing or reducing unnecessary controls on industries and improving the method of regulation. For example, the Commonwealth and New South Wales

Governments reduced regulatory requirements applying to some over-the-counter drugs, to allow more self-regulation. New South Wales also legislated to make food regulation consistent with national regulations. Prescriptive regulations on consumer credit were reformed in accordance with the national consumer credit code. Victoria consolidated controls on the registration of domestic builders. Queensland abolished fruit and vegetable packing and grading standards, and a range of regulatory requirements applying to the marine industry. The Tasmanian Government reduced regulations applying to fertiliser and livestock and liberalised meat inspection requirements. In an effort to reduce one layer of regulation, the Commonwealth assigned responsibility for export inspection and certification of dairy products to state dairy authorities in New South Wales, Victoria and Queensland.

GENERAL REFORMS

Several of the general reforms implemented in 1995–96 involved implementation of aspects of the national competition policy (see the discussion 'Implementing the National Competition Policy'). A range of additional reforms were reported in areas such as interjurisdictional cooperation, public administration and service delivery, and regulatory reform.

A number of reforms were implemented that aimed to clarify governmental responsibilities and reduce duplication between levels of government. The Australian Quarantine and Inspection Service assumed responsibility for all quarantine and export inspection of horticulture and live animals in New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory. In public housing, a three-year interim agreement between the Commonwealth and the states commenced on 1 July 1996 as a first step in clarifying the roles and responsibilities of jurisdictions. The Commonwealth and all states except Western Australia also introduced a national highway maintenance performance agreement.

Many of the reforms reported were directed at increasing the accountability and efficiency of public administration and service delivery. These can be broken into a number of broad categories (see table H.2).

Purchaser–provider splitting involves separating the policy and purchasing role of government from the service delivery role. Output-based funding is the financing of government activities on the basis of outputs rather than inputs. A focus of financial management reforms was the introduction of accrual accounting. Commercialisation involves putting some government activities on a more commercial footing, through for example, imposing tax equivalents and requiring activities to earn a return on assets. In addition, as part of these reform measures or separately, governments introduced competitive tendering and contracting (CTC) for a range of activities.

Table H.2: Public administration and service delivery reforms

Nature of reform	*Jurisdiction*	*Activities*
Purchaser–provider splits	NSW	Roads and traffic
	Vic	Corrective services, psychiatric services, public housing
	Qld	Public works and housing, forestry services, water services
	WA	State services, disability services
	SA	Disability services
	ACT	Health services, urban services
Output-based funding	Vic	Disability support services, emergency services, elective surgery
	SA	Mental health and repatriation services, general government
	ACT	Government services, community services
	NT	Hospitals
Financial reforms	Vic	All departments
	Qld	Some government departments
	SA	Non-commercial agencies
	ACT	General government sector
Commercialisation	Qld	Public works and housing, forestry services, water services
	WA	International education marketing
	SA	Factory construction, fire services, forestry services, road maintenance
	ACT	Urban services
Contracting and tendering	Cwlth	Broadcasting transmission network maintenance
	NSW	Road maintenance
	Vic	IT, prisons, disability services, local government services, public safety, law and order related services
	Qld	IT systems
	WA	Building services, government services
	SA	Community services, construction services, forestry services, IT, telecommunications, health services, land services, road maintenance
	Tas	Health services
	ACT	Government services, community services

Source: Information provided by the Commonwealth, state and territory governments

General regulatory reform programs also figured prominently in the review. The Queensland Government completed a review of business regulations, which has seen over 400 regulations reviewed and 68 pieces of legislation and regulations repealed. The net benefits are estimated at more than $370 million. The South Australian Government streamlined regulations applying to building work contractors, security and investigation agents and second-hand vehicle dealers. The review of business and subordinate regulation continued in Tasmania, seeing 65 obsolete Acts and 27 statutory rules repealed during the year. The Australian Capital Territory completed a review of legislation predating 1980, which saw 42 laws abolished.

TRADE REFORMS

Tariff reductions are a key element of microeconomic reform. In line with the program of tariff reductions announced by the Commonwealth Government in March 1991, all tariffs other than those on textile, clothing and footwear and passenger motor vehicles fell to a maximum of 5 per cent on 1 July 1996. The average level of tariff assistance to the textile, clothing and footwear industry was reduced to 37 per cent and the tariff on passenger motor vehicles fell to 25 per cent.

The Commonwealth, states and territories and New Zealand entered into the Trans-Tasman Mutual Recognition Arrangement which aims to apply mutual recognition principles to laws relating to goods and registered occupations. In addition, Australia and New Zealand finalised an agreement to establish a system for the development of joint food standards and to liberalise inspection arrangements for each country's food products.

LABOUR MARKET REFORMS

During 1995–96, reforms to labour market arrangements included measures to facilitate the spread of enterprise bargaining, changes to occupational health and safety (OH&S) and workers' compensation, and reforms to vocational education and training.

The Australian Industrial Relations Commission formalised 3900 enterprise agreements in 1995–96, taking the total made since October 1991 to over 8900. Total agreements cover approximately 1.6 million employees or 62 per cent of federal award employees. Eighty per cent of agreements are in the private sector, covering 51 per cent of private sector award employees.

In New South Wales the number of private sector enterprise agreements increased from 1039 to 1384. Sixty extra agreements were also signed in the public sector. Victoria reported that 508 collective employment agreements had been made as at 31 December 1995. In addition, 203 822 individual employment contracts existed as at 30 June 1995. Queensland reported that 90 per cent of its public sector employees were covered by enterprise agreements. According to Western Australia, by 30 May 1996, 57 510 employees and 1747 employers had entered into workplace agreements under the *Workplace Agreements Act 1993.* In addition, 75 063 public sector employees and an estimated 129 900 private sector employees were covered by agreements under other state and Commonwealth legislation. In 1995–96, 125 new enterprise agreements were finalised in South Australia, bringing coverage to 73 000 employees or 27 per cent of employees covered by state legislation. A series of individual public sector agreements were also finalised in South Australia, the Australian Capital Territory and the Northern Territory.

Labour market reforms also involved changes to OH&S. For instance, national regulations for dangerous goods and substances, plant, and certification of plant users and operators were given effect by New South Wales and Victoria. Queensland and Tasmania also introduced regulations strengthening certain OH&S obligations.

A number of changes to the operation of workers' compensation schemes were also reported. These were designed to hone incentives for greater workplace safety and to improve the administration of compensation schemes. For example, the Queensland Government now requires departments and agencies to hold workers' compensation policies and pay premiums up-front. It also introduced a package of measures to increase the financial viability of the Workers' Compensation Fund. The Victorian Government amalgamated the Health and Safety Organisation and the WorkCover Authority as a means of increasing focus on injury prevention. The South Australian Government created a separate levy-funded reserve account to meet liabilities of self-insured employers should they become insolvent.

In the area of vocational training and education, Victoria has increased the proportion of training funds allocated by tender. Queensland delegated responsibility for training to some industries. The Australian Capital Territory formed a new vocational education and training authority and an accreditation council.

ENVIRONMENTAL MANAGEMENT

Reforms to environmental management included introducing improved mechanisms for managing environmental resources, and streamlining and simplifying environmental controls. Some microeconomic reforms reported under other sections may also have contributed to improved environmental outcomes. For instance, pricing reforms in the water industry are expected to lead to improved resource conservation and more careful use of water resources (see below).

In 1995–96, a number of new measures for managing environmental resources were introduced. For instance, the Commonwealth Government implemented a system of import controls for ozone depleting substances which allows industry to self-regulate, providing that activity does not exceed an overall maximum level. In New South Wales, tradeable discharge rights were introduced under the Hunter Valley Salinity Discharge Strategy. The Western Australian Government introduced a ‘polluter pays’ system for remediation of contaminated sites. Tasmania passed several pieces of legislation establishing processes for balancing development and conservation interests relating to heritage conservation, fisheries management and threatened species.

Apart from introducing new measures, some streamlining and simplification of existing environmental controls also occurred. For example, Victoria abolished five regional planning authorities. In Queensland, changes were made to increase the flexibility of environmental licensing and to simplify the land tenure system by reducing the number of tenure types from twenty to three.

GBE REFORM

The national competition policy agreement contains several provisions which relate to GBEs. Progress by jurisdictions in implementing these initiatives is reported in table H.1. Apart from these measures, jurisdictions implemented additional pricing, structural, competitive and ownership reforms in a variety of GBEs.

Pricing reform involved moving towards cost reflective pricing and establishing sources of independent prices oversight for GBEs. In New South Wales, there was a further reduction in cross-subsidies (in electricity and water) and rural councils began moving towards consumption-based water charges. In Victoria, electricity cross-subsidies were reduced and the percentage of rural water customers charged using a two-part tariff rose. Cross-subsides for water were reduced in Western Australia. The South Australian Government introduced an independent source of prices oversight for selected government businesses and continued its move towards consumption-based charging for water. In Tasmania, the Government established a Government Prices Oversight Commission to oversee utility prices, and the Hobart Regional Water Board is being required to eliminate cross-subsidies between domestic and non-domestic water users. Finally, water prices rose in the Northern Territory to better reflect costs and consumption.

Structural reforms involved disaggregation of GBEs as well as separating regulatory functions. For instance in New South Wales two generation companies were split from Pacific Power. In Victoria, structural reform of Melbourne's port involved creating a separate channels authority and a commercial port landlord. In South Australia, ETSA Corporation was split into separate network, retail and generation bodies. Several jurisdictions transferred regulatory functions to separate agencies. These included port environmental, technical and safety, and rail safety regulatory functions in Victoria, water regulation in Western Australia, ACTEW regulatory functions in the Australian Capital Territory and electricity seller licensing and bus regulation in the Northern Territory.

Competitive reforms encompassed the introduction of CTC for some services and establishing provision for third party access to infrastructure. For instance, CTC was introduced for catering on Countrylink trains in New South Wales; the Bendigo rail workshops in Victoria; bus transport information services and depot operations in Western Australia; certain electricity services, and the management, operation and maintenance of the water and sewerage network in South Australia; medical care by the Tasmanian Motor Accident Insurance Board; and power services in the Northern Territory. Access arrangements were put in place in Victoria (port channels and retail water infrastructure); Queensland (rail network); Western Australia (electricity distribution and transmission; the Dampier to Bunbury gas pipeline); and Tasmania (electricity transmission).

Privatisation of government businesses also featured prominently, with 18 full privatisations reported during 1995–96 (table H.3). This compares with 16 full or partial sales reported in the preceding year.

Table H.3: Privatisations of government enterprises by jurisdiction,[a] 1995–96

Jurisdiction	*Industry*	*Details*
Vic	Electricity	Sale of five electricity distribution companies (United Energy — $1.6 billion, Solaris Power — $1 billion, Eastern Energy — $2.1 billion, Powercor Australia — $2.2 billion and Citipower — $1.6 billion) and one generation company (Yallourn Energy — $2.4 billion).
	Ports	Sale of the ports of Geelong (for $51 million) and Portland (for $30 million).
	Water	Sale of the scientific and technical services business of the former Rural Water Corporation.
Qld	Gas	Sale of the State Gas Pipeline to the Pacific Gas Transmission Company for $162 million.
WA	Banking	BankWest sold to the Bank of Scotland for $900 million.
	Laundry	Healthcare Linen sold to a joint venture between Western Pacific Consulting and a previous employee for $10 million.
SA	Insurance	Sale of State Government Insurance Commission (SGIC) to joint bidders SGIO Insurance and Legal and General.
	Trustee services	Sale of the Government trustee business Austrust to the Tower Group.
	Timber	Sale of the timber processing business Forwood Products.
	Chemicals	Sale of the State Chemistry Laboratories to private operators.
	Roads	Sale of Department of Transport businesses, Sign Services SA and Marino Asphalt Depot, to private sector operators.

a The table excludes financing transactions such as sale and lease-back of public sector car fleets.

Industry-specific reforms

Sector	Jurisdiction	Date	Nature of reform	Jurisdiction's comment on significance

Primary industry

Sector	Jurisdiction	Date	Nature of reform	Jurisdiction's comment on significance
Aerial spreading and spraying	Tas	1995–96	Removal of a restrictive licensing regime for aerial spraying and spreading operators.	The previous regime had produced a monopoly, as a single firm had purchased all the available licences.
Agriculture	NSW	June 1996	Development of a timetable for competition policy reviews of all Acts and Regulations administered by NSW Agriculture.	Formalises the review process which is scheduled for completion by the end of 1997.
	Tas	1995–96	Consolidation of controls on agricultural and veterinary chemicals.	Streamlines controls on the use of agricultural and veterinary chemicals in one statute.
	Tas	1995–96	Legislation amended to discontinue registration of individual fertilisers.	Fertiliser quality is now covered by consumer protection laws. Provides cost savings to businesses which previously had to register individual fertilisers.
Forestry	NSW	Dec 1995	*Timber Plantations (Harvest Guarantee) Act 1995* passed involving removal of some controls on the harvesting of native forests.	Aims to improve security of supply and attractiveness of investing in timber plantations.
Fishing	Vic	1995	Passage of the *Fisheries Act 1995*. Provides a comprehensive set of management tools to enable a more efficient fishing industry through reforms to licensing and promotion of structural adjustment.	Provides for more effective and sustainable resource management.

Industry-specific reforms (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
Fishing	NT, WA, Qld & Cwlth	1995–96	Extension of the NT's responsibility for fish stocks from 3 to 200 miles.	Should ensure that fisheries resources are managed on an eco-system basis and streamline management and licence requirements.
Grain	WA	1995	Deregulation of grain marketing following a review of the *WA Grain Marketing Act*.	Creates a greater number of marketing options for grain and value-added grain products.
	NT	1996	Dismantling of statutory marketing arrangements with the repeal of the *Grain Marketing Act* and contracting out operations of the Katherine and Douglas Daly grain depot.	Reduces unnecessary controls on grain trading. Economic efficiency gains to accrue through clearer price signals between grain producers and livestock industries.
Grapes	NSW	Nov 1995	Repeal of *Wine Grape Processing Act 1979* and the reconstitution of the negotiating committee under this Act as a marketing committee under the *Marketing of Primary Products Act 1983*.	The marketing committee no longer has the power to set minimum prices, to increase market efficiency.
Horticulture	Qld	Nov 1995	Establishment of the Brisbane Marketing Authority and the Horticulture Industry Policy Council and repeal of legislation covering packing and grading standards.	The reforms increase the commercial focus of the industry. The latter also allows industry self-regulation and acknowledges the impact of mutual recognition legislation. Administrative savings will be around $350 000.
Livestock	Tas	1995–96	Passed the *Animal Health Act 1996*, reducing regulation of artificial breeding and encouraging industry-based disease control programs and private mechanisms to deal with stock loss.	Prescriptive regulations to be phased out and encourages the livestock industry to take greater responsibility for animal health.

Tomatoes	NSW	Jan 1996	Lapse of the *Processing Tomato Marketing Order 1987* which set the price for tomatoes sold outside of contracts between growers' and processors.	As the price of excess tomatoes will no longer be guaranteed by the Order, prices are expected to be lower.
Tobacco	NSW	Aug 1995	Withdrawal of the vesting power of the Tobacco Leaf Marketing Board by agreement between NSW, Queensland, Victoria and the Commonwealth.	Ends the regulated marketing of tobacco. This is expected to improve the efficiency of tobacco marketing.
	Qld	April 1996	Industry deregulation involving abolition of the statutory marketing authority (replaced by a growers cooperative).	The tobacco growing industry is now exposed to market forces.
Uranium	Cwlth	May 1996	Revocation of the 'Three Mines Policy'.	Removes restrictions on the development of new uranium mines subject to meeting strict environmental, heritage and nuclear safeguards obligations.

Manufacturing

Dairy products	Cwlth	1 July 1996	Rationalisation of export inspection and certification for dairy products. Responsibility now rests with dairy authorities in Queensland, NSW and Victoria. The option of contestable, third party delivery of inspection services is also now available in certain circumstances.	Removes one layer of regulatory intervention. Expected savings of around $600 000 in 1996–97 and $200 000 over the next three years.
Food	NSW	Sept 1995	Enhancement of uniformity with the National Food Standards Regulation.	Reduces variability between food standards regulation among jurisdictions.

Industry-specific reforms (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
Meat processing	Tas	1995–96	Industry allowed to employ their own meat hygiene inspectors subject to the National Meat Hygiene Standards.	Represents a move away from primary reliance on Government inspection services.
Services				
Aviation	Cwlth	1995–96	Changes to international aviation arrangements including: negotiation of 5 new bilateral air services agreements; an increase in the number of designated Australian international carriers; and the introduction of a more liberal charter policy applying to air freight and passenger traffic.	Will lead to an expansion in the number of international aviation services to and from Australia and an increase in passenger and freight capacity.
	NSW	Nov 1995	Introduction of competition for the Sydney-Williamtown air route by allowing an Ansett subsidiary to compete with the Qantas subsidiary.	Should lead to price decreases and improved quality of service.
Building and construction	Vic	May 1996	Registration of domestic builders incorporated into the *Building Act 1993*.	Reduced overlap of controls and privatised the provision of insurance for domestic builders.
Buses	Qld	1995–96	Performance based commercial service contracts introduced for urban bus scheduled passenger services.	Aims to provide higher standards of service at less cost to government. To date 13 contracts have been let.
Consumer credit	NSW	Dec 1995	Establishment of the Uniform Credit Code via the *Consumer Credit Amendment Act* .	Implements a national agreement. Reduces unnecessary controls and replaces prescriptive regulation of contracts with a code.

Electricity	NSW, Vic, Qld, SA, Tas, ACT	1995–96	Governments have agreed to establish the key organisations required to operate the market (NEMMCO and NECA). An Intergovernmental Legislation Agreement was signed committing governments to cooperatively enact legislation to support the application of the National Electricity Code in each participating state and territory.	These measures facilitate the development of a competitive national electricity market.
	SA	June 1996	In accordance with the intergovernmental agreement, the SA parliament has passed legislation giving effect to agreements, memoranda and articles of association for NECA and NEMMCO.	Gives effect to the new market arrangements and establishes the new companies NECA and NEMMCO to administer the rules and operate the electricity market.
	Vic	1995–96	Contracts for the delivery of CSOs negotiated with the electricity industry. An electricity industry ombudsman, funded by industry, has also been established.	Initiatives to protect customer and community objectives within an industry that is now commercially focussed.
Ferries	SA	1995–96	Contracting of the operation of Murray River ferries.	Improves the cost effectiveness of service delivery.
Health industry	NSW	Sep 1995	Removal of advertising restrictions on optometrists, physiotherapists and podiatrists.	Expected to promote greater competition in these health services.
Gas	NSW	June 1996	Introduction of the *Gas Supply Act 1996.*	Establishes third party access rights to the reticulation network and assigns responsibility for setting reference access prices to the Independent Prices and Regulatory Tribunal (IPART).

Industry-specific reforms (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
	SA	Oct 1995	The *Gas Act 1988* amended to remove profit caps on the Gas Company, while maintaining price capping arrangements.	Move towards a more effective regulatory structure.
	SA	July 1995	Provision for direct negotiation between commercial producers and consumers for uncontracted gas.	Provides for greater contestability and increased competition in gas contracting.
Housing finance	NSW	1 June 1996	Abolition of loan security duty on the refinancing of loans to reduce the cost of switching between credit providers.	Increases competition in the housing finance market.
	Qld	July 1996	The *Stamp Act 1894* amended to exempt home buyers that finance or refinance their principal residence.	Reduces the costs of refinancing and contributes to increased competition in the home lending market.
Legal services	NSW	Feb 1996	Commencement of *Conveyancers Licensing Act 1995*.	Removes solicitors' monopoly on commercial conveyancing.
Marine industries	Qld	Jan 1996	Introduced the *Transport Operations (Marine Safety) Act 1994*, liberalising boating regulations, introducing user-pay provisions and allowing for private provision of ship safety certification.	Removal of unnecessary regulation and the achievement of an appropriate balance between safety and costs.
Rail	Cwlth	1996	Entry of private operators to the interstate rail network following the establishment of an interim access pricing regime for Australian National's interstate rail network in 1995.	Introduction of competition in the interstate rail freight network.

	Vic	1995–96	Introduction of private rail freight service providers.	Reforms consistent with the aim of increasing competition in the market place.
Road transport	Joint	1995–96	As part of the ongoing review of road transport regulations, new schemes have been developed for ensuring compliance with roadworthiness, mass and fatigue management.	Expected to promote a cooperative approach to compliance enforcement and allow better targeting of enforcement resources.
	Cwlth	1995–96	Tabling in Federal Parliament of National Road Transport Regulations and passage of amendments to the Interstate Road Transport Legislation.	The introduction of a nationally uniform regulatory environment will improve the efficiency and productivity of the industry. Full implementation of national road transport reforms is estimated to add $800 million annually to GDP.
	NSW	Dec 1995	*Road Transport (Heavy Vehicles) Registration Charges Act 1995* passed and national licence classes adopted by the Roads and Traffic Authority (RTA).	Reduces inconsistencies and duplication in road use management.
	NSW	1995–96	Extension of the number of roads accessible to high vehicles.	Productivity improvements of up to 20 per cent due to availability of more direct transport routes.
	Vic	1995–96	Implementation of national heavy vehicle reforms including consistent national rules for mass and loading, vehicle charges, in-service standards, common roadworthiness, vehicle registration and driver licensing.	Will lead to productivity gains in the road transport industry through the introduction of nationally consistent ‘user-pays’ registration charges and the extension of national mass limits.
	Vic	1995–96	Introduction of the use of 25 metre B-Doubles up to 62.5 tonnes GVM and an increase in routes available to B-Doubles.	Balances improved transport efficiency with the protection of road and bridge assets.

Industry-specific reforms (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
	Qld	July 1995	Proclamation of the *Transport Operations (Road Use Management) Act 1995* and introduction of national heavy vehicle charges.	National regulations and pricing of road infrastructure will allow industry to operate more efficiently and safely.
	WA	1995–96	Implementation of the set of heavy vehicle charges developed at the national level.	Achieves a better match between the charges paid by heavy vehicles and the costs associated with their use of the road system.
	Tas	1995–96	Introduction of the national road transport reforms, including charging schedules and determinations on vehicle standards, the elimination of state log truck tolls, and the abolition of local government toll roads.	Achieves nationally consistent charges for heavy vehicles based on full cost recovery, uniform regulations and standards, and compatibility between heavy vehicle registration systems.
	ACT	1995–96	Introduction of national road transport reforms including heavy vehicle registration and operations, driver licensing, dangerous goods and road rules, and national heavy vehicle charges.	The ACT has complied with timetables to implement all national road transport initiatives.
Second-hand dealers	Tas	June 1996	The *Second-hand Dealers and Pawnbrokers Act 1994* commenced operation on 1 June 1996.	Abolishes licensing requirements with the creation of a negative licensing system.
Surveyors	Qld	1995–96	Accredited surveyors to have their survey plans accepted on lodgement without examination by the Department of Natural Resources.	Reduce the time and resources taken in appraising and accepting survey plans.

Taxis	SA	April 1996	Tenders called for 15 additional taxi licences, with a further issue of licenses to occur in 1997.	Provides for increased competition in the market and allows for increased service provision to meet customer needs.
	Tas	1995–96	Reforms to taxi licensing under the *Taxi Industry Act 1995*.	To eventually result in the supply of taxi licences being more responsive to market demand through the issue of ‘over-the-counter’ (OTC) licences.
Telecommunications	Cwlth	30 June 1996	Abolition of the Industry Development Arrangements scheme for certain customer premises equipment, for example, first telephones, PABXs, small business systems/key systems and cellular mobile telephones.	Removes limitations on market entry, compliance and audit costs on business, and regulatory administration costs. Expected to lead to a 15 per cent fall in wholesale prices.
	Cwlth	July 1995	Access regime for service providers in relation to broadband cable infrastructure.	Allow service providers access to broadband cable for the provision of telephony and broadband services with limited exemptions.
Therapeutic goods	Cwlth	June 1996	*Therapeutic Goods Act 1989* amended to reduce Therapeutic Goods Administration (TGA) scrutiny of OTC drugs. Greater reliance on industry self-regulation subject to safeguards.	Expected to lead to a major reduction in delays in marketing approval for OTC products. Outcomes will also be more certain. About 500 Australian sponsors of OTC products will benefit.
Therapeutic goods	NSW	April 1996	Legislation amended to remove licensing requirement for wholesalers of therapeutic goods that are not scheduled under the *Poisons Act 1966*.	Streamlines regulations and reduces administrative costs.
Water	Vic	July 1995	Legislative amendments to enable temporary interstate trade in irrigation water allocations.	Removes barriers to interstate trade in water irrigation. Will ensure more efficient and sustainable use of resources.

Industry-specific reforms (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
	WA	Nov 1995	Launch of the farmer-managed Southwest Irrigation.	Farmers will have direct control over delivery of water for irrigation needs.
	WA	Feb 1996	Establishment of the farmer-managed Ord River Cooperative.	Operates and maintains the distribution component of the Ord River Scheme. Irrigation assets to be transferred to the Cooperative in February 1997.
Wagering and gaming	Vic	1995–96	Removal of the requirement for surcharge payment on the operation of minor gaming activities.	Enables social and community groups to compete in the gambling market on an equal basis with other groups and thus removes a potential barrier to entry.
	Tas	1995–96	Amendments to legislation to allow bookmakers to accept bets at approved off-course venues.	This removes restrictions preventing bookmakers from operating at off-course venues for certain sporting events.

General reformsdiv

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
Agricultural services	Tas	1995–96	Move towards full cost recovery for some Department of Primary Industry and Fisheries services (for example certification and testing services) and withdrawal of provision of veterinary services.	More effective use of departmental resources and improvements in the efficiency of these services. Also increases the scope for private providers.
Broadcasting	Cwlth	April 1996	Competitively tendered the operation and maintenance of the Commonwealth's transmission network (used primarily to broadcast programs produced by the ABC and SBS).	Introduced competition into a sector previously dominated by Telstra, resulting in savings to the Budget of approximately $20 million per year for the next 3 years.
Building management	WA	1 July 1995	Cessation of Building Management Authority construction operations.	Streamlined organisation's activities.
Community services	SA	1995–96	Tendering of transport services, detention programs and service contracts for community services.	Exposes around $80 million worth of services to competition from external providers, with gains expected through greater innovation and productivity.
Central agencies	Vic	1995–96	Contracting out of IT and HR services within the Departments of Premier and Cabinet and Treasury and Finance.	Transfer of non-core functions to the private sector to increase efficiency and service levels at reduced costs to Government.

General reforms (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
Competition Policy	Cwlth	July 1995	Commencement of the *Competition Policy Reform Act 1995.* The Act commences in three stages: from August 1995, the amended competitive conduct rules of the *Trade Practices Act 1974* came into force; from November 1995, the new competition institutions (the ACCC and NCC) came into being, the national access regime commenced and amendments to the *Prices Surveillance Act 1983* took effect; and from 21 July 1996, provisions of the *Trade Practices Act 1974*, and complementary state and territory legislation, will apply the competitive conduct rules to all business activities in the Australian economy.	The reforms extend the competitive conduct rules in trade practices legislation to all state and local government business enterprises and unincorporated businesses; provide a process for third party access to the services of significant infrastructure facilities; and encourage competition across a broad range of business activities through a program of regulation review, enhanced prices oversight, application of competitive neutrality principles and procedures for structural reform of monopolies.
	Cwlth	June 1996	Release of the Commonwealth's policy statement on competitive neutrality.	The statement sets out the Commonwealth's implementation strategy for ameliorating taxation, cost of capital and regulatory advantages from its significant business enterprises.
	Cwlth	June 1996	Release of the Commonwealth's legislation review schedule, setting out a timetable for the review of existing Commonwealth legislation that restricts competition by the year 2000.	The review processes will provide an opportunity to establish the case for retaining, modifying or reforming current regulatory arrangements.
	NSW	July 1996	Release of policy statements on the application of competition policy principles to local government, application of competitive neutrality and a timetable for legislative review.	The statements cover the application of elements of the competition policy requirements as per the competition principles agreement.

Vic	Nov 1995	Passage of the *Competition Policy Reform (Victoria) Act 1995* to extend the coverage of Part IV of the *Trade Practices Act 1974* to all persons in Victoria.	Ensures that all businesses, regardless of legal form of ownership, will be covered by the same competitive conduct rules.
Vic	June 1996	Publication of statements on competitive neutrality, and the application of competition principles to local government, and a timetable for review of legislation restricting competition.	Comply with agreements entered into by the Commonwealth and state/territory governments in April 1995.
Qld	July 1996	Legislation passed giving effect to policy statements on introduction of competitive neutrality, reviews of anti-competitive legislation, and application of the competition policy to local government.	The statements comply with agreements entered into by the Commonwealth and state/territory governments in April 1995.
Qld	July 1996	Enactment of legislation mirroring amendments to the Commonwealth *Trade Practices Act 1974*. Extends the coverage of trade practices legislation to the business activities of governments and unincorporated bodies.	Complies with agreements entered into by the Commonwealth and state/territory governments in April 1995.
WA	1995–96	Legislation introduced extending the coverage of trade practices law to all businesses in WA.	Extends competitive conduct rules to all state and local government business enterprises and unincorporated businesses.
WA	1995–96	Publication of statements on competitive neutrality and the application of the national competition policy agreements to local government, and commenced national competition policy reviews of legislation restricting competition.	Complies with agreements entered into by the Commonwealth and state/territory governments in April 1995.

General reforms (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
	SA	June 1996	Passage of the *Competition Policy Reform (South Australia) Act 1996.*	Ensures all businesses in the state will be covered by the same rules of competition.
	SA	April–June 1996	Release of statements covering competitive neutrality principles, the application of competition principles to local government, and reviews of all legislation restricting competition.	Competitive neutrality provisions provide for more effective competition and increased contestability, including the activities and functions carried out by local government. Legislative review aims to ensure that legislative restrictions on competition will occur only when the benefits outweigh costs.
	Tas	1996	Passed legislation extending Part IV of the *Trade Practices Act 1974* to businesses that are currently outside the scope of the Act.	Create a more competitive economy, in which firms will have the necessary incentives and disciplines to increase efficiency, keep prices as low as possible and improve quality and product choice.
	Tas	June 1996	Publication of policy statements on competitive neutrality and the application of national competition policy to local government.	Complies with agreements entered into by the Commonwealth and state/territory governments in April 1995.
	ACT	June 1996	Passage of the *Competition Policy Reform Act 1996*	Ensures all businesses in the ACT will be covered by the same rules of competition.
	ACT	June 1996	Provided the NCC with a statement on competitive neutrality in accordance with the Competition Principles Agreement.	Seeks to remove the advantages and disadvantages of government-owned business enterprises and enable the private sector to compete more fairly to provide government funded services.

	NT	1995–96	Passage of legislation extending the coverage of the *Trade Practices Act 1974* to all businesses, and publication of policy statements on competitive neutrality, legislative review, and the application of national competition policy to local government.	Complies with agreements entered into by the Commonwealth and state/territory governments in April 1995.
Construction services	SA	1995–96	Commercialisation of the Factory Premises Construction Scheme administered by the Urban Projects Authority.	Will require the scheme to earn a margin, make transparent all incentives and subsidies and thereby improve overall accountability.
	SA	Oct 1995	Formation of Services SA as an agency responsible for building management functions and the provision of government wide support services, with only functions of strategic importance to be retained in-house.	Enhanced competition, improved efficiency and productivity in this sector. Reforms expected to result in savings of $72 million over ten years.
Consumer protection	NSW	Sept 1995	Consumer Claims Tribunal’s dispute threshold increased to $25 000. More claims can now be heard by the Tribunal rather than the courts.	Allows greater access to lower cost alternative dispute tribunal.
Corporations law	Cwlth	Dec 1995	Legislation passed simplifying the arrangements concerning company buy-backs of shares, account and audit requirements of proprietary companies and company registers.	Simplifies share buy-back rules, reduces reporting requirements particularly for small business and provides a clearer explanation of the rights and obligations of small business.
Correctional services	Vic	1995–96	Private sector to finance, design, construct and operate two 600 bed men’s prisons (replacing Pentridge and Metropolitan Reception prisons).	Achieves separation of policy and service delivery roles. When these prisons are completed, private prisons will comprise approximately 47 per cent of the total prison capacity.

General reforms (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
	Vic	1995–96	Began restructuring of corrective services administration by establishing the Office of the Correctional Services Commissioner, the Public Corrections Agency and a Contract Administrator.	Achieves separation of policy and service delivery roles. Provides an appropriate model in which both public and privately operated prisons can exist on an equal footing.
Dangerous goods	Vic	Nov 1995	*Dangerous Goods Act* amended to provide a code of practice.	Ensures legislation reflects a performance based approach.
Defence contracting	Cwlth	March 1996	Implemented initiatives to reduce tendering costs, including pre-tender consultation, streamlining of tender evaluation and staged tendering.	Reduce the cost to industry in doing business with the Department of Defence.
Disability services	Vic	1995–96	Implemented a unit cost funding model for the purchase of disability support services from the non- government sector and introduced competitive tendering of some services for disabled people.	Will deliver efficiency savings, provide a basis for benchmarking services, improve client focus and enhance accountability. Cost savings in one initiative enabled an increase in the number of long term supported accommodation places from 100 to 130.
	WA	1995–96	Restructuring of Disability Services Commission into funder, purchaser and provider functions. Funding and service agreements established with both government and non-government agencies.	Improves efficiency through competition between service providers as well as improving access, equity and effectiveness of services.
	SA	1995–96	Restructuring of Disability Services Office into funder, purchaser and provider functions. Funding and service agreements established with both government and non-government agencies.	Improves efficiency through competition between service providers as well as improving access, equity and effectiveness of services.

Education	Qld	1995–96	Outsourcing of IT programs.	Software systems worth $13 million open to competitive tendering and outsourcing.
Fire Services	SA	1995–96	Corporatisation of Fire Equipment Services within the SA Metropolitan Fire Service.	Potentially competitive elements of the agency can now compete openly in the commercial sector.
Forestry services	Qld	July 1995	Commercialisation of DPI Forestry Service, including the removal of regulatory functions, and imposing rate of return, dividend and tax equivalent requirements.	Expected to enhance efficiency, sharpen commercial focus and provide a basis for benchmarking.
	SA	1995–96	Application of tax equivalence to forestry activities and contracting out of services such as site preparation, planting, pruning and weed control.	Expected to result in efficiency savings through increased contestability.
General government	Vic	1995–96	Department accrual accounting systems implemented for 1995–96. Departments will be audited on this basis.	Ensures outputs are accounted for on a full costs basis including such non-cash items as depreciation, interest costs and long service leave.
	Qld	July 1996	Implementation of accrual accounting procedures by a number of departments.	Provides more meaningful financial statements for stakeholders and enhanced financial management tools for managers.
	WA	1995–96	Continued implementation of competitive tendering and contracting.	Cost savings and redefinition of the role of the public sector in the provision of services.

General reformers (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
	SA	Nov 1995	Commencement of the Government Management Framework as an integrated policy and budget management tool.	Will substantially improve the efficiency of government decision making and resource allocation by linking outcomes more closely to funding.
	SA	1995–96	Implementation of accrual accounting across non-commercial sector agencies and adoption of the deprival method of asset valuation.	Provides a basis for improved financial management, asset valuation and pricing.
	SA	Oct 1995	Contracted out the provision of IT infrastructure services across SA Government agencies.	Expected to achieve immediate and long term cost savings through consolidating, standardising and rationalising IT infrastructure.
	SA	June 1996	Agreement signed to contract out the management of telecommunications services for industry and government agencies.	Expected to reduce telecommunications costs for industry and government agencies.
	Tas	1995–96	Adoption of output budgeting.	Agency funding is now based on the goods and services (outputs) that are produced by agencies rather than input costs such as staff and materials.
	ACT	July 1996	Implemented financial management reforms including accrual accounting and budgeting, performance measures of output delivery, purchaser–provider agreements, and full costing of outputs to enable accurate comparison with external suppliers.	Reforms are intended to improve the efficiency and effectiveness of service delivery by public service agencies.

	ACT	1995–96	Competitive tendering introduced for community services including age and disability services, and government services including halls and sporting facilities.	Opens management of these services to private sector competitors.
Government services	WA	Oct 1995	Department of State Services restructured involving separation of contract oversight from public services provision; creation of separate body (State Contracts) to provide strategic contract management services; and contracting out of fleet management, mail and payroll services.	Focuses the Department’s activities on strategic, ‘whole-of-government’ contracting and contract management.
Health	Vic	1995–96	Introduction of Emergency Services and Elective Bonus payments for meeting performance targets relating to emergency treatment and waiting lists.	Credited with contributing to a reduction in waiting times.
	Vic	1995–96	Introduction of output based funding for community health centres.	Provides increased autonomy and allows centres to be more innovative in delivering services.
	Qld	July 1996	Integrated mental health into general health services (in line with the National Mental Health Plan) and reorganisation of Queensland Health into Health Service Districts.	Increased accountability of hospital and mental health services.
	WA	April 1996	Healthcare Linen sold to Western Pacific Consulting Group and a previous employee of Healthcare Linen.	Proceeds of sale to net $10 million.

General reforms (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
	SA	1995–96	Health care funding reforms, including extension of the casemix funding model to include mental health and rehabilitation services, and new arrangements for funding of intensive care units.	Increase the effectiveness of health care funding, leading to greater productivity, accountability and containment of costs.
	SA	1995–96	Contracting out of activities within the health sector including hospital hotel services, diagnostic services, maintenance and engineering services, cleaning, catering, and portering services.	Expected to improve efficiency and effectiveness of service delivery, and facilitate benchmarking.
	Tas	1995–96	Contracting of services in the health sector (regional maintenance services, delivery of a methadone program and the management of Inga Hostel and group homes for the disabled).	Promotes more efficient use of resources and a focus on core activities.
	ACT	July 1996	Separation of health strategy and development from the direct provision of services.	Involves the creation of a statutory authority to deliver health and community care services and the definition of responsibilities for a purchaser–provider model for health care.
	NT	1 July 1996	Commenced introducing casemix-based funding for all hospitals.	Expected to provide incentive for improved efficiency and effectiveness.
Higher education	WA	1995–96	Ownership and management autonomy for the International Education Marketing Group, a consortium of WA education institutions coordinated by the Department of Commerce and Trade.	From 1 July 1996 the group will be managed and owned as an autonomous corporate identity.

Land services	SA	1995–96	Contracting out of land services functions within the Department of Environment and Natural Resources including imaging, scanning and printing.	Improves the effectiveness and efficiency of service delivery to clients.
Local government	Vic	1995–96	Compulsory competitive tendering is in its second year. Councils were required to submit 30 per cent of their total expenditure to market testing in 1995–96, and 50 per cent in subsequent years.	Aims to promote the review and clearer specification of council services, and reduce the cost of those services to local government.
	Qld	1995–96	Changes to the capital works subsidy scheme to enable local government to receive subsidies for infrastructure owned by the private sector where it is of a type normally provided by local government, and a long term contract is in place for its use.	Removes a bias towards public ownership of infrastructure by local government and will help to ensure the best method of provision.
	SA	Dec 1995	Local Government Boundary Reform Board established to consider structural reform proposals and to manage the merger of Councils.	Has facilitated six amalgamations to date, reducing the number of Councils to 111.
Motor vehicle licensing	SA	March 1996	Implemented light vehicle licensing reforms including adoption of national registration and licensing rules, a simplified, cost-reflective charging structure; and increased flexibility in the period of registration.	Creates a more simplified and transparent charging structure.
Psychiatric services	Vic	1996	Established a purchaser–provider framework for delivering psychiatric services, with the state contracting with public hospitals and non-government organisations.	Improved efficiency in production of services through achieving a clear separation between government funding, service mix and service delivery decisions.

General reforms (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
Public housing	Joint	1 July 1996	Implementation of an interim Commonwealth–State Housing Agreement to operate for up to three years.	First step towards more fundamental reforms of housing policy that will clarify roles and responsibilities of jurisdictions.
	Vic	1995–96	Separation of asset management, property services and tenancy management of public rental housing with service agreements and separate financial statements.	Enables internal or external purchase of services on a competitive basis.
	SA	1995–96	Separation of tenancy management and property management functions of public housing and introduction of market rents for public housing tenants not receiving rental subsidy.	Replaces uniform rentals with market based rents to convey more appropriate price signals.
Public safety, law and order	Vic	1995–96	Outsourcing of a range of activities including court support, IT, counselling, maintenance, transport, training, and communications services.	Benefits have included enhanced service delivery, reduced service delivery cost, release of operational staff back to other field duties, and sharing of risk with the private sector.
Public works/housing	Qld	1995–96	Commercialisation of business units within the Department of Public Works and Housing, involving the separation of regulatory/policy and commercial activities, payment of commercial dividends, formal performance agreements, transparent funding of CSOs, and application of competitive neutrality policy.	Approximately $250 million worth of business opened to private sector competition.

Quarantine and inspection services	Cwlth	1995–96	Reforms of the Australian Quarantine Inspection Service (AQIS) work practices and support services were achieved through an agency bargaining process and reviews of non-salary costs, charging arrangements and enabling legislation.	Benefits include greater flexibility and reduced prices for AQIS services leading to the increased competitiveness of plant and animal exports.
	Cwlth	Aug–Oct 1995	AQIS assumed responsibility for quarantine and export inspection of horticulture and live animals in NSW, Vic, Qld, SA and ACT.	Achieved greater consistency in quarantine delivery and regulation. Also led to savings of $2.3 million in 1995–96. Further savings ($5 million a year) are expected.
	NT	1995	*Plant Diseases Control Act 1979* amended to enable accreditation of pest and disease free production areas.	The declared production areas are subject to reduced inspection and certification requirements.
	NT	1995–96	Implemented approved quarantine assurance directives for international quarantine and export inspection.	Responsibility transferred to industry which is expected to cut the costs of inspection and certification.
Regulatory reform	Qld	Dec 1995	*Statutory Instruments Act* amended to require a Regulatory Impact Statement to be prepared for significant subordinate legislation likely to impose an appreciable cost on the community.	Aims to ensure that proposed regulations do not impose excessive costs. Benefits include more efficient and effective regulation and consideration and use of alternatives to regulation.
	Qld	Jan 1996	Completed the review of business regulations and legislation. Over 400 regulations were reviewed with 68 pieces of legislation and regulations repealed.	The net benefits have been in excess of $370 million per annum to business, government and consumers.

General reforms (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
	Qld	1995–96	Streamlining of the process required for associations to obtain incorporation, through self-assessment of applications.	Provides for a more timely and efficient process to obtain incorporation and reduces compliance costs to applicants.
	SA	1995–96	Legislation introduced streamlining occupational licensing and consumer protection with regard to building work contractors, security and investigation agents and second-hand vehicle dealers.	Aims to improve services to the community, including access to justice, and promote competition.
	Tas	1995–96	Continued review of business and subordinate legislation.	In 1995–96 a number of Acts were overhauled and 65 obsolete Acts and 27 Statutory Rules repealed.
	Tas	June 1996	Established a program to review anticompetitive legislation in line with agreements on the national competition policy.	The focus is on reforming anticompetitive legislation and reducing business compliance costs.
	ACT	1995	Completed a review of legislation predating 1980.	As a result, 42 laws were abolished and a program established to modernise, integrate or abolish the remainder.
	ACT	Feb 1996	Government agreed to a ten point program recommended by the Red Tape Taskforce to enhance the regulatory reform framework.	Aims to address procedural and regulatory impediments to economic growth and improve the design and operation of future regulations.
Roads	Cwlth and all states (except WA)	1995–96	Introduction of National Highway Maintenance Performance Agreements with states.	Seeks to standardise road maintenance and benchmark performance by road authorities. Efficiency dividends up to 20 per cent are expected over the next three years.

	NSW	Sep 1995	Contracting out of all maintenance activities on a 450 kilometre network of roads in north-east Sydney to Transfield.	Cost savings and frees public sector resources for other obligations in the road transport area.
	NSW	1995–96	Separation of policy setting and service delivery functions within the Roads and Traffic Authority.	Increases contestability for road maintenance provision.
	Vic	Oct–Dec 1995	Legislation passed and agreements signed to facilitate private construction and operation of the $2 billion CityLink toll road.	Productivity gains in the road transport industry through time savings and reduced operating costs and a change in the truck fleet mix.
	SA	1995–96	Creation of business units and competitive tendering of road maintenance functions in the Department of Transport.	Expected to improve cost effectiveness of service delivery.
Schools	Vic	July 1995	Implemented single line budget funding for schools and approval of full staffing flexibility for 346 schools (20 per cent of total).	Reforms are a necessary precursor for the establishment of *designated schools* to contract for a range of services. Full staffing flexibility frees schools from the fixed staffing configurations that formerly applied.
Urban services	ACT	1995–96	Commenced implementing commercial practices for business units including accrual accounting, activity based costing, cost recovery and fee-for-service.	Expected to improve the efficiency and effectiveness of service delivery.
Vehicle fleet	SA	May 1996	Sale and lease-back of Government light vehicle fleet to the Commonwealth Bank.	Expected recurrent annual savings of $2.5 million equating to over $300 per vehicle.

General reforms (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
	ACT	June 1996	Sale of the Government's 1300 passenger and light commercial vehicle fleet to Macquarie Bank for $27 million under a sale and lease-back arrangement.	Vehicles are leased under standard commercial terms and conditions.
Visas	Cwlth	Nov 1995	Introduction of a new short-stay business entry visa which provides business people with a multiple entry visa for a stay of three months at a time.	This new multiple entry category visa greatly increases the flexibility and convenience for business people coming to Australia.
	Cwlth	July 1995	Expansion of Agency Arrangements and the introduction of the Nominated Temporary Business Entry Scheme.	Provides expanded access for clients wishing to apply for visitor visas by allowing clients to apply through an expanded agency network. Also allows business people to be nominated for short-term entry into Australia.
Water services	Qld	July 1995	Established State Water Projects as a business arm of the Department of Natural Resources as a first stage in commercialisation.	Expected to lead to lower costs of service delivery, greater public accountability and more transparent costs and subsidies. Also enables the government to focus on environmental, resource management and regulatory issues.

Trade reforms

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
Tariffs	Cwlth	1995–96	Continued reduction in tariff protection to industry in line with the program of tariff reductions announced in March 1991.	Under the program of phased tariff reductions, general ad valorem tariffs at 15 per cent or 10 per cent on 1 July 1992 were phased down to 5 per cent on 1 July 1996. In the textiles, clothing and footwear industry, the current tariff rate of around 37 per cent is to be reduced to a maximum of 25 per cent by 2000. The current tariff rate of 25 per cent for the passenger motor vehicle industry is to be reduced to 15 per cent by 2000.
Mutual recognition	Cwlth, states, territories and NZ	June 1996	Signed the Trans-Tasman Mutual Recognition Arrangement. The arrangement is to commence in early 1997 following the passage of legislation.	Aims to apply mutual recognition principles to laws relating to goods and registered occupations.
Food trade	Cwlth, NZ	1995–96	Australia and New Zealand have agreed to establish a system for the development of joint food standards and to liberalise inspection arrangements for food products.	Removes barriers to trade, yielding benefits to consumers through lower prices and greater product choice; lower compliance costs for industry; and greater cost effectiveness of inspection arrangements. Important step in creating a single market in food.

Labour market reforms

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
Industrial relations	Cwlth	1995–96	In 1995–96 around 3900 enterprise agreements were formalised by the Australian Industrial Relations Commission (AIRC). This brings the total number made since October 1991 to over 8900.	Agreements cover over 1.6 million employees or 62 per cent of federal award employees: 80 per cent were made in the private sector (covering 51 per cent of private sector federal award employees).
	Cwlth	1995–96	A new public service agreement was negotiated, enabling Australian Public Service (APS) agencies to negotiate agency specific arrangements.	Has led to rationalisation and simplification of award conditions and enabled agencies to individually tailor some employment conditions. Agency specific agreements now cover 88 per cent of public service employees.
	Cwlth	9 Oct 1995	The AIRC settled arrangements for handling the review of awards under section 150A of the *Industrial Relations Act 1988.*	The reviews aim to ensure that awards are made up-to-date, easy to understand, non-discriminatory in their operation and more relevant to the needs of enterprises. However, outside the APS progress has been slow.
	NSW	1995–96	Sixty extra agreements were signed in the NSW public sector and the number of private sector agreements increased from 1039 to 1384.	Expected to promote productivity improvements and industrial harmony.
	Vic	June 1996	At 31 December 1995, a total of 508 collective employment agreements were lodged with the Employee Relations Commission. At 30 June 1995, employers advised that they were bound by 203 822 individual employment agreements.	Employee relations reforms have facilitated workplace negotiations with limited third party tribunal involvement or restrictions on hours worked and mandatory penalty and other payments.

Qld	1995–96	By 30 June 1996, there were 71 enterprise agreements covering approximately 162 000 (90 per cent) of Queensland public sector employees.	Has enabled wages increases ($350 million a year) to be partly offset by productivity saving ($175 million a year) in core agencies. Productivity gains have also been achieved in other public sector agencies.
WA	1995–96	Workplace agreements under the *Workplace Agreements Act 1993*.	As at 30 May 1996, a total of 57 510 employees with 1747 employers had entered into workplace agreements — 10 987 of those employees were in the public sector.
WA	1995–96	Enterprise and certified agreements under the *Industrial Relations Act 1979* and the *Australian Industrial Relations Act 1988*.	At 30 June 1996, a total of 75 063 state public sector employees in 100 agencies were covered by agreements. It is estimated that 129 900 private sector employees were also subject to agreements.
WA	Jan 1996	*Industrial Relations Legislation and Repeal Act 1995* passed.	Seeks to make unions more accountable and updates provisions of industrial relations legislation.
SA	1995–96	*Industrial and Employee Relations Act 1994* amended to improve the enterprise bargaining process (for example, allowing ‘greenfield sites’ agreements).	Improves the operation of the enterprise bargaining process and enables agreements to be concluded prior to the recruitment of employees.
SA	1995–96	Extension of enterprise bargaining process with 125 further enterprise agreements concluded.	Approximately 73 000 employees (27 per cent of employees under SA State legislation) are covered by some form of enterprise agreement.

Labour market reforms (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
	SA	1995–96	Enterprise agreements finalised within the Departments of Information Industries; Housing and Urban Development; Manufacturing Industry, Small Business and Regional Development; Premier and Cabinet, and Transport; SA Ports Corporation; TransAdelaide; South Australia Police; and Services SA.	Delivers productivity and efficiency improvements and increased flexibility of working arrangements.
	ACT	1995–96	Implementation of agency bargaining in the ACT public service.	Around 3 percentage points of a general wage increase of 10 per cent is dependent on agency specific reforms, with further productivity related wage rises possible.
	NT	1995–96	A new public sector wide enterprise agreement was finalised. It provides for greater mobility of staff, greater flexibility of working arrangements, and reduced administrative processes. Separate agreements were also finalised for the Darwin Port Authority and the NT Police, Fire and Emergency Services.	This agreement facilitates continuous improvement and promotes greater productivity through the delivery of cost-effective government services.
Occupational health and safety	NSW	1995–96	Moved towards national uniformity of OH&S legislation through commencement of certification and hazardous substances regulation.	Changes seek to improve the regulatory environment and OH&S performance by industry.
	NSW	1 March 1996	Introduced comprehensive occupational health and safety and rehabilitation guidelines for the construction industry.	The guidelines aim to increase productivity and reduce the level of accidents on NSW construction sites.

	Vic	1 July 1995	Gave effect to national standards by implementing OH&S regulations covering plant safety and certification of plant users and operators.	These regulations consolidate and simplify regulatory structures and allow for the recognition of interstate certificates of competency.
	Qld	1995–96	Introduction of new workplace health and safety standards, and allowing private provision of some OH&S services.	Encourages a performance-based approach to OH&S. Expected reduction in injuries and lost time, and higher productivity.
	Tas	Aug 1995	Introduction of a performance-based approach to OH&S through the *Workplace Health and Safety Act 1995*.	Allows private providers of statutory inspection services and extends duty of care obligations to all persons who could affect the integrity of occupational health and safety.
Vocational education and training	Vic	16 Oct 1995	The State Training Board introduced a notional target of 20 per cent of total funds available for tendering within three to four years.	This reform introduces competition to an area traditionally provided by government monopoly. In 1996, $14.5 million (8 per cent of total funds) was allocated by tender processes.
	Qld	1996	Responsibility for training apprentices and trainees has been delegated to some industries.	The greater autonomy in training for industry is expected to provide greater flexibility and efficiency.
	ACT	1995–96	Formation of a new vocational education and training authority and a new Accreditation and Registration Council under the *Vocational Training and Education Act 1995.*	Provision of simplified processes for approving apprenticeships and traineeships, the conduct of training, accreditation and registration.
Workers' compensation	Vic	June 1996	*Accident Compensation Act 1985* amended to improve dispute resolution processes to minimise litigation.	Changes seek to reduce costs and improve its effectiveness for employers and injured workers.

Labour market reforms (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
	Qld	Jan 1996	*The Workers' Compensation Amendment Act (No. 2) 1995* came into effect. It includes measures designed to return the Workers' Compensation Fund to an improved financial position.	Estimated unfunded liabilities were $216.7 million as at 30 June 1996. The reforms aim to return the fund to a fully funded position by 1 July 2000.
	Qld	July 1995	Government departments and agencies required to hold workers' compensation policies with the Workers' Compensation Board and pay up-front annual premiums.	Ensures that government agencies operate under financial incentives comparable to the private sector to improve health and safety and embrace workplace rehabilitation.
	SA	1995–96	Deregulated provision of rehabilitation services.	Providers must meet minimum performance standards, with use based on the speed, quality and cost of service provided.
	SA	Jan 1996	A separate, levy-funded reserve account established for self-insured employers.	Separates the fund from that of insured employers and thereby removes the risk of cross-subsidisation.
Workers' compensation and health and safety	Vic	June 1996	Legislation passed to amalgamate the Health and Safety Organisation with the WorkCover Authority.	Improve efficiency in administration and increase the focus of WorkCover on injury prevention.

Environmental management

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
Coastal management	Tas	Jan 1996	Implemented a Coastal Action Program incorporating a package of Commonwealth, state and local government initiatives.	Initiates sharing of responsibility for the management of coastal areas between the community and government land owners.
Environmental assessment	Qld	1995–96	Full cost recovery through user-charging introduced for initial consideration and ongoing monitoring of Environmental Management Programs.	Aims to ensure more efficient use of departmental resources and encourage firms to devote sufficient resources to preparation of plans and annual returns.
Environmental licences	Cwlth	Jan 1996	Introduced import controls for ozone depleting substances which allow industry to self-regulate providing that total activity remains below a pre-set maximum level.	Reduces administration costs associated with the allocation of individual quotas.
	Qld	1995–96	Introduced a policy of allowing full or partial licence fee waiver if business can demonstrate that their activities have a lower risk of environmental harm than other similar activities or the environmental impacts of the activity are regulated under other legislation.	Reduces regulatory duplication and costs to industry, and promotes improved environmental management.
	Qld	1995–96	Implemented an integrated environmental management system which allows a business to apply for a single licence for multiple activities on a single site or for activities undertaken at multiple sites.	Industry benefits through lower licence fees and reduced compliance costs.

Environmental management (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
Historic sites	Tas	Dec 1995	*Historic Cultural Heritage Act 1995* passed, establishing a register of places of historic significance and a process for balancing the interests of development and conservation of these places.	Enables business to plan and implement developments within a clear framework and with greater certainty.
Land	Qld	July 1995	Established a simplified framework for the administration and management of non-freehold land.	The Act reduces 20 different tenure types to three main tenures and also makes land sustainability a key factor in decision making.
	WA	1995–96	Implemented programs to restrict land clearing, assist fencing of remnant vegetation, and foster revegetation schemes.	Aim to improve management and control of problems such as erosion, waterlogging, wildlife conservation, nutrient export, farm diversification and salinity.
Marine resources	WA	1996	Hydrocarbon exploration and drilling banned in the Ningaloo Marine Park.	Improves protection of a significant tourism resource and world conservation region.
	Tas	1995–96	Introduced a new legislative framework for managing fisheries that encourages sustainable resource use and development of marine farming activities.	The *Fisheries Act* was no longer considered adequate to provide effective mechanisms for the management of fisheries resources.
National parks	WA	1995–96	Further progress with the implementation of policy to collect visitor entry fees in national parks and reserves.	Allows for reinvestment of fees into parks and reserves management and development.

	SA	1996	*National Parks and Wildlife Act 1972* amended to allow more extensive community and private sector involvement in management of protected areas and the utilisation of native wildlife, including trial farming and harvesting.	Removes unnecessary restrictions on the sustainable utilisation of the state's natural resources.
Planning	Vic	Nov 1995	A new system for levying development contributions was implemented.	Provides increased transparency and consistency in the administration of development contributions and increases efficiency in the provision of infrastructure.
	Vic	July 1995	Abolition of five regional planning authorities.	Removed one of the layers in the planning process. With larger local councils, the need for intermediate planning authorities was eliminated.
Pollution	Qld	Nov 1995	Commencement of the *Transport Operations (Marine Pollution) Act 1995* and repeal of the *Pollution of Waters by Oil Act 1973.*	The new Act was introduced to protect coastal waters and the environment from a wider range of pollutants and from all classes of ships and boats.
	WA	1996	*Environmental Protection Act* amended to establish tiered licensing and review of prescribed premises.	Strengthens pollution prevention by reducing delays in the management of cases and adjusts penalties to better match offences.
	WA	1996	Legislation introduced to establish a framework for the prevention and remediation of contaminated sites.	Promotes the 'polluter pays' principle.
Salinity	NSW	Nov 1995	Extension of the Hunter Valley Salinity Discharge Strategy involving the introduction of tradeable discharge rights.	Creates economic incentives for polluters to improve their environmental performance.

Environmental management (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
Threatened species	Tas	Nov 1995	Passed the *Threatened Species Protection Act 1995* , introducing more certain processes and a definitive list of threatened species.	Enables industry to plan and implement developments within clear parameters whilst conserving natural resources.
Waste	Qld	1995–96	Incorporation of waste regulations previously administered by the Department of Health into the *Environment Protection Act* administered by the Department of Environment.	Expected savings from reductions in duplication in government services, and industry to benefit from simplification and clarification of regulation, and a reduction in compliance costs.
Water resources	SA	May 1996	Amended the *Water Resources Act 1990* to enable a two-part price for access to, and consumption of water resources, including groundwater and surface water.	Achieves greater allocative efficiency and improves the efficiency of water resource use.

GBE reform

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
Abattoirs	Qld	1995–96	Government removed subsidies to Queensland Abattoir Corporation.	Savings for the State Government and introduces competitive neutrality into the provision of abattoir services.
Banking	WA	1995	Sale of BankWest to Bank of Scotland.	The $900 million proceeds from the sale and tax compensation from the Commonwealth was used to reduce state debt.
Buses	WA	1995–96	Private contractors appointed to provide Transperth's information services and to manage City Busport. Bus fleet and common user facilities transferred to the Department of Transport.	Will enable Government to introduce competition into the public transport system more effectively by treating all operators more equally.
	SA	Jan–Feb 1996	Initiated competitive tendering for passenger transport services across metropolitan Adelaide.	Contracts tendered to date cover approximately half of metropolitan Adelaide, involving over 300 peak buses. Benefits achieved include improved services and reduced operating costs.
	SA	July 1995	Hills Transit established as subsidiary of TransAdelaide as the vehicle for a joint public/private sector partnership providing passenger transport services in the Adelaide Hills.	Provides for greater innovation and improved services through increased involvement of the private sector in service delivery.
	ACT	1995–96	Government taken on the role of purchaser of public bus transport services.	Seeks to encourage competition in the urban bus market.
	NT	1995–96	Segregation of policy, regulation and planning functions from the Darwin Bus Service.	To facilitate competition in the urban bus market.

GBE reform (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
Electricity	NSW	Dec 1995	Passage of a legislative package restructuring the electricity industry: creation of two new generation companies, Macquarie Generation and Delta Electricity; distribution companies reduced from 25 to 6; and an interim wholesale electricity market established.	Facilitates restructuring of the industry in preparation for the planned national electricity market.
	NSW	4 March 1996	Electricity pricing reform, including determination by IPART of separate network prices and a further reduction in cross-subsidies.	Provides for enhanced price transparency and meets a key requirement for a competitive electricity market.
	Vic	1995–96	Sale of five electricity distribution companies (United Energy — $1.6 billion, Solaris Power — $1 billion, Eastern Energy — $2.1 billion, Powercor Australia — $2.2 billion and Citipower — $1.6 billion) and one generation company (Yallourn Energy — $2.4 billion).	Privatisation to lock in the benefits of structural reform and provide competitive market structures.
	Qld	1995–96	Off-shore sale and lease-back transaction for power generation units and generation equipment located at Stanwell Power Station.	Total savings to the Government are approximately $97 million.
	WA	Feb 1996	Access for large electricity producers and consumers to Western Power's high voltage electricity transmission and distribution systems.	Expected to promote competition between suppliers, ultimately leading to cheaper electricity.

SA	June 1995	Further restructuring of electricity tariffs to reduce cross-subsidies between customer classes, ongoing structural reform within ETSA Corporation including separation of network functions from retail services, and transfer of administration of the Remote Area Power Scheme from the Corporation to the Department of Mines and Energy.	These measures are expected to improve efficiency through aligning prices with costs, by encouraging a stronger focus on commercial objectives, and providing for greater transparency.
SA	July 1996	Legislation passed separating generation from ETSA Corporation, following the Industry Commission review of the SA electricity industry.	Increases competition in the industry, facilitates private sector investment and prepares for participation in the National Electricity Market.
SA	June 1996	Passage of the *Electricity Corporations (Schedule 4) Amendment Act 1996* to apply powers and responsibilities of ETSA Corporation equally to all market participants.	Strengthens competitive neutrality and facilitates market entry, enhancing the prospects for competition.
SA	June 1996	ETSA finalised arrangements to purchase electricity from the privately built, owned and operated Osborne power cogeneration plant.	Innovative, efficient and environmentally sound power project which will contribute approximately 8 per cent of local generating capacity.
Tas	1995–96	Reform of the electricity supply industry involving removal of the Hydro-Electric Commission's monopoly on generation, establishing clear and non-conflicting commercial objectives and improved performance monitoring procedures, providing a framework for access by new generators, and establishing the concept of contestable customers.	Expected to lead to significant increases in productive efficiency and price reductions in certain sectors.

GBE reform (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
	NT	1996	Power to license sellers of electricity transferred from the Power and Water Authority (PAWA) to the relevant department.	Separation of regulatory and commercial functions.
	NT	1995–96	Two 20 year agreements signed with private power providers to augment the supply of electricity in the Alice Springs and Darwin/Katherine regions.	Private producers supplying power in competition with the PAWA.
Electricity and water	ACT	July 1995	Corporatisation of ACT Electricity and Water (ACTEW), removal of regulatory functions and provision of funding for CSOs.	Corporate structure provides the incentives for improvements in efficiency.
Gas	WA	1996	Phasing in of access to Alinta Gas' Dampier to Bunbury natural gas pipeline.	Gas suppliers allowed to contract directly with major customers. Increased competition leading to lower gas prices. Prices in the Pilbara have already fallen by 50 per cent, contributing to increased investment in the region.
	Qld	June 1996	The State Gas Pipeline was sold to Pacific Gas Transmission Company for $162 million.	Will lead to lower tariffs for transport of gas with expected annual savings to industrial gas users of approximately $20 million.
General	Vic	1995–96	Implemented financial accommodation levies (debt guarantee charges) for all significant GBEs.	Assists competitive neutrality through minimising the competitive advantage of government guarantees on GBE borrowings.
	WA	1995–96	Legislative amendments implementing a tax equivalent regime to GBEs.	Facilitates the transition of GBEs from non-tax paying entities and introduces 'tax law' to industries not subject to Commonwealth tax.

SA	July 1995	Implemented a taxation equivalent regime for seventeen trading and financial enterprises.	Comparability between tax treatment of Government business activities and private firms represents a key feature of competitive neutrality.
SA	July 1996	Passed the *Government Business Enterprises (Competition) Act 1996,* introducing an independent source of pricing oversight for selected government businesses, and a competitive neutrality complaints mechanism.	Provides for greater transparency and efficiency in determining the prices charged by government businesses and improves the application of competitive neutrality principles.
Tas	July 1995	Passed new legislation imposing income tax and wholesale sales tax equivalent regimes and abolishing exemptions from state taxes and charges. It also requires GBEs to identify all non-commercial activities and potential CSOs by 30 June 1996.	Seeks to further improve the governance, performance and accountability of GBEs.
Tas	Jan 1996	Established the Government Prices Oversight Commission (GPOC) as an independent body with responsibility for conducting investigations into, and reporting on, the pricing policies and practices of monopolies or near monopolies.	Will ensure that a public consultation process occurs on the pricing policies of government monopolies. Significant public monopolies will be investigated at least once in every three years and other monopolies can be declared by the relevant Minister.
NT	June 1996	Formation of several Government Business Divisions under the Financial Management Act, including Darwin Bus Service; NT Fleet, Darwin Port Authority, Government Printing Office, NT Construction, and NCOM computer services.	Government Business Divisions are required to pursue cost-efficiency, operate in a commercially oriented manner and under a formally approved charter of operations.

GBE reform (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
Insurance	SA	Nov 1995	Sale of State Government Insurance Commission (SGIC) to joint bidders State Government Insurance Office (SGIO) Insurance, and Legal and General.	Major ownership reform stimulating innovation and flexibility in service delivery and providing for increased competition in the local insurance industry.
	Tas	1995–96	The Motor Accident Insurance Board (MAIB) has out-sourced rehabilitation case management and the provision of a residential care facility.	The MAIB is able to focus its resources upon core activities and look to increase efficiency.
Laboratories	SA	Sept 1995	State Chemistry Laboratories sold to private operators.	Consistent with policy to transfer non-core services to the private sector to improve efficiency.
Land development	Vic	1995–96	The Urban Land Authority (ULA) made subject to the same taxation regime as the private sector.	The ULA operates in a similar manner to private sector land developers.
Ports	Vic	1995–96	Structural reform of ports involving removal of regulatory functions to other government agencies, creation of a corporatised channels authority, Melbourne Port Corporation assigned the role of commercial landlord, access and prices oversight by the Office of the Regulator-General, and the sale of the ports of Geelong ($51 million) and Portland ($30 million).	Increase port efficiency and improve services while reducing port costs. The benefits of reform will flow to port users. Privatisation of regional ports will help lock in competitive market structures in ports. The new port bodies have been given commercial charters, are subject to the same taxation regime as the private sector and are expected to pay dividends from after tax profits.
Post	Cwlth	June 1996	Creation of an appeals mechanism to the ACCC about the amount of discount offered by Australia Post for users of its bulk interconnection service.	Aims to help ensure that users of Australia Post's bulk interconnection service receive a fair discount.

Rail	NSW	1995–96	Established a Passenger Rollingstock Maintenance Division in the new State Rail separate from the operating business divisions.	Facilitates contracting out of fleet maintenance and introduces commercial discipline to the maintenance of assets.
	NSW	2 May 1996	Outsourcing of catering services on Countrylink trains commenced.	Estimated recurrent savings of $700 000.
	WA	1995–96	Subjected Westrail to a tax equivalent regime and the government to separately fund CSOs.	Part of progress under 'Right Track' policy to improve Westrail's operations.
	Vic	Feb 1996	Contracted out the operation of Bendigo railway workshops to the private sector.	Promote further competition in the heavy engineering sector.
	Vic	1995–96	Responsibility for rail safety transferred from the Public Transport Corporation (PTC) to the Transport Department thus separating the operating and regulatory functions. Safety Accreditation Unit also established.	Provides a consistent approach to safety management for private and public sector service providers.
	Vic	1995–96	Removal of remaining regulations requiring the transport of certain bulk commodities by rail.	Has ended the rail system's monopoly on the transportation of bulk products.
	Qld	July 1995	*Transport Infrastructure Amendment (Rail) Act 1995* commenced which governs the construction, maintenance and operation of the State's rail infrastructure following corporatisation, and establishes a framework to give third party access to the rail network consistent with the Competition Principles Agreement.	A Network Access Unit has been established to facilitate the implementation of the national competition policy as it affects rail. A number of third party proposals are currently in progress.

GBE reform (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
	Qld	1995–96	Off-shore sale and lease-back transaction for new locomotives operated by Queensland Rail.	Savings to the government of $1.7 million.
Road construction	SA	1995–96	Sign manufacturing unit, Sign Services SA, and Marino Asphalt Depot within Department of Transport sold to private sector operators.	Reforms resulted in considerable savings in road building and ongoing maintenance costs, including average savings of over 20 per cent for road traffic signs.
Shipping	Cwlth	1996	Restructuring of ANL Limited including: exit from the Europe trade and sale of the Australian Venture; sale of ANL's 50 per cent shareholding in Coastal ExpressLine; and sale of its Brisbane container operation.	The restructuring aims to improve the operating performance of the company.
Timber processing	SA	June 1996	Sale of the timber processing business, Forwood Products.	Consistent with the sale of non-core activities with a view to introducing private sector provision where more appropriate.
Trustee services	SA	Aug 1995	The Public Trustee required to operate on a more commercial basis under legislative provisions similar to commercial trustee companies.	Maintains CSOs, permits operation of common funds on a similar basis to private trustee companies and provides for payment of taxation equivalents.
	SA	March 1996	Sale of government trustee business Austrust, to the Tower Group.	Achieves entry of new competitor into the Australian market, facilitating competition and improved service delivery.

Wagering and gaming	ACT	July 1996	Corporatisation of ACTTAB from 1 July 1996.	Create an independent and commercially viable organisation. Aims to ensure efficient and cost effective operation of ACTTAB.
Water	Joint	1995–96	The Murray-Darling Basin Ministerial Council has approved commercialisation of the water distribution and asset management business which is planned for 1 July 1997 consistent with principles agreed by COAG.	Commercialisation will remove impediments to irrigation water being transferred from low value to higher value uses, generate returns on investment to meet future asset refurbishment needs, result in the restructuring of water tariffs, and reduce or eliminate cross-subsidies.
Water	NSW	1995–96	Continued shift by Sydney Water from property-value based charges to usage charges. Property-value based charges were reduced by $63 million. Reduction in cross-subsidies to residential customers of $120 million. An estimated 36 per cent of revenue is now based on usage charges.	Pricing which reflects the actual cost of supply encourages better use of existing resources.
	NSW	1995–96	The Hunter Water Corporation abolished all fire service charges and water and sewer availability charges previously levied on unconnected lands.	Removal of quasi-taxes. Reflects move to cost-reflective pricing.
	NSW	1995–96	Rural councils have begun moving towards usage-based water pricing following referral of rural water pricing issues to IPART.	Reflects move to cost-reflective pricing.
	Vic	1995–96	An increase in the percentage of customers within country water authorities charged using a two part user-pays pricing tariff. This involves a fixed charge (independent of property values in 95 per cent of cases) plus a variable charge based on consumption.	More efficient water use through more accurate pricing signals, as well as reductions in cross-subsidies.

GBE reform (continued)

Sector	*Jurisdiction*	*Date*	*Nature of reform*	*Jurisdiction's comment on significance*
	Vic	Sept 1995	Legislative amendments to the licensing arrangements for the three metropolitan retail companies, allowing provision for third parties to access their infrastructure.	Constrains the potential abuse of market power by a monopoly.
	Vic	1995–96	Restructure and sale of the scientific and technical services businesses of the former Rural Water Corporation.	Sale of non-core business activities assists restructured rural water businesses focus on achieving key industry objectives.
	WA	1995–96	Continuing water tariff reforms.	Considerable reduction of cross-subsidies between the business and residential sectors and between rural and metropolitan regions.
	WA	1 Jan 1996	Restructured the Water Authority and Waterways Commission into three separate commercial, environmental and regulatory entities.	The restructure has separated water resource management from water resource utilisation. The Water Corporation will be expected to compete against new entrants to the industry.
	SA	Jan 1996	Management, operation and maintenance of Adelaide's water and sewerage network together with management of capital works program contracted out to United Water International. Functions retained in SA Water restructured.	Expected savings of at least $164 million over 15 years and substantial economic development benefits through private sector involvement in the sector. The estimated annual contribution to total savings from restructuring is $38 million.
	SA	1995–96	Continuation of pricing reform by SA Water to extend volumetric pricing system to ensure all water usage incurs a charge.	Provides more appropriate price signals to water users and thereby enhances allocative efficiency, encouraging more efficient water use.

Tas	1995–96	Developed a user-pays water pricing policy for use by the Hobart Regional Water Board which eliminates cross-subsidies and improves price signals.	Improve customer resource use and investment decisions. It will also ensure that the Board’s pricing policy is in accord with COAG reforms.
NT	1996	Restructured water tariffs.	Tariffs more closely reflect costs and are based on consumption.

APPENDIX I
Staffing and management

This appendix provides supporting information to chapter 3 on staffing and management matters. Its structure largely follows that of the corporate overview in that chapter. The reporting covers both the Industry Commission and the former Bureau of Industry Economics (BIE). While the BIE became part of the Commission in March 1996, information is reported separately for the two organisations.

ORGANISATIONAL STRUCTURE AND MEMBERSHIP

COMMISSIONERS

No new Commissioners were appointed during the year. Mr Gary Banks was reappointed as Executive Commissioner until 4 July 2001. Dr Max Parker retired on 31 August 1995. Appointments as at 30 June 1996 are shown in table I.1.

ASSOCIATE COMMISSIONERS

No new fixed term appointments of Associate Commissioners were made during the year. Appointments as at 30 June 1996 are shown in table I.2.

Associate Commissioners may also be appointed for the duration of particular inquiries on a part-time basis. As at 30 June 1996 there was only one such appointment as shown in table I.3.

During the year, two Associate Commissioner appointments ended with the completion of the relevant inquiry. Details are shown in table I.4.

Table I.1: Chairperson and Commissioners, 30 June 1996

	Period of appointment	
	From	*To*
Mr W I Scales AO (Chairperson) (M)	21 May 1992	20 May 1997
Mr G R Banks (Executive Commissioner) (C)	19 Jun 1996	4 Jul 2001
Mr K J Horton-Stephens (M)	1 Mar 1994	28 Feb 1999
Prof T J Hundloe (C)	10 Feb 1992	9 Feb 1997
Mr J R Rae (M)	1 Dec 1992	30 Nov 1997
Mrs H J Owens (M)	8 Feb 1993	7 Feb 1998
Mr M J Joyce (M)	22 Mar 1995	21 Mar 2000
Mr J H Cosgrove (C)	27 Jun 1995	26 Jun 2000

(M) denotes Melbourne based.
(C) denotes Canberra based.

Table I.2: Associate Commissioners, 30 June 1996

	Period of appointment	
	From	*To*
Mr N J Gruen	19 Apr 1994	18 Apr 1999
Dr S Richardson (part-time)	6 Feb 1995	5 Feb 2000
Prof R H Snape	6 Feb 1995	5 Feb 2000

Table I.3: Associate Commissioners appointed to particular inquiries, 30 June 1996

	Inquiry	*Appointed*
Mr L Wiggins	Pharmaceutical Industry	19 Jul 1995

Table I.4: Associate Commissioner appointments completed in 1995-96[a]

	Inquiry	*Appointed*	*Ended*
Mr M Easson	Work, Health and Safety	24 Jun 1994	11 Sep 1995
Mr C McAlister	Competitive Tendering and Contracting	5 Dec 1994	24 Jan 1996

a Professor T Parry, appointed to the Pharmaceutical Industry inquiry on 30 June 1995, resigned on 10 July 1995 due to other commitments.

STAFF

Staffing information by level, gender, employment status and location is provided in tables I.5 to I.8.

Table I.5a: Industry Commission staff profile[a], 30 June 1996

Level	*Female*	*Male*	*Total*
Senior Executive Service Band 3	0	1	1
Senior Executive Service Band 2	1	1	2
Senior Executive Service Band 1	3	11	14
Senior Officer Grade B	5	26	31
Senior Officer Grade C	10	15	25
Senior Info Tech Officer Grade B	1	1	2
Senior Info Tech Officer Grade C	0	1	1
Info Tech Officer Grade 2	0	3	3
Senior Public Affairs Officer Grade 1	1	0	1
Senior Professional Officer Grade C	1	0	1
Professional Officer Class 2	1	1	2
Administrative Service Officer Class 6	16	18	34
Administrative Service Officer Class 5	14	12	26
Administrative Service Officer Class 4	6	3	9
Administrative Service Officer Class 3	17	4	21
Administrative Service Officer Class 2	9	2	11
Graduate Administrative Assistant	3	5	8
Public Administrative Trainee	1	0	1
Total	**89**	**104**	**193**
Corresponding totals at 30 June 1995	92	131	223

a Excludes 15 inoperative staff at 30 June 1996 and 24 at 30 June 1995.

Table I.5b: Former Bureau of Industry Economics staff profile[a], 30 June 1996

Level	*Female*	*Male*	*Total*
Senior Executive Service Band 2	0	1	1
Senior Executive Service Band 1	1	5	6
Senior Officer Grade B	3	13	16
Senior Officer Grade C	8	10	18
Administrative Service Officer Class 6	5	6	11
Administrative Service Officer Class 5	2	5	7
Administrative Service Officer Class 4	1	1	2
Administrative Service Officer Class 3	7	0	7
Research Officer Grade 2	1	2	3
Graduate Administrative Assistant	1	3	4
Total	**29**	**46**	**75**
Corresponding totals at 30 June 1995	28	50	78

a Excludes 8 inoperative staff at 30 June 1996 and 6 at 30 June 1995.

Table I.6a: Industry Commission Senior Executive Service staff by employment status, 30June 1996

Level	*Status*	*Female*	*Male*	*Total*
Band 3 (HDA)	Temporary	0	1	1
Band 2	Permanent	1	0	1
Band 2 (HDA)	Temporary	0	1	1
Band 1	Permanent	3	8	11
Band 1 (HDA)	Temporary	0	3	3
Total		**4**	**13**	**17**
Corresponding totals at 30 June 1995		4	16	20

Table I.6b: Former Bureau of Industry Economics Senior Executive Service staff[a] by employment status, 30June 1996

Level	*Status*	*Female*	*Male*	*Total*
Band 2	Permanent	0	1	1
Band 1	Permanent	1	5	6
Total		**1**	**6**	**7**
Corresponding totals at 30 June 1995		1	6	7

a Excludes 1 inoperative staff at 30 June 1996, and 1 at 30 June 1995.

Table I.7a: Industry Commission staff other than Senior Executive Service[a] by employment status,30 June 1996

Status	*Female*	*Male*	*Total*
Full-time permanent	69	87	156
Full-time temporary	9	4	13
Part-time permanent	7	0	7
Part-time temporary	0	0	0
Total	**85**	**91**	**176**
Corresponding totals at 30 June 1995	88	115	203

a Excludes 15 inoperative staff at 30 June 1996 and 24 at 30 June 1995.

Table I.7b: Former Bureau of Industry Economics staff other than Senior Executive Service[a] by employment status, 30 June 1996

Status	*Female*	*Male*	*Total*
Full-time permanent	26	39	65
Full-time temporary	1	1	2
Part-time permanent	0	0	0
Part-time temporary	1	0	1
Total	**28**	**40**	**68**
Corresponding totals at 30 June 1995	28	43	71

a Excludes 7 inoperative staff at 30 June 1996 and 5 at 30 June 1995.

Table I.8: Industry Commission staff[a] by level and location, 30 June 1996

Level	*Melbourne*	*Canberra*
Senior Executive Service Band 3	1	0
Senior Executive Service Band 2	1	1
Senior Executive Service Band 1	8	6
Senior Officer Grade B	17	14
Senior Officer Grade C	18	7
Senior Info Tech Officer Grade B	2	0
Senior Info Tech Officer Grade C	1	0
Info Tech Officer Grade 2	2	1
Senior Public Affairs Officer Grade 1	1	0
Senior Professional Officer Grade C	1	0
Professional Officer Class 2	2	0
Administrative Service Officer Class 6	24	10
Administrative Service Officer Class 5	15	11
Administrative Service Officer Class 4	8	1
Administrative Service Officer Class 3	11	10
Administrative Service Officer Class 2	9	2
Public Administrative Trainee	1	0
Graduate Administrative Assistant	6	2
Total	**128**	**65**
Corresponding totals at 30 June 1995	146	77

a Excludes the following inoperative staff at 30 June 1996 — Melbourne 6, Canberra 9 and at 30 June 1995 — Melbourne 9, Canberra 15.

All former Bureau of Industry Economics staff were based in Canberra.

SEPARATIONS

Staff departures from the Commission and the former BIE during 1995–96 are shown in tables I.9a and I.9b.

The Commission had 87 staff departures during the year, the highest component being due to resignation. Of the 27 departures for ‘other’ reasons, 21 were temporary staff completing their contracts, five staff accepted voluntary retirement packages and there was one death-in-office.

Table I.9a: Industry Commission staff by level and reason for separation, 1995–96

Level	*Promotion*	*Transfer*	*Resignation*	*Retirement*	*Other*	*Total*
SES[a]	1	2	0	0	2	5
SO[b] B	0	2	3	0	2	7
SO C	0	3	4	0	2	9
SITO[c] C	0	1	0	0	0	1
SPO[d] C	0	0	1	0	0	1
PO[e] 2	0	1	0	0	0	1
ITO[f] 2	0	0	0	0	1	1
ASO[g] 6	1	3	7	0	1	12
ASO 5	3	4	6	1	0	14
ASO 4	0	0	0	0	2	2
ASO 3	1	0	2	0	1	4
ASO 2	0	2	2	0	12	16
ASO 1	1	0	0	0	3	4
RO[h] 2	2	3	3	0	0	8
GSO[i] 2	0	0	0	0	1	1
PAT[j]	0	0	1	0	0	1
Total	**9**	**21**	**29**	**1**	**27**	**87**
Corresponding totals at 1994–95	10	25	11	3	68	117

a Senior Executive Service.
b Senior Officer.
c Senior Information Technology Officer.
d Senior Professional Officer.
e Professional Officer.
f Information Technology Officer.
g Administrative Service Officer.
h Research Officer.
i General Services Officer.
j Public Administrative Trainee.

The former BIE had a relatively low number of separations (ten in total) during 1995–96. Half were due to resignations, the others being transfers or promotions to other Commonwealth Public Service employment.

Table I.9b: Former Bureau of Industry Economics staff by level and reason for separation, 1995–96

Level[a]	*Promotion*	*Transfer*	*Resignation*	*Retirement*	*Other*	*Total*
SO B	0	1	1	0	0	2
SO C	0	2	0	0	0	2
ASO 6	1	0	1	0	0	2
ASO 5	0	0	1	0	0	1
ASO 3	1	0	0	0	0	1
ASO 2	0	0	1	0	0	1
PAT	0	0	1	0	0	1
Total	**2**	**3**	**5**	**0**	**0**	**10**
Corresponding totals at 1994–95	2	3	0	0	0	5

a Abbreviations as in table I.9a.

RECRUITMENT

The Commission recruited 49 staff during the year. Of these, 13 females and 11 males were employed as full-time permanent staff. There were 17 females and five males employed on a full-time temporary basis for various periods. Two females were employed on a permanent part-time basis and one female was employed on a temporary part-time basis.

Included in the recruitment were three female and five male Graduate Administrative Assistants.

With the exception of four Graduate Administrative Assistants, no new permanent staff were recruited by the former BIE in 1995–96.

EQUAL EMPLOYMENT OPPORTUNITY

Each of the 49 people recruited to the Commission during 1995–96 was given the opportunity to identify with any of the equal employment opportunity (EEO) groups. Identified membership of the EEO groups were 33 women, 6 people from a non-English speaking background, and 1 person with a disability.

Tables I.10a and I.10b show Commission and former BIE staff at 30 June 1996, according to EEO groups.

Table I.10a: Industry Commission staff by Equal Employment Opportunity groups, 30 June 1996

Salary range[a]	*Gender*			*Aboriginal or Torres Strait Islander peoples*	*People with disabilities*	*NESB*[b]	
	Female	*Male*	*Total*[c]			*1st gen.*	*2nd gen.*
Above $64 878 (includes SES)	*4*	*13*	17	0	0	1	0
$54 089 – 64 877 (SO A, B & equiv)	6	28	34	0	1	0	2
$46 659 – 54 088 (SO C & equiv)	10	17	27	0	2	1	4
$39 878 – 46 658 (includes ASO 6)	17	23	40	0	1	3	2
$36 610 – 39 877 (includes ASO 5)	13	9	22	0	0	0	4
$32 652 – 36 609 (includes ASO 4)	8	4	12	0	0	0	2
$29 454 – 32 651 (includes ASO 3)	17	4	21	0	0	0	5
$25 939 – 29453 (includes ASO 2)	12	7	19	0	0	0	2
Below $25 938 (includes ASO 1)	1	0	1	0	0	0	0
Total	**88**	**105**	**193**	**0**	**4**	**5**	**21**

a Abbreviations as in table 1.9a.

b Non-English speaking background.

c Excludes 15 inoperative staff.

Source: Based on staff responses to **voluntary** equal employment opportunity surveys

Table I.10b: Former Bureau of Industry Economics staff by Equal Employment Opportunity groups, 30 June 1996

Salary range	*Gender*			*Aboriginal or Torres Strait Islander peoples*	*People with disabilities*	*NESB*[a]	
	Female	*Male*	*Total*[b]			*1st gen.*	*2nd gen.*
Above $64 878 (includes SES)	1	6	7	0	0	1	1
$54 089 – 64 877 (SO A, B & equiv)	3	13	16	0	0	0	1
$46 659 – 54 088 (SO C & equiv)	7	11	18	0	1	1	1
$39 878 – 46 658 (includes ASO 6)	5	6	11	0	0	0	1
$36 610 – 39 877 (includes ASO 5)	2	5	7	0	1	0	0
$32 652 – 36 609 (includes ASO 4)	2	3	5	0	0	0	0
$29 454 – 32 651 (includes ASO 3)	7	0	7	0	0	0	1
$25 939 – 29453 (includes ASO 2)	1	3	4	0	0	0	0
Below $25 938 (includes ASO 1)	0	0	0	0	0	0	0
Total	**28**	**47**	**75**	**0**	**2**	**2**	**5**

a Non-English speaking background.

b Excludes 7 inoperative staff.

Source: Based on staff responses to **voluntary** equal employment opportunity surveys

Tables I.11a and I.11b show staffing in EEO groups against year 2000 targets for EEO groups on an Australian Public Service (APS) wide basis.

Table I.11a: Industry Commission — proportion of staff in Equal Employment Opportunity groups[a]

	Industry Commission		APS	
EEO Group	*per cent at 30-6-95*	*per cent at 30-6-96*	*per cent at 30-6-95*	*Year 2000 target per cent*
Females				
– in SES	20.0	23.5	17.7	20
– in SO A, SO B or equivalent group	20.0	18.2	23.3	28
– in total staff	41.7	46.1	47.1	50
Aboriginal or Torres Strait Islander peoples in total staff	0	0	2.1	2
People with disabilities in total staff	1.8	2.1	4.7	5
People of non-English speaking background in total staff	13.9	13.5	14.7	15

a Based on staff responses to **voluntary** equal employment opportunity surveys.

Table I.11b: Bureau of Industry Economics — proportion of staff in Equal Employment Opportunity groups[a]

EEO Group	*Bureau of Industry Economics* per cent at 30-6-95		*APS* per cent at 30-6-95	
	per cent at 30-6-95	*per cent at 30-6-96*	*per cent at 30-6-95*	*Year 2000 target per cent*
Females				
– in SES	14.3	14.3	17.7	20
– in SO A, SO B or equivalent group	18.7	18.7	23.3	28
– in total staff	35.8	38.6	47.1	50
Aboriginal or Torres Strait Islander peoples in total staff	0	0	2.1	2
People with disabilities in total staff	2.4	2.7	4.7	5
People of non-English speaking background in total staff	8.3	9.3	14.7	15

a Based on staff responses to **voluntary** equal employment opportunity surveys.

TRAINING AND DEVELOPMENT

The Commission has continued to apply considerable effort and resources to the training and development of its staff.

In 1995–96, the Commission's expenditure on training and development amounted to just under $230 000, representing 2.1 per cent of the annual salary budget. A total of 814 person days of training and development was undertaken by 178 of the Commission's current and former staff. This does not include considerable on-the-job training or attendance at internal seminars.

The main training and development topics included professional development in economics, personal and group management, skills in computer applications and enhancement of writing and communications skills.

The Commission also provides two further avenues for staff development. The first is a Postgraduate Study Award scheme which provides for living expenses assistance while staff study full-time. These awards are usually awarded to officers who are close to completing postgraduate studies and who meet certain other criteria. During 1995–96, six officers participated in the scheme.

The second scheme provides for Overseas Development Awards to allow staff to spend relatively short periods (one to two months) at an overseas institution to pursue matters relevant to the Commission's work. One officer participated in the scheme in 1995–96. Direct expenditure on the two schemes in 1995–96 was just under $30 000.

During the year, the Commission engaged a consultant to help establish the nature of its training and development needs. The consultancy was designed to highlight gaps between the skills and knowledge base needed by the organisation and that of its staff. Following the consultancy, a broad range of training opportunities were provided, and steps are under way to formalise a human resources development plan for the Commission.

Graduate induction continued to feature prominently in the Commission's training and development program. Graduates undergo a 12 month induction program of formal and on-the-job training. This provides them with an understanding of the structure and operations of the Commission, including the nature of its research and inquiry activities. Graduates are encouraged to play an active role in the workplace and to apply their individual skills at an early stage. Each graduate is allocated to an area of the Commission best suited to his/her qualifications and interests. They receive regular feedback on their work performance and further training and personal development needs are assessed.

To meet the Government's commitment to entry level training in the Australian Public Service (APS), the Public Service and Merit Protection Commission (PSMPC) introduced mandatory requirements relating to entry and advancement for graduates. These requirements are that, following selection and commencement with the agency, graduates must satisfy the requirements for a Certificate Level 3 in Public Administration (APS). The scheme recognises studies already undertaken by graduates and uses a system of credits to recognise prior learning. After a period in the workplace, graduates are assessed by an accredited assessor. On successful completion graduates receive a certificate and are promoted to the ASO 3 level.

The BIE incurred expenditure of around $60 000 in training and development for the year to 30 June 1996, representing 1.5 per cent of the salary budget. This expenditure included formal internal and external training and expenditure on conferences and seminars for BIE staff.

PERFORMANCE APPRAISAL AND PAY

Commission staff are required to have a workplan (ASO 1–6 and equivalent) or a formal performance agreement (SO C and above) in place for the year. Staff discuss with their supervisor their work objectives and outcomes, and evaluate these against agreed performance indicators. At the beginning of the cycle, staff discuss their training needs and prepare an Individual Development Plan. This is evaluated during the year and forms part of the final assessment. Mid-year reviews were completed in December and final assessments in June.

All BIE staff participated in performance appraisal which included the setting and monitoring of personal and work-unit performance targets and identification of development needs.

APS schemes covering Performance Based Pay (PBP) were altered during the year by the Department of Industrial Relations. The main changes related to the payment basis. Before the change, a pool of funds was able to be divided between officers achieving rating levels which attracted PBP (that is, a rating of 3, 4 or 5). In 1996, only officers achieving a rating of 4 or 5 received PBP. A rating of 4 attracted PBP of 8 to 10 per cent of base salary, while a rating of 5 attracted PBP of 13 to 15 per cent of base salary. The proportion of officers to receive PBP is to be restricted to approximately 25 per cent of eligible officers.

Staff at the Commission were considered in two groups — Senior Executive Service (SES) and Senior Officers. In the SES, the proportion achieving a rating of 5 was 6.5 per cent and 27.7 per cent achieved a rating of 4. Payments totalled $37 156. The percentage of Senior Officers who achieved a rating of 5 was 4.9 per cent and 22.2 per cent achieved a rating of 4. Payments totalled $106 815.

In the BIE, 28 per cent of the SES were rated as 4. Payments totalled $12 676. Under their workplace agreement, when part of the former Department of Industry, Science and Technology (DIST), Senior Officers in the BIE had opted not to participate in the PBP scheme.

OTHER MATTERS

The following discussion relates to the Commission. The BIE operated under the policies and practices of its portfolio department — DIST — during the majority of the 1995–96 year.

ACCESS AND EQUITY

In 1995, the Commission initiated a consultancy to assess its compliance with the Commonwealth Government's access and equity strategy. The consultancy found that, while the Commission targeted groups relevant to particular inquiries, it could improve its performance in terms of access provided to people from non-English speaking backgrounds.

The Commission has now developed an Access and Equity Plan relating to groups with special needs. The Plan was developed in consultation with staff, management and the Office of Multicultural Affairs. It sets out how the Commission will provide the opportunity for groups with special needs to participate in Commission activities.

For example, each public inquiry now requires specific steps to help allow interest groups themselves to identify the relevance of Commission inquiries. There is a requirement to investigate possible barriers to participation and to examine the best ways of overcoming any barriers. This applies particularly to those who for cultural or physical reasons may not have easy access to Commission inquiries.

In addition, the success or otherwise of access and equity objectives is assessed at the end of each inquiry. Where appropriate, good precedent is passed on and shortcomings highlighted for future inquiries.

INDUSTRIAL DEMOCRACY

The Commission's formal consultative mechanism for industrial democracy is the Industry Commission Consultative Council. It met twice during 1995–96 to consider a range of matters including permanent part-time employment, exit procedures, occupational health and safety issues, the performance appraisal guidebook and workplace bargaining.

OCCUPATIONAL HEALTH AND SAFETY

The Commission's commitment to Occupational Health and Safety (OH&S) is documented in an agreement with the Community and Public Sector Union (CPSU). The Commission's OH&S committee has management and CPSU representatives as well as staff observers and is supported by staff from the personnel section. It met four times during 1995–96 and dealt with a variety of topics, including emergency evacuation procedures, manual handling risk assessments, first aid and rehabilitation policies and the development of an OH&S strategy paper.

The Commission continued its pro-active approach to the early identification of potential workplace injuries. New staff were assessed by contracted ergonomists in both offices to ensure safe work practices were promoted. Training has been provided for staff nominated as OH&S representatives and first aid officers.

Senior Executives and Senior Officers are required to specifically address OH&S responsibilities as part of their performance agreements. Induction procedures include an explanation of OH&S arrangements and representatives.

In June 1996, Comcare conducted a Planned Workplace Investigation of the Commission's Melbourne office to determine if the Commission was meeting its obligations under the *Occupational Health and Safety Act 1991*. The Commission received the results of the survey in July 1996. Results consisted of a 'good' rating on workplace arrangements, hazard management, workplace environment, investigations and notices. An 'average' rating was received on duty of care, training, accidents, investigations and reporting. The Commission is developing an action plan to address the report's recommendations.

The Commission's insurance premium for workers' compensation for 1995–96 was 1.14 per cent of salaries expenditure, which compared with the average premium of 1.7 per cent for the pool of APS agencies. For 1996–97, the Commission's rate will fall to 0.76 per cent of salaries expenditure, compared with a fall to 1.6 per cent for the pool of APS agencies.

No formal OH&S investigations were conducted during the year and no Provisional Improvement Notices were served.

EMPLOYEE ASSISTANCE PROGRAM

The Commission continued to provide access for staff to an Employee Assistance Program. This program provides independent, confidential and professional counselling, consultation and training assistance to staff and their immediate families who seek help with work-related and personal problems.

New contracts were let during the year to Occupational Services of Australia in Melbourne and Industrial Program Services in Canberra. Briefing sessions were conducted for all staff by the new providers.

Usage of the service in both locations was within providers' expectations. In Melbourne, 21 people had a total of 43 counselling sessions, while in Canberra eight people had 21 counselling sessions.

EQUAL EMPLOYMENT OPPORTUNITY

The Commission continued to work with the PSMPC and staff association representatives to give effect to its Equal Employment Opportunity Plan. As the existing plan is now due for review, work has commenced on the development of an updated version, which will address equal employment opportunity issues within the new environment at the Commission.

As has been the practice for some years, the Commission's position documentation includes a specific selection criterion relating to awareness and understanding of government policies on equal employment opportunity.

The Head of Office is the Senior Executive Responsible for Equal Employment Opportunity within the Commission. Day-to-day responsibility for these matters rests with a nominated officer from the Personnel Policy and Practices section. Harassment Contact Officers have been appointed and trained in both the Melbourne and Canberra offices.

The Industry Commission Consultative Council provides a forum for discussion of equal employment opportunity issues raised by management and staff.

WORKPLACE BARGAINING

During the year, management and the union (CPSU) negotiated an agency bargain under the APS enterprise agreement. The agreement is currently awaiting approval by the Treasurer before being submitted to the Australian Industrial Relations Commission for certification.

The main provisions in the agreement include continuous improvement requirements, environmental efficiency, flexible working hours, various forms of leave and dispute avoidance and settlement procedures.

INFORMATION TECHNOLOGY STRATEGIC PLAN

During the past year, the Commission developed an Information Technology Strategic Plan covering the period July 1996 to June 1999.

The plan identifies Information Technology (IT) objectives to facilitate the achievement of the Commission's corporate objectives. The plan covers facilities for the collection of information, the analysis of data, the preparation and publication of information, teamwork tools, information management tools, communications, training and IT resource management.

Strategies to achieve the objectives are defined and a costed implementation program forms part of the plan. Several areas for potential improvement were identified as part of the strategic planning process — these will require review of current procedures and practices as well as technology resources. The plan has regard to the policies likely to emerge from current actions under way by the Office of Government Information Technology.

GRANTS

During the year the Commission made a number of grants or special payments. These payments are made to organisations judged by management as being able to make a worthwhile contribution to the Commission's objectives. The main categories of payments were as follows.

- Economic Modelling: $144 000 as the Commission's contribution to the Centre of Policy Studies at Monash University for the

COPS/IMPACT economic modelling projects. In addition, the Commission is responsible for coordinating payment of a further $200 000 in matched funds on behalf of other Commonwealth agencies.

- Research Sponsorships: $40 000 to the Johns Hopkins University, USA, as the first of three annual instalments for the Australian component of the Comparative Non-Profit Sector Project which aims to collect comparative data on non-profit organisations from a number of countries.
- Consortium Membership: $20 270 for membership to the Global Trade Analysis Consortium based at Purdue University, USA. The Commission's contribution supports the development and updating of a publicly available database and model framework for multi-country trade policy analysis. It also gives the Commission early access to database updates, priority access to model training and input into the future direction of model and database development.
- Conference Sponsorship: $3500 to the Economic Society of Australia for part sponsorship of the 25th Annual Conference of Economists.
- Corporate: $2000 as a small agency contribution towards seconding an officer to the *Public Service Act 1922* implementation team.

CONSULTANCIES

The Commission utilised the services of a range of consultants over the course of the year where it was considered efficient and cost-effective to do so. A summary of the consultants engaged is shown in table I.12.

Table I.12: Summary of consultants engaged 1995–96

Purpose	*Number*	*Contract amount ($)*
Public Inquiries	5	103 047
Performance Monitoring	2	34 000
Independent studies	1	9 500
Corporate Services	2	10 400
Total	**10**	**156 947**

A number of consultants engaged in the preceding year continued into 1995–96.

The BIE did not engage any consultants during the 1995–96 financial year. An amount totalling $58 130 was paid towards consultancies engaged in the previous financial year which continued into 1995–96.

ADVERTISING AND MARKET RESEARCH

The Commission publicises each of its inquiries so that any individual, firm or organisation with an interest has an opportunity to present their views. Activities to publicise inquiries range from newspaper advertisements and the regular distribution of the IC Bulletin to announcing key stages of inquiries by press release and inquiry circulars.

In 1995–96, a total of $78 000 was paid to Neville Jeffress Advertising, the Commonwealth's master agency, for classified advertising.

PUBLICATIONS AND SUBMISSIONS

Attachment I.1 contains a list of Commission and BIE publications.

During the year, a number of existing publications were reviewed. A readership survey was undertaken in respect of one Commission publication — the *Compendium of Reports* (IC 1995f). Initiated in 1993, the compendium was developed to provide a snapshot of the Commission's work in the preceding year. Following the survey, which revealed a low demand for the publication, it was decided to discontinue the compendium.

CARMA International was engaged to conduct an analysis of media coverage of the Commission during the period 1 January to 31 December 1995. The objective of this research was to provide supplementary feedback to individual project media/marketing reports. The report will be a useful tool for establishing benchmarks and for further refining the Commission's communication strategy.

The Commission publishes a regular information bulletin to advise readers about its activities. The Commission engaged the Information Solutions Group to survey readers to determine the bulletin's usefulness, readership base and marketing effort. The feedback will be used to amend the publication to more closely reflect readers' needs.

FREEDOM OF INFORMATION

The Commission received one application for documents during 1995–96 under the *Freedom of Information Act 1982.* The request sought the release of the Commission's report into the Vehicle and Recreational Marine Craft Repair and Insurance Industries. This request subsequently lapsed following the Government's release of the report.

A statement encompassing formal reporting requirements is provided in attachment I.2.

ANNUAL REPORTING REQUIREMENTS AND AIDS TO ACCESS

Information contained in this annual report is provided in accordance with sections 25(6) and 25(7) of the *Public Service Act 1922*, section 74 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*, section 50AA of the *Audit Act 1901* and section 8 of the *Freedom of Information Act 1982.*

The entire report is provided in accordance with section 45 of the *Industry Commission Act 1989.*

This year's annual report has been prepared in accordance with the guidelines issued by the Department of Prime Minister and Cabinet. The guidelines seek to minimise the amount of detail contained within annual reports, but state that matters of detail previously required for inclusion in annual reports should be made available within five working days of the date of request from Parliament. A compliance index is provided in attachment I.3.

The contact officer for inquiries or comments concerning this report is:

Assistant Commissioner
Corporate Services Branch
Industry Commission
LB2 Collins Street East Post Office
MELBOURNE VIC 8003

Telephone: (03) 9653 2251
Facsimile: (03) 9653 2304

Inquiries about any Commission publication can be made to:

Director
Communications Unit
Industry Commission
LB2 Collins Street East Post Office
MELBOURNE VIC 8003
Telephone: (03) 9653 2183
Facsimile: (03) 9653 2199

Access to the Commission via the World-Wide Web

The Commission has a home page on the Internet. The World-Wide Web site address for the Commission is: **http://www.indcom.gov.au**

Information currently accessible through the Commission's home page is an introduction to the Commission, various contacts within the Commission, information on current inquiries and a list of Commission publications.

ATTACHMENT I.1

REPORTS, PAPERS AND SUBMISSIONS COMPLETED

Inquiry reports

Draft reports

- Packaging and Labelling (23 October 1995)
- Competitive Tendering and Contracting by Public Sector Agencies (24 October 1995)
- Tourism Accommodation and Training (15 November 1995)
- The Pharmaceutical Industry (23 November 1995)
- Implications for Australia of Firms Locating Offshore (21 May 1996)
- Machine Tools and Robotics Industries (18 June 1996)

Final reports

- Work, Health and Safety, Report no. 47 (11 September 1995)
- Competitive Tendering and Contracting by Public Sector Agencies, Report no. 48 (24 January 1996)
- Packaging and Labelling, Report no. 49 (14 February 1996)*
- Tourism Accommodation and Training, Report no. 50 (23 April 1996)*
- The Pharmaceutical Industry, Report no. 51 (3 May 1996)

* not yet released by government

Annual reports

- Annual Report 1994–95
- Performance of Australian Industry 1994–95
- Compendium of Reports 1994–95

Independent research reports

- Does Pacific Power have Market Power? (A Report on the Implications for the National Electricity Market of New South Wales Generation options) (14 August 1995)
- Pigs and Pigmeat (30 October 1995)
- The Electricity Industry in South Australia: A Report to the South Australian Government (29 April 1996)

Information papers

- Implementing the National Competition Policy: Access and Price Regulation (November 1995)
- Merger Regulation: A Review of Draft Merger Guidelines Administered by the Australian Competition and Consumer Commission (June 1996)

Performance monitoring

- An Economic Framework for Assessing the Financial Performance of Government Trading Enterprises (June 1996)
- Report on Government Service Provision 1995 (December 1995)

Submissions by the Industry Commission

- Nil

Office of Regulation Review papers

- A Guide to Regulation Impact Statements (October 1995)
- Insurance and Superannuation Commission Discussion Papers on Derivatives (May 1995)
- A Guide to Regulation Impact Statements: A Guide to Assist Commonwealth Departments and Agencies Prepare Regulation Impact Statements (September 1995)
- Regulation and its Review: 1994–95 (November 1995)

- Enforcing Australia's Food Laws: A Survey and Discussion of the Practices of Australian Food Regulation Enforcement Agencies (November 1995)

Submissions by the Office of Regulation Review

- An Economic Analysis of Copyright Reform: A Submission to the Copyright Law Review Committee's Review (November 1995) of the *Copyright Act 1968* (Cwlth)

Staff papers

- Impact of APEC's Free Trade Commitment (February 1996) Philippa Dee, Chris Geisler and Greg Watts
- Extending Patent Life: Is it in Australia's Economic Interests? (June 1996) Nicholas Gruen, Ian Bruce and Gerard Prior
- Land Degradation and the Australian Agricultural Industry (June 1996) Paul Gretton and Umme Salma

Corporate publications

- IC Bulletin, numbers 7–10

BUREAU OF INDUSTRY ECONOMICS PUBLICATIONS

Reports

67 Beyond the Firm: An Assessment of Business Linkages and Networks in Australia (July 1995) Cat. No. 9500731

68 International Performance Indicators — Coastal Shipping 1995 (July 1995) Cat. No. 950840

69 Issues in Infrastructure Pricing (August 1995) Cat. No. 950074X

95/16 International Benchmarking — Waterfront 1995 (August 1995) Cat. No. 9508961

95/17 Impact of the CER Trade Agreement — Les sons for Regional Economic Co-operation (September 1995) Cat. No. 9510117

95/18 Implications of a Ban on Trade in Non-Ferrous Metals for Recycling (September 1995) Cat. No. 9510109

95/19 Investment Abroad by Australian Companies — Issues and Implications (October 1995) Cat. No. 9512500

95/20 International Benchmarking — Overview 1995 (November 1995) Cat. No. 9512489

95/21 Foreign Direct Investment in APEC (November 1995) Cat. No. 9512748

95/22 International Benchmarking — Rail Freight 1995 (December 1995) Cat. No. 9513469

95/23 1995 Industry Economics Conference — Papers and Proceedings (December 1995) Cat. No. 9512764

96/1 Setting the Scene — Micro Reform — Impacts on Firms (January 1996) Cat. No. 9513477

96/2 Science system — International Benchmarking (January 1996) Cat. No. 960040X

96/3 Australian Science — Performance from Published Papers (January 1996) Cat. No. 9600418

96/4 Evaluation of the Investment Promotion and Facilitation Program (April 1996) Cat. No. 9601996

96/5 Energy Efficiency and Greenhouse Gas Abatement — The Role of Cooperative Agreements in Australia (April 1996) Cat. No. 9602755

96/6 Evaluation of Commonwealth Support for MFP Australia (May 1996) Cat. No. 9603360

96/7 Infrastructure Pricing Policy Forum 1995 (June 1995) Cat. No. 96003816

96/8 Dividend Taxation and Globalisation in Australia (June 1996) Cat. No. 9429006

96/9 Business Licences — International Benchmarking (June 1996)

96/10 Business Licences and Regulation Reform (June 1996)

96/11 Agri-Food Case Study — Micro Reform — Impacts on Firms (June 1996)

96/12 Evaluation of the Agri-Food Strategy — An Assessment of Recent Government Assistance to the Agri-Food Industry (June 1996)

96/13 Prospects for Australian Industry Involvement in Greenhouse Gas Abatement Overseas (June 1996) Cat. No. 9604359

Occasional Papers

31 Implications of a Ban on Exports of Used Lead Acid Batteries (July 1995) Cat. No. 9502912

32 From Solar Cell to Hard Sell: An Appraisal of Investments by the Energy Research and Development Corporation (August 1995) Cat. No. 9508953

Working Papers

105 Direct Investment and Government Policy (October 1995) Chris Harris

106 Outward Investment by Australian Companies (September 1995) Chris Harris and Ilias Mastoris

107 Motivation and Purpose of Australian Investment Abroad (September 1995) Ilias Mastoris and Chris Harris

96/1 Benchmarking — International Linkages in Science and Technology (January 1996) John Revesz

96/2 Evolution of Science and Technological Infrastructure: Some Examples from East Asia (January 1996) Bob Hawkins

96/3 Evaluation of the Marine Industries Development Program (March 1996) John Whiteman and John Revesz

96/4 The Revenue Cost of International Dividend Streaming (May 1996) Harvey Anderssen

96/5 Encouraging SME Investment in Environmental Technology (April 1996) Brett Janiessen, Ralph Lattimore and Kate Pearson

96/6 *Withdrawn*

97/7 Stages of Manufacturing Development in Australia (June 1996) Colin Clark

Other BIE Publications

Australian Industry Trends

Number 23	(November 1995) Cat. No. 9512675
Number 24	(May 1996) Cat. No. 9603735

Industry Briefs

Small Business	(September 1995)
Services	(January 1996)
Manufacturing	(February 1996)

Joint publication with the Department of Industry, Science and Technology

- SMEs in an Open Economy — The Australian Experience (September 1995)

PRODUCTIVITY COMMISSION PUBLICATIONS

- Stocktake of Progress in Microeconomic Reform (June 1996)

ATTACHMENT I.2

FREEDOM OF INFORMATION STATEMENT

The following information is provided in accordance with section 8(1) of the *Freedom of Information Act 1982.*

The role, functions and organisational structure of the Commission are detailed elsewhere in this report.

The Commission is required under its Act to conduct public inquiries on matters referred to it by the Government. The Commission's inquiry procedures actively seek to encourage participation by all interested parties.

The Commission may inspect and copy relevant documents and summons persons to give evidence in the course of its inquiries. Such persons are protected under the Act from being subject to prejudicial treatment as a result of their giving evidence.

Categories of documents

Information circulars, issues papers, inquiry guidelines and draft reports are sent to interested parties and inquiry participants, as well as being made available on request to the public free of charge. Final reports are distributed, free of charge, to inquiry participants.

Documents available for purchase at Commonwealth Government book shops include:

- the Commission's Annual Report to Parliament;
- reports on matters referred to the Commission by the Minister; and
- reports on matters researched by the Commission.

Copies of submissions made to inquiries, excluding confidential material, can be purchased through the Expo Document Copy Centre, PO Box 1154, Fyshwick, Canberra, ACT 2609. Transcripts of public hearings can be purchased from Spark and Cannon Pty Ltd, which has offices in Melbourne, Adelaide, Sydney, Brisbane and Perth. Transcripts and submissions can also be accessed through all state libraries.

Facilities for access

Relevant Commission documents, including copies of submissions and transcripts, may be inspected in the Commission's libraries in Melbourne and Canberra between 9.00am and 5.00pm, Monday to Friday. Information and written requests for access to Commission documents under the *Freedom of Information Act 1982* can be made through:

The Director
Finance and Office Services
Industry Commission
Locked Bag 2
Collins Street East Post Office
MELBOURNE VIC 8003
Telephone: (03) 9653 2270
Facsimile: (03) 9653 2199

ATTACHMENT I.3

COMPLIANCE INDEX

APPENDIX J

Inquiry and related activities and reports

This appendix provides information relating to the administration of the Commission's 1995–96 program of inquiries, independent research studies and Productivity Commission–specific projects. Where relevant, it sets out the terms of reference, principal issues and the recommendations, together with government responses to recommendations.

ADMINISTRATIVE MATTERS

PUBLIC INQUIRY ACTIVITIES

The major Commission activity is the conduct of public inquiries on issues referred by the Commonwealth Government. During 1995–96, the Commission completed five inquiries and received terms of reference for five further inquiries. Table J.1 summarises public inquiry activity for the last three years.

Summaries of findings and recommendations from Commission reports are presented below, along with Government decisions on recent reports and the terms of reference for inquiries received.

The Commission also conducted a number of independent studies for other agencies, as well as two projects specifically referred to the Productivity Commission by the Treasurer. Expenditures relating to these studies and special projects are covered in the tables J.5 and J.6. Reports released by the Bureau of Industry Economics (BIE) are also summarised in this appendix.

Table J.1: Public inquiry activity, 1993–94 to 1995–96

Indicators	*1993–94*	*1994–95*	*1995–96*
References received	7	5	5
Issues papers released	8	5	5
Public hearings (sitting days) [a]	145	174	33
Industry visits [b]	660	941	568
Submissions [b]	1 495	2 082	1 329
Draft reports completed	8	6	5
Reports completed	8	7 [c]	5
References on hand (at 30 June)	7	5	5

a Excludes forums and roundtable discussions.

b As distinct from hearing days, which are attributed to the year in which they occur, industry visits and submissions only relate to inquiries finishing in that year.

c Excludes the completion of the independent Committee of Inquiry into the Winegrape and Wine Industry. The Chairperson of the Commission chaired the Committee, which was supported by Commission staff.

Expenditure

Table J.2 summarises total inquiry expenditure (by inquiry) in 1995–96. The costs include salary and direct administrative costs, as well as an allowance for corporate overheads.

Table J.2: Total expenditure on public inquiries completed in 1995–96 ($'000)

Inquiry	*Total cost*
Work, Health and Safety	2 085
Competitive Tendering and Contracting by Public Sector Agencies	1 829
Packaging and Labelling	1 449
Tourism Accommodation and Training	1 661
The Pharmaceutical Industry	1 648

Table J.3: Public inquiry (non-salary) expenditure[a], 1995–96 ($)

Inquiry	*Duration of inquiry*	*Travel*	*Printing*	*Consultants*	*Other*	*Total 1995–96*	*Total expenditure*[b]
Charitable Organisations	12-93 – 6-95	24 832	38 972	–	1 088	64 892	551 847
Computer Hardware, Software etc	9-94 – 6-95	13 280	13 400	–	3 783	30 463	130 145
Work, Health and Safety	5-94 – 9-95	37 401	54 026	1 600	39 854	132 881	493 634
Competitive Tendering & Contracting etc	12-94 – 1-96	33 593	45 376	38 036	17 061	134 067	259 627
Tourism Accommodation & Training	2-95 – 2-96	107 765	19 165	56 726	66 042	249 698	340 583
Packaging and Labelling	2-95 – 2-96	55 396	29 561	–	46 720	131 677	165 558
The Pharmaceutical Industry	6-95 – 3-96	125 433	37 609	55 000	38 923	256 965	259 742
Firms Locating Offshore	8-95 – 8-96	23 653	7 291	–	26 403	57 347	
State, Territory and Local Government Assistance	10-95 – 10-96	58 757	8	9 000	38 753	106 518	
The Machine Tools and Robotics Industries	1-96 – 10-96	12 559	2 028	–	5 283	19 870	
Book Production	1-96 – 10-96	7 347	–	–	1 722	9 069	
Medical and Scientific Equipment	1-96 – 1-97	9 351	–	–	10 640	19 991	
General inquiry preparation and marketing		3 523	–	–	5 814	9 337	
Total		**512 890**	**247 436**	**160 362**	**302 086**	**1 222 774**	

– nil

a Includes all public inquiry (non-salary) expenditure acquitted in 1995–96, regardless of the commencement or completion date of the inquiry.

b For completed inquiries only. Includes all non-salary expenditure, including preparatory ex penditure prior to receipt of the terms of reference.

Source: Commission estimates

Table J.4 shows a range of direct administrative costs incurred for inquiries, over the period 1992–93 to 1995–96.

Table J.4: Public inquiry direct administrative costs,[a] 1992–93 to 1995–96 ($)

Cost item	*1992–93*	*1993–94*[b]	*1994–95*	*1995–96*
Travel	629 920	829 727	687 212	512 890
Printing	64 998	153 273	477 391	247 436
Consultants	84 325	245 790	340 917	160 362
Other[c]	230 566	454 316	443 002	302 086
Total	**1 009 807**	**1 683 106**	**1 948 522**	**1 222 774**

a Costs other than salaries and corporate overheads.

b The discrepancies between the 1993–94 totals reported in table M4 of the Commission's 1993–94 Annual Report and the 1993–94 totals shown here are accounted for by the exclusion of $12 819 of 1993–94 expenditure on the Committee of Inquiry into the Winegrape and Wine Industry, shown in table M4 as being 'inquiry expenditure'. It is reported separately under 'expenditure on independent research studies' in table J.5 of the 1994–95 Annual Report.

c Includes other inquiry costs, such as advertising, venue hire, court reporters/transcription services and data acquisition.

INDEPENDENT STUDIES FOR OTHER AGENCIES

During 1995–96, the Commission was involved in the conduct of three independent studies into various aspects of the electricity industries in New South Wales and South Australia, and the Australian pig and pigmeat industry.

The terms of reference for the study into New South Wales electricity generation options, *Does Pacific Power have Market Power?* (IC 1995g), emanated from the Commonwealth Assistant Treasurer following a request from the New South Wales Government.

The Assistant Treasurer also requested that the Commission undertake a review of the structure of the South Australian electricity industry — *The Electricity Industry in South Australia* (IC 1996b). This followed a request from the South Australian Government.

The study into the pig and pigmeat industries (IC 1995j) arose from an offer made by the Minister for Primary Industries and Energy in response to a rally of pig farmers held in Canberra on 28 June 1995.

Details of expenditure on independent studies conducted for other agencies are shown in table J.5.

Table J.5: Cost of independent research studies[a] completed in 1995–96 ($)

Study	*Duration*	*Total cost*
Does Pacific Power have market power?	6/95 – 8/95	118 000
Pigs and pigmeat	7/95 – 10/95	278 000
The electricity industry in South Australia	12/95 – 3/96	195 000

a Includes salaries, direct administrative expenses and an allowance for corporate overheads.

Details of expenditure on the two Productivity Commission–specific projects requested by the Treasurer are shown in table J.6.

Table J.6: Cost of Productivity Commission–specific projects[a] completed in 1995–96 ($)

Project	*Duration*	*Total cost*
Stocktake of Progress in Microeconomic Reform	3/96 – 6/96	420 000
Labour Market Benchmarking	3/96 – 6/96	298 000

a Includes salaries, direct administrative expenses and an allowance for corporate overheads.

THE INQUIRY PROGRAM

This section updates the inquiry program information provided in previous annual reports. It sets out the main findings and recommendations of inquiry reports released since the Commission's 1994–95 *Annual Report*. It also provides the terms of reference for new inquiries received, and summarises government responses to previous Commission reports.

Since the last annual report, the Commission has completed five inquiries and received terms of reference for five new inquiries. The government released reports for four inquiries, *Vehicle and Recreational Marine Craft Insurance and Repair Industries* (IC 1996j), *Work, Health and Safety* (IC 1995m), *Competitive Tendering and Contracting by Public Sector Agencies* (IC 1996a) and *The Pharmaceutical Industry* (IC 1996g).

The Government is yet to release the Commission's reports into:

- *Packaging and Labelling*; (Report no. 49), signed on 14 February 1996; and
- *Tourism Accommodation and Training* (Report no. 50), signed on 23 April 1996.

Table J.7 summarises inquiry activity for 1995–96. Earlier inquiries which are yet to receive a Government response, or for which a response was announced in 1995–96, are also included.

REPORTS RELEASED BY THE GOVERNMENT

This section summarises the main findings and recommendations of inquiry reports which have been released by the Government since the Commission's 1994–95 *Annual Report*.

VEHICLE AND RECREATIONAL MARINE CRAFT REPAIR AND INSURANCE INDUSTRIES

Report no. 43 released on 2 May 1996 (IC 1996j).

The Commission's report examined the scope for improving the efficiency of two of Australia's largest service industries — the motor and marine craft insurance and related repair industries. Together, these two industries have an annual turnover in excess of $10 billion.

The Commission found that, while these two industries are dependent on one another, there is also considerable tension between them, and this detracts from their performance. The Commission sought to identify relatively low cost solutions which provided incentives for better performance. In some instances, action will be required by governments, but many problems should be — and can be — addressed most efficiently by the industries themselves.

The report made a number of key recommendations.

- The insurance and repair industries should jointly convene a forum to determine processes needed to establish a code of conduct covering matters which impinge on relationships between the two industries, and a procedure for resolving disputes between insurers and repairers.

Table J.7: Stage of completion of inquiries and Government responses to Commission reports

Date received	*Inquiry title*	*For terms of reference see*	*Stage of completion*	*Major recomdn. see*	*Government response*
5-11-92	Public Housing	AR 92–93	Report no. 34 signed 11-11-93	AR 93–94	page 290
5-11-92	Workers' Compensation in Australia	AR 92–93	Report no. 36 signed 4-2-94	AR 93–94	page 292
10-9-93	Research and Development	AR 93–94	Report no. 44 signed 15-5-95	AR 94–95	page 289
17-3-94	Vehicle and Recreational Marine Craft Insurance and Repair Industries	AR 93–94	Report no. 43 signed 15-3-95	page 274	page 277
12-4-94	New and Advanced Materials	AR 93–94	Report no. 42 signed 8-3-95	AR 94–95	page 291
23-5-94	Work, Health and Safety	AR 93–94	Report no. 47 signed 11-9-95	page 278	page 279
29-9-94	Computer Hardware, Software and Related Service Industries	AR 94–95	Report no. 46 signed 30-6-95	AR 94–95	page 291
8-12-94	Competitive Tendering and Contracting by Public Sector Agencies	AR 94–95	Report no. 48 signed 24-1-96	page 279	page 280
14-2-95	Packaging and Labelling	AR 94–95	Report no. 49 signed 14-2-96	not yet released	na
28-2-95	Tourism Accommodation and Training	AR 94–95	Report no. 50 signed 3-4-96	not yet released	na
21-6-95	The Pharmaceutical Industry	AR 94–95	Report no. 51 signed 3-5-96	page 281	page 282
31-8-95	Implications for Australia of Firms Locating Offshore	AR 94–95	Report no. 52 signed 28-8-96	not yet released	na
31-10-95	State, Territory and Local Government Assistance to Industry	page	Inquiry in progress	na	na
29-1-96	The Machine Tools and Robotics Industries	page	Inquiry in progress	na	na
29-1-96	Book Production	page	Inquiry in progress	na	na
29-1-96	Medical and Scientific Equipment	page	Inquiry in progress	na	na

- The current time and hourly rate schedules used for repair quotations should be abandoned. If time and hourly rate schedules are considered to be useful in preparing quotations, they should reflect true times and costs.
- The internal dispute resolution schemes of insurers would be improved if they were to provide their dispute resolution sections with greater autonomy. Alternatively, they should consider including a consumer representative on review panels or, as a minimum, ensuring that internal reviews are undertaken by staff not involved in the original decision.
- State and territory governments should not introduce a compulsory third party property damage scheme in any form that limits insurers' underwriting flexibility.
- Design protection should not be afforded to motor vehicle parts which either 'must fit' or 'must match' some larger assembly that they are intended to repair.
- In those jurisdictions where smash chasing, harassment and intimidation by tow truck drivers are perceived to be serious problems, a demerit point system should apply to tow truck owners. Owners would lose demerit points, be fined and/or lose the right to operate a tow truck if their drivers are convicted of driving or related offences while in charge of a tow truck.
- Governments using tow truck allocation schemes that encompass entry restrictions should consider removing such restrictions. If appropriate, the restrictions should be phased out.
- Commonwealth, state and territory governments should recognise that vehicle theft is a major microeconomic reform issue. They should accelerate the development and implementation of systems to integrate existing databases and enable them to be quickly accessed by registration authorities in all jurisdictions. Responsibility for progressing this issue should ultimately rest with the Council of Australian Governments (COAG).
- The practice of attaching identification to vehicles by means of aluminium plate should be abolished in favour of adhesive self-voiding labels.

Government response

When releasing the report, the former Commonwealth Government noted that only four of the 31 recommendations in the report fell within the Commonwealth's jurisdiction, and that the remainder were most appropriately addressed by the states and territories and/or the industries themselves (Costello 1996a).

The Government indicated that its response to the Commission's report consisted of three elements:

- the Commonwealth intends to address the four recommendations falling directly within its jurisdiction;
- it intends to raise in the COAG's Committee on Regulatory Reform the large number of Commission recommendations and suggestions falling within the jurisdiction of the states and territories and the two industries; and
- it intends to encourage the two industries to cooperate in resolving bilaterally the considerable number of issues identified by the Commission which can be addressed by the industries themselves.

The former Government outlined its proposed action for the recommendations which fall within the Commonwealth's jurisdiction:

- **Part suppliers that knowingly supply parts that pose a significant safety risk should be subject to substantial financial penalties.**

  The *Trade Practices Act 1974* (Cwlth) provides for penalties for persons ($40 000) and corporations ($200 000) if the safety of goods is misrepresented; and that suppliers of defective products are liable to pay full compensation to persons suffering loss through the use of such products. The Federal Bureau of Consumer Affairs will examine the consumer protection provisions of the Act and advise the Minister for Small Business and Consumer Affairs.

- **Vehicle identification by aluminium plates should be abolished in favour of adhesive self-voiding labels.**

  The Minister for Transport and Regional Development, through the Federal Office of Road Safety, will approach the automobile industry to canvass, with the industry and the states and territories, the costs and benefits of moving to self-voiding label technology.

- **The current vehicle security regulation — Australian Design Rule 25/02 — should be abolished.**

  The Minister for Transport and Regional Development, through the Federal Office of Road Safety, will initiate the process to consider deletion of Australian Design Rule 25/02 as a vehicle standard under the *Motor Vehicle Standards Act 1989* .

- **Design protection should not be afforded to motor vehicle parts which either 'must fit' or 'must match' some large assembly that they are intended to repair.**

  The then Minister for Science and Technology was to address this recommendation, taking into account the Australian Law Reform Commission report on design law protection and motor vehicle parts, which was released on 30 August 1995.

WORK, HEALTH AND SAFETY

Report no. 47 released on 28 November 1995 (IC 1995m).

The Commission's report examined Australia's approach to occupational health and safety. The Commission estimated that:

- every year in Australia, over 500 workers suffer a traumatic death from work and up to 2200 die of occupational disease;
- the total cost to injured employees, their employers and the rest of the community of work-related injury and disease is at least $20 billion a year (not including any allowance for pain, suffering and anguish); and
- around 30 per cent of the total cost of occupational injury and disease has to be met by injured workers and their families. Employers bear about 40 per cent through workers' compensation premiums, lost productivity and extra overtime. The community funds the remaining 30 per cent, mostly in social security benefits and health subsidies.

The Commission argued that there was considerable scope in Australia to reduce the human and economic loss associated with injury and disease at work. Australian governments should provide the necessary leadership and support by reforming their policies on occupational health and safety.

The Commission’s key policy proposals were to:

- streamline and strengthen regulation using fewer, less detailed rules, focusing on the minimum level of protection to be provided;
- allow greater flexibility for employers and their employees to determine the ways to make their workplace safer;
- give greater emphasis to enforcement by relying more on deterring breaches of the law and less on persuading people to comply;
- provide stronger financial incentives to encourage employers to make their workplaces safer;
- overhaul Commonwealth–State arrangements to enable the governments to work together more effectively to improve health and safety at work for all Australians;
- provide greater contestability and transparency in research funding; and
- make the OH&S agencies more accountable for their performance.

Government response

In a joint statement, the then Assistant Industrial Relations Minister and the then Assistant Treasurer said that the Government would examine the report in consultation with the states and the unions before developing its response (Johns and Gear 1995).

COMPETITIVE TENDERING AND CONTRACTING BY PUBLIC SECTOR AGENCIES

Report no. 48 released on 18 June 1996 (IC 1996a).

The Commission examined the nature, extent and scope of competitive tendering and contracting (CTC) by Commonwealth, state and local governments and their agencies. Specifically, the report identified some of the costs and benefits of CTC and also developed a set of indicative principles for public sector managers to use in assessing the scope for more cost-effective use of CTC.

The report indicated that CTC is used widely by public sector agencies at all levels of government in Australia. While comprehensive data are not available, the value of services contracted by Australian public sector agencies is estimated to be at least $13 billion a year.

The Commission argued that CTC can increase the level of contestability and efficiency in the provision of public services. Where viable markets exist or can be developed for the provision of public goods and services, this brings into question the need for continued direct government involvement in the actual delivery of a good or service. Under CTC, these contestable public services are provided by the most competitive provider, which may be either in-house government agencies, the private sector or other public agencies. CTC provides an avenue through which governments can increase the level of contestability and reduce the cost of the provision of Commonwealth, state and local government public services.

The Commission made a number of recommendations which were designed to improve the effectiveness of CTC arrangements. These included:

- the development of appropriate contracting guidelines which:
  - improve service quality and client responsiveness;
  - improve the cost-effectiveness of CTC; and
  - maintain public accountability for service delivery;
- the development of competitive neutrality guidelines for in-house bids to ensure that in-house tenders:
  - are prepared in isolation from those in the organisation responsible for evaluating tenders and awarding contracts; and
  - reflect full cost attribution, including taxation, return on capital and all relevant overheads;
- improvements to administrative arrangements for CTC; and
- the use of transitional mechanisms when introducing CTC into new areas of public sector activity.

Government response

The Government has indicated that it would consider each of the Commission's recommendations in detail and would provide a formal response following the completion of the National Commission of Audit report (Costello 1996b).

THE PHARMACEUTICAL INDUSTRY

Report no. 51, released on 10 September 1996 (IC 1996g).

The Commission examined the pharmaceutical industry in Australia, its relationship to the global industry and its potential for further development. In the context of a globally rationalising industry, the report evaluated the impact of the policy environment on the industry. The most important of these policies were the Pharmaceutical Benefits Scheme (PBS) and the Factor f scheme. The terms of reference precluded the Commission from making recommendations about the PBS itself.

The Commission found while Australia was seen by industry as a favourable investment location on many criteria, policy inconsistency, uncoordinated administration of related policies and unresponsiveness of PBS policy contributed to negative industry perceptions. The Factor f scheme was designed to offset the perceived impediment of low PBS prices and in doing so to ensure the ongoing viability of the pharmaceutical industry. This scheme is due to finish in 1999. The evaluation of this scheme identified several design flaws that limited its effectiveness and efficiency. Overall, the scheme was not found to be welfare enhancing, and its administration had been poor.

The Commission noted that the tension between the Government's need to contain PBS outlays and companies' willingness to supply pharmaceuticals on the Government's terms can limit drug availability to the community. Low PBS prices, volume restrictions and listing delays can also constrain industry growth. The Commission recommended that, as a matter of urgency, the PBS listing process be subject to review, and that the underlying policy should also be reviewed. If the Government chose not to undertake any such review, then it may choose to implement another Factor f-type scheme along the lines suggested by the Commission.

The Commission also made recommendations about pre-market drug regulation, including those relating to international harmonisation of standards and data requirements, exchanging and jointly developing evaluation reports, pursuing mutual recognition in the longer term, establishing the Therapeutic Goods Administration as a Commonwealth statutory authority, selective advertising of schedule 3 ‘pharmacist only’ products and moving scheduling responsibility to the Therapeutic Goods Administration.

Government response

On 10 September 1996, the Government announced that it would examine the need and appropriate options for industry policy measures post-1999. Following industry consultation, a final announcement will be made in November 1996. The PBS will be subject to an efficiency review by the Australian National Audit Office, and this review should take account, where possible, of PBS administrative process issues arising from the Commission’s inquiry. The Government decided not to undertake a PBS policy review, in view of the deliberations of the Council of Australian Governments and the National Commission of Audit. The Government will pursue the cooperative approach to the scheduling of therapeutic goods recommended by the Commission with the states and territories.

TERMS OF REFERENCE FOR NEW INQUIRIES

This section presents the terms of reference for inquiries that have been received since the Commission’s previous annual report.

THE MACHINE TOOLS AND ROBOTICS INDUSTRIES

The Australian machine tools and robotics industries were referred to the Industry Commission for inquiry and report by the 29 October 1996.

The Commission was asked to examine and report on the appropriateness of the current definitions of eligible equipment and eligible recipients in the *Bounty (Machine Tools and Robots) Act 1985.* It was also asked to comment on any possible anomalies in the treatment of different goods, in particular, which:

- allow bounty to be paid on certain parts for robotic machines, computer controllers and Goods AA (that is, certain goods designed for use solely or principally as a part for a computer controlled machine) without requiring them to be used in the manufacture of bountiable equipment; and

- provide for bounty payments on modifications to certain systems (conveying and assembly equipment and computer hardware and software which are not necessarily associated with machine tools or robots).

The Commission was also requested to:

- report on the effectiveness of the Machine Tools and Robots Bounty Scheme;
- identify and report on areas of overlap between this form of assistance and other measures which are available to the industry;
- identify and report on key factors affecting industry development and ways to improve the efficiency and international competitiveness of the industry; and
- advise whether assistance should continue to be accorded to the production of machine tools and robots after the current bounty scheme terminates on 30 June 1997 and, if so, the nature and extent of such assistance, including capitalisation of the bounty.

The Commission was also asked to:

- take account of any recent substantive studies undertaken elsewhere; and
- have regard to the established economic, social and environmental objectives of governments.

The draft report was released in June 1996 (IC 1996e) for public comment.

Government response

The coalition Government terminated the Machine Tools and Robots Bounty from 20 August 1997. However, the Government will honour all contracts signed before this date, provided claims are made before 20 February 1997.

BOOK PRODUCTION IN AUSTRALIA

The production of books in Australia was referred to the Industry Commission for inquiry and report by 29 October 1996.

The terms of reference for the inquiry specified that in making its recommendations, the Commission aim to improve the overall performance of the Australian economy.

The Commission was asked to:

- report on the effectiveness of the current bounty scheme;
- identify and report on key factors affecting industry development and ways to improve the efficiency and international competitiveness of the industry; and
- advise whether assistance should be accorded to the production of books in Australia after the current bounty scheme terminates on 31 December 1997 and, if so, the nature and extent of that assistance, including capitalisation of the bounty.

In conducting its inquiry and presenting its report, the Commission was asked to have regard to:

- the administrative implications and cost-effectiveness of the options identified;
- the need for clear definitions of eligible books and eligible recipients; and
- Australia’s commitment not to impede, by tariffs or quota restrictions, the importation into Australia of those goods covered by the United Nations Education, Scientific and Cultural Organisation (UNESCO) Agreement on the Importation of Educational, Scientific and Cultural material (Florence Agreement) and the Nairobi Protocol to the Agreement.

The Commission was asked to:

- take account of any recent substantive studies undertaken elsewhere; and
- have regard to the established economic, social and environmental objectives of governments.

Government response

The coalition Government terminated the book production bounty from 20 August 1997. However, the Government will ho nour all contracts signed before this date, provided claims are made before 20 February 1997.

STATE, TERRITORY AND LOCAL GOVERNMENT ASSISTANCE TO INDUSTRY

Assistance to Australian industry from state, territory and local governments and their instrumentalities was referred to the Industry Commission for inquiry and the provision of an information report by 30 October 1996.

The inquiry was intended to elicit information about the extent of such government assistance and its effects on economic and regional development.

Without limiting the scope of the inquiry, the Commission's report was requested to have regard to:

- measures where the primary purpose is to assist or attract industry and overseas investment, including tax concessions, land acquisition and general trade and investment promotion;
- the extent of Commonwealth assistance to industry and its relationship to state, territory and local government assistance to industry;
- the impact of state, territory and local government competition for industry, including its impact on government finances, on mobile investment and the efficient allocation of resources across the economy; and
- an assessment of the net benefits derived by each state and territory from such assistance, including identifying the key determinants of where they have been successful and detailing the methodology for assessing net benefit.

The Commission was also asked to:

- avoid duplication of any recent substantive studies undertaken elsewhere; and
- have regard to the established economic, social and environmental objectives of governments.

The draft report was released in July 1996 (1996i) for public comment.

MEDICAL AND SCIENTIFIC EQUIPMENT

The medical and scientific equipment industries were referred to the Industry Commission for inquiry and report by 24 January 1997.

In making its recommendations, the Commission was requested to aim to improve the overall economic performance of the Australian economy.

The Commission was asked to report on:

- emerging trends in local and global markets for the industries;
- the international marketing environment, including tariff and non-tariff barriers to Australian exports, and the effectiveness of Government efforts to improve market access for the industries;
- the current structure and competitiveness of the industries, including an identification of strengths and weaknesses, drawing international comparisons where appropriate;
- the role of research and development programs, universities and other training and research institutions and linkages, with the domestic and international scientific community;
- the advantages and disadvantages of Australia as an investment location for all phases of medical and scientific equipment activity, from research and development through to manufacturing and export. In doing so, the Commission should report on programs in other countries designed to create a favourable environment for the industries;
- the potential for further development of the industries, including the scope for further value-adding, exports and import replacement;
- the impact of the current institutional and regulatory m easures, including the Therapeutic Goods Administration regime, on

industry, structure, performance, international competitiveness, resource allocation and growth prospects;

- any measures which could be undertaken to remove impediments or otherwise contribute to the efficiency, growth or export development of the industries;
- the identification of groups which would benefit from, or be disadvantaged by, any measures flowing from efforts to improve market access for the industries, and implementation strategies for proposed measures; and
- the effects on the industries, and the economy in general, of any measures recommended by the Commission.

The Commission was also asked to:

- report, where appropriate and without disclosing material provided in confidence on examples, of past success and failure in the industries, both in Australia and elsewhere, by way of case studies or other means; and
- have regard to the established economic, social and environmental objectives of governments.

The draft report was released in September 1996 (1996f) for public comment.

AUTOMOTIVE INDUSTRY

Australia's automotive industry was referred to the Commission for inquiry and report by 4 May 1997. The inquiry will cover the passenger and light commercial vehicle sectors and the component sector, including both original and aftermarket components.

In making its recommendations on assistance arrangements for the automotive industry from January 2000, the Commission should aim to improve the overall economic performance of the Australian industry.

The Commission is requested to have regard to the Government's desires to encourage development of a sustainable, prosperous and internationally competitive automotive manufacturing industry in Australia; to improve the overall performance of the Australian automotive industry; to provide good quality, competitively priced vehicles to the Australian consumer;

and its commitment to abide by Australia’s international obligations and commitments.

The report should include options, including a preferred option, and an implementation strategy. The Commission must consider how the Australian automotive industry will evolve within a world trading environment through the next decade, considering APEC developments on market liberalisation, and the timing and extent of cost reductions from other microeconomic reforms.

The Commission is requested to report on:

- emerging national and international market factors affecting the industry, including its current structure, rationalisation, competitiveness and barriers facing Australian exports, drawing international comparisons where appropriate;
- the advantages and disadvantages of Australia as an investment location for all phases of automotive activity, from research and development to manufacturing and export;
- the potential for further development of the industry, including scope for improving productivity and workplace practices;
- an appropriate policy framework to address the environmental issues facing the industry, including meeting fuel efficiency and emissions targets;
- the effectiveness of Australian research and educational infrastructure in providing design, engineering and other skill capabilities;
- the impact of current assistance arrangements, on its structure, performance and competitiveness, and on Australian consumers, resource allocation and growth prospects generally;
- any measures which could be undertaken to remove impediments or otherwise contribute to the efficiency and development of the industry, including ways of reducing the regulatory burden on small business; and
- the impact of its proposals on relative assista nce between the vehicle manufacturing and the component manufacturing sector.

The Commission is also asked to take account of any recent substantive studies, and have regard to the economic, social, environmental and regional objectives of governments.

GOVERNMENT RESPONSES TO COMMISSION REPORTS FROM PREVIOUS YEARS

This section provides a summary of responses to Commission reports released prior to 1995–96, but not reported in the Commission’s previous annual reports.

RESEARCH AND DEVELOPMENT

On 6 December 1995, the Commonwealth Government announced a comprehensive package of measures which it said would play a key role in helping to build Australia’s reputation as a regional base for R&D activities in the Asia-Pacific (Cook, Crean and Gear 1995; Collins 1995).

The Government responded to all but four of the 51 recommendations (Cook, Crean and Gear 1995; IC 1995k). The main elements of the package were:

- the 150 per cent tax concession will continue as the mainstay of the Government’s incentives for industry research and will be complemented by a renewal of the Competitive Grants Scheme;
- the role of the CSIRO will be clarified and a number of measures aimed at enhancing the accountability of the organisation will be introduced including costing and pricing guidelines, evaluation of research, and advisory and consultative processes;
- introduce consistency in cost recovery and pricing policies across research agencies and universities alike; and
- the Government will review the income tax legislation to ensure that postgraduate research scholarships remain exempt from taxation where such scholarships are provided clearly for educational purposes.

The Government acknowledged that the Commission’s recommendations dealing with the Cooperative Research Centres program had also been addressed by the commissioned review of the program chaired by Sir

Rupert Myers. The Government had already accepted the major recommendations of the Myers Committee, the remainder being referred to the Cooperative Research Centres Committee for advice.

The Government also announced changes to funding arrangements for Research and Development Corporations (RDCs) (Collins 1995). These include:

- as from 1 July 1996, the Government will match industry contributions to the RDCs, dollar for dollar up to 0.4 per cent of the gross value of production of each industry that contributes to the RDCs. Thereafter, the Commonwealth will provide one dollar for every two dollars contributed by industry;
- extension of the voluntary levies arrangements of the Horticultural RDC and other RDCs; and
- the inclusion of downstream processors in the model if a majority of the industry voluntarily agrees.

Of the remaining Commission recommendations:

- two recommendations affecting rural research are to be considered by state and territory governments; and
- two recommendations affecting the Australian National University's (ANU) Institute of Advanced Studies and the John Curtin School of Medical Research are to be considered in the context of the Government's response to the joint ANU–Australia Research Council review of the Institute.

The Commonwealth Government's 1996–97 Budget reduced the 150 per cent tax concession to 125 per cent from 20 August 1996.

PUBLIC HOUSING

In February 1994, COAG requested that Commonwealth and state housing ministers report on housing policy reforms that would clarify roles and responsibilities. It was also asked to address the issues identified in the Commission's 1993 report, *Public Housing* (IC 1993b).

In April 1995, housing ministers provided a report to COAG on progress on reform of the Commonwealth State Housing Agreement. The proposals endorsed by COAG in 1995 involved:

- the Commonwealth accepting responsibility for housing subsidies and affordability; and
- the state and territories taking responsibility for the management and delivery of public housing services.

In December 1995, the Government released its statement on *Community and Nation* (Keating 1995) which outlined its long-term national housing policy. The statement proposed a two stage process towards introducing reforms, namely:

- an Interim Agreement for up to three years from 1 July 1996, based upon existing funding levels, during which many elements of the new model could be put in place; and
- implementation of the new approach involving a fundamental shift in housing roles and responsibilities by 1999 or earlier if administratively feasible.

In June 1996, COAG reaffirmed its commitment to a fundamental shift in roles and responsibilities in the provision of housing assistance. It proposed that the Commonwealth forward a detailed reform package to the states and territories for consideration by the end of August 1996. Senior officials will report to COAG at its November meeting on the progress in negotiating an Agreement for the implementation of long-term housing assistance reform.

NEW AND ADVANCED MATERIALS

As part of its Innovation Statement, the Commonwealth Government announced that it would continue to promote the adoption of new and advanced materials and technologies related to their use through existing industry development programs (DIST 1995). It also indicated that efforts by industry and professional bodies to identify areas of skill shortages and training needs would be actively encouraged, as would liaison with education bodies to ensure the development of relevant curricula and courses.

COMPUTER HARDWARE, SOFTWARE AND RELATED SERVICE INDUSTRIES

On 6 December 1995, the Commonwealth Government announced that it had passed legislation to extend the computer bounty which supports the production of computing and related electronics equipment in a range of industries (Cook 1995).

The Government set the bounty rate of 8 per cent for one year, until 31 December 1996, then at 5 per cent — broadly in line with the general rate of tariff for manufacturing industries.

Research and development was no longer claimable under the bounty for production on or after 1 January 1996. The Government excluded R&D from the bounty, given that there is already a comprehensive range of programs supporting R&D in Australia.

The 1996–97 Commonwealth Budget abolished the computer bounty after 1 July 1997.

WORKERS' COMPENSATION IN AUSTRALIA

In 1994, the Labour Ministers' Council and COAG agreed that the Heads of Workers' Compensation Authorities (HWCA) should be given the task of developing a program of best practice solutions for achieving substantially greater national consistency.

The HWCA presented its interim report to state and Federal governments on 22 July 1996 which outlined the findings and recommendations emerging from the two-year project. The report welcomed the contribution which had been made by the Commission in its 1994 report into Workers' Compensation (IC 1994b) and addressed many of the areas of concern.

The HWCA has invited written comments on the report to be submitted to the relevant workers' compensation authorities by 31 October 1996. The HWCA will then consider comments and prepare a final report in the first quarter of 1997. The final report is expected to be submitted to the Australian Labour Ministers' Council in May 1997.

INDEPENDENT STUDIES FOR OTHER AGENCIES

This section describes the independent studies undertaken by the Commission for other agencies, which were completed in 1995–96, including a summary of the main findings and recommendations, and the government response, to each project. It also outlines the terms of reference for studies received since 30 June 1995.

WINEGRAPE AND WINE INDUSTRY IN AUSTRALIA

Released on 2 November 1995 (IC 1995l).

In April 1994, the Commonwealth Government announced that an independent committee of inquiry would examine the development potential of the winegrape and wine industry. The committee was chaired by Mr Bill Scales, Chairperson of the Industry Commission and other committee members were Mr Brian Croser (Executive Chairman of Petaluma Limited) and Professor John Freebairn of Monash University. The Commission provided secretariat support to the committee.

The terms of reference for the inquiry required the committee to focus on the industry's development potential, impediments to growth and the appropriate form and level of taxation for the industry. A copy of the terms of reference are contained in the Commission's 1994–95 *Annual Report*.

The committee agreed that the most efficient form of taxation of wine was a composite tax comprising an *ad valorem* component and a specific rate (or 'volumetric') tax levied on alcohol content. However, the committee was unable to agree about the level of tax that should be imposed. Mr Croser and Professor Freebairn recommended that wine should be subject to wholesale sales tax (WST) at a rate of 12 per cent plus a specific rate tax of $4 per litre of alcohol. They considered that the aggregate level of indirect tax collected from wine by the Commonwealth Government should approximate that realised by the WST rate of 26 per cent. Mr Scales considered that there would be gains in economic efficiency from reducing the present disparities in tax treatment between wine and other alcoholic beverages. He proposed that the tax on wine be increased over a five year period to a WST of 32 per cent and a specific rate of $4 per litre of alcohol. This would be equivalent to an *ad valorem* tax of 45 per cent.

Other recommendations included:

- a new Commonwealth Government body be established to perform regulatory functions currently undertaken by the Australian Wine and Brandy Corporation;
- a single organisation be established to perform promotional activities currently being undertaken by the Australian Wine and Brandy Corporation and the disbursement of research and development funds presently undertaken by the Grape and Wine Research and Development Corporation;
- state liquor licensing laws be reviewed with a view to removing or modifying restrictions which inhibit competition;
- the New South Wales Government act as soon as possible to implement its decision to remove restrictions on ownership in the Murrumbidgee Irrigation Area, and the compulsory acquisition powers of the Wine Grape Marketing Board not be extended beyond 1995;
- subject to environmental constraints, restrictions on the transfer of water entitlements should be minimised;
- governments, in conjunction with relevant water authorities and multi-jurisdictional bodies such as the Murray Darling Basin Commission, identify the environmental requirements of river systems and quantify the minimum flow levels necessary to meet these requirements. Where existing environmental flows are insufficient, governments repurchase necessary water entitlements; and
- the winegrape and wine industry consider cooperative actions to increase its contribution to vocational training.

Government response

When releasing the report, the former Government said that it welcomed the report's finding that the wine industry has considerable potential to develop further (Willis 1995).

The Government announced that it had decided against increasing the taxation of wine and would continue to apply the 26 per cent wholesale sales tax rate. It argued that investment in, and growth of, the wine industry would be maximised if the tax arrangements for the industry were kept stable.

The Government acknowledged that the Committee's report had drawn the Government's attention to a number of contradictions in the taxation of alcoholic beverages, including the concessional tax regime applying to new 'designer drinks'. The Government announced that it would subject designer drinks, wine cocktails, and non-grape fruit wines (such as cider) to the beer tax regime. From 1 July 1996, all alcoholic products not currently excised or classified as a wine or wine product under the National Food Standards Code P4 will be subject to excise at the same rate applicable to beer (currently 15.35 per cent per litre of alcohol above 1.15 per cent alcohol by volume), and subject to the standard rate of WST, presently 22 per cent.

The coalition government reversed this policy decision, and will maintain current taxation arrangements for wine, non-grape fruit wines and wine cocktails (such as cider, mead, vermouth and marsala).

DOES PACIFIC POWER HAVE MARKET POWER?

Released on 14 August 1995 (IC 1995g).

The Commission was requested to undertake a review of the electricity generation industry in New South Wales to determine the implications for competition of the market power that could be exercised by Pacific Power operating as a single entity.

The study was initiated by the Assistant Treasurer following a request from the New South Wales Government. The Commission was asked to report within 45 days of receiving the terms of reference.

In undertaking the review, the Commission was asked to have regard to the consistency of Pacific Power's market position in the electricity generation sector with:

- the principles for structural reform of public monopolies contained in the Competition Principles Agreement; and
- the operation of a competitive national electricity market.

In relation to its assessment of market power in the electricity generation industry, the Commission was asked to specifically examine (but without limitation) the ability of Pacific Power to:

- set prices for the market for significant periods of time to increase revenue or profit without engendering actions by customers or competitors which cause it to lose market share;
- force an allocation of capacity onto the market so that more efficient plant is kept idle and less efficient plant operates for significant periods of time;
- drive out competitors that are more efficient; and
- prevent entry of new capacity that is more efficient.

The Commission was also asked to:

- assess whether likely patterns of usage and capacity const raints of major interconnectors would contribute to the extent of Pacific Power's market power in relation to consumers in New South Wales or relevant regions within the state; and
- consider the implications for electricity consumers and competition of alternative structures of the electricity generation industry in New South Wales, including the trade-off between benefits from a competitive generation sector and the costs association with the possible loss of economies of scale and scope.

Main findings and recommendations

The study concluded that Pacific Power is likely to have significant market power for some years to come, if maintained as a single entity. Its market power could result in electricity prices being well above the levels expected if there were effective competition in generation. This would involve substantial social costs.

Future utilisation and development of the interstate interconnections is uncertain. However, at times they are likely to be constrained. This would add to Pacific Power's market power.

The market power available to Pacific Power operating as a single entity, if exercised, would seem inconsistent with the goals of the Competition Principles Agreement and with the effective operation of a competitive national electricity market. Competitive pressures would be increased if action were taken to disaggregate Pacific Power into a number of independent generation businesses. The costs of disaggregation are likely to be small relative to the potential costs of Pacific Power exercising market power.

It would be necessary to disaggregate Pacific Power into at least three independent businesses of comparable strength, in order to adequately reduce its market power.

In relation to specific issues raised in the terms of reference about the manner in which Pacific Power could exercise market power, the Commission considered that:

- Pacific Power would have the capacity and incentive to set prices and increase profits for significant periods of time, despite losing some market share;
- in some circumstances, Pacific Power could force an allocation of its own capacity onto the market, so that more efficient plant was kept idle and less efficient plant operated for a significant period of time;
- while Pacific Power could conceivably drive out existing competitors that are more efficient, this is unlikely to be in its longer term interests; and
- Pacific Power could discourage, but not prevent, entry of new capacity which is more efficient than some existing capacity.

Government response

On 24 October 1995, the New South Wales Government announced its decision to split Pacific Power into two state-owned generating companies, one of which was to be a holding company with two subsidiaries. The announcement left it open for the state's largest power station, Eraring, to join with a publicly owned generator in another state to form a third generating company.

THE ELECTRICITY INDUSTRY IN SOUTH AUSTRALIA

Released on 29 April 1996 (IC 1996b).

The Commission was requested to review the structural arrangements for the electricity industry to determine the structure that would best suit South Australia in preparing for the national electricity market.

The review was initiated by the Assistant Treasurer on 22 December 1995, following a request from the South Australian Government. The Commission was asked to report to the two governments within 75 days. Subsequently, the South Australian Government asked that the Commission's report be presented to it by 18 March 1996.

In conducting the review, the Commission was asked to take into account:

- obligations made through National Competition Policy Agreements; and
- potential market power exerted by the generation entity or entities.

In taking into account past agreements at COAG, the Commission was also asked to consider the extent of vertical separation required to achieve the outcomes of the Multiple Network Corporation (MNC) structural model. In the context of recent developments made by the National Grid Management Council towards an effective national electricity market, the Commission should examine implications for competition and economic benefits of alternative structural arrangements, consistent with the MNC structure, and consistent with the structures evolving in the Australian electricity industry.

In undertaking the review, the Commission was asked to have regard to:

- the principles for structural reform of public monopolies contained in the Competition Principles Agreement;
- the obligations for structural change in electricity utilities agreed by COAG meetings and subsequently incorporated into the April 1995 Inter-Government Agreement; and
- the operation of a competitive national electricity market.

Without limiting the scope of the study, the Commission was asked to have regard to:

- the appropriateness of the present structure of ETSA Corporation in relation to the requirements of national competition and related reforms;
- whether the separation of the ETSA Generation subsidiary from the network/retail subsidiaries or the introduction of some other structure is in the best interests of South Australia for its participation in the national electricity market;
- the extent of competition in the South Australian region with current interconnector capacity;

- the impact of alternative structural proposals on new investment and the capacity for new generation to enter the South Australian electricity industry;
- the potential for market power to be exercised taking into account capacity constraints or interconnectors and alternative generators; and
- the implications for the development of the nature and form of the South Australian energy market.

The Commission was also asked to consider the implication of alternative structures on the trade-off between benefits from structural reform and the costs associated with possible loss of economies of scale and scope.

Main findings and recommendations

The Commission's review concluded that the present structure of ETSA is likely to discourage other generators and electricity retailers from entering the South Australian electricity market. It recommended that the achievement of a competitive market for electricity in South Australia will require the following changes:

- the repeal of barriers to entry and constraints on trading in the *Electricity Corporations Act 1994*, with the changes to be commenced as soon as possible;
- the negotiation of arrangements to ensure that the Interconnection Operating Agreement does not inhibit competition in the South Australian regional market; and
- the restructuring of ETSA Corporation.

In relation to the restructuring of ETSA Corporation, the Commission recommended that this would be most efficiently achieved in two stages:

- in Stage 1, ETSA Generation and ETSA Energy, together with system planning and control, should be transferred from ETSA Corporation to form a generation and energy enterprise and a system planning and control organisation; and
- in Stage 2, ETSA Transmission should be established as a separate business. ETSA Power should be divided into two or three distributor-retail GBEs, subject to an examination of the most cost-

effective way of dividing the distribution network. If no cost-effective way of dividing the distribution system could be found, ETSA Power's retail activities should be transferred to two or three independent retail businesses.

Government response

The South Australian Government decided that the generation arm of ETSA Corporation would be split from the holding company and become a separate, government-owned corporation. Legislation was to be introduced in Parliament at the end of May to effect this separation on 1 January 1997.

The Minister also announced that both ETSA Corporation, which will comprise ETSA Transmission, ETSA Power and ETSA Energy, and the new South Australian Generation Corporation will continue to be government-owned enterprises. He emphasised that there were no plans to privatise these enterprises.

The South Australian Government rejected the Commission's Stage 2 proposal to separate transmission and distribution from the retailing arm of ETSA Corporation.

PIGS AND PIGMEAT

Released on 23 November 1995 (IC 1995j).

The Commission was requested to undertake a study of the effects of pigmeat imports on the performance of the domestic pig farming, pigmeat and processed pigmeat industries and on the overall performance of the Australian economy. The Commission was asked to report within three months of receiving the terms of reference.

The study was the result of an offer made by the Minister for Primary Industries and Energy in response to a rally of pig farmers held in Canberra on 28 June 1995. At that rally, the pig farmers expressed concerns about pigmeat imports and the continuing fall in pig farmer numbers.

In undertaking the study, the Commission was asked to specifically examine:

- the effects of imports on pigmeat prices, investment, incomes and profits in the domestic industries; and
- the effects on Australia of government assistance provided by other countries to their pigmeat industries.

The Commission was also asked to take account of Commonwealth and state government policies towards the industries.

Main findings and recommendations

The study found that the Australian pig and pigmeat industries had undergone profound structural change since 1960. Relaxation of quarantine restrictions in 1990 had not had an appreciable effect on the domestic industries to date: imports supplied less than 3 per cent of domestic consumption of pigmeat, and had not appeared to have affected pig or pigmeat prices to any noticeable degree. Domestic pig output continued to increase and had risen by 9 per cent to record levels since 1990. Assistance to pig and pigmeat producers in other countries was unlikely to have affected Australia, and was declining.

The Government has made no formal response to the study.

PRODUCTIVITY COMMISSION–SPECIFIC PROJECTS

The Productivity Commission undertook two special projects for the Government in 1995–96. The first project followed a request from the Treasurer for the Commission to carry out a stocktake of the progress on microeconomic reform. The second involved the Commission developing proposals for labour market benchmarking. Each of these projects was completed by 30 June 1996, as requested by the Treasurer.

STOCKTAKE OF PROGRESS ON MICROECONOMIC REFORM

The stocktake (PC 1996) was not a formal public inquiry. The Government's requirements were set out in a media release and a letter to the Commission. The Government emphasised that the exercise was intended to be wide ranging — covering all sectors of the economy, including government services and infrastructure, the operation of markets for labour and capital, and the scope for change in the nature and extent of government intervention. It asked the Commission to place particular emphasis on areas which impact on the productivity and international competitiveness of Australian industries.

The stocktake was conducted as a joint exercise between the Commission, BIE and EPAC. It drew heavily on the staff and reports of each of these agencies.

Chapter 1 of this Annual Report provides an overview of the Commission's findings and recommendations of the stocktake.

LABOUR MARKET BENCHMARKING

The Labour Market Benchmarking Study was prepared in response to a request from the Treasurer to provide advice on a work program to identify restrictive work practices and significant labour market arrangements which add to the costs of doing business.

The scoping study outlined areas where additional information is needed, and projects which could meet those information needs. The recommended work program included projects on workplace terms and conditions, case studies on work practices and an analysis of the different approaches to vocational education and training. The study is available on request.

REPORTS RELEASED BY THE BIE

This section summarises the reports released by the BIE during 1995–96.

BENCHMARKING

International Performance Indicators — Coastal shipping 1995

Report 68, released July 1995 (BIE 1995l).

The report provides an international comparison of the performance of Australia's coastal shipping industry, using customer-oriented and operating efficiency performance measures and vessel operating costs. It updates an earlier BIE study released in March 1994. The report found that Australian coastal shipping had improved its performance over the past two or three years but more substantial changes are required to achieve best practice cost levels. Indeed, significant improvements in areas such as manning, repairs and maintenance and other operating costs are required to decrease Australia's relatively high overall vessel costs to achievable best practice levels.

Issues in Infrastructure Pricing

Report 69, released August 1995 (BIE 1995n).

In line with the intention to include more policy analysis in the benchmarking area, this report examined issues in infrastructure pricing. It formed the backdrop to a major infrastructure forum involving government and industry experts. The proceedings of this forum were released in May 1996 (BIE 1995h).

International Benchmarking — Waterfront 1995

Report 95/16, released August 1995 (BIE 1995k).

The report focused on the performance of Australia's container and coal ports. The performance indicators covered include:

- *customer-oriented indicators* such as waterfront charges (for example, terminal/stevedoring, port, government and ancillary charges) and timeliness (for example, ship turnaround times); and
- *operating efficiency indicators* such as labour and capital productivity (for example, teus per berth metre and berth occupancy).

The report also analysed the reasons for observed differences between the performance of overseas and Australian ports, and whether these were due to differences in government subsidies, input costs or gaps in operating efficiency.

International Benchmarking — Overview 1995

Report 95/20, released November 1995 (BIE 1995i).

This was the second overview of the BIE's infrastructure benchmarking work. It assessed progress and lessons learnt since the first overview was published in February 1994. Industries covered included telecommunications, waterfront, aviation, electricity, rail, coastal shipping and gas supply. In addition to drawing together past work on individual infrastructure industries, the report presented the BIE's first index of infrastructure performance for each of the Australian states.

International Benchmarking — Rail Freight 1995

Report 95/22, released December 1995 (BIE 1995j).

This report updates performance measures of the freight operations of the five Australian public sector rail authorities and 'best practice' (generally North American) railroads. The methodology and performance measures contained in the previous two rail reports have been replicated, comprising comparisons of customer-oriented and operating-efficiency performance indicators and operating costs.

The report concluded that Australia's public rail freight operations improved considerably between 1991–92 and 1993–94. As a result, performance gaps between Australian rail freight systems and world best practice narrowed in many areas. However, the extent of performance improvement differed between the Australian systems. Standardised operating costs for Australia's rail freight industry were around $500 million more than achievable best practice levels in 1993–94. While the Public Transport Corporation of Victoria, Australian National and Westrail registered impressive improvements in their operating costs, the State Rail Authority of New South Wales and Queensland Rail achieved much smaller gains. The latter two systems accounted for 80 per cent of Australia's overall cost gap.

International Benchmarking — Science System

Reports 96/2 and 96/3, released January 1996 (BIE 1996k; 1996c).

This project studied the performance of Australia's science and technology (S&T) system, using a range of indicators. The dimensions of performance or capability considered included spending, human resources, scientific infrastructure, linkages between public S&T and the business sector, and outputs including patents and Australia's production of high and medium-high technology goods.

The research showed that by world standards Australia has a high concentration of research scientists and engineers in the workforce, and suffers from neither a brain drain nor a 'greying' of the scientific community. Australia is one of the major scientific forces in the APEC region, producing relatively large amounts of high-quality science. Some measures of the output of our S&T system, in particular the growth in high-technology exports, show improvements in performance over the last decade. On the other hand, the research found that linkages between industry and public research are comparatively undeveloped.

Business Licences — International Benchmarking and Regulation Reform

Reports 96/9 and 96/10, released June 1996 (BIE 1996d; 1996e).

As part of the BIE's international benchmarking program, the BIE released two reports: *Business Licences – International Benchmarking* and *Business Licences and Regulation Reform* . The first report compares Australian licensing and permit arrangements with those in Canada, Japan, Malaysia, New Zealand, the United Kingdom and the United States. All of the important sources of red tape are discussed in the report, including development approvals, building permits, pollution licences, equipment regulation, workers' compensation, workplace registration and tax notifications.

The second report looks at alternatives to licensing. Licensing can restrict competition and the start-up of new businesses, imposing costs on consumers. The report identifies alternatives which are less likely to restrict competition, including negative licensing, voluntary accreditation schemes and the licensing of potentially harmful actions (rather than the licensing of professions).

These reports provided input into the Small Business Deregulation Task Force, and complement general reviews of licensing and licensing simplification programs being conducted in a number of Australian states and territories.

ENVIRONMENT

Implications of a Ban on Exports of Used Lead Acid Batteries

Occasional Paper 31, released July 1995 (BIE 1995f).

Under the Basel Convention, the transboundary movement of OECD hazardous wastes for recycling in non-OECD countries is to be phased out by December 1997. This report examined the economic consequences of the Basel ban for Australia, other OECD and non-OECD countries, using lead acid batteries as a case study. The analysis found the ban was likely to reduce the export of recyclable batteries from Australia by nearly 3 per cent and erode the economics of domestic battery collection, resulting in an increase of up to 80 per cent in ‘dumped’ batteries. The ban on waste trade with developing countries can also be expected to reduce income to these countries, and have minimal or even negative environmental impacts in cases where access to world class reprocessing facilities is unavailable.

Implications of a Ban On Trade in Non-Ferrous Metals for Recycling

Report 95/18, released September 1995 (BIE 1995g).

Parties to the Basel Convention decided in 1994 that the transboundary movement of OECD hazardous wastes for recycling in non-OECD countries be phased out by December 1997. The ban is intended to protect countries without the capacity to effectively manage hazardous wastes, particularly developing countries, against potential harm to public health and the environment caused by unsound recycling practices. This report found that domestic recycling of copper ash and residues would be likely to increase as a result of the ban, with significant diversion of waste exports from non-OECD to OECD recyclers. Australian recycling of zinc ash and residues would be likely to increase as a result of the ban. The Convention’s environmental objectives might be met at lower cost through promoting the transfer and adoption of environmentally sound recycling technology in non-OECD countries and the strengthening of environmental control mechanisms.

Energy Efficiency and Greenhouse Gas Abatement — the Role of Cooperative Agreements in Australia

Report 96/5, released April 1996 (BIE 1996g).

This report examined the scope for commercially viable greenhouse gas savings in the context of cooperative agreements between industry and the government to reduce greenhouse gas emissions. The report found that adoption of better energy management practices could result in significant cost and greenhouse gas savings for industry. For the industrial sector, an energy efficiency improvement of about 4 per cent is indicated, and annual greenhouse gas savings of between 6 and 10 million tonnes might be achieved from the adoption of profitable, and relatively straightforward, measures by Australian businesses. However, the report notes that the favourable impact of such measures on economic growth will tend to erode initial greenhouse gas savings over time. This points to the need for abatement measures which extend beyond current commercial opportunities if significant emission reductions are to be achieved in the long-term. Cooperative agreements are a major element of the additional greenhouse gas response measures announced last year by the Commonwealth Government in its Greenhouse 21C policy statement.

Prospects for Australian Industry Involvement in Greenhouse Gas Abatement Overseas — the Scope for 'Activities Implemented Jointly' in the Asia Pacific Region

Report 96/13, released June 1996 (BIE 1996l).

This report identified opportunities to reduce greenhouse gas emissions in a number of key developing countries of the Asia Pacific region and examined Australia's capabilities to supply technologies and expertise suitable for them. 'Activities implemented jointly' (AIJ), an initiative endorsed by the United Nations Framework Convention on Climate Change, has the potential to offer countries such as Australia a cost-effective mechanism to help meet internationally agreed greenhouse gas abatement commitments. It can also assist developing countries improve their economic circumstances through adoption of more efficient energy and production technologies. The report found that there is considerable scope for reducing global greenhouse gas emissions through the transfer of Australian greenhouse technologies to developing countries in the Asia Pacific region. While, at present, there is little incentive for Australian firms to pursue trade in these technologies on other than commercial grounds, the existence of established trade links and competitive advantages in the production of a subset of these technologies could underpin more active AIJ involvement in the future.

TRADE AND INVESTMENT

Impact of the CER Trade Agreement — Lessons for Regional Economic Cooperation

Report 95/17, released September 1995 (BIE 1995e).

This report examined the implications of Closer Economic Relations (CER) for Australia and New Zealand and identified the relevant lessons for APEC trade liberalisation. CER has fostered a level of economic cooperation between the two countries that goes well beyond that traditionally associated with free trade agreements. Australian merchandise exports to New Zealand increased by an annual average of about 12 per cent in the five years to 1993–94, compared with 7 per cent for total Australian merchandise exports and, in 1994–95, New Zealand became the third largest overseas buyer of Australian goods. The report found that key factors in CER's success included its comprehensive product coverage, replacement of anti-dumping law with competition policy, pursuit of trade facilitation opportunities, establishment of a rules-based system for services trade and regular reviews of the agreement. APEC could benefit from adopting similar measures on a non-discriminatory basis.

Investment Abroad by Australian Companies — Issues and Implications

Report 95/19, released October 1995 (BIE 1995m).

Australia has recently experienced a marked increase in outward foreign direct investment (FDI) flows. This investment is of interest to government because Australian multinational enterprises (MNEs), which are responsible for the bulk of this investment, account for substantial shares of sales, employment, exports, investment and taxation revenue in Australia. Thus Australian investment abroad (AIA) bears on a number of economic and policy issues.

This study examines several issues regarding AIA. Principally, it reports the findings of a survey of thirty-five manufacturing and ten service Australia-based MNEs. Data provided by the manufacturers suggest that they account for the majority of AIA stocks in that sector. The service firms accounted for a small proportion of AIA stocks in their sector. The sample manufacturing and service MNEs contributed some 15 per cent and 8 per cent respectively of total Australian manufacturin g and service turnover in 1992–93.

The issues covered by the study include the sources of competitive advantage of the sample MNEs, the nature and characteristics of the sample MNEs, their motives and purposes for investing abroad, the effect AIA has on the sample's competitive advantages, expected future levels and directions of AIA, and policy issues arising from AIA.

Foreign direct investment in APEC — a survey of the issues

Report 95/21, released November 1995 (BIE 1995c).

This report examined some of the major issues surrounding foreign direct investment (FDI) in the Asia Pacific region. FDI is a major source of new products, technologies and workforce skills in developed and developing countries. FDI also has the potential to increase overall productivity and improve access to world markets. FDI has grown rapidly in APEC over the past decade, and in 1992, the region accounted for about half of the world's inward and outward FDI. Despite the benefits of FDI, the report found significant institutional investment barriers still exist in many APEC economies, with these barriers tending to be more extensive and complex in the developing economies.

PROGRAM EVALUATION

Evaluation of the Investment Promotion and Facilitation Program

Report 96/4, released April 1996 (BIE 1996j).

The Investment Promotion and Facilitation Program aims to attract foreign investment into Australia's manufacturing and services sectors and to facilitate industry growth, employment and increased exports. The report reviews the appropriateness of the program; assesses its impact, effectiveness and efficiency; and makes recommendations on whether the program should be continued, and how it might be improved.

Overall, the BIE considered the program had done much with relatively few resources. The BIE recommended that the Commonwealth Government should continue at least the present level of aggregate real budget funding for the program. The BIE also found that if the program were to modestly increase its overseas presence, it is likely to continue to yield benefits greater than costs for the short to medium term. Accordingly, a modest expansion of the program appeared warranted.

Government response

The BIE review contributed to the decision to continue the Investment Promotion and Facilitation Program. The 1996–97 Budget provided $32 million for the program over the next four years. This represented a modest reduction on its previous level of funding — despite the BIE's recommendation for a modest expansion.

In line with the BIE's findings, the program will focus even more on specific investment opportunities. A greater use will be made of Australian investment briefs and in encouraging Investment Commissioners to pursue niche market opportunities. There will also be an increased emphasis on monitoring program performance, as proposed in the BIE review.

Evaluation of Commonwealth support for MFP Australia

Report 96/6, released May 1996 (BIE 1996i).

As required under the intergovernmental agreement between the Commonwealth and South Australian Governments, DIST asked the BIE to review the Commonwealth's support for the Multifunction Polis (MFP) project for input to the 1996–97 Budget deliberations. The review found that the MFP project has evolved into a predominantly state-based project with some national links, and therefore greater responsibility for the project should be passed to the South Australian Government. MFP's close links to the South Australian economy and South Australian Government suggest it can make a valuable contribution to state development, but weaken its claim to delivering benefits of national and international significance. Commonwealth support has raised the stature of the project in international eyes and helped to engage the interest of potential investors. The evaluation presented four options for the future. The preferred option was for the MFP to become a Commonwealth-endorsed state project. Under this option, the Commonwealth would continue to have a representative on the MFP Development Corporation's board, but responsibility for the project, its funding and international linkages would pass to the South Australian Government. The BIE suggested the Commonwealth could provide a declining transitional payment for two years to offset the costs of the functions it was transferring to the state.

Government response

Following the release of the report, the Commonwealth scaled down its support of the MFP Australia project. While supportive of the aims and objectives of the project, the Commonwealth recognised that the benefits were largely state-oriented and that the project should be a state-based project. The Commonwealth ceased directly funding both the MFP Branch (in DIST) and the International Advisory Board as of 30 June 1996. The project is now solely managed by the South Australian Government and the MFP Development Corporation. These outcomes are broadly in keeping with the BIE's report.

Evaluation of the Agri-Food Strategy

Report 96/12, released June 1996 (BIE 1996h).

The Agri-Food Strategy was announced by the previous Federal Government in July 1992. The strategy consisted of a suite of programs and initiatives directed at improving the international competitiveness of Australia's agri-food industry and bringing about a substantial increase in highly processed food exports.

This report assessed the appropriateness, effectiveness and efficiency of the strategy and outlined future options. It found that the agri-food industry has increased its performance across the board since the commencement of the strategy — but has generally fared less well than other manufacturing industries. In addition, the study found little quantifiable evidence of significant benefits at the firm level.

The report pointed out that while Australia's agri-food industry had little to show by way of quantifiable outcomes, this was neither surprising nor necessarily symptomatic of policy failure — because the aspirations were unrealistic given the relatively low level of resources allocated to the strategy. Moreover, intangible strategy benefits — such as improvements in processes, mechanisms and intra-industry relationships — may ultimately contribute to better industry performance.

The report favoured the continuation of a strategic approach to the agri-food industry's needs, but with the government's role limited to funding a revamped Agri-Food Council with a mandate to identify microeconomic reform impediments and options throughout the food chain.

Government response

The government did not respond directly to the BIE's evaluation. However the report's recommendations were taken into consideration when framing a new initiative — the 'Supermarket to Asia Strategy' — announced in the 1996–97 Budget. A key provision of the initiative will be the establishment of a high-level council (to be chaired by the Prime Minister) to provide strategic direction and leadership. This is broadly consistent with the BIE's recommendation. Other key elements of the Supermarket to Asia Strategy which reflect the BIE's recommendations are:

- the high-level council will be the 'core' of the new strategy;
- the council is to prioritise industry issues for the government's consideration;
- there are no ties between the new council and government assistance programs;
- the establishment of an independent secretariat; and
- the amount of government funding for the overall strategy is relatively small.

MICROECONOMIC REFORM

Setting the scene, micro reform — impacts on firms

Report 96/1, released January 1996 (BIE 1996m).

This report is the first in a series monitoring the impact of microeconomic reform on firms and industries. The report presents a historical overview of some key elements of the microeconomic reform process, and goes on to review, in greater detail, reforms in the areas of trade liberalisation, infrastructure, and industrial relations and workplace reform. The report outlines how various microeconomic reforms could impact on firms. It concludes that firms facing the same set of pressures may take different restructuring paths. While economic theory and general equilibrium modelling can shed some light on the potential impact on firms and industries of the reform process, little hard evidence on firms' actual responses is available. The report concludes that detailed case study analysis of industries and firms will help address this information gap.

Agri-food case study, micro reform — impacts on firms

Report 96/11, released June 1996 (BIE 1996a).

The agri-food case study finds that Australia's microeconomic reform process between 1989–90 and 1993–94 has contributed to more productive and dynamic agri-food firms. Increased domestic competition was an important catalyst in this process of change. Firms ranked telecommunications as the reform having the most positive direct impact on their competitiveness. Industrial relations reforms also ranked highly. However, despite the apparent benefits of industrial relations reforms a substantial number of firms surveyed had not implemented an enterprise agreement by 1995. Many firms without agreements indicated they were happy with their existing arrangements. Many firms surveyed also believed that further reform to industrial relations was necessary to improve their future competitiveness. Firms indicated that further reforms to input taxes, food standards and related regulations, and on-costs would also improve their future competitiveness.

OTHER

Beyond the firm

Research Report 67, released July 1995 (BIE 1995b).

This landmark study provided a 'stocktake' of business linkages and networks ('business cooperation') in Australian industry and their effectiveness as business strategies. The study used information from over 1300 firms in five industries. The report found that around one-third of firms are involved in 'core' forms of business cooperation (for example, joint ventures, formal networks, preferred customer and supplier agreements). While most firms have more than one cooperative arrangement, most arrangements (over 80 per cent) are with just one other firm. One-third of cooperating firms have networks with many partners. Firms in networks tend to benefit more than firms in one-to-one linkages.

Firms are more likely to benefit from cooperation by accessing new markets and finding new customers and suppliers. Cost and efficiency factors, while important to many firms, take second place overall. Firms with an overseas focus (those in a cooperative arrangement with an overseas firm or cooperating firms with a high reliance on exports) appear to be the most likely to receive large benefits from business cooperation. Almost three-quarters of firms increase sales as a direct result of their key linkage or network, and well over half post higher profits. A majority of firms use their key cooperative arrangement to improve competitiveness in technology, quality and customer service.

Overall, *Beyond the Firm* found that inter-firm cooperation is flourishing in Australia and most firms that cooperate get significant benefits. The report also found that there was a role for governments in facilitating business cooperation and made a number of recommendations for future government support.

From Solar Cell to Hard Sell: an appraisal of investments by the Energy Research and Development Corporation

Occasional Paper 32, released August 1995 (BIE 1995d).

The Energy Research and Development Corporation (ERDC) has investments in almost 150 projects representing commitments of about \$50 million. The ERDC commissioned the BIE to review four of its investments and provide advice on the social costs and benefits of these projects and the returns to the taxpayer. The BIE also sought to assess whether the ERDC had achieved an increase in research effort or whether government funding had merely displaced private investment.

The BIE concluded that each of the four projects addressed genuine technological opportunities with realistic chances of improving Australian welfare. In terms of increasing research effort, the ERDC was judged to have clearly induced additional R&D expenditure on one project. Another project would have gone ahead without ERDC funding. For the remaining two projects the BIE agreed with the ERDC's rationale for funding but acknowledged the difficulty of assessment. In reviewing the four projects, the BIE concluded that overall benefits to taxpayers (and the community generally) exceeded the overall costs. The BIE also gave general advice to the ERDC on the economic evaluation of R&D projects for improving the assessment of future funding proposals.

Dividend taxation and globalisation in Australia

Report 96/8, released June 1996 (BIE 1996f).

At the BIE Dividend Imputation Policy Forum in September 1993, Australian business argued that Australia's imputation and non-resident dividend withholding tax systems were biased against offshore expansion. They proposed finetuning to remove the bias and reduce tax impediments to growth-by-globalisation strategies. This report analyses those business proposals.

The report found that a 'two-pool' form of international dividend streaming could be beneficial. Australia's MNEs would keep two profit pools, one for foreign source income, the other for domestic income. Equal franking would apply to dividends paid from the domestic pool, and equal Foreign Dividend Account credits to dividends from the foreign profit pool. Such a system would not have the well-known efficiency and equity costs of ordinary dividend streaming. The report estimates a social return of about 60 cents per dollar of revenue forgone for such a system.

SMEs in an open economy — the Australian experience

Special report published jointly with the Department of Industry, Science and Technology, September 1995 (BIE 1995o).

This is a briefing paper prepared for *The APEC Opportunity*, a series of business events held in conjunction with the second meeting of APEC Ministers responsible for small and medium enterprises (SMEs) in Adelaide in September 1995.

The paper was intended as background information for Australian and overseas participants in the forum. It begins with an overview of the Australian business and policy environment in the context of the reforms that have taken place since 1983 to open the economy. It then describes the particular circumstances of Australian SMEs — their recent performance and how this is affected by government policies and other influences.

Monitoring industry trends

During 1995–96 the BIE released two issues of its best-selling periodical, *Australian Industry Trends*. The Bureau also released three *Industry*

Briefs which summarise and analyse recent statistics in manufacturing, services and small business.

Recent issues of *Trends* followed a standard format with regular articles on the economic environment and sectoral activity, and feature articles on economy-wide and sectoral issues.

Trends no. 23, released in November 1995 (BIE 1995a), contained feature articles on:

- exchange rate volatility, illustrated by a survey of trade-exposed manufacturers;
- Australian direct investment abroad;
- a profile of Australian exporters;
- intra-industry trade between Australia and New Zealand; and
- Australia's pump industry.

Trends no. 24, released in May 1996 (BIE 1996b), featured:

- overseas perceptions of Australia's investment climate;
- differences in the growth of Australian states;
- a profile of Australian manufacturing, by business size; and
- the role of manufacturing and services in the Australian economy.

APPENDIX K
Financial statements

This appendix presents the audited financial statements for the Industry Commission for 1995–96. The statements have been prepared on an accrual accounting basis.

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Industry Commission

OPERATING STATEMENT

for the year ended 30 June 1996

		1996	1995
	Note	*$'000*	*$'000*
NET COST OF SERVICES			
Expenses			
Employee expenses	2(a)	17,576	15,405
Other administrative expenses	2(a)	7,174	9,420
Total expenses		**24,750**	**24,825**
Revenues from independent sources			
Other revenue from independent sources	2(b)	676	137
Total revenues from independent sources		**676**	**137**
Net cost of services		**24,074**	**24,688**
REVENUES FROM GOVERNMENT			
Appropriations used for:			
Ordinary annual services	2(b)	22,357	22,567
Other services	2(b)	344	437
Liabilities assumed by other departments	1(f)	-	1,596
Resources received free of charge from other departments	2(b)	45	50
Total revenues from government		**22,746**	**24,650**
(Excess) of net cost of services over revenues from government		**(1,328)**	**(38)**
Net expenses from extraordinary items			
Restructuring	18	(1,498)	-
Total revenues less expenses		**(2,826)**	**(38)**
Accumulated (expenses) less revenue at beginning of reporting period		(960)	(922)
Accumulated (expenses) less revenue at end of reporting period		**(3,786)**	**(960)**

ADMINISTERED EXPENSES AND REVENUES		
Administered expenses	-	-
Administered revenues		
Miscellaneous receipts	24	140
Total administered revenues	**24**	**140**

The above Statement should be read in conjunction with the accompanying notes.

Industry Commission
STATEMENT OF ASSETS AND LIABILITIES
as at 30 June 1996

	Note	1996 $'000	1995 $'000
CURRENT ASSETS			
Cash	4	105	77
Receivables	5	5	4
Other	6	292	289
Total current assets		**402**	**370**
NON-CURRENT ASSETS			
Leasehold Improvements	7	2,618	2,944
Property, Plant & Equipment	7	1,342	819
Total non-current assets		**3,960**	**3,763**
Total assets		**4,362**	**4,133**
CURRENT LIABILITIES			
Creditors	8	524	540
Provisions	9	4,607	1,696
Other	10	132	364
Total current liabilities		**5,263**	**2,600**
NON-CURRENT LIABILITIES			
Provisions	9	2,805	2,403
Lease Incentive		80	90
Total non-current liabilities		**2,885**	**2,493**
Total liabilities		**8,148**	**5,093**
NET LIABILITIES	11	**3,786**	**960**

ADMINISTERED ASSETS AND LIABILITIES		
Total administered assets	**-**	**-**
Total administered liabilities	**-**	**-**

The above Statement should be read in conjunction with the accompanying notes.

Industry Commission
STATEMENT OF CASH FLOWS
for the year ended 30 June 1996

	Note	*1996* *$'000*	*1995* *$'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Inflows:			
Appropriation revenue		22,701	23,004
Other revenue from independent sources		637	136
Total cash inflows		**23,338**	**23,140**
Outflows:			
Employee expenses		(16,208)	(12,974)
Other administrative expenses		(6,851)	(9,105)
Total cash outflows		**(23,059)**	**(22,079)**
Net Cash provided by operating activities	16	**279**	**1,061**
CASH FLOWS FROM INVESTING ACTIVITIES			
Inflows:			
Proceeds from disposal of non-current assets		41	26
Total cash inflows		**41**	**26**
Outflows:			
Payment for non-current assets		(292)	(1,087)
Total cash outflows		**(292)**	**(1,087)**
Net cash used in investing activities		**(251)**	**(1,061)**
Net increase in cash		**28**	**-**
Cash at beginning of reporting period		77	77
Cash at end of reporting period		**105**	**77**

CASH FLOWS FROM ADMINISTERED TRANSACTIONS		
Inflows:		
Miscellaneous Receipts	24	144
Outflows:	-	-
Net cash inflows from administered transactions	**24**	**144**

The above Statement should be read in conjunction with the accompanying notes.

Industry Commission
STATEMENT OF TRANSACTIONS BY FUND
for the year ended 30 June 1996

	Note	1995–96 Budget $	1995–96 Actual $	1994–95 Actual $
CONSOLIDATED REVENUE FUND				
RECEIPTS				
Miscellaneous		1,938,000	24,233	143,901
Section 35 of Audit Act 1901		154,000	676,396	162,148
Total receipts		**2,092,000**	**700,629**	**306,049**
EXPENDITURE				
Expenditure from annual appropriations:	2(b)			
Appropriation Acts No. 1 and 3		21,163,000	23,377,033	23,166,635
Audit Act 1901 (section 35)		154,000	-	-
Total expenditure		**21,317,000**	**23,377,033**	**23,166,635**
TRUST FUND				
Trust Account (Commonwealth activities):	14			
Receipts		56,000	102,948	125,090
Expenditure		56,000	-	105,278
Total receipts		**56,000**	**102,948**	**125,090**
Total expenditure		**56,000**	**-**	**105,278**

The above Statement should be read in conjunction with the accompanying notes.

Notes to and forming part of the Financial Statements for the Year Ended 30 June 1996

Note	Description
1	Summary of Significant Accounting Policies
2	Items of Expenses and Revenues
3	Act of Grace Payments, Waivers and Write-Offs
4	Cash
5	Receivables
6	Other Current Assets
7	Property, Plant and Equipment
8	Creditors
9	Provision for Employee Entitlements
10	Other Current Liabilities
11	Net Liabilities
12	Land Held for Sale or Re-sale
13	Agreements Equally Proportionately Unperformed
14	Receipts and Expenditure of the Trust Fund
15	Remuneration of Executives
16	Cash Flow Reconciliation
17	Guarantees and Undertakings
18	Restructuring
19	Services Provided by the Auditor-General
20	Liabilities not Recognised

Note 1. Summary of Significant Accounting Policies

1 (a) Commission Objectives

The Commission's objective is to improve Australia's overall economic performance by providing independent, public advice to Australian governments on industry matters and microeconomic policy issues, and involve and inform the community on relevant issues. The Commission operates as a single program.

1 (b) Restructure of Administrative Arrangements

In March 1996 an announcement was made of the intention to restructure administrative arrangements and merge the Industry Commission, Bureau of Industry Economics and Economic Planning Advisory Commission (EPAC) to form the Productivity Commission. The Commission and Bureau merged on 11 March 1996. At balance date EPAC still operated as a separate entity under its own legislation, it is expected the operations will merge in 1996–97.

1 (c) Basis of Accounting

The financial statements are required by section 50 of the *Audit Act 1901* (Cwlth) and are a general purpose financial report. The financial statements have been prepared in accordance with Guidelines on Financial Statements of Departments issued by the Minister for Finance for reporting periods ending on or after 30 June 1995. The Guidelines require compliance with Statements of Accounting Concepts, Australian Accounting Standards, Accounting Guidance Releases issued by the Australian Accounting Research Foundation and other relevant mandatory professional reporting requirements.

The financial statements have been prepared on an accrual basis, and in accordance with the historical cost convention. Except where stated, they do not take account of changing money values.

The continued existence of the Commission in its present form is dependent on government policy and continuing appropriations by Parliament for its administration and program activity.

1 (d) Rounding

Amounts have been rounded to the nearest $1,000 except in relation to the following items:

- Statement of Transactions by Fund and associated notes;
- Act of grace payments, waivers and write-offs; and
- Remuneration of executives.

Totals are the rounded sums of unrounded figures.

1 (e) Employee Entitlements

All vesting employee entitlements (including annual leave and long service leave) are recognised as liabilities.

The provision for annual leave reflects the value of total annual leave entitlements of all employees at 30 June 1996 and is recognised at the nominal amount.

Long service leave is recognised and measured at the present value of estimated future cash flows to be made in respect of all employees at 30 June 1996. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account. The determination of current and non-current portions is based on past history of payments.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken by employees is less than the annual entitlement for sick leave.

1 (f) Superannuation Payments

Staff of the Commission contribute to the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. Employer contributions amounting to $2,008,855 (1994–95 $1,596,000) in relation to these schemes have been expensed in these financial statements. Prior to 1995–96 the Commission was not required to make employer contributions in relation to staff membership of these schemes. The cost of superannuation was a liability assumed by other departments.

No liability is shown for superannuation in the Statement of Assets and Liabilities as the employer contributions fully extinguish the accruing liability which is assumed by the Commonwealth.

Employer Superannuation Productivity benefit contributions totalled $261,398 (1994–95 $251,317).

1 (g) Taxation

The Commission’s activities are exempt from all forms of taxation except fringe benefits tax.

1 (h) Foreign Currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date.

Currency gains and losses are not recognised in the financial statements as the Department of Finance assumes responsibility for the Commission’s foreign currency exposure. The net amount of such gains and losses is not considered material to the Commission's operations.

1 (i) Prepayments

Prepayments consist of amounts paid by the Commission in respect of goods and services which have not been received at 30 June 1996.

1 (j) Cash

Cash includes notes and coins held and deposits held at call with a bank or financial institution.

1 (k) Asset Capitalisation Threshold

Property, plant and equipment consist of items having an individual cost/value over $2,000. Items costing less than this amount are considered to be immaterial and their cost is expensed as incurred.

Inventories consist of goods or other property with an individual cost/value over $1,000 which are held as consumable stores. Items costing less than this amount are considered to be immaterial for reporting purposes and their cost is expensed as incurred. Inventories are measured at the lower of cost and net realisable value.

1 (l) Measurement of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Assets acquired as a consequence of restructuring administrative arrangements are recognised initially at the amount at which they were recognised in the transferor department's accounts immediately prior to restructuring.

1 (m) Depreciation of Non-current Assets

All non-current assets having a limited useful life are depreciated systematically over their estimated useful lives in a manner which reflects the consumption of the service potential embodied in those assets. Depreciation is provided for on a straight-line basis, using rates which are reviewed annually. Major depreciation periods are:

Asset Class	*Total useful life*
Land	Not applicable
Buildings	Not applicable
Leasehold improvements	10 years
Plant	10 years
Furniture	10 years
Office equipment	5 years
Computer hardware	5 years

1 (n) Operating Leases

Operating lease payments are charged to the Operating Statement on a basis which is representative of the pattern of benefits derived from the leased assets.

1 (o) Creditors

Creditors consist of amounts which were due to be paid by the Commission for goods and services received on or before 30 June 1996, but which were unpaid at that date.

1 (p) Insurance

In accordance with Government policy, assets are not insured and losses are expensed as they are incurred.

1 (q) Bad and Doubtful Debts

A provision is raised for any doubtful debt based on a review of all outstanding accounts as at year end. Bad debts are written-off during the year in which they are identified.

1 (r) Resources Received Free of Charge

Resources received free of charge are recognised in the Operating Statement as revenue where the amounts can be reliably measured. Use of those resources is recognised as an expense.

1 (s) Administered Items

Administered assets, liabilities, revenues and expenses are those which are controlled by the government and managed by the Commission in a fiduciary capacity.

1 (t) Departmental Items

Departmental assets, liabilities, revenues and expenses are those which are controlled by the Commission, including:

- computers, plant and equipment used in providing goods and services;
- liabilities for employee entitlements;
- revenues from running cost appropr iations (or from other appropriations for resources used in providing goods and services);
- revenues from user charges and profits on asset sales deemed to be appropriated pursuant to section 35 of the *Audit Act 1901*; and
- employee expenses and other administrative expenses (including contracting out) incurred in providing goods and services.

The purposes of the separation of administered and departmental items is to enable the assessment of administered efficiency of the Commission in providing goods and services. Administered items are distinguished from departmental items in the financial statements by shading.

1 (u) Lease Incentives

Lease incentives taking the form of ‘free’ leasehold improvements are recognised as liabilities. These liabilities are reduced by allocating lease payments between rental expenses and the reduction in liability.

1 (v) Comparative Figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the financial statements. Comparative figures exclude all Bureau of Industry Economics balances.

Note 2. Items of Expenses and Revenues

The aggregate amounts shown in the Operating Statement include the following classes of expenses and revenues:

2 (a) Expenses — Departmental Items

Employee Expenses

	1996	*1995*
	($'000)	*($'000)*
Salaries	13,921	13,473
Provision for employee entitlements	(924)	336
Superannuation	2,009	1,596
Abnormal Item - Redundancies	2,570	-
	17,576	**15,405**

Other Administrative Expenses

	1996	*1995*
	($'000)	*($'000)*
Administrative expenses	4,644	5,784
Property operating expenses	1,904	2,311
Contribution to Impact/Cops project	344	437
Depreciation expense	267	886
Loss on disposal of non-current assets	20	-
Provision for bad and doubtful debts	(5)	2
	7,174	**9,420**

2 (b) Revenues — Departmental Items

Revenues From Independent Sources

	1996	*1995*
	($'000)	*($'000)*
Other revenues from independent sources	667	129
Profit on sale of non-current assets	9	8
	676	**137**

Revenue from Annual Appropriations

The following items of revenue were included in the aggregate amounts for Appropriations shown in the Operating Statement.

	1996 Appropriation	*1996 Actual*	*1995 Actual*
	($)	*($)*	*($)*
Appropriation Act Nos 1 and 3			
Division 675 Industry Commission			
Running Costs			
(Annotated Appropriation)	23,744,959	23,033,033	22,729,635
Other Services			
Contribution to Impact/Cops project	435,000	344,000	437,000
	24,179,959	**23,377,033**	**23,166,635**
Represented by Annual Appropriations			
Act No 1	23,131,563	23,377,033	23,166,635
Act No 3	372,000		
Section 35	676,396	-	-
	24,179,959	**23,377,033**	**23,166,635**

Appropriations relating to the future reporting periods at 30 June 1996 are 1996–97 $29,580,000 (1995–96 $21,163,000). Refer Statement of Transactions by Fund.

Carry-over

	1996	*1995*
	($'000)	*($'000)*
Unexpended Running Costs funds carried-over from the previous financial year	374	1,238

Resources Received Free of Charge

The following resources received free of charge from other Departments have been recognised in the Operating Statement:

	1996	*1995*
	($'000)	*($'000)*
Department of Finance Services	6	11
Financial statement audit fee	39	39
	45	**50**

The following resources received free of charge are not recognised in the Operating Statement as estimates of the costs provided were not able to be provided by the service provider:

Australian Archives — Storage and disposal facilities.

2 (c) Revenues — Administered Items

Miscellaneous Receipts

	1996	*1995*
	($'000)	*($'000)*
Sale of house purchased from staff	-	133
Other receipts	24	7
	24	**140**

Note 3. Act of Grace Payments, Waivers and Write-offs

3 (a) Act of Grace Payments

No Act of Grace payments were made during the reporting period.

3 (b) Waiver of Rights to Payment of Moneys

No waivers of amounts owing to the Commonwealth were made pursuant to subsection 70(c) of the *Audit Act 1901*.

3 (c) Amounts Written-off

		1996	*1995*
		($)	*($)*
Amounts written-off under section 70C(1) of the *Audit Act 1901*			
i)	Losses or deficiencies of public moneys	-	-
ii)	Irrecoverable amounts of revenue	-	-
iii)	Irrecoverable debts and overpayments	-	-
iv)	Amounts of revenue, debts, or overpayments, the recovery of which has been determined to be uneconomical	5,127	-
v)	The value of lost, deficient, condemned, unserviceable or obsolete stores	209,195	115,804
		214,322	**115,804**
Amounts written-off under other legislation:		-	-

The amounts written off at cost had a written down value of $28,856 ($1,271 in 1994–95).

3 (d) Losses and Deficiencies etc in Public Moneys and Other Property

There were no losses or deficiencies of public moneys or property during the reporting period.

Note 4. Cash

The Commission held the following cash balances as at 30 June:

	1996	*1995*
	($'000)	*($'000)*
Cash on hand	29	2
Cash at bank	76	75
	105	**77**

Note 5. Receivables

As at 30 June, amounts in the following classes were due to be received by the Commission:

	1996	*1995*
	($'000)	*($'000)*
Industry Commission staff	-	7
less Provision for doubtful debts	-	5
	-	2
Other departments	4	2
less Provision for doubtful debts	-	-
	4	2
Trade debtors	1	-
less Provision for doubtful debts	-	-
	1	-
	5	**4**

Of the total amount outstanding as at 30 June 1996, the following amounts were *overdue* (ie. unpaid after 30 days from date of issue of the debit advice) for the periods shown below:

	1996	*1995*
	($'000)	*($'000)*
Less than 30 days	1	-
More than 60 days	-	1
	1	**1**

Note 6. Other Current Assets

	1996	*1995*
	($'000)	*($'000)*
Prepayments	292	243
Residential houses	-	46
	292	**289**

The residential property purchased by the Commission during 1994–95 from a staff member compulsorily transferred to Melbourne as part of the Commission's re-location was sold during 1995–96.

Note 7. Property, Plant and Equipment

	1996	*1995*
	($'000)	*($'000)*
Leasehold improvements at cost	3,504	3,345
less accumulated depreciation	886	401
Net book value	**2,618**	**2,944**
Property, plant and equipment at cost	3,113	2,775
less accumulated depreciation	1,771	1,956
Net book value	**1,342**	**819**
Total at cost	6,617	6,120
less accumulated depreciation	2,657	2,357
Net book value	**3,960**	**3,763**

At 1 July 1995 the useful life of computer equipment was reassessed and increased from three to five years. As a consequence depreciation was recalculated and a write-back adjustment of $469,731 was processed in the 1995–96 Operating Statement.

Note 8. Creditors

The total amount owed to creditors at 30 June is as follows:

	1996	*1995*
	($'000)	*($'000)*
Trade creditors	473	482
Other creditors	51	58
	524	**540**

Note 9. Provision for Employee Entitlements

9 (a) Current Liabilities

	1996	*1995*
	($'000)	*($'000)*
Annual leave	1,406	936
Long service leave	631	308
Staff redundancies	2,570	452
	4,607	**1,696**

9 (b) Non-current Liabilities

	1996	*1995*
	($'000)	*($'000)*
Annual leave	379	454
Long service leave	2,426	1,949
	2,805	**2,403**

Note 10. Other Current Liabilities

Amounts owed as employee entitlements are as follows:

	1996	*1995*
	($'000)	*($'000)*
Performance pay	-	280
Salaries and wages	132	84
	132	**364**

Note 11. Net liabilities

Accumulated Operating Results

	1996	*1995*
	($'000)	*($'000)*
Net liabilities at 1 July	960	922
Operating result	2,826	38
	3,786	**960**

Note 12. Land Held for Sale or Re-sale

During 1994–95 the Commission purchased property from a staff member compulsorily transferred to Melbourne as part of the re-location of the Commission. The property was sold in 1995–96.

	1996	*1995*
	($'000)	*($'000)*
Total cost of acquisition	-	46
	-	**46**

Note 13. Agreements Equally and Proportionately Unperformed

The Commission has entered into the following agreements which are equally and proportionately unperformed as at 30 June 1996:

					1996	*1995*
Due for Payment	*Not later than 1 year*	*1-2 years*	*2-5 years*	*Later than 5 years*	*Total*	
	($'000)	*($'000)*	*($'000)*	*($'000)*	*($'000)*	*($'000)*
Capital expenditure	-	-	-	-	-	158
Administrative expenses	48	15	2	-	65	83
Contribution to economic modelling at Monash University	135	135	-	-	270	405
Operating leases	1,797	1,114	3,363	5,006	11,280	11,512
	1,980	**1,264**	**3,365**	**5,006**	**11,615**	**12,158**

Note 14. Receipts and Expenditure of the Trust Fund

This section discloses details of each Head of the Trust Fund and Trust Account for which the Commission is responsible. The information shown provides a break-down of the information relating to the Trust Fund contained in the Statement of Transactions by Fund.

Purpose — Payment of costs in connection with services performed on behalf of other governments and non-departmental bodies. Legal authority — *Audit Act 1901* section 60.

	1996	*1995*
Services for other governments and non-departmental bodies	*($)*	*($)*
Opening balance	21,238	1,426
Receipts	102,948	125,090
	124,186	**126,516**
Expenditure	-	105,278
Closing balance	**124,186**	**21,238**

Transactions under the head of trust relate to incapacity payments to current employees in accordance with determinations made, and funds issued, by Comcare.

Note 15. Remuneration of Executives

The amounts of fixed remuneration and performance pay received/receivable by the Commission's executive officers are as follows:

	1996	*1995*
	No.	*No.*
Fixed remuneration		
Under $100,000	15	17
$100,000 to $110,000	9	1
$110,000 to $120,000	3	3
$120,000 to $130,000	1	-
$130,000 to $140,000	2	1
$140,000 to $150,000	5	5
$150,000 to $160,000	1	1
$160,000 to $170,000	-	1
$170,000 to $180,000	1	-
	37	**29**
Aggregate amount of fixed remuneration of executive officers shown above	$3,471,393	$3,106,710
Aggregate amount of performance pay paid during the year to executive officers shown above	$102,318	$104,000

Note 16. Cash Flow Reconciliation

A reconciliation of net cash provided by operating activities to excess of net cost of services is shown below:

	1996	*1995*
	($'000)	*($'000)*
Net cost of services	**(24,074)**	**(24,688)**
Revenue from government	22,746	24,650
Depreciation	267	886
Loss on sale of assets (profit 1994–95)	11	(8)
Incentive from lessor	(10)	(10)
Increase in receivables	1	2
Decrease in provision for doubtful debts	(5)	-
Decrease in Inventory (BIE)	31	-
Increase in other assets	(5)	46
Decrease in creditors (increase in 1994–95)	(16)	70
Increase in provisions (increase in 1994–95)	1,614	57
Decrease in other liabilities (increase in 1994–95)	(232)	56
Decrease in unearned income (BIE)	(49)	-
Net cash provided by operating activities	**279**	**1,061**

Note 17. Guarantees and Undertakings

The Industry Commission had not given any guarantees or undertakings as at 30 June 1996 (1994–95 — Nil).

Note 18. Restructuring

As a result of restructuring of administrative arrangements the Commission assumed responsibility for the Bureau of Industry Economics from 11 March 1996.

In respect of the operations assumed, the following assets and liabilities were recognised at the date of transfer:

	1996	*1995*
	($'000)	*($'000)*
Assets		
Receivables	1	-
Property, plant and equipment	223	-
Inventory	31	-
Other	20	-
	275	**-**
Liabilities		
Creditors	(11)	-
Provisions	(1,713)	-
Other	(49)	-
	(1773)	**-**
Net liabilities assumed	**(1,498)**	**-**

Total expenses and revenues relating to the Bureau's activities were $9,952,183 and $7,190,196 respectively. Of these, the Commission has recognised expenses of $3,669,696 and revenues of $2,177,416 in the Operating Statement. The remaining amounts have been recognised in the Department of Industry, Science and Technology.

Note 19. Services Provided by the Auditor-General

Financial statement services are provided free of charge to the Commission. The fair value of the services was $39,000 (1994–95 $39,000). No other services were provided by the Auditor-General.

Note 20. Liabilities not Recognised

There are no liabilities not recognised at 30 June 1996 (1994–95 nil).

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