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The National Competition Council

The National Competition Council was established on 6 November 1995 by the *Competition Policy Reform Act 1995* following agreement by the Commonwealth, State and Territory governments.

It is a federal statutory authority which functions as an independent advisory body for all governments on the implementation of the National Competition Policy reforms. The Council's aim is to 'improve the well being of all Australians through growth, innovation and rising productivity, by promoting competition that is in the public interest'.

Information on the National Competition Council, its publications and its current work program can be found on the internet at www.ncc.gov.au or by contacting NCC Communications on (03) 9285 7474.

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13th September 2002

The Honourable Peter Costello MP
Treasurer
Parliament House
Canberra ACT 2600

Dear Treasurer

In accordance with section 290 of the *Trade Practices Act 1974* the National Competition Council is pleased to present you with its seventh annual report, covering the Council's operations for the year 2001-2002.

Yours sincerely

Graeme Samuel
President

David Crawford
Councillor

Doug McTaggart
Councillor

Robert Fitzgerald
Councillor

Wendy Crank
Councillor

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A Competition reform: in the public interest

Australia's governments unanimously adopted the National Competition Policy (NCP) in 1995 because they recognised that competition is an important driver of economic growth, which enhances the welfare of Australian citizens. Governments acknowledged that competition encourages businesses to use resources more effectively, reduce prices and be more responsive to consumer needs. They considered these outcomes to be particularly important, given Australia's dependence on an internationally competitive export sector.

All governments had been pursuing pro-competitive microeconomic reform before 1995, but implementation tended to be piecemeal. The NCP changed this approach by creating a structured, nationally coordinated program that set target implementation dates. National coordination is important because Australian businesses operate increasingly across State borders. Nationally consistent regulation is therefore important in encouraging innovation and competitiveness.

Governments reviewed the NCP in 2000. Following this review, they affirmed 'the importance of the NCP in sustaining the competitiveness and flexibility of the Australian economy and contributing to higher standards of living'. All governments reaffirmed their commitment to the NCP and asked the National Competition Council to undertake annual assessments of progress in meeting the agreed reform objectives.

Seven years after governments signed the NCP agreements, implementation of the major elements of the NCP program is well advanced.

- A national electricity market is operating in southern and eastern Australia. Full choice of electricity supply arrangements is available to all larger consumers of electricity and to some households.
- There is national free and fair trade in gas, with several jurisdictions offering customers a full choice of gas supply arrangements and other governments scheduled to soon offer full choice.
- The program of review and appropriate reform of legislation that restricts competition is well advanced. Governments have removed a range of restrictions that could not be shown to provide a net community benefit. Some important restrictions remain. The review and reform program is likely to be substantially complete by June 2003.
- Governments have made a considerable effort to improve the performance of their businesses via structural reform and by ensuring the commercial

disciplines that apply to the private sector also apply to government businesses.

- Australia is beginning to develop an economically viable and ecologically sustainable water industry. The water reforms include pricing reform in urban and rural areas to encourage appropriate water use; the allocation of water for the environment; the creation of water property rights separate from land title; and providing for trading in water entitlements.

Box A1: Summary of the NCP – far-reaching microeconomic reform

The NCP reforms agreed by governments in 1995 are to:

- review and, where appropriate, reform all legislation that restricts competition, ensure any new restrictions provide a net community benefit and are necessary to achieve the objective of the legislation, and adopt good regulatory practice in setting national standards;
- widen Australia's consumer protection laws by extending the reach of part IV of the *Trade Practices Act 1974* to apply to all businesses in Australia. Part IV prohibits anticompetitive behaviour such as the abuse of market power and market fixing by businesses;
- improve the performance of government businesses by undertaking structural reform, introducing competitive neutrality so that government businesses do not enjoy unfair advantages when competing with private businesses, and considering the use of prices oversight for public monopolies;
- improve the quality of Australia's infrastructure through reform of the electricity, gas, water and road transport industries, and by establishing third party access arrangements for the services of nationally significant infrastructure such as gas pipelines, electricity grids and railway lines.

States and Territories accepted reform obligations on behalf of local governments within their jurisdiction.

What are the benefits for Australia?

The following opening words from the 1993 Hilmer report — the catalyst for the NCP — provide a useful benchmark for assessing the progress of the reform program.

Australia is facing major challenges in reforming its economy to enhance national living standards and opportunities. There is the challenge of improving productivity, not only in producing more with less and deploying scarce assets wisely, but also in becoming better at making and exploiting new discoveries, whether in technology, resources, fashion or ideas. A possibly more difficult challenge is to develop in a way that creates new jobs and growth rather than see the economy shrinking to an efficient but diminishing core of activity.

Coping with these challenges is an enormous task for any country, and Australia is not alone in finding the process of reform testing and early benefits elusive, particularly when world economic growth is

negligible. However, Australia faces an additional complexity in tackling these challenges, as most reforms require action by up to nine governments. This is particularly true in competition policy, an area central to micro-economic reform which aims at improvements at the front line of the economy. [National Competition Policy (Hilmer) Review 1993, p. xv]

The extract depicts a mix of national, macroeconomic and microeconomic goals for competition policy reform. This is appropriate because no economic or industry policy measure can be viewed in isolation. Flow-on effects are inevitable and need to be taken into account. There are also benefits from national consistency and coordination in policy development, which Australia's federal system of government complicates.

This coordination issue points to the first benefit of a comprehensive reform package such as the NCP: that is, a national, economy-wide and consistent set of policies helps to account for all the interests of the community uniformly throughout all parts of business and consumer activity. Oversight of policy implementation by the Council helps to provide coordination and consistency.

The other benefits of NCP are focused on more specific economic and social goals. Even with these, it is sometimes difficult and misleading to analyse reform outcomes at the individual, firm or even industry level. Hilmer's description of 'producing more with less and deploying scarce assets wisely' often involves redeploying assets and endeavour from traditional activities to new, more productive activities. This change inevitably means that some 'old' activities decline or, perhaps more accurately, that their decline is hastened. The costs of this decline are usually attributed to the reform program.

Meanwhile, the benefits of the shift into new, more productive activities are less obvious and rarely associated with reform. It is often assumed that those new activities would have occurred in any case and that the only legacy of reform is the cost of the declining 'old' activities. This blend of transparent costs and hidden benefits is most clearly observed in employment trends. The textile, clothing and footwear industry, for example, has been the subject of massive restructuring in recent years, largely as a result of phasing out tariffs. The manufacture of low value products in Australia in this industry, such as T-shirts and cheap underwear, has declined markedly. People have lost their jobs as a consequence and tariff reform is publicly blamed. Meanwhile, however, tariff reductions have meant cheaper inputs in the production of higher value clothing, helping develop this segment of the industry. The clothing industry has diversified and become more consumer oriented, clothing retailing has become more sophisticated and competitive, and the fashion industry has been stimulated. Also, tourism has been promoted because Australia becomes known as a good place to shop. Yet these benefits are not widely seen as being associated with tariff reform.

This is not to suggest that structural reform is all good news. Some people made redundant by reform may not have the skills needed to obtain jobs elsewhere. Adjustment can take time: there is often a significant lag between

the decline of 'old' activities and the growth of 'new' activities. Some 'new' jobs may be (or at least appear to be) less permanent, more casual, lower paying or lower quality than the 'old' jobs. All of these costs, where they occur, are very real. But the benefits of reform are equally real, even if their association with the reforms is harder to see.

The difficulty in conclusively attributing particular outcomes to specific reforms suggests that a useful starting point for analysing the impacts of competition policy reform is macroeconomic trends. The question is whether competition policy reform has been associated with the rising living standards, opportunities and productivity that were predicted. In the following sections, the Council considers the evidence on the performance of Australia's macroeconomy, before moving on to discuss the benefits flowing from specific elements of the NCP. Finally, the Council draws out the legacies for good governance that, first, are encouraged by the NCP obligation to ensure that competition restrictions in legislation are in the public interest; and second, reflect the need recognised in NCP reform implementation to assist those less able to respond to a changing world.

Australia's macroeconomic performance

A more dynamic, flexible economy

Productivity and wealth creation requires scarce resources to be used in the best ways possible. It also requires responsiveness to change, because the best uses of resources evolve over time due to such factors as changing consumer tastes, technological development and demographic shifts.

The world is now experiencing a period of rapid social and economic change of at least the same magnitude as Britain's Industrial Revolution, but over a much shorter timeframe. While the Industrial Revolution shifted the focus of wealth creation away from individual labour to the operation of machines, the current revolution is shifting the focus of wealth creation from machines to individual skill, knowledge and innovation.

These fundamental changes in economies should not be confused with the 'dotcom' investment bubble in equity markets. Dotcom investments constituted over-enthusiastic and often misguided attempts to anticipate areas where the new economic revolution would create substantial new wealth. But this equities market sideshow has not changed the longer term trends in technology and economic development. Nor is it useful to seek to distinguish — as many have in the context of 'dotcom' investments — 'new' and 'old' parts of an economy. Rather, whole economies — all industries — are in transition from old to new.

Australia's economy needs to be able to adjust quickly to changes in social and economic conditions if the community is to maintain strong economic and employment growth. Competition is the driving force in a dynamic and

flexible economy and competition policy is designed to ensure the economy can respond effectively to change. As set out in the Hilmer report (1993, p. xv), the challenge is to ensure Australia becomes 'better at making and exploiting new discoveries, whether in technology, resources, fashion or ideas'.

Australia was among the richest countries in the world at the start of the past century because it had abundant natural resources and expertise in making needed inputs to the markets and manufacturing technologies of the day. Wool was a leading example. But Australia's relative advantage declined as other countries became proficient at making these commodities and as the value of Australia's exports declined relative to the value of the products imported.

Many people believe that Australia's decline reflected a failure to develop a strong manufacturing base. Many also believe that this remains a problem and that government needs to 'manage' markets to facilitate the development of new manufacturing activities. Others, including the Council, would argue that Australia's past failures were a consequence of too little (rather than too much) competition and that the NCP is helping to address this deficiency.

It is also a mistake to assume that the best ways of creating wealth in the past will remain so in the future. The current process of change means that the mere act of production (like growing crops, mining ore or manufacturing), even if carried out with the most modern machines, is not sufficient to generate enough wealth to meet society's expectations. Modern machinery is becoming more accessible and technical education and skills in developing economies are improving so global competition in such mechanical functions has become intense. Governments 'around the world, particularly in Asia, are competing to build larger and larger plants, and companies from developed countries are assisting them through private direct investment' (Macfarlane 2002, pp. 5-6).

Wealth creation through value adding now relies on finding better ways of doing things and better ways of meeting consumer needs and wants. Wealth creation now means, for example:

- supplying of high value, sophisticated professional services in the areas of health, education and the law, and exporting those services;
- increasing the value of tourism services;
- producing higher quality food and beverages, such as high quality wine (rather than just more of the same product);
- providing services that make it easier for people to shop for what they want when they want it (rather than expecting consumers to buy what is for sale when shops are open);
- producing primary inputs (such as grains or iron ore) that are designed to reduce manufacturing costs or improve product quality in downstream value-adding activities (such as meat or steel production); and

- providing innovative personal services to help improve the quality of life of consumers of these services.

Australia became rich a hundred years ago by making effective use of its natural resources and providing international markets what they wanted. For most of the last century, Australia became relatively poorer by trying to use its resource base to support protected manufacturing industries. Australia is now becoming richer again by ensuring that all its industries can and do adjust to international market pressures and focus, once again, on meeting market needs.

Removing protections for manufacturing industries in Australia has, ironically, made Australia's manufacturing activities stronger overall. Elaborately transformed manufactured products are currently among Australia's fastest growing exports (see box A2). Combined with a rapidly growing services sector, which dominates Australian economic activity, manufacturing exports are reducing Australia's dependence on mining and agriculture for export income. Nonetheless, the exploitation of natural resources will continue to be important for Australia. Even with export diversification, the resource sector will continue to account for a high proportion of Australia's exports.

The lesson is that Australia needs to become and remain 'fast on its feet': it should respond quickly to a rapidly changing global economic environment by being highly sensitive to evolving market conditions and needs, and swiftly exploiting opportunities as they emerge. The completion of the NCP reform agenda will help place Australia at the head of developed countries in this endeavour.

Box A2: Flexibility of Australian exporters

The recent performance of Australian exporters highlights the significance of a strong, adaptable domestic economy. The Asian downturn in the second half of the 1990s, saw the value of Australian merchandise exports to the Republic of Korea, Indonesia, Malaysia, Thailand and Hong Kong fall by nearly 40 per cent between 1997 and 1998, from \$18.1 billion to \$14.9 billion. This reduction was more than offset however by a 45 per cent increase in the value of merchandise exports to Western Europe over the same period. (The value of exports to Western Europe increased from \$9.8 billion to \$14.2 billion between 1997 and 1998.) Moreover, since 1997, the value of Australia's merchandise exports to North America, the Middle East and the Asian countries less affected by the 1997 downturn (Japan, Taiwan and China) has been growing at a much faster rate than has total exports, indicating a sustained shift in market focus.

The composition of trade has also altered. Exports of elaborately transformed manufactures, including scientific and medical equipment, telecommunications, software and aerospace products, have grown at an annual rate of 11 per cent over the last decade, compared with total merchandise export growth of just under 9 per cent. Australia is increasingly exporting its primary products in processed form. Services have also grown strongly. Tourism exports in 2000-01 accounted for more than 10 per cent of Australia's total export earnings. Exports of other services are also growing: the value of business and professional exports, for example, reached \$2.9 billion in 2000-01, a rise of 186 per cent over the last decade (DFAT 2002).

A stronger, more prosperous economy

As discussed earlier in this report, it can be difficult to establish the contribution of individual microeconomic reforms to national welfare. Typically, the benefits from product market competition appear as reduced prices, improved product and service quality, and sometimes growth in a particular industry or sector. Such benefits, while significant for the country as a whole, can appear relatively minor on a per person basis. It is therefore often difficult to be conclusive about the contribution of individual changes.

Australia's recent economic performance provides a guide to the importance of microeconomic reforms such as the NCP (see box A3). Australia's economy has been growing strongly since the 1990s and has been resilient in the face of regional economic turmoil. A significant outcome has been faster growth in Australia's real gross domestic product per person than in most developed countries. Australia's strong performance in this area means that each citizen is better off on average. It also increases the tax base, providing opportunity for higher government spending on community needs such as education, health, infrastructure and welfare. Alternatively, it allows scope to reduce taxation.

Box A3: Australia's recent economic performance

Australia's economy has been growing for more than 40 quarters — far longer than the growth periods of the 1970s (31 quarters) and the 1990s (28 quarters). Australia's inflation rate is markedly lower — averaging 2.8 per cent annually over the 1990s, compared with an average 9 per cent per year over the previous two decades — and less volatile. Australia's trend unemployment rate has fallen since the end of the recession in the early 1990s (when it peaked at 10.7 per cent in late 1992) and currently is 6.2 per cent. The number of unemployed persons fell from 921 000 in September 1993 to 616 000 in July 2002.

In the 1990s, Australia experienced a nine-year period of continuous productivity growth (the longest on record). Australia's ranking on gross domestic product per capita rose from fifteenth in 1990 to seventh in 2001 (Parham 2002, pp. 2, 22). During this period, Australia's annual growth in real gross domestic product per capita averaged 2.5 per cent, exceeding the OECD average of 1.5 per cent and the United States average of 2.0 per cent. Only two OECD countries performed better: Ireland (5.9 per cent) and Norway (2.6 per cent).

Australia's strong economic performance is underpinned by improvements in productivity.¹ Most economists who have investigated the improvement in Australia's productivity attribute much of it to microeconomic reforms, including the NCP. In assessing Australia's productivity performance, for example, the Organisation for Economic Cooperation and Development (OECD) concluded that the main driver for improved productivity has been

¹ Productivity measures the output produced from a given volume of inputs, so rising productivity means that more is being produced from a set quantity of inputs. Labour productivity is the ratio of output produced per unit of labour. Multifactor productivity is the ratio of output produced per combined input of labour and capital.

the structural reforms undertaken in Australia during the past two decades (OECD 2001, pp. 13–14).

Professor Charles Bean, a British economist, attributes the improvement in Australia's productivity performance mainly to microeconomic reform — namely, trade liberalisation, and labour and product market reforms. He recognises the value of two significant elements of the NCP: reforming anticompetitive legislation and increasing competitive and commercial pressures on government businesses (Bean 2000, pp. 94–6). Gary Banks, Chair of the Productivity Commission, considers that microeconomic reforms are an important driver of productivity growth. Banks believes microeconomic reforms have improved productivity performance by sharpening incentives for businesses to be more productive and by providing them with greater flexibility to adjust to a more competitive environment. These sharpened incentives and greater flexibility have encouraged and assisted the uptake of information and communications technologies and stimulated industries to adapt to increase productivity (Banks 2002, p. 1).

Australia's strong economic growth, spurred in part by microeconomic reforms like the NCP, generates new jobs and reduces unemployment, enabling more people to pursue their economic goals without relying on government support. Research by the OECD emphasises the contribution of competition, finding direct links between greater competition and more rapid growth in innovation, productivity and employment (see box A4). By contributing to strong productivity growth, microeconomic reforms also help to minimise inflation. This provides benefits not only to consumers, but also to Australia's export and import-competing industries.

Box A4: Employment and productivity improvement from competition

An OECD study of 20 member countries over the period 1982–98 found that competition tends to create jobs. Australia, the United Kingdom and the United States, which have a relatively low level of product market regulation, were found to have employment rates (the ratio of persons employed to total population) of over 55 per cent. Meanwhile, France, Italy and Greece, which have relatively higher levels of regulation, have employment rates of around 45 per cent or less. The OECD found a statistically significant relationship between product market regulation and employment rates in different countries. It also found tax and labour market policies are significant in explaining the differences in cross-country employment rates.

Further, the OECD found the countries that have taken most action to introduce competition have experienced the strongest gains in employment. In Australia, the United Kingdom, New Zealand and Finland, employment rates rose by at least 2 percentage points between 1982–98 due to product market liberalisation. Countries that did not focus as much on encouraging competition experienced smaller employment gains, with Greece, Italy and Spain adding only 0.5 to 1 percentage point to their employment rate (OECD 2002a, pp. 245–84).

The OECD also found that easing product market regulation and employment protection positively affected productivity and technological catch-up by raising the incentives to improve efficiency and lowering the costs of doing so. Relaxing competition restrictions reduces barriers to entry, and new entrants boost an industry's productivity by introducing new technology. Competitive product markets and flexible labour markets encourage resources to flow to innovative industries (OECD 2002b, chapter VII). In addition, the OECD found that product market regulation can inhibit research and development intensity (OECD 2002c, p. 30).

The 'more difficult challenge'

The opening paragraphs of the Hilmer report referred to the more difficult challenge of implementing a competition reform program that 'creates new jobs and growth rather than see the economy shrinking to an efficient but diminishing core of activity'. The comment reflected a debate of the day about whether policies designed to deliver an open and competitive economy alone would maximise economic activity and employment, or whether some 'strategic' government interventions to assist particular types of economic activity at key times would improve growth and employment outcomes.

The 1989 and 1990 annual reports of the former Industries Assistance Commission and Industry Commission, respectively, discussed strategic trade policy. The commission suggested that there are two main strands to strategic trade theories.

- First, some industries are inherently more profitable than others (because competition is 'imperfect') and government help can encourage these strategic industries to prosper at the expense of competitors in other countries. The commission noted that criticisms of this argument include questions about whether governments have the ability to select the right industries. The success of this approach for Australia also depends on other countries not supporting the same industries.
- Second, some firms generate 'strategic' capabilities, such as commercial and technical know-how. These capabilities are then available to other industries in the same country. According to the commission, this argument has little validity even in principle. To justify government support, the strategic capabilities generated must be external to the firm responsible (otherwise the firm would capture the benefits) but constrained within the country of the firm responsible (otherwise it wouldn't matter where the strategic activity is located) (IAC 1989, pp. 80-83).

Few activities are likely to satisfy the strategic industry criteria and overcome the criticisms outlined by the commission. The few that do are likely to be in key technically-focused services. These services are more likely to confer external benefits that are constrained within the generating country. Examples may include education services, especially higher education, pure research and some applied research and development. Government support for these activities has a long history in developed countries, including Australia, and is generally well accepted.

A broader application of the theory to governments 'picking winners' through industry assistance is unlikely to be beneficial. Even leading strategic trade theorists have criticised advocates of its broader application. Krugman, for example, recognised that '...policies intended to capture the excess returns... are difficult to devise because the nature of the appropriate policy depends crucially on the process of imperfect competition. Since this is not well understood, it is hard to know which assumptions are most reasonable'. Similarly, Bhagwati concluded that '...sensitivity, or lack of robustness, of

policy interventions to the assumptions on the nature of oligopolistic strategic interaction, creates information requirements for policy intervention that appear to many of the architects of this theoretical innovation to be sufficiently intimidating to suggest that policymakers had better leave it alone.’ (Bhagwati 1989, p. 38)

The commission concluded that strategic trade theories are of limited relevance for economic policy. Although open trade is imperfect (in part, due to trade restrictions by other countries), the evidence suggests that it provides the best opportunities for maximising productivity and growth — even allowing for imperfections. The likelihood of retaliation by other governments undermines any prospect of gains from strategic government interventions. Therefore, while open trade is not perfect, ‘it is nonetheless likely to be the most appropriate policy goal’ (IAC 1989, pp. 85).

The strategic trade policy approach was popular in many East Asian economies in the latter part of the 20th century. In 1990, the Industry Commission considered whether arguments that the then recent experience of economic development in Japan, Korea, Taiwan, Hong Kong and Singapore supported policies based on strategic trade theories. The commission concluded that the high growth of these economies resulted mainly from technological ‘catch up’ with Western countries, the removal of restrictions on new activities and the willingness to work hard for low wages. The experience of strategic trade policies was that some were successful while others were not and the overall contribution of these policies was probably limited (IC 1990, pp. 61-62). In the light of the experience of the 1990s, the Commission’s analysis was prescient. Few today would argue that Australia has much to learn from the past economic policies of these countries.

The debate over the need for some form of strategic trade and industry policy survives nonetheless. It has been, and to some extent still is, driven by a concern that Australia has the wrong factor endowments to succeed in the modern world. As discussed above, the contrary is probably the case. Australia’s natural resource endowments, emphasis on service industries and lack of reliance on manufacturing activities for wealth creation may, in fact, be exactly the right recipe for success in the twenty-first century.

Many of those who express concern that Australia has the wrong endowments and is undertaking the wrong activities suggest that Australia has the wrong economic policy model. It is often proposed that Australia should follow the lead of other countries and support particular activities with consumer and taxpayer subsidies and restrictions on competition. Reserve Bank of Australia Governor Ian Macfarlane doubts these suggestions:

We have had a history of being told that we have the wrong model for our economy, and that we should change it to the one currently in vogue. I can remember in the 1970s when the continental European (including Swedish) model was seen as the way forward. In the 1980s there were numerous books and articles predicting that Japan would soon overtake the United States as the world’s largest economy, and by implication that its corporatist approach was superior to more market-

based approaches. In the first half of the 1990s Australia was regularly criticised for lacking the vigour of the emerging-market Asian economies (the Tigers) with their activist government-led development approach.

In the past few years, it has been American triumphalism. The extreme expression of this was the recent infatuation with the 'New Economy' and denigration of activities regarded as 'Old Economy'. Two years ago at the World Economic Forum meeting in Melbourne, Australia was being heavily criticised for not making enough of the information technology and telecommunications investments that are currently being written off by the former stars of the Nasdaq. As you can gather from the above, I am extremely sceptical that we can identify a 'new economic model' and have the government move us to it. But, on the other hand, I recognise that as a country we have to be continually adapting in order to exploit emerging economic opportunities, including at the more sophisticated and high-value added end of the spectrum. (Macfarlane 2002, pp. 6-7)

Australia's economic growth and employment is likely to be maximised by government policies that focus on creating a pro-competitive environment. This does not mean total deregulation. But it does mean that regulation should focus on areas where markets and competition are likely to fail. It also means that regulation should focus on the interests of the overall community rather than the interests of particular sectors, industries or firms. The experience of the 1990s reinforces that structural reforms such as the NCP are the best way to address Hilmer's 'more difficult challenge': maximising economic and employment growth.

Better business management

Prior to the 1980s, when the current microeconomic reform program began, Australia protected firms from international and domestic competition through government assistance. This developed a culture of dependence on government, and 'government knows best'. Solving business problems was the responsibility of government, rather than business managers. As a result, business managers showed little interest in developing skills in solving problems and identifying and exploiting business opportunities. Despite government assistance, businesses failed regularly. Eventually, it became clear that the costs of keeping some firms in business was prohibitively high.

In Australia's more competitive economy where business managers are responsible for their own decisions, businesses still fail, sometimes in spectacular fashion. Indeed, Australia has witnessed some major business collapses recently. The failure of poorly performing firms (and managers) is inherent in the competitive process. In a competitive economy, there is sustained pressure on managers to perform better, and better again, to avoid failure. Management performances that may have ensured success in a protected environment might not be good enough to avoid failure in a competitive economy. Judgments about the quality of economic policy and

business management should be made according to the performances of successful firms, rather than the number of firms that fail.

This is not to suggest that managers of failed firms should be excused. In competitive markets, all participants – especially business managers – need the skills to adapt quickly to a changing environment. If managers fail to improve their performances along with other elements of the economy, then the benefits of the reform program will be muted. Those managers unwilling or unable to adjust should pay the price of their failure.

The NCP reforms: specific reform benefits

As discussed above, Australia's stronger economic performance provides clear evidence to support the NCP. Specific elements of the NCP themselves benefit the community or parts of the community, although it is sometimes harder to 'prove' the scope of benefits that arise directly from particular reforms. This section discusses the contributions made by reforms to the water and energy industries, and the benefits from using infrastructure more efficiently that result from the third party access regulation in part IIIA of the Trade Practices Act. The section also discusses aspects of the NCP legislation review and reform program, focusing on the dairy industry and the retail sector, and on the scope for greater consistency in regulation across jurisdictions.

Water reform

Water reform is a complex and challenging area of the NCP. The Council of Australian Governments (CoAG) water reforms, scheduled to be substantially completed by 2005, aim to achieve an economically viable and ecologically sustainable water industry by changing the way in which Australia manages its urban and rural water systems. The reforms are designed to address the severe environmental problems caused by Australia's misuse of water over many decades. They also aim to improve the quality and security of water for consumption and for uses such as irrigated agriculture.

The urban water reforms are essentially in place. They include:

- consumption-based pricing to discourage wasteful water use;
- full cost recovery by water service providers to help fund investment in infrastructure; and
- institutional changes to ensure providers are efficient and accountable for the quality and cost of water and sewerage services.

The rural water reforms relate primarily to water used for irrigated agriculture. The reforms address damage to rivers and groundwater resources and the salinity problems caused by unsustainable water allocations to irrigation (see box A.5). The rural reforms aim to ensure:

- adequate water for the environment;
- water infrastructure that is efficiently developed and maintained; and
- new dams that are economically viable and ecologically sustainable.

The reforms also establish a system of tradeable water rights to help ensure water is used where it is most valued (see box A6).

Box A5: Reducing stress on Victorian rivers

Rivers are considered stressed when the level or quality of water is insufficient to maintain river health, resulting in the loss of wetlands, diminishing populations of native fish, flora and fauna, rising salinity and algal blooms. The Victorian Government has identified many stressed river systems, amounting to over 25 per cent of the State's river water. To better balance river health and use, Victorian water management plans under the NCP are re-evaluating consumption entitlements to ensure adequate water availability, including for the environment.

The 2002-03 Victorian budget contained a number of initiatives to implement NCP water reform. A \$10.6 million river health strategy improves environmental flows and provides for river restoration over three years. The strategy aims to achieve ecologically healthy rivers by protecting rivers of high value and setting priorities to restore rivers. It sets some robust targets for completing the water management planning process. Further, the passage of the *Water (Irrigation Farm Dams) Act 2002* has provided statutory backing for the provisions of all water management plans. In addition, \$21.4 million annual funding is being provided to Victoria's catchment management authorities for river and floodplain management.

In April 2002, Victoria and South Australia agreed to establish a \$25 million fund to add an additional 30 gigalitres of environmental flows for the River Murray. This funding is additional to substantial commitments being considered by the Murray–Darling Basin Commission as part of the 2002 Corowa Agreement.

The Northern–Mallee pipeline, completed in July 2002, will return 35 500 megalitres of water to be shared between two of Victoria's stressed river systems: the Wimmera and Glenelg rivers. The project has seven stages and water generated from the first six stages has already been released as environmental flows into the Wimmera and Glenelg rivers. In 2003, the flows will be around 13 880 megalitres for the Glenelg River and 20 820 megalitres for the Wimmera River.

The Victorian Government allocated \$77 million in 2002-03 to build the Wimmera–Mallee pipeline to deliver additional environmental flows for the Wimmera and Glenelg rivers, subject to matching funding from the Commonwealth. Initial studies have identified significant water savings that can be returned to the Glenelg River for environmental flows. A detailed feasibility study of the pipeline will soon be commissioned. The water savings identified in this study are expected to further improve environmental flows.

In total, \$243.8 million is being spent to restore flow in the Snowy River. This amount includes Victoria's \$150 million contribution to the tripartite agreement with the Commonwealth and New South Wales to establish a joint government enterprise to acquire water for environmental flows in the Snowy River. In another initiative, \$12.8 million has been budgeted to address the health of the Gippsland Lakes.

Victoria has also developed measures that will ensure a better approach to environmental allocations in the future. The first round of river health strategies will be completed for the Thomson, Macalister, Lederberg, Badger Creek and Maribyrnong rivers by the end of 2002 to maximise environmental gains from the resources invested.

Box A6: Water property rights and trading — improving how Australia uses water

In the past, Australia's systems of water rights have not clearly quantified users' entitlements to water or provided adequate security of tenure. Further, water title was linked to land title, severely limiting opportunities to trade in water. The CoAG water reforms seek to address these problems by requiring governments to establish systems of water property rights that are separate from land title and that ensure users have certainty of access to water. These reforms will assist the rural sector in a number of ways.

- The specification of farmers' water title as separate from land title creates a more bankable and tradeable asset. The underlying asset value is considerable: the Victorian Department of Natural Resources and Environment (2001) valued Victorian farmers' water entitlements at around \$2 billion in 2001.
- Clearly defined water entitlements and certainty of title will encourage credit suppliers into the (currently bank-dominated) rural finance sector, increasing the availability of funds and reducing financing costs.
- Farmers can use the tradeable asset represented in the water title to restructure their businesses.
- The capacity for trading will assist the development of rural-based industries in mining and manufacturing. These activities, which might previously have lacked water entitlements, will now be able to buy the water they need.

While there is only limited water trading at present, trading is likely to increase in the future. Because water is becoming more valuable, those holding entitlements will have increased incentive to trade the rights to water that they own. Drier conditions in some areas and water allocations for the environment will reduce available water and will encourage those who want water to purchase it from holders of water entitlements. Governments are likely to come under increasing pressure to remove remaining regulatory constraints on trading.

Increases in the value of water and in water trading will improve economic outcomes for Australia by encouraging the use of water where it is most valued. The relatively limited water trading in New South Wales in 1997-98 for example is estimated to have increased the value of irrigated agriculture in that State by \$65 million (Department of Land and Water Conservation 1999).

The water reform framework is a carefully designed package of measures where the costs of particular components are offset by the benefits of others. For many water users, for example, prices will tend to increase as they move into line with the costs of water supply. Offsetting this trend, greater efficiency in water supply will tend to push down costs and prices. Similarly, increased allocations of water to the environment will reduce the water available for irrigation. Offsetting this reduction in supply, the value of farmers' remaining rights to use water will rise as a result of their ability to trade water entitlements. The integrated nature of the water reforms highlights the importance of timely implementation of the whole package. A less timely and fragmented implementation would result in water users facing reduced benefits and higher costs.

Energy reform

Under the NCP program, Australia's electricity sector has developed from a series of government owned vertically integrated monopolies into a dynamic industry of disaggregated generation, network and retail businesses,

interconnected in southern and eastern Australia through the national electricity market. Tasmania will join the national market once its system connects to Victoria via Basslink.

All electricity consumers in New South Wales and Victoria are now able to choose their electricity suppliers, with consumers in the ACT and South Australia to be given that choice in 2003. Customer choice (full retail contestability) is an essential component of the electricity sector reform package. Full retail contestability is expected to lead to savings for most customers. It will also foster dynamic benefits such as better efficiency among retailers, and the growth of new products such as 'green electricity'. It is also a necessary element in improving demand management because it allows customers to change their consumption in response to price movements. This is likely to lead to lower electricity prices as peak demand is reduced and also to better price signals, helping to guide more efficient investment in generation and network infrastructure.

While the NCP has introduced important structural reforms in electricity, governments recognise that more can be achieved. To this end, the Council of Australian Governments (CoAG) established the Energy Market Review, to investigate reforms needed to improve the performance and competitiveness of Australia's energy markets. The review is scheduled to report in early 2003.

The Council's work has identified a need for further refinements in the national electricity market. The market has suffered from the absence of a policy body responsible for determining and articulating its overall direction and structure. There is a particular need to define the role of networks in the national electricity market and the approach to managing network infrastructure (congestion management or common carriage). Other areas in need of refinement include the need to:

- improve locational pricing signals in the wholesale market through enhanced nodal pricing;
- adopt more cost-reflective pricing for networks;
- streamline new interconnect approvals;
- implement full retail contestability; and
- refine institutional arrangements.

Western Australia and the Northern Territory are not part of the national electricity market. Western Australia is proposing to restructure its government-owned monopoly electricity company, Western Power, to increase competition in its electricity industry. This change is probably the State's most important single NCP reform. While the Northern Territory has only a small electricity market, it has also implemented important NCP reforms.

Box A7: Increased efficiency and reduced prices from energy reform

By 2000, three years after the national market began, the benefits of electricity reform were estimated as equivalent to a \$1.5 billion rise in Australia's gross domestic product. The net present value of NCP electricity reform benefits over 1995-2010 has been estimated at \$15.8 billion in 2001 prices (Short et al 2001). Labour productivity across all national market jurisdictions has more than doubled compared with the pre-reform environment that existed in 1991; and capital productivity measured through capacity use (actual generation against total potential generation) has improved significantly. There has also been significant productivity improvement in the electricity distribution sector over the past 10 years.

Enhanced competition has also reduced electricity prices. The Productivity Commission (2002) found that household electricity prices in Brisbane, Melbourne and Sydney fell in real terms by 1 to 7 per cent between 1990-91 and 2000-01. This represents real savings to households in 2000-01 of some \$70 million. In its June 2002 report on the performance of the national electricity market, the National Electricity Code Administrator identified other benefits from the operation of the market, including:

- improved supply reliability and system security;
- a deepening of the liquidity of the contracts market; and
- greater investment and planned investment in generation and network interconnection.

Gas reform under the NCP has transformed the gas industry in Australia. The introduction of the National Gas Access Code (particularly in relation to gas distribution pipelines) and increased competition in gas exploration, has stimulated gas production and pipeline development proposals and activities. There is interest and activity in the development of gas resources in the Bass Strait, the Cooper Basin, the Otway Basin, the Timor Sea and elsewhere. Since 1995 more than \$1 billion has been invested in upstream, transmission and distribution assets each year. The Australian Pipeline Industry Association (2001) estimates that total transmission pipeline infrastructure grew from 9000 kilometres in 1989 to over 17 000 kilometres in 2001. Further network expansion is expected. The Australian Gas Association (1999) expects the proportion of Australia's energy supplied by gas to grow from the current level of 17.7 per cent to 22 per cent by 2005 and to 28 per cent by 2014-15. A significant part of this growth is expected from the use of gas in electricity generation, particularly in response to greenhouse gas emissions targets.

Gas reform has opened traditional State-specific gas markets. Reform is designed to provide a framework for an efficient industry, including a regulatory environment that balances the interests of gas producers, pipeline owners and consumers. The framework is also designed to promote gas pipeline and gas production investment and interstate trade in natural gas. The only significant remaining matters are the introduction of full retail contestability in all States and Territories and the completion of the review and reform of acreage management legislation.

The industry is undergoing rapid transformation. Exploration and development activity is occurring in Bass Strait, the Cooper Basin, the Otway Basin, the Timor Sea and elsewhere. Duke Energy has recently completed a major new pipeline, linking gas processing facilities at Longford in Victoria and consumers in Sydney, Canberra and elsewhere in New South Wales and Victoria. There are competing proposals to build new pipelines linking gas fields in Victoria and consumers in South Australia, and linking gas fields in the Timor Sea to consumers in south east Australia. Duke Energy is also constructing a pipeline from Longford to Tasmania. Other pipeline proposals

include linking gas fields in Papua New Guinea to Queensland and south east Australia

New South Wales and the ACT have introduced full retail contestability, with the other governments to follow in 2003. The reform of acreage management legislation will ensure more efficient and competitive ways of managing licensing exploration and production in the gas sector. These reforms will encourage competition between gas producers, both within and between gas basins.

Efficient use of infrastructure

Since the early 1990s, infrastructure industries in Australia have undergone substantial change as part of wider microeconomic reform. The electricity, gas, telecommunications, water, rail, air services and port services industries have all progressed substantially, and continue to progress, towards open competitive markets.

Governments recognised, however, that competition is not feasible in markets for bottleneck infrastructure (such as electricity grids and rail networks). Yet parties may need to use such infrastructure to make competition feasible in areas such as electricity generation, gas production, energy retailing, long distance freight (especially container freight) and bulk commodity transport.

As part of the NCP, governments introduced a regime (part IIIA of the *Trade Practices Act 1974*) that establishes legal rights for third parties to share the use of certain infrastructure services of national significance on reasonable terms and conditions. Technically, the regime provides access not to the infrastructure but to *services* provided by the infrastructure. If, for example, a freight forwarding business has a right of access to rail track, then that right allows it to use the track on reasonable terms and conditions to move freight, but not to physically operate the track.

Box A8: Part IIIA of the Trade Practices Act and the rail freight industry

Australia's rail transport industries were historically run by governments. Governments began to change ownership structures in the 1990s, and there is now a mix of arrangements. Rail businesses now include:

- private network and private rail transport services (as in Victorian and Western Australian freight rail businesses);
- government-owned track and privately owned transport companies (as in New South Wales, where FreightCorp and National Rail were privatised while the network remained under State Government ownership); and
- full government ownership (as in Queensland).

(continued)

Box A8 continued

Access regimes cover intrastate track in New South Wales, Victoria, Queensland and Western Australia, and the Australian Rail Track Corporation's interstate track services. The new Darwin–Tarcoola rail line will also be covered by an access regime when the line is operational. Although the access regimes have been in place for only a short time, there is already evidence of emerging benefits. Prices for the use of the track (and related services) for coal freight in New South Wales fell substantially following implementation of the New South Wales rail access regime. Third party access regimes appear to be encouraging development of the rail freight sector. The Toll/Patricks consortium, following its purchase of the freight forwarders National Rail and FreightCorp, expressed confidence that it could transfer a variety of freights from road transport to rail.

More effective legislation

Under the NCP, governments are reviewing existing legislation that restricts competition. Some 1800 pieces of legislation are being reviewed across all jurisdictions, including the Commonwealth. If a restriction cannot be shown to provide a net community benefit and to be necessary to achieve the objectives of the legislation, the government is obliged to remove the restriction. Under the NCP, governments have examined legislation covering, for example, the professions and occupations; agriculture, mining, fishing and forestry; education; retailing and licensing; taxis and other transport; communications; workers compensation and third party motor vehicle insurance; and planning, construction and development activity.

Governments have implemented reforms in many areas, often involving activities with a long history of restrictions on competition. Within agriculture, for example, governments have removed (or are proposing to remove) supply management, price support and monopoly marketing arrangements for the grains and dairy industries, among others. In retail trading, trading hours restrictions have been removed in most jurisdictions; significant restrictions remain in only two jurisdictions. Within areas of professional regulation, restrictions on business and ownership structures have been removed and the practices reserved to particular professions have been more appropriately defined. The evidence indicates that removing restrictions in the legislation is proving beneficial to Australia (see boxes A9 and A10).

As well as the obligation to review their stocks of existing legislation, governments have an obligation under the Competition Principles Agreement to scrutinise all proposals for new legislation that restricts competition. Where new legislation restricts competition, governments must have evidence to show that the legislation meets competition principles: that is, the restriction provides a net benefit to the community as a whole and is necessary to achieve the objective of the legislation.

Each government has a 'gatekeeping' process for scrutinising regulatory proposals, generally involving assessment of the impacts of new regulations. It is important that these processes operate effectively if new legislation is to meet the competition tests and address governments' other objectives. In its future assessments of NCP compliance, the Council will consider the

effectiveness of each government's regulation gatekeeping process in delivering new legislation that meets the competition tests.

Box A9: Milk production increases following national dairy deregulation

Until June 2000, each State and the ACT vested all fresh milk for drinking in a State dairy authority. The authority paid eligible dairy farmers a fixed price for drinking milk, which was more than twice the farmgate price for freely traded milk destined for processing into products such as butter and cheese. In New South Wales, Western Australia, and south east and central Queensland, dairy farmers had to own quota to receive the higher drinking milk price. In Victoria, north Queensland, South Australia and Tasmania, all farmers received a share of the higher drinking milk price.

Under a national agreement, the State monopolies and quota arrangements ended on 30 June 2000. The trigger was the decision by Victoria, the dominant dairying State, to remove its arrangements. Victoria had undertaken an independent competition policy review, which found the arrangements were not in the public interest. It had also polled dairy farmers, who saw a need to remove industry arrangements if the dairy industry was to prosper. The Commonwealth Government responded to industry calls by offering assistance to dairy farmers and dependent communities to adjust to an anticipated substantial reduction in income, on condition that national agreement on change was reached.

The Commonwealth assistance package, worth over \$1.8 billion, is the largest program of its type in Australia. As at 30 June 2001, an independent adviser had assessed the businesses of 29 819 farmers, who received structural adjustment payments averaging \$54 367. Others who chose to exit the industry received up to \$45 000 tax free. Help was also provided to dairying communities to assist them to adjust. The cost of the assistance package is being recovered by a levy of 11 cents per litre on retail sales of drinking milk. The levy commenced on 8 July 2000 and will run for about eight years.

Milk production has expanded since deregulation. The Australian Dairy Corporation (2002) reported that national milk production grew by 7 per cent to a record 11 268 million litres in 2001-02; this is the first time that Australia's milk production has exceeded 11 000 million litres in a year. The long term trend decline in the number of dairy farms accelerated after deregulation suggesting that the changes coupled with the availability of financial assistance probably brought forward many farmers' decision to leave the industry (ABARE 2001).

Despite the levy on drinking milk to fund the Commonwealth assistance package, there have been savings to consumers (ACCC 2001). The ACCC reported that:

- farmgate prices fell by around 19 cents per litre, while retail prices fell by 22 cents per litre (even after the 11 cents per litre levy to fund the adjustment assistance package);
- supermarket margins fell by 18 per cent in the first six months after deregulation and processor margins fell by 19 per cent in the same period; and
- savings to Australian milk consumers in the 12 months following deregulation were expected to exceed \$118 million from supermarket sales alone.

Box A10: Benefits from relaxing restrictions on retail trading hours

At the commencement of the NCP, all jurisdictions apart from the Northern Territory restricted night and Sunday trading. There were also different trading arrangements depending on the size of retail outlets and the products they sold. Central city and tourist shopping precincts often had fewer restrictions than suburban areas.

NCP reviews have found that restricting trading hours is not in the public interest. As a result, Victoria, Tasmania and the ACT removed trading hours restrictions, including restrictions on Sunday trading. In New South Wales, trading hours are restricted only in a small number of regional centres. In Queensland, restrictions have been relaxed in the south east, where most Queenslanders live. These changes do not mean shops must open. But retailers can now choose to open if they consider it worthwhile. Western Australia and South Australia are the only two jurisdictions to maintain significant restrictions.

Consumers appear to strongly support more liberal trading hours. In Sydney and Melbourne, where supermarkets can trade on Sundays, around 35 per cent of consumers shop for food and groceries on Sunday. In Perth and Adelaide, however, where only smaller food stores can trade on Sundays, the comparative figure is 7–8 per cent (Jebb Holland Dimasi 2000, p. ii). The ACT ended a trial of restrictions on supermarket hours in 1997 after finding that the community opposed restrictions and did not redirect their demand to small shops. Many retailers also appear to acknowledge that relaxing restrictions gives them a better opportunity to compete with the rival demands for consumer spending.

Restrictions impose costs on retailers who devote effort to finding legal ways to circumvent the restrictions. Some South Australian retailers, for example, have divided their business into several smaller entities to ensure they fall below the maximum size allowed for Sunday suburban trading. South Australia's restrictions also increase pressure on retailers to locate in exempt areas (such as the central business district and tourist precincts), increasing the cost of purchasing or renting premises in these areas.

Retail activity and employment do not appear to be adversely affected when trading hours are deregulated. Growth in both Victoria's retail sales and in the State's trend level of retail employment has significantly outstripped national figures since deregulation in December 1996 (Jebb Holland Dimasi 2000, p. iii; PC 1999, p. 259). The number of small retailers in Victoria increased following deregulation (ABS 1998). Tasmania's trading hours review predicted that an increase in retail employment of 1.1 per cent would occur after the deregulation of shopping hours (Workplace Standards Tasmania 2002, p. viii). Tasmania's review also found that removing restrictions would not affect the overall viability of the majority of independent stores (Workplace Standards Tasmania 2002, pp. iii–vii).

Consistent regulation across jurisdictions

When governments signed the Competition Principles Agreement, they envisaged that national reviews would be conducted for legislation with national dimensions. National reviews promote national consistency in regulation and more integrated national markets. There has been limited use of the national review facility however. Only 12 national reviews have been conducted to date, of which nine are complete. Reforms have been implemented in only five cases.

Several areas of regulation where a national process might have been helpful have been reviewed on a jurisdictional basis. In the area of professional regulation, for example, only laws regulating architects and pharmacists have been reviewed nationally. Consequently, the reform of regulation of the professions has generally been implemented on a State basis, which has

tended to reduce national consistency in regulation. Individual jurisdiction reviews have sometimes considered arrangements in other jurisdictions. For the professions, mutual recognition legislation (which has also been reviewed under NCP) ameliorates problems due to inconsistent regulation. The Council has sought to address problems due to inconsistent regulation by using the assessment process to encourage governments to ensure regulatory outcomes are as consistent as possible.

Box A11: National legislation reviews

There have been 12 national reviews under the NCP, covering the following areas of legislation:

- the *Agricultural and Veterinary Chemicals Act 1994* and related Acts;
- architectural profession legislation;
- consumer credit legislation;
- drugs, poisons and controlled substances legislation;
- food Acts;
- the Mutual Recognition Agreement and the *Mutual Recognition (Commonwealth) Act 1992*;
- petroleum (submerged lands) Acts;
- pharmacy regulation;
- radiation protection legislation;
- trade measurement legislation;
- travel agents legislation; and
- trustee corporation legislation.

Government, the public interest and managing change

Implementing reform in the public interest — the central tenet of NCP — and notions of good government have much in common. Indeed, one of the most important enduring legacies of the NCP is likely to be the widespread adoption within governments of a culture and processes that focus policy deliberations on public interest considerations. In its seventh year, NCP implementation has provided important lessons on identifying and implementing desirable reform and managing change.

The concept of the ‘public interest’ is that the ‘interests’ of the overall community — that is, the public — should be paramount in policy decisions. Assessing whether a proposed reform is in the public interest involves identifying and weighing all costs and benefits. Economic, social and environmental considerations are all relevant to evaluating the public interest

Intrinsically, each component has equal status. Each should be quantified if the relevant data are available or otherwise qualitatively evaluated. This does not mean, for a particular application of the public interest test, that every identified cost and benefit is quantitatively or qualitatively equal in value. Different members of the community commonly give different priority

to each public interest factor. In addition, the importance of each public interest factor can change over time as community concerns ebb and flow over issues such as the economy, jobs, social cohesion and environmental health.

The appropriate treatment of adjustment costs is one of the most difficult issues in assessing the public interest. Economic and technological development has always brought change. Old skills and methods are abandoned in favour of better and more productive approaches. The increased mechanisation of farming and mining, for example, means fewer workers in these industries. Workers who are needed are generally more highly trained. As these changes have occurred, people — particularly those whose skills are no longer needed — have had to adapt or risk being unemployed.

Box A12: Workshops on managing change to improve community outcomes

During 2001-02, the Council conducted two workshops to consider how best to evaluate and balance the interests of the various groups who are affected by NCP reform and how to assist the community adapt to change. The Council invited people from government bodies involved in policy development (including local government), and from bodies representing business and industry, consumers, farmers, unions, the conservation movement and the community sector.

The first workshop, on 11 July 2001, examined the concept of the public or community interest. Governments need to assess the effect on the community overall when deciding whether to retain or introduce legislation that restricts competition. Economic, social and environmental considerations are all relevant to evaluating the public interest. Often it is difficult to quantify components of the public interest, meaning that qualitative judgements about the effects of restricting competition need to be made. The message from the workshop was that independent objective assessment, taking account of the interests of all parties, is crucial to developing good policy outcomes.

Recognising that reforms that are beneficial overall may nevertheless impact heavily on particular individuals, communities and activities, the second workshop (on 13 September 2001) considered processes that governments might use to help those directly affected to successfully adapt to the new environment. This matter is broader than competition reform: wider social and economic forces also drive change. Adjustment assistance is not about money only, but needs to encompass measures such as retraining, access to services and personal business and financial advice. Properly implemented competition reform provides the means of delivering improved living standards for all citizens: the challenge in managing change is to ensure that the benefits from reform are shared equitably.

There are also other sources of pressure. The Productivity Commission review of the socio-economic impacts of the NCP recognised that technological advance was an important influence on the fortunes of rural Australia. But the Productivity Commission also found other important factors, including changes in people's tastes and lifestyles, trends in the prices of some agricultural commodities, and broad government policy changes such as lowering of trade barriers, deregulation of the financial sector and the increased use of regulation to protect the environment. The Productivity Commission found that these forces have contributed to significant changes in the composition of Australia's economic activity, with differing regional implications across the country. Many of these forces are long term in nature and beyond government control. Moreover, some aspects of the broader policy framework within which the NCP sits (for example particular social and

environmental policies and policy instruments) affect different communities in different ways.

While the NCP reform program has benefited Australia as a whole, there is no doubt that the effects of change sometimes fall (at times, quite swiftly and severely) on particular industries, regions and/or communities. Whether these changes are the result of microeconomic reform or wider social or economic forces, an important role for governments is to help individuals and their communities adjust to change. There are also some in the community who do not believe that the NCP program is necessary and/or beneficial. Thus, efforts by governments to explain reforms (and the reasons for them) and to assist with adjustment to change where necessary are integral steps in the successful implementation of the NCP.

The water reform program explicitly obliges governments and service providers to consult the community when contemplating change and/or new initiatives involving water resources. As part of this consultation, governments are required to develop public education programs on water use and on the need for, and the benefits from, water reform. Other elements of the NCP, however, include no explicit obligation to consult the community or conduct public education programs. Nonetheless, governments have recognised that the success of the NCP program can hinge on consulting the community and explaining decisions. The CoAG November 2000 changes to NCP processes require that review processes be 'properly constituted' and that the outcomes of legislation reviews be 'within a range of outcomes that could reasonably be reached on the basis of the information available to a properly constituted review process'.

Where public interest considerations are openly and objectively assessed, the decisions on reform implementation are clearer. As a result, the public interest is best served if governments adopt the recommendations of their reviews. But governments sometimes choose not to accept review outcomes. The CoAG changes to the NCP mean that governments have a responsibility to explain to the community the reasons for their decisions, particularly if a government does not accept review recommendations. Such consultation and explanation is integral to the success of the NCP program.

Understanding the distributional and adjustment implications of the NCP are essential to devising appropriate policy directions. CoAG recognised this link in the changes it made to NCP arrangements in November 2000. These changes ask that governments, when determining the public interest associated with particular reforms, give consideration to explicitly identifying the likely impact of reform measures on specific industry sectors and communities, including the expected costs of adjusting to change.

Notwithstanding the adjustment measures that are generally available (such as social welfare payments, unemployment benefits and, in some cases, redundancy arrangements), assistance targeted to the people directly affected by change may be warranted in some cases. The provision of such assistance recognises an obligation on the part of government to address particular economic circumstances that could arise as a result of change. Any assistance

provided should be directed to managing or facilitating change; adjustment assistance should not be about preventing change.

The key considerations in determining whether adjustment assistance is warranted are the severity, speed and permanence of the effects of change, and whether significant hardship would be likely to result in the absence of assistance. Determining the level and form of assistance is complex because assistance often needs to be provided before the full effects of a change are evident: to maximise the efficacy of the assistance and ensure the reform program is not jeopardised.

Assistance need not necessarily be monetary. The provision of advice on financial and business management, retraining and skill development, and priority access to relevant services are ways that governments can assist people to adapt to change. Adjustment assistance also includes phasing the implementation of particular reforms or providing a period of grace before a change is implemented to allow affected parties to plan for the new environment. Both approaches delay the achievement of full reform benefits, but provide additional time for the parties that are most directly affected to establish arrangements more suited to the new operating environment.

Adjustment assistance should be distinguished from the payment of compensation for changes in government regulatory policy, particularly where people have invested largely or solely on the basis of regulatory restrictions. People undertake such investments knowing that government policies can and do change. There is also a strong argument that the adoption of the NCP in 1995 was a clear signal from all governments that existing regulatory regimes may not endure. This should have been apparent given the underlying premise of the legislation review program that competition should not be restricted unless there is a strong public interest justification. Compensation in these circumstances needs to be carefully justified.

B1 Access to infrastructure

An access regime gives businesses (or individuals or other organisations) a legal avenue through which to share the use of infrastructure services owned by another business. An electricity generating company, for example, may be able to gain a legal right to transmit its electricity through another company's electricity grid. The rationale for access regulation is that the owners of major infrastructure facilities often have substantial market power that they can exploit.

Major infrastructure facilities such as airports, roads, rail networks, gas pipelines, electricity grids and some communications networks tend to be *natural monopolies*: that is, a single facility can meet market demand at less cost than two or more facilities. Development of new facilities would be unnecessary and wasteful. Infrastructure owners can also enjoy a strategic position in an industry because access to these facilities may be essential for businesses operating in upstream or downstream markets. Electricity generators, for example, must have access to an electricity grid to deliver their product. Infrastructure operators can seek to exploit their position by charging monopolistic prices to businesses using the infrastructure. This can harm competition in related markets and be detrimental to consumers. If an electricity grid owner, for example, were to charge monopolistic prices, then electricity generators would suffer reduced demand and electricity consumers would have to pay more for power.

If the business that owns or operates the infrastructure does *not* also have interests in upstream or downstream markets, then the public policy issue is one of dealing with monopoly behaviour. An access regime is one means of restraining prices and maintaining output in these situations, although, in principle, there are also other means such as direct price monitoring and control.

Problems that are more complex arise if a business that operates essential infrastructure also has interests in upstream or downstream markets. The business still has incentives to charge monopolistic prices to users of its infrastructure. It may discriminate against its competitors, offering them access only on inferior terms and conditions, or even denying them access.

To address these problems, governments have been introducing legislated access regimes. Allowing access to infrastructure facilities encourages new firms to enter upstream and downstream markets. This entry instils greater competition in those markets, promoting more efficient use of infrastructure. Consumers will experience a wider choice of supplier, with the likelihood of a better range of services and/or lower prices.

Part IIIA of the *Trade Practices Act 1974*

Part IIIA of the *Trade Practices Act 1974* establishes principles to facilitate competitive outcomes in markets that rely on natural monopoly infrastructure. It sets out the conditions under which businesses have a right of access to services provided by certain infrastructure facilities. It also sets out the roles and responsibilities of the government bodies that administer the access regime.

Part IIIA provides a regulatory framework for access negotiation supported by credible dispute resolution procedures.

Pathways to access

Part IIIA sets out the following three pathways for access to infrastructure services.

- *Declaration (and arbitration)*. A business that wants access to a particular infrastructure service can apply to have the service ‘declared’. If the service is declared, then the business and the infrastructure operator try to negotiate terms and conditions of access. If they fail to reach agreement, then they determine the terms and conditions through legally binding arbitration.
- *Certified (effective) regimes*. Where an ‘effective’ access regime already exists, a business seeking access must use that regime. Under part IIIA, following a recommendation from the National Competition Council, the designated Commonwealth Minister can certify an access regime as being effective. The criteria for assessing whether an access regime is effective focus on whether the regime has an appropriate framework to promote competitive outcomes.
- *Undertakings*. Infrastructure operators can make a formal undertaking to the Australian Competition and Consumer Commission, setting out the terms and conditions on which they will provide access to their services. If accepted, these undertakings are legally binding, so other businesses can use them to gain access.

Overview of declaration activities

During 2001-02, the Council received one new application for the declaration of services provided by infrastructure facilities. This was an application by AuIron Energy Limited. Other declaration activity during 2001-02 related to an application by Normandy (Normandy Power Pty Ltd, NP Kalgoorlie Pty Ltd and Normandy Golden Grove Operations Pty Ltd) for declaration of certain services provided by Western Power Corporation (lodged on 9 January

2001), an application by Freight Australia for declaration of services provided by Victorian rail lines (lodged 1 May 2001) and an application by Portman Iron Ore Limited for declaration of the services provided by WestNet Rail. These matters are discussed below.

A summary of all declaration applications received since the enactment of part IIIA appears in table B1.1.

AuIron Energy Limited's application for declaration of the service provided by the Wirrida–Tarcoola rail track

On 12 September 2001, the Council received an application from AuIron Energy Limited (AuIron) for declaration of the service provided by the Wirrida–Tarcoola rail track. The facilities used to provide the services on the Wirrida–Tarcoola rail track are owned by the Australian Rail Track Corporation Limited (ARTC) and leased to the Australasia Pacific Transport Consortium, managed by Asia Pacific Transport Pty Ltd (APT). APT is the service provider and has management control of the service, although ARTC is responsible for the allocation of access, price setting and control of trains until July 2003.

The service under application comprises a point-to-point rail track service provided by the use of the facilities under lease to APT. The rail track forms part of the Tarcoola–Darwin rail track, which is under construction from north of Alice Springs. Third party access to the Tarcoola–Darwin rail track service will be regulated under the Australasia Railway Third Party Access Regime (the Australasia railway access regime), which is contained in the Australasia Railway (Third Party Access) Code (the access code) which is a schedule to the *Australasia Railway (Third Party Access) Act 1999*. The Commonwealth Treasurer certified the regime as being effective under s. 44N of the Trade Practices Act in March 2000. Given that the Wirrida–Tarcoola rail track has not been prescribed under s. 2 of the access code, the Council considers the Australasia railway access regime is not effective for the service that is the subject of this declaration application.

The Council forwarded its final recommendation to the decision-maker, Senator the Hon. Ian Campbell, Parliamentary Secretary to the Treasurer, in June 2002, recommending that the Wirrida–Tarcoola rail track be declared under part IIIA. The Council was satisfied that the application by AuIron has met all of the matters set out in s. 44G(2) of the Trade Practices Act. The Wirrida–Tarcoola rail track displays features associated with natural monopoly infrastructure. APT has market power (which is not effectively constrained by competition from road transport) that can be used to hinder competition in the bulk freight transport services market. At 30 June 2002, the Minister was considering the Council's recommendation.

Normandy's application for declaration of electricity services provided through Western Power's south west integrated electricity transmission and distribution system

On 9 January 2001 the Council received an application from Normandy Power Pty Ltd, NP Kalgoorlie Pty Ltd and Normandy Golden Grove Operations Pty Ltd (Normandy) for declaration of certain electrical transmission and distribution services provided by Western Power Corporation. The application covers electrical transmission and distribution systems situated in the south west of Western Australia (known as the south west interconnected system), servicing the area bounded by Kalbarri in the north, Kalgoorlie in the east, Albany in the south and the western coast of Western Australia.

The Council released a discussion paper, consulted with interested parties and sought submissions on the application, with the objective of making a recommendation on the matter to the Western Australian Premier. On 7 May 2001 Western Power instituted proceedings in the Federal Court in Perth against the Council and Normandy, seeking to prevent the Council from considering Normandy's application for declaration. Western Power argues that the application services are not 'services' within the meaning of part IIIA. These proceedings were ongoing at 30 June 2002. Subsequently, Western Power and Normandy have agreed to settle the broader commercial dispute between them and to discontinue the proceedings against the Council. In addition, Normandy has withdrawn its application for declaration. The formal discontinuation of the proceedings is likely to be concluded shortly.

Freight Australia's application for declaration of rail track services provided through the Victorian intrastate rail network

On 1 May 2001, the Council received an application from Freight Victoria Limited, a private company trading as Freight Australia, for declaration of services provided by the rail lines that it leases from the Victorian Government (excluding services provided by sidings and some branch lines). The Victorian rail access regime regulates access to all rail lines leased to Freight Australia, including sidings and branch lines, but only for the purposes of transporting freight. If the services under application are declared, then their access terms and conditions may be negotiated under part IIIA rather than under the Victorian regime.²

Following a public process that included receiving submissions from interested parties, the Council forwarded its recommendation to the Commonwealth Minister in December 2001. The Minister accepted the

² Section 109 of the Australian Constitution provides that Commonwealth legislation takes precedence over State legislation to the extent that there is an inconsistency. The Council has not considered the extent to which the Victorian regime may be in conflict with part IIIA, however, because it is not relevant to the Council's consideration of the application.

Council's recommendation and decided on 1 February 2002 not to declare the service that was the subject of the application.

Freight Australia has applied to the Australian Competition Tribunal for a review of the Minister's decision.

Portman Iron Ore Limited's application for declaration of rail track services provided through WestNet Rail's Koolyanobbing–Esperance rail track

On 9 August 2001, the Council received an application from Portman Iron Ore Limited for declaration of the services provided by the Koolyanobbing–Esperance rail line. WestNet Rail operates this line under a 49-year lease from the Western Australian Government.

On 6 February 2002, Portman Iron Ore Limited notified the Council that it was withdrawing its application. Consequently, the Council did not provide a recommendation.

Overview of certification activities

During 2001-02, the Council received no new applications from State and Territory governments seeking to have their regimes 'certified' as being effective under part IIIA. There were three matters ongoing at 30 June 2002: relating to Queensland's gas access regime, Victoria's rail access regime and South Australia's ports and maritime services access regime.

There have been 15 certification applications since the enactment of part IIIA (see table B1.2), of which the Council has recommended that 11 be certified as effective.

Northern Territory gas access regime

On 13 March 2001 the Council received the Northern Territory's application for certification of its gas access regime. The regime applies the National Third Party Access Code for Natural Gas Pipelines (the national gas code) in the Northern Territory without any derogations or transitional arrangements. The national gas code is discussed in earlier Council annual reports.

In June 2001, the Council forwarded its recommendation on certification of the regime to the Commonwealth Minister for Financial Services and Regulation. On 4 October 2001, the Minister certified the regime as being effective for 15 years, based on the Council's recommendation.

Queensland gas access regime

In September 1998 the Council received Queensland's application for certification of its gas access regime. While the regime was submitted to the Council as an application of the national gas code, it incorporates significant derogations from that code. The derogations affect major transmission pipelines, affecting issues such as access pricing and information flows to access seekers.

The Council forwarded its recommendation on the regime to the Commonwealth Minister for Financial Services and Regulation in February 2001. The Minister subsequently requested further information from the Queensland Government and the owners of the derogated pipelines. The Minister sought the Council's advice on whether this information raised new issues of relevance to the consideration of effectiveness.

To properly advise the Minister, the Council withdrew its February 2001 recommendation so as to consider the new information. The Council released its new draft recommendation in February 2002, recommending against certification. The Council received submissions on its draft recommendation until 7 June 2002, and is currently considering its final recommendation to the Minister.

The Queensland regime was enacted in May 2000. While not certified, the provisions of the regime (including obligations on pipeline owners) operate.

Northern Territory electricity network access regime

On 1 December 1999 the Council received an application from the Northern Territory Government for certification of its electricity network access regime. The Council issued a draft recommendation in September 2000, noting that it would be unable to recommend certification to the Minister unless the outstanding issues were resolved. The principal areas of concern included limitations on contestability and the out-of-balance energy system.

The Council took the preliminary view that the amendments detailed in the process update, together with those outlined in its draft recommendation, would allow the regime to be certified. The Northern Territory Government submitted its amended regime for the Council which considered that the regime met the criteria for certification. The Council forwarded its recommendation to certify the regime to the Minister at the end of December 2001. On 21 March 2002, the Minister certified the regime as effective for a period of 15 years, based on the Council's recommendation.

Victorian rail access regime

On 27 July 2001, the Council received an application from the Victorian Government for certification of its rail access regime. Some rail track covered

by this regime was also covered by a declaration application lodged by Freight Australia.

The Victorian rail access regime began operations on 1 July 2001 to regulate access (for carrying freight only) to:

- the intrastate rail line network leased to Freight Australia;
- the freight rail lines into Melbourne leased to Freight Australia;
- part of the metropolitan rail network leased to Bayside Trains;
- the South Dynon Terminal leased to National Rail; and
- the Dynon Terminal leased to Freight Australia.

The Council released a position paper on the application that identified concerns relating to the effectiveness of the Victorian regime. Subsequently Victoria addressed all these concerns by progressively submitting groups of amendments for Council consideration. The Council confirmed that the amendments met all its concerns as they were submitted and approved the final group of amendments. At 30 June 2002, the Council was preparing its recommendation to the relevant Minister. The Victorian Government withdrew its application for certification in August 2002.

South Australian ports and maritime services access regime

In August 2001 the Council received an application from the South Australian Government for certification of its ports and maritime services access regime. The regime provides for third party access to certain maritime services provided at prescribed ports. These services include:

- vessel access to ports;
- pilotage services;
- berthing rights;
- port services for loading and unloading vessels; and
- the storage of goods.

The Council released an issues paper (29 November 2001) which identified several issues that need to be resolved before the Council can make a final recommendation. These issues relate to:

- setting prices for essential maritime services (except for the bulk handling facilities) through a Ministerial Determination;

- whether the coverage of the access regime is sufficiently wide, for example, to include sufficient bulk handling infrastructure to provide the service of loading ships.

The Council is considering the submissions received on these issues. It will discuss these issues with the relevant parties, with a view to making a recommendation on certification to the South Australian Government.

Overview of coverage activities under the national gas code

The Council has ongoing roles under the national gas code. In particular, it considers applications for coverage of a pipeline and revocation of coverage. The Council understands the need for certainty about the likely coverage of new infrastructure and is available to advise investors on whether a proposed new pipeline would meet the coverage criteria. Alternatively, investors may seek coverage before construction of a new pipeline, by submitting an access arrangement to the regulator or adopting the competitive tender process of the national gas code. Conversely, revocation issues may arise, for example from technological innovation and changing market conditions.

In assessing both coverage and revocation applications, the Council must consider whether the relevant pipelines meet or continue to meet the coverage criteria in the national gas code. The Council must then make a recommendation to the relevant State, Territory or Federal Minister.

During 2001-02, the Council received no new applications for coverage. It received two new applications for revocation of coverage relating to the Parmelia pipeline and the Roma distribution system. Other national gas code work during the year related to revocation applications concerning Riverland and Mildura transmission pipelines and the Moomba to Sydney Pipeline. These matters are discussed below.

Table B1.3 summarises the Council's coverage and revocation work since the introduction of the national gas code.

Revocation of the Parmelia pipeline (Western Australia)

On 31 October 2001, the Council received an application from CMS Gas Transmission Australia (CMS) for revocation of coverage of the Parmelia pipeline in Western Australia. CMS is the pipeline operator. The Parmelia pipeline transports natural gas from the Perth Basin at Dongara to Perth and Pinjarra. It also provides some distribution services in Perth.

On 20 February 2002, the Council forwarded its final recommendation to the Hon. Eric Ripper MLA, Western Australian Minister for Energy,

recommending that coverage of the pipeline be revoked. The Council did not consider that the pipeline has sufficient market power in the transmission market to hinder competition in the upstream and downstream markets. There is significant unused capacity in the pipeline, and gas consumers in the south west of Western Australia have a choice of either (1) Perth Basin gas transported via the Parmelia pipeline or the Dampier–Bunbury natural gas pipeline or (2) Carnarvon Basin gas transported via the latter pipeline. The Council also considered that it would be a credible possibility to economically develop the Dampier–Bunbury natural gas pipeline to provide the services provided by the Parmelia pipeline.

On 13 March 2002, the Minister accepted the Council's recommendation and revoked coverage of the Parmelia pipeline

Revocation of the Roma distribution system (Queensland)

On 4 February 2002, the Council received an application for revocation of coverage of the Roma distribution system. The system serves bundled gas supply to 295 customers via 69.8 kilometres of reticulated gas pipeline in the area of the Town of Roma. The application was submitted by Roma Town Council, which owns and operates the Roma distribution system.

In April 2002, the Council released its final recommendation that coverage should be revoked. The Council was not satisfied that regulation under the national gas code would promote competition in the relevant gas sales market. The applicant is the sole supplier of gas through the distribution system and there was no evidence that any third party requires, or is likely to require, access in the short to medium term to supply gas to customers. Further, the Council considered that regulation would be likely to impose costs that would outweigh any benefits and would be contrary to the public interest.

On 10 May 2002, the Hon. Terry Mackenroth MP, Queensland Treasurer, accepted the Council's recommendations and revoked coverage of the Roma distribution system.

Revocation of the Riverland and Mildura transmission pipelines (South Australia/Victoria)

In May 2001 the Council received applications from Envestra Limited for revocation of coverage of the Riverland gas transmission pipeline (located in South Australia) and the Mildura gas transmission pipeline (located in South Australia and Victoria). Envestra owns the pipelines.

The Council forwarded its recommendations on the pipelines to the South Australian Minister for Energy (for the Riverland pipeline) and the Commonwealth Minister for Industry, Science and Resources (for the Mildura pipeline) in August 2001. The two Ministers decided on 12 September 2001 and 17 September 2001 respectively to revoke coverage of the pipelines.

Revocation of the Moomba–Sydney transmission pipeline and the Dalton–Canberra transmission pipeline (New South Wales)

On 28 April 2000, the Council received an application from Eastern Australian Pipeline Limited for revocation of coverage of three pipelines within the Moomba–Sydney Pipeline System:

- the main pipeline running from Moomba to Sydney (the Moomba–Wilton pipeline);
- the transmission pipeline branching off the main pipeline to Canberra (the Dalton–Canberra pipeline); and
- the transmission pipeline branching off the main pipeline to Culcairn (the Young–Culcairn pipeline).

The Council forwarded its final recommendation, that is, not to revoke coverage to the Commonwealth Minister for Industry, Science and Resources on 8 September. The Minister decided on 16 October 2000 not to revoke coverage of the pipelines.

Following the decision of the Australian Competition Tribunal in the Eastern gas pipeline case, Eastern Australian Pipeline Limited re-applied on 18 June 2001 for revocation of two pipelines within the Moomba–Sydney Pipeline System:

- the Moomba–Wilton pipeline; and
- the Dalton–Canberra pipeline.

The Council released its draft recommendation (to retain coverage) in December 2001. In accordance with the provisions of the national gas code, the Council has extended the date for release of its final recommendation to 21 October 2002. The extension is required because some submissions received on the draft recommendation raise substantial issues that require further analysis which has obliged the Council to seek further information.

Table B1.1: Summary of declaration applications to the Council

<i>Applicant</i>	<i>Service</i>	<i>Council recommendation</i>	<i>Minister's decision</i>	<i>Outcome</i>
Australian Union of Students (April 1996)	Payroll deduction service provided by Department of Education Employment Training and Youth Affairs	Not to declare (June 1996)	Not to declare (August 1996)	The union applied to the Australian Competition Tribunal for review of the Minister's decision. The Tribunal determined not to declare (July 1997).
Futuris Corporation (August 1996)	Western Australian gas distribution service			The application was withdrawn (November 1996).
Australian Cargo Terminal Operators (November 1996)	Qantas ramp and cargo terminal services at Melbourne and Sydney international airports (two applications)			The application was withdrawn.
Australian Cargo Terminal Operators (November 1996)	Ansett ramp and cargo terminal services at Melbourne and Sydney international airports (two applications)			The application was withdrawn.
Australian Cargo Terminal Operators (November 1996)	Particular airport services at Sydney International Airport (three applications)	To declare (May 1997)	To declare (July 1997)	The Federal Airports Corporation applied to the Australian Competition Tribunal for review of the Minister's decision. The Tribunal determined to declare the services for a period of five years from 1 March 2000.
Australian Cargo Terminal Operators (November 1996)	Particular airport services at Melbourne International Airport (three applications)	To declare (May 1997)	To declare for a period of 12 months (July 1997)	Services were declared from August 1997 until 9 June 1998, and since have been subject to access provisions of the <i>Airports Act 1996</i> .

(continued)

Table B1.1 continued

<i>Application</i>	<i>Service</i>	<i>Council recommendation</i>	<i>Minister's decision</i>	<i>Outcome</i>
Carpentaria Transport (December 1996)	Queensland rail services, including above-rail services	Not to declare (June 1997)	Not to declare (August 1997)	Carpentaria applied to the Australian Competition Tribunal for review of the Minister's decision. The application for review was subsequently withdrawn.
Standardised Container Transport (February 1997)	New South Wales rail track services (Sydney to Broken Hill)	To declare (June 1997)	Deemed not to be declared due to expiry of 60-day limit (August 1997)	Standardised Container Transport applied to the Australian Competition Tribunal for review of the Minister's decision. The application for review was subsequently withdrawn following successful access negotiations.
New South Wales Minerals Council (April 1997)	New South Wales rail track services in the Hunter Valley	To declare (September 1997)	Deemed not to be declared due to lapse of time (November 1997)	New South Wales Minerals Council applied to the Australian Competition Tribunal for review of the Minister's decision. The application for review was withdrawn following the certification of the New South Wales Rail Access Regime.
Standardised Container Transport (July 1997)	(1) Western Australia's rail track services; (2) arriving/ departing services; (3) marshalling/shunting service; (4) marshalling/ shunting access; (5) fuelling service (five applications)	To declare the rail track service; not to declare other services (November 1997)	Not to declare any of the five services (January 1998)	Standardised Container Transport applied to the Australian Competition Tribunal for review of the Minister's decision. The application for review was subsequently withdrawn following successful access negotiations.

(continued)

Table B1.1 continued

<i>Application</i>	<i>Service</i>	<i>Council recommendation</i>	<i>Minister's decision</i>	<i>Outcome</i>
Robe River (August 1998)	Hamersley rail track services			The Federal Court decided that the service was not within part IIIA of the Trade Practices Act (June 1999). Federal Court decision was appealed. The application for declaration was withdrawn by Robe before Full Federal Court hearing. Appeal was stayed.
Normandy Power Pty Ltd, NP Kalgoorlie Pty Ltd and Normandy Golden Grove Operations Pty Ltd (Normandy)	Electricity services provided through Western Power's south west electricity networks			Western Power and Normandy have agreed to settle the broader commercial dispute between them and to discontinue proceedings seeking to prevent the Council from considering Normandy's application for declaration. Normandy has withdrawn its application for declaration.
Freight Australia	Rail track services provided through Victoria's intrastate rail network	Not to declare (December 2001)	Not to declare (February 2002)	Freight Australia applied to the Australian Competition Tribunal for review of the Minister's decision.
Portman Iron Ore Limited (August 2001)	Rail track services provided through the Koolyanobbing–Esperance rail track			The application was withdrawn.
Aulron Energy Limited (November 2001)	Rail track services provided through the Wirrida–Tarcoola rail track	Final recommendation to declare (July 2002)	Being considered	

(continued)

Table B1.2: Summary of certification applications to the Council

<i>Application</i>	<i>Service</i>	<i>Council recommendation</i>	<i>Minister's decision</i>	<i>Outcome</i>
New South Wales gas distribution networks regime (interim regime, October 1996)	Access to services of relevant gas pipelines	To certify (May 1997)	To certify (August 1997)	Certified (but intended only as an interim regime before the introduction of the national gas code).
Victorian commercial shipping channels (December 1996)	Access to commercial shipping channels leading into Melbourne Port	To certify (May 1997)	To certify (August 1997)	Certified for five years.
New South Wales rail (June 1997)	Access to rail track services	To certify (April 1999)	To certify (November 1999)	Certified until 31 December 2000.
South Australian gas access regime (June 1998)	Access to services of relevant gas pipelines	To certify (September 1998)	To certify (December 1998)	Certified for 15 years.
Queensland rail (June 1998)	Access to rail track services			The application was withdrawn (February 1999).
Queensland gas access regime (September 1998)	Access to services of relevant gas pipelines	Sent to Minister (February 2001), but not publicly available	The Minister notified the Council that he had received a substantial amount of new material from the Queensland Government and the owners of four gas pipelines subject to derogations under the regime. The Minister sought the Council's advice on whether this material raises new issues of relevance to his consideration of effectiveness.	The Council withdrew its February 2001 recommendation so as to consider new information. The Council released its draft recommendation in February 2002, that the regime is not an effective access regime and should not be certified. The Council received submissions on its draft recommendation until 7 June 2002, and is currently considering its final recommendation to the Minister.

Table B1.2 continued

<i>Application</i>	<i>Service</i>	<i>Council recommendation</i>	<i>Minister's decision</i>	<i>Outcome</i>
New South Wales gas access regime (October 1998)	Access to services of relevant gas pipelines	To certify (March 1999)	To certify (March 2001)	Certified for 15 years. Decision had been delayed pending resolution of cross-vesting issues.
Australian Capital Territory gas access regime (January 1999)	Access to services of relevant gas pipelines	To certify (July 2000)	To certify (September 2000)	Certified for 15 years
Western Australian gas access regime (March 1999)	Access to services of relevant gas pipelines	To certify (February 2000)	To certify (May 2000)	Certified for 15 years
Western Australian rail (February 1999)	Access to rail track services			The application was withdrawn by the Western Australian Government.
Northern Territory/South Australian rail (March 1999)	Access to rail track services	To certify (February 2000)	To certify (March 2000)	Certified until 31 December 2030
Victorian gas access regime (July 1999)	Access to services of covered pipelines	To certify (April 2000)	To certify (March 2001)	Certified for 15 years
Northern Territory electricity access regime (December 1999)	Access to services of electricity distribution networks	To certify (December 2001)	To certify (March 2002)	Certified for 15 years
Northern Territory gas access regime (March 2001)	Access to services of covered pipelines	To certify (June 2001)	To certify (October 2001)	Certified for 15 years
Victorian rail access regime (July 2001)	Access to rail track services			The application was withdrawn by the Victorian Government.
South Australian ports and maritime services access regime (August 2001)	Access to prescribed port and maritime services	Under consideration by Council		

Table B1.3: Summary of coverage and revocation applications under the national gas code to the Council

<i>Applicant</i>	<i>Pipeline</i>	<i>Decision sought</i>	<i>Council recommendation</i>	<i>Minister's decision/outcome</i>
Southern Cross Pipelines (March 1999)	Goldfields Gas Transmission Pipeline–Keith Power Station (Western Australia)	Revocation	To revoke coverage (June 1999)	To revoke coverage (July 1999)
Southern Cross Pipelines (March 1999)	Goldfields Gas Transmission Pipeline–Leinster Power Station (Western Australia)	Revocation	To revoke coverage (June 1999)	To revoke coverage (July 1999)
Southern Cross Pipelines (March 1999)	Kalgoorlie– Kambalda (Western Australia)	Revocation	Not to revoke coverage (June 1999)	Not to revoke coverage (July 1999)
Southern Cross Pipelines (March 1999)	Goldfields Gas Transmission Pipeline–Kalgoorlie Power Station (Western Australia)	Revocation	To revoke coverage (June 1999)	To revoke coverage (July 1999)
SAGASCO South East (May 1999)	Tubridgi pipeline (Western Australia)	Revocation	Not to revoke coverage (July 1999)	Not to revoke coverage (August 1999)
Boral Energy Resources (May 1999)	Beharra Springs pipeline (Western Australia)	Revocation	To revoke coverage (July 1999)	To revoke coverage (August 1999)
Robe River Mining Company (June 1999)	Karratha–Cape Lambert pipeline (Western Australia)	Revocation	To revoke coverage (Sept 1999)	To revoke coverage (Sept 1999)
Epic Energy SA (December 1999)	South east pipeline system (South Australia)	Revocation	To revoke coverage (March 2000)	To revoke coverage (April 2000)
AGL Energy Sales and Marketing (January 2000)	Eastern gas pipeline (Longford–Sydney)	Coverage	To cover (June 2000)	To cover (October 2000)
Eastern Australian Pipeline Limited (now Australian Pipeline Trust) (April 2000)	Moomba–Sydney pipeline system (Moomba–Wilton trunk line)	Revocation	Not to revoke coverage (September 2000)	Not to revoke coverage (October 2000)
Eastern Australian Pipeline Limited (now Australian Pipeline Trust) (April 2000)	Young–Culcairn lateral (New South Wales)	Revocation	Not to revoke coverage (September 2000)	Not to revoke coverage (October 2000)

(continued)

Table B1.3 continued

<i>Applicant</i>	<i>Pipeline</i>	<i>Decision sought</i>	<i>Council recommendation</i>	<i>Minister's decision/outcome</i>
Eastern Australian Pipeline Limited (now Australian Pipeline Trust) (April 2000)	Dalton–Canberra lateral (New South Wales and the ACT)	Revocation	Not to revoke (September 2000)	Not to revoke coverage (October 2000)
Envestra (April 2000)	Palm Valley–Alice Springs pipeline (Northern Territory)	Revocation	To revoke coverage (July 2000)	To revoke coverage (July 2000)
Envestra (April 2000)	Alice Springs distribution system (Northern Territory)	Revocation	To revoke coverage (July 2000)	To revoke coverage (July 2000)
Dalby Town Council (August 2000)	Dalby distribution network	Revocation	To revoke coverage (October 2000)	To revoke coverage (November 2000)
Peabody Moura Mining Pty Ltd (August 2000)	Peabody–Mitsui gas pipeline (Queensland)	Revocation	To revoke coverage (October 2000)	To revoke coverage (November 2000)
Oil Company of Australia (August 2000)	Kincora–Wallumbilla pipeline (Queensland)	Revocation	To revoke coverage (October 2000)	To revoke coverage (November 2000)
Oil Company of Australia (August 2000)	Dawson Valley pipeline (Queensland)	Revocation	To revoke coverage (October 2000)	To revoke coverage (November 2000)
Envestra Ltd (May 2001)	Mildura pipeline	Revocation	To revoke coverage (August 2001)	To revoke coverage (September 2001)
Envestra Ltd (May 2001)	Riverland pipeline (South Australia)	Revocation	To revoke coverage (August 2001)	To revoke coverage (September 2001)
Eastern Australian Pipeline Limited (now Australian Pipeline Trust) (June 2001)	Moomba–Sydney Pipeline System (Moomba–Wilton trunk line)	Revocation	Draft recommendation to retain coverage (December 2001); final recommendation due October 2002.	

(continued)

Table B1.3 continued

<i>Applicant</i>	<i>Pipeline</i>	<i>Decision sought</i>	<i>Council recommendation</i>	<i>Minister's decision/outcome</i>
Eastern Australian Pipeline Limited (now Australian Pipeline Trust) (June 2001)	Dalton–Canberra lateral (New South Wales and the ACT)	Revocation	Draft recommendation to retain coverage (December 2001); final recommendation due October 2002.	
CMS Gas Transmission Australia (October 2001)	Parmelia pipeline (Western Australia)	Revocation	To revoke coverage (February 2002)	To revoke coverage (March 2002)
Roma Town Council (February 2002)	Roma distribution system (Queensland)	Revocation	To revoke coverage (April 2002)	To revoke coverage (May 2002)

B2 Assessing governments' progress with implementing the NCP

The 1995 National Competition Policy (NCP) agreements set out reform obligations for governments and provide for the Commonwealth Government to make payments to the States and Territories that satisfactorily address those obligations. The National Competition Council assesses governments' implementation progress and makes recommendations to the Federal Treasurer on whether this progress is sufficient for States and Territories to receive NCP payments.

The NCP agreements provided for three progress assessments (before July 1997, July 1999 and July 2001). In November 2000, the Council of Australian Governments (CoAG) decided that the Council should, following the 2001 assessment, make annual assessments of governments' compliance with the NCP and related reform obligations. The 2002 NCP assessment, which constituted a significant element of the Council's work during 2001-02, is the first of these annual assessments.

The 2002 assessment revealed that much has been accomplished via the NCP and related reform program. Many sectors of the economy — including water management, the energy sector, government utilities, transport, communications, agricultural marketing, the professions and occupations, finance, retail trading and licensing — have undergone extensive pro-competitive change. The water reform program, by ensuring governments allocate water across all uses (including stressed rivers and wetlands), is also producing significant environmental protection benefits.

Governments' actions in reviewing and reforming legislation that restricts competition were a significant focus for the 2002 assessment, reflecting the CoAG decision that governments should complete review and appropriate reform activity by 30 June 2002. Governments' 1996 legislation review programs scheduled some 1800 pieces of legislation for review. Most governments have made considerable progress, although none had fully implemented its review and reform obligations at 30 June 2002. The Council will complete assessment of legislation review and reform activity in the next assessment in June 2003.

Energy

Electricity

The development of a competitive and efficient electricity industry is a key objective of the NCP. The NCP focuses on the following key reforms:

- the structural reform and separation of State-owned electricity businesses;
- third party access to transmission and distribution networks;
- the interconnection of State transmission networks into a national grid (excluding Western Australia and the Northern Territory);
- the establishment of a national electricity market; and
- full retail contestability — that is, the ability of all electricity consumers to choose their supplier.

There is now a competitive national electricity market, featuring an interconnected electricity grid, incorporating New South Wales, Victoria, Queensland, South Australia and the ACT. Tasmania expects to join the national market in 2004, on completion of the Basslink interconnect with Victoria. A third party access regime has been implemented for the transmission and distribution networks.

One of CoAG's main objectives for the fully competitive national market in electricity is the ability for customers to choose which supplier (including generators, retailers and traders) they will trade with. This enables consumers to choose the cheapest electricity supplier and/or to base their choice on other factors, such as quality of service or environmental factors. Since 2000, all retail customers within the national market consuming more than 200 megawatt hours per year have been contestable: that is, they are able to choose their retailer. Full retail contestability was extended to all New South Wales and Victorian consumers in January 2002, with South Australia and the ACT expected to introduce contestability for all customers in 2003. Queensland decided against full retail contestability but will review its decision in 2004. In the meantime, Queensland will consider making customers in the 100–200 megawatt hour consumption range contestable.

Western Australia, while not part of the national market, is proposing to restructure its Government-owned monopoly electricity company, Western Power, to increase competition in its electricity industry. The Northern Territory, which is also not part of the national market, has established an effective access regime for its transmission and distribution networks, enabling competition in the generation and retail sectors. It has also reviewed and appropriately reformed the structural and regulatory framework of its

vertically integrated electricity service provider, the Power and Water Authority.

Gas

CoAG established a program of gas reform comprising three key elements:

- the structural separation of the transmission, distribution, production and retail sectors of the gas industry;
- the introduction by all governments of third party access regulation for natural gas pipelines — the National Third Party Access Code for Natural Gas Pipelines (the National Gas Access Code); and
- full retail contestability — that is, provision for all gas customers to choose their supplier.

All governments have completed the structural reform of the gas industry and have introduced the National Gas Access Code. New South Wales, the ACT, South Australia and the Northern Territory have all removed regulatory barriers to full retail contestability, with New South Wales and the ACT also introducing systems to support customer choice. South Australia is still to introduce such systems. Western Australia is scheduled to introduce full retail contestability in July 2003 and Tasmania's full retail contestability timetable will be governed by franchising arrangements being developed. Victoria and Queensland have amended their timetables for the introduction of full retail contestability to September 2002 and January 2003 respectively.

The CoAG Energy Market Review

CoAG established the Energy Market Review, to investigate and report on reforms necessary to improve the performance and competitiveness of Australia's energy markets. The review is scheduled to report in early 2003.

The Council made a submission to the review addressing issues in electricity and gas reform (see part A). The submission is available on the Council website (www.ncc.gov.au).

Water

The water reform commitments originated in 1994, when CoAG adopted a strategic framework for the reform of the Australian water industry. That framework was subsequently incorporated into the Agreement to Implement the NCP and Related Reforms in April 1995. The reform framework has since

been amended and enhanced, but its basic objective — to produce an economically viable and ecologically sustainable water industry — remains in place. The framework shares the economic efficiency objectives of the rest of the NCP, through its provisions for water pricing and cross-subsidies, investment in new schemes, trading in water entitlements and institutional reform. It is unique, however, in also having explicit environmental objectives and obligations.

The strategic framework established completion dates for the major reforms (1998 for urban water pricing, the institutional reforms, water trading and allocations for the environment, and 2001 for reform of rural water pricing). CoAG has since extended some of these deadlines. In particular, the timetable for environmental water allocations was extended to 2001 for stressed rivers and 2005 for all river systems and groundwater. The initial timetable was optimistic, underestimating the extent of the reform task and the difficulty of reform implementation.

Governments are introducing the reforms at different rates and in some different ways. Variances in implementation reflect differences in jurisdictions' starting points (in their legislative frameworks for water, for example) and in the health of their river systems; the diversity of administrative and legislative environments across States and Territories; and differences in the interests and strengths of the relevant stakeholder groups.

The urban water reforms include consumption-based pricing of urban water to discourage wasteful use, full cost recovery by water service providers to help ensure appropriate investment in infrastructure, and institutional changes to ensure providers are efficient and accountable for the quality and cost of water and sewerage services. These reforms are almost complete.

The rural water reforms relate primarily to arrangements for using water for irrigated agriculture. They are designed to:

- address damage to river systems and groundwater resources and increased salinity (which have resulted from excessive allocations to irrigators in the past) by ensuring adequate water is available to the environment;
- ensure water infrastructure is efficiently maintained and developed;
- ensure, new dams are economically viable and ecologically sustainable; and
- establish a system of tradable water rights to help ensure water is used where it is most valued.

The main reform challenge remaining is to achieve the environmental objectives associated with water use (particularly in relation to stressed rivers) while meeting the demands of irrigators and urban users. This involves the creation of effective water property rights separate from land

title as a basis for water trading. Particular challenges in establishing water property rights include the need for water users to have certainty of access, the need to ensure sufficient water is allocated for environmental purposes, and the need to consider the impact of changes on users, particularly farmers.

The NCP assessment process for water

In December 2001, senior officials of CoAG endorsed a proposal to prioritise governments' water reform commitments across the 2002–2005 NCP assessments. They agreed that the 2002 assessment should:

- comprise a follow-up on issues outstanding from the 2001 assessment of progress across the entire water reform framework; and
- provide a progress report on developments in areas identified for assessment in 2003 NCP assessment.

As part of the preparation for the 2002 NCP assessment, the Council released a water assessment framework document (NCC 2002) that:

- set out a clear, transparent basis for the assessment;
- identified the information that governments need to provide to demonstrate compliance;
- outlined the scope of the 2002 assessment and issues identified for future assessment, to guide public submissions; and
- provided a basis for early identification and bilateral discussion of reform outcomes that are proving difficult to achieve.

The Council conducted regular and intensive consultation with governments and other stakeholders during the 2002 assessment. The Council's assessment work depends on the availability of adequate information, and governments in general responded constructively to the Council's requests for information. As in previous years, stakeholders made important contributions to the 2002 assessment process. The Council received 17 written submission on a range of water reform issues. Where possible, the Council met with those who provided submissions.

Proper pricing of rural and urban water

Proper pricing is to be achieved through consumption-based pricing (where cost effective); full cost recovery; removing cross-subsidies, or making them transparent; and disclosing water services supplied at less than full cost, ideally paying suppliers for community service obligations.

Price reform in the cities and the major nonmetropolitan urban areas is virtually complete, with the result that most Australians in large urban areas now face water prices that reflect the amount of water they use and that reward conservation. Most larger urban water suppliers now practise, or are implementing, full cost recovery. All are achieving (or seeking to achieve) positive rates of return. Progress towards reform by the smaller, local government-owned water businesses has been slower.

Price reform in rural areas is less advanced. Where possible, irrigators are now being charged for their water use on a volumetric basis. Cross-subsidies between users are being eliminated and the remaining ones are being made transparent. Some jurisdictions are moving more quickly than others towards full cost pricing for rural water, but the situation is complicated by government subsidies to rural water providers. Full implementation of the water reforms depends on the removal (or full transparency) of government subsidies and the efficient management and operation of irrigation schemes.

Investment in new rural water schemes

New schemes and extensions to existing schemes must be economically viable and ecologically sustainable before they may proceed. No large new dams have been commenced since the water reform framework was put in place. The principle has been prominent in deliberations on new schemes and for extensions to existing schemes. It will be a consideration for new dams being contemplated in Queensland and Tasmania.

Institutional role separation

Institutional role separation requires the function of water service provision to be separated from the roles of water resource management, standard setting and regulation. The process of separation clarifies the roles and responsibilities of the institutions, allows them to focus on their core business and minimises the scope for conflicts of interest. All jurisdictions except South Australia and Western Australia now have independent prices oversight of most of the major suppliers. Western Australia has committed to introduce this measure.

Delivery of water services

All metropolitan water businesses now have a more commercial focus. They are involved in an annual benchmarking project that allows their performance to be compared with other service providers (WSAA 2001a). Such comparisons provide an important incentive for businesses to improve their performance. In the rural sector, irrigators have greater involvement in the management of rural water districts.

Allocations of water for the environment

A major focus of the water reform framework is on producing better environmental outcomes. Given the severity of the problems, however, gains from the reforms will take longer to achieve, be expensive initially and be more challenging than the other elements of the reform framework. Further, the knowledge base is still limited, so the nature and extent of the environmental improvements is less predictable than other outcomes from reform. More recently, lower water allocations in some areas because of drought has increased the difficulty of gaining acceptance for environmental reform.

Against this background, one of the most complex and contentious features of the water reform framework is jurisdictions' obligation to legally recognise allocations of water for the environment and to follow through with actual allocations based on the best possible scientific research. Governments have made progress toward satisfying their environmental commitments. Given financial considerations, the still developing science for determining environmental allocations, and the effects of allocations on users' interests, however, progress has been slow and has not always conformed to the timetable established in the reform framework.

The most concrete measure taken so far is the establishment in 1995 of a cap on diversions of water from river systems in the Murray–Darling Basin. Prior to the cap, water consumption had been increasing at almost 8 per cent each year, and could have further increased by an estimated 14 per cent had the then river management rules been allowed to continue. The cap does not prevent new developments in the basin, provided that water for those developments is obtained via improved water use efficiency or purchases from existing developments. More recent initiatives have been the agreement to restore flows along the Snowy River to 28 per cent of its natural regime and the Murray–Darling Basin Ministerial Council's commitment to decide by October 2002 on the recovery of water to increase environmental flows to the River Murray (either 350 gegalitres, 750 gegalitres or 1500 gegalitres). This decision will involve consideration of equity, property rights and water trading issues. During 2002, the Victorian and South Australian Governments agreed to devote \$25 million in total to improving the environmental health of the River Murray. The joint effort by these governments aims to reduce salinity, improve water quality and save water. The objective is to achieve up to 30 gegalitres of environmental flows.

Integrated resource management and water quality

Governments agreed to use an integrated approach to natural resource management including water. They have also agreed to implement a National Water Quality Management Strategy by adopting market-based and regulatory measures dealing with water quality monitoring, catchment management policies, and town wastewater and sewerage disposal. In

November 2000, CoAG endorsed a Commonwealth proposal to develop a National Action Plan for Salinity and Water Quality. This provides for total expenditure of \$1.4 billion to address salinity and water quality problems in 21 priority regions across Australia.

Governments are now taking integrated approaches to natural resource management and, in the process, spending much more on research. The increased focus on research is producing better decisions on water issues and the adoption of innovative solutions. There are some positive developments in water conservation and in the recognition and addressing of environmental problems. In rural areas, the reforms are helping move the focus away from increasing the quantity of water available, towards increasing the efficiency of water use as a means of stimulating development. In urban areas, volumetric pricing is inducing water savings through efficiencies in use, and reduced consumption is lowering the cost of treating wastewater and lowering the environmental damage from water use.

Water entitlements of rural customers

Governments have made progress in legislating water allocations for irrigators. They are also committed to the separation of water title from land title and to the clear specification of title (including a registry system). Nevertheless, the issue of the property right inherent in a water entitlement is receiving increasing attention. Where allocations for the environment reduce supply for consumptive uses, the value of the water right (and, with it, farm values) can be affected, although offsetting impacts would derive from the more certain rights to the water available for rural use.

CoAG (2002) recently reaffirmed the importance of water property rights issues in dealing with the nation's salinity and water quality problems. It has attached a high level of importance to the establishment of an effective and efficient system of property rights for water, and to the need for water users to have certainty of access to water. Governments agreed to report to CoAG by September 2002 on opportunities for, and impediments to, better defining and implementing water property rights regimes (including water trading markets and, where appropriate, the responsibilities of water users). Governments will also report on how they are addressing uncertainties about property rights.

Trading in entitlements

The reform framework provides for trading in water entitlements, including cross-border trading where it is socially, physically and ecologically sustainable.

The volume and value of trade is growing rapidly. Annual volumes were less than 100 gigalitres during the 1980s, but now are around 800 gigalitres. Further growth will arise from the removal of trade constraints imposed by

government regulation and irrigation districts, and the development of better infrastructure for trading, including sophisticated markets, secure title and registry systems. There are also increasing incentives for water trading; drier conditions in some areas and allocations to the environment may reduce the amount available for consumption.

Public consultation and education

The water reforms provide for government agencies and service deliverers to consult on proposals for change and other initiatives, and to conduct public education programs (including programs in schools). This has resulted in more informed communities, customers and other key stakeholders, and consequently improved decisions on water use. Community-based groups, such as regional water management committees and customer consultative councils, are now influential in water matters. Initiatives by governments and water suppliers to encourage conservation in water use are having positive impacts.

Road transport

The NCP road transport reform program is a package of 31 initiatives covering six areas (registration charges for heavy vehicles; transport of dangerous goods; vehicle operations; heavy vehicle registration; driver licensing; and compliance and enforcement). CoAG endorsed 25 of the 31 reforms for implementation under the NCP. These include changes aimed at national uniformity in vehicle registration and driver licensing arrangements. Higher mass limits reform is a notable exclusion from reforms endorsed by CoAG for assessment under the NCP.

New South Wales, Victoria, Queensland, South Australia and Tasmania have implemented all NCP road transport reforms. Western Australia, the ACT, the Northern Territory and the Commonwealth are expected to complete their programs by the end of 2002. Western Australia and the Commonwealth will have nationally consistent heavy vehicle registration processes and requirements operational by 2003.

Legislation review and reform

Governments are reviewing their regulation of many significant activities, including: the professions and occupations; primary industry matters, including agricultural marketing, fishing and forestry; retailing matters such as trading hours and liquor licensing; transport matters, including taxi licensing; workers compensation and third party motor vehicle insurance; and

the regulation of planning, construction and development activity. CoAG asked governments to complete all legislation reviews and implement appropriate reforms by 30 June 2002.

In the 2002 assessment, the Council found some areas of review and reform activity that it considers do not comply with NCP principles. In each of these cases, the Council engaged the relevant governments in discussions to agree on an appropriate means of dealing with the problem area. All governments participated in these discussions in a constructive and cooperative manner. Consequently, most of the problem areas are now the subject of an agreement or a shared understanding on remedial action. This approach of constructive engagement with governments maximises the opportunity for pro-competitive legislative reform in the public interest.

Some governments are more advanced than others in completing their review program and implementing appropriate reform. In particular, while most legislation reviews are completed or under way, the Council found that, in many instances, review recommendations are still to be considered and appropriate reforms put in place. The next NCP assessment, to take place in June 2003, will be the final opportunity for governments to demonstrate that they have met competition policy obligations relating to restrictive legislation.

Professions and occupations

Governments have reviewed the regulation of some 50 professions and occupations, including health professionals and para-professionals, legal practitioners, pharmacists, engineers, surveyors, architects, building and planning certifiers, building and related tradespersons, various agents and dealers and teachers. The review and reform of laws regulating professions and occupations is therefore perhaps the most significant element of the NCP legislation review and reform program.

Individual governments' review and reform of many areas of professional and occupational regulation is now complete.

- New South Wales has completed satisfactory review and reform of legislation regulating a range of professions, including doctors, chiropractors, osteopaths, physiotherapists, psychologists, security guards, motor vehicle dealers, property agents and hawkers.
- Victoria has completed review and implemented reforms to legislation regulating health practitioners, auctioneers, employment agents, driving instructors, motor vehicle dealers and pawnbrokers.
- Queensland has completed satisfactory review and reform of legislation regulating osteopaths, psychologists, commercial agents, driving instructors, motor vehicle dealers, employment agents, hairdressers and hawkers.

- Western Australia has reviewed and implemented reforms to legislation regulating motor vehicle dealers and pawnbrokers. South Australia has reviewed and reformed legislation regulating nurses, auctioneers, conveyancers, hairdressers, second hand motor vehicle dealers, pawnbrokers and land agents.
- Tasmania has reviewed and reformed legislation governing several health professions, hairdressers, commercial and inquiry agents, driving instructors, motor vehicle dealers and pawnbrokers.
- The ACT has completed the review and reform of legislation regulating commercial and inquiry agents, driving instructors, motor vehicle dealers and pawnbrokers.
- The Northern Territory has completed auctioneers, hawkers, commercial and inquiry agents, driving instructors, motor vehicle dealers and pawnbrokers.

Reviews have been completed but reform outcomes are still to be implemented for some important areas, including pharmacy, architects and legal practitioners.

The Council identified potential questions about compliance with competition objectives following some governments' reform activity, including ownership restrictions for dental and optometry practices, the registration of occupational therapists and speech pathologists, and restrictions on advertising by lawyers in relation to personal injury services. The Council will monitor these issues in the 2003 assessment.

National consistency in regulation is a particular issue for the professions. Few pieces of legislation have however been reviewed on a national basis. Consequently, regulation of the professions has generally been considered on a State-by-State basis, which has tended to reduce national consistency in regulation. Mutual recognition legislation (which has also been reviewed under NCP) ameliorates problems in inconsistent regulation of the professions. In addition, the Council's assessment work looks for individual jurisdictional reviews to have considered arrangements in other jurisdictions.

Primary industry matters

Governments have had a long history of involvement in the marketing of agricultural products, particularly via Commonwealth Government underwriting of export receipts and domestic price setting. Some arrangements were phased out in the 1970s and 1980s following evidence that they contribute to production inefficiencies and impose significant costs on taxpayers and domestic consumers. Nonetheless, when governments began to review their legislation under the NCP program, there were statutory marketing authorities ('single desks') for many agricultural products,

including wheat, coarse grains and oilseeds, dairy, horticulture, rice, potatoes, eggs, poultry meat and sugar.

The relevant NCP feature of most single desks is the monopoly (a domestic sales monopoly, an export sales monopoly) they hold on selling an agricultural product grown within their jurisdiction. A single desk with a domestic sales monopoly usually has rights to acquire produce from farmers to prevent them selling their produce interstate. It generally pays farmers the average price it receives less its marketing and transport costs. It also usually determines such matters as crop varieties planted and quality grades. Single desks thus require individual farmers to give up a considerable degree of choice in how they operate their business, what they produce and how they market their production.

There has been considerable change to single desk arrangements under the NCP. All governments repealed arrangements controlling the pricing and supply of drinking milk from 30 June 2000, following the national agreement on dairy industry deregulation supported by a financial adjustment assistance package. Queensland removed supply and marketing restrictions for eggs in 1998 and ended its export marketing monopoly for wheat and barley on 30 June 2002. Victoria deregulated its barley marketing arrangements from July 2001. Industry-wide poultry meat pricing and supply arrangements have been replaced in several jurisdictions by arrangements providing for growers to negotiate collectively with individual processors under either authorisation by the Australian Competition and Consumer Commission (ACCC) or specific regulation.

The Commonwealth reviewed its what marketing arrangements but has not implemented review recommendations to partly liberalise restrictions on exports. The Commonwealth has also said that the next review scheduled for 2004 will not apply NCP principles. The Commonwealth's response does not satisfactorily address its NCP obligations. Moreover, some State reviews and government responses have drawn a link between the reform of State marketing arrangements and the Commonwealth's approach to regulating wheat marketing, which has meant that some State reforms have not proceeded.

Governments are using the NCP program to evaluate the merits of legislative restrictions on agriculture-related matters, including agricultural and veterinary chemicals, bulk handling and storage, food standards, quarantine arrangements and veterinary services. They are also using the NCP program to consider how best to improve the efficiency of activities such as mining, fishing and forestry, and in the case of forestry and fishing, how best to achieve the sustainable development of the resource.

While the review and reform of legislation that restricts competition is the major NCP obligation relevant to primary industries, governments also face other obligations for some primary industries. Governments' operation of forestry businesses means that the application of competitive neutrality principles is important in that sector. The structural reform obligation is relevant where governments privatise former publicly owned bodies.

Retail and related matters

Governments have considered a number of restrictive regulations relating to business conduct (including restrictions on the ability of businesses to enter new markets) under the NCP.

- Prescribed shop trading hours prevent sellers from trading at the times they consider appropriate. Trading hours arrangements also discriminate among sellers on the basis of location, size or product sold. Most governments have now deregulated trading hours arrangements, either by removing restrictions from relevant legislation or by providing broad exemptions from existing legislative restrictions. Significant restrictions now remain only in Western Australia and South Australia.
- Liquor licensing laws frequently preclude entry by responsible sellers and favour some sellers at the expense of others. In some jurisdictions, new entry is frustrated because incumbents are able to claim that they already provide an adequate service to the local area. Liquor licensing legislation was still under review in several jurisdictions at the time of the 2002 assessment.
- Legislation governing petrol retailing restricts entry and reduces the ability of sellers to raise and lower prices.
- Fair trading and consumer protection legislation regulates aspects of business conduct, including advertising, dealings with customers and information provision. Fair trading restrictions are in the public interest where they reflect provisions of the *Trade Practices Act 1974*.

Transport (including taxis and hire cars)

Review and reform of transport regulation forms a significant proportion of governments' review and reform activity. The regulation of road transport, rail (mainly rail safety), sea transport (and port regulation) and air transport and related services has been tackled under the NCP.

All governments are reviewing taxi and hire car licensing. The major competition issue is the strict regulation of licence numbers, which restricts the supply of taxi and hire car services. There has been limited (in some jurisdictions zero) release of new licences in recent years. The evidence from NCP reviews of taxi licensing indicates that these supply restrictions are not in the public interest.

Governments have begun to tackle supply restrictions. The Northern Territory removed supply restrictions in 1999, but subsequently imposed (in November 2001) a 12-month cap on licence numbers. Victoria has proposed a reform package, which will gradually increase the number of available taxis.

Other governments are examining and or implementing limited releases of new licences and/or removal of restrictions on hire car licensing.

Compulsory insurance

Governments have considered under the NCP their approaches to regulating compulsory insurance activity, including arrangements for workers compensation, third party motor vehicle and professional indemnity insurance. The major NCP question is the means of provision of these types of insurance: either statutory monopoly underwriting by a government-owned body, or competitive provision via private underwriters.

The insurance industry has experienced substantial change in recent times, with sharply increased premiums in particular insurance markets, concerns about insurers' willingness to supply some products to certain classes of customer, major catastrophes and cyclical factors increasing the cost of reinsurance, and the collapse of some major insurance companies. Premium costs are a particular issue in public liability and professional indemnity insurance. Commonwealth, State and Territory governments have been discussing major changes to the regulatory environment in these two areas of insurance to rein in claims costs and increase certainty for insurance companies. They are aiming to ensure insurance is available at premiums that are not greatly more expensive than previous rates. These changes will have ramifications for the entire insurance sector, including insurance provided by statutory monopolies. The changes are also impinging on related activities such as personal injury services provided by the legal profession.

The Council believes that jurisdictions' consideration of the appropriate means of regulating insurance would be assisted if governments were to undertake a comprehensive national review of the economics of insurance markets and the regulation of the various insurance activities. The Council considers such a review would assist understanding of the links between insurance markets and of the reasons for the recent premium increases, and would also help assessment of the effects of reforming tort law. Such an inquiry would further enable all jurisdictions to contribute to a better understanding of the merits of monopoly and private provision of workers compensation, third party motor vehicle and professional indemnity insurance.

Communications infrastructure

The Commonwealth Government is responsible for legislation governing this large and rapidly changing sector of the economy, which includes telecommunications, broadcasting, radiocommunications and postal services. The Government commissioned reviews by the Productivity Commission in the first three areas, and by the Council in the last. Some of the reform issues are complex, and reform progress has been limited to date.

- The Government released the Productivity Commission's report on telecommunications regulation in December 2001 and announced its initial response to the report in April 2002. It announced that it intends to retain the telecommunications-specific regulatory regime, remove the capacity of Telstra to appeal to the Australian Competition Tribunal on the ACCC's access arbitration decisions (the Government believes that this will encourage new entrants to the industry), and implement an accounting separation of Telstra's wholesale and retail operations to increase transparency.
- The Productivity Commission's broadcasting report was released in April 2000. The Government will consider the issue of the management of broadcasting and telecommunications spectrum in the review of the Australian Broadcasting Authority and the Australian Communications Authority, which it announced in August 2002.
- The *Radiocommunications Act 1992* is concerned with radiofrequency spectrum. The Productivity Commission's draft report recommended greater use of market mechanisms for allocating radio spectrum. The Productivity Commission forwarded its final report to the Government on 1 July 2002.
- The Government introduced a Bill in the autumn session 2000 to reduce Australia Post's mail monopoly to smaller items (from 250 grams and four times the standard letter rate to 50 grams and one times the standard letter rate), remove incoming international mail from the monopoly and allow third party access to Australia Post's network services. The Government withdrew the Bill in March 2001.

Planning, construction and development

All State and Territory governments (except Western Australia) have completed reviews of their planning legislation and are implementing reforms to streamline planning processes, allow for greater community involvement and minimise opportunities for existing businesses to inappropriately prevent or delay participation by new competitors.

NCP reviews of legislation in the building area have encouraged adoption of the Building Code of Australia (with regional variations) and evidence suggests that this has reduced building sector costs. Also, private building certifiers are now able to provide building approvals in all jurisdictions except Tasmania³ and Western Australia. Private certification has led to the establishment of competitive markets for these services, with the private

³ Tasmania has passed new building legislation which includes provisions for private certification which is expected to operate from 1 January 2003)

sector now accounting for a large proportion of total inspection/approval activity.

State and Territory governments are well advanced on reviewing and reforming legislation relating to a wide range of building occupations including architects, surveyors, valuers, builders, electricians and plumbers.

Education services

State and Territory education legislation requires registration of nongovernment education/training providers and accreditation of their courses. Nongovernment providers must meet requirements specifying the nature and content of the instruction offered, ensure students receive education of a satisfactory standard and provide protection for the safety, health and welfare of students. Training providers may also be required to demonstrate their financial viability. Most State and Territory governments have completed reviews of their education legislation and have generally found these legislative restrictions on competition to be in the public interest. Competitive neutrality questions are also growing in significance as public educational institutions increasingly seek to supplement government funding through commercial activity.

Child care

Child care legislation usually requires licensing of child care businesses, and establishes health and safety and staff/child ratio requirements. Review and reform activity has sought to remove unnecessary prescription from legislation while ensuring that appropriate standards of child care are in place. Competitive neutrality questions have sometimes arisen when government child care businesses compete with private providers. The Commonwealth, Victoria, South Australia, Tasmania and the ACT have completed their consideration of legislation regulating child care. Other jurisdictions are likely to complete review and reform during 2002.

Gambling

Gambling legislation restricts competition through exclusivity arrangements, licensing provisions, and specifying rules of conduct and rules governing activities. Many of these restrictions are aimed at ensuring probity and integrity of the gaming products and providers, and at minimising harm from gambling. While many of these measures comply with competition obligations, some address probity, harm minimisation and consumer protection objectives only indirectly: they appear to be focused more toward outcomes such as the protection of taxation revenue from gambling, regional development and industry protection. Competition obligations mean that

governments need to show these restrictions are in the public interest. The Productivity Commission's inquiry into social and economic issues related to gambling regulation commissioned by the Commonwealth is informing policy considerations by Australian governments.

Governments have completed a significant proportion of their scheduled reviews of gambling legislation. All jurisdictions have some remaining matters, however. These include reviews that are still to be completed, review recommendations that are still to be considered, and approaches to regulation for which compliance with competition principles still needs to be demonstrated.

National reviews

Where a review raises issues with a national dimension or effect on competition (or both), the Competition Principles Agreement provides that the government responsible for the review will consider whether the review should be undertaken on a national (interjurisdictional) basis. There are currently 12 national reviews, encompassing some significant areas of regulation. Nine reviews have been completed, with the remaining three in progress. In several cases, however, governments are still to complete the implementation of reforms recommended by the national reviews.

Delays in completing national review and reform activity often arise as a result of drawn-out interjurisdictional consultation. Further, sometimes State and Territory reform activity is delayed by having to wait for the conclusion of the national process. The Council accepts there is benefit in thorough investigation of relevant issues and adequate interjurisdictional consultation. Moreover, the national focus has improved the consistency of regulation among jurisdictions. Difficulties may arise, however, if the current processes are not concluded within a reasonable period to enable reform of State and Territory legislation to proceed.

Reform activity in relation to five national reviews is substantially complete. First, the review of the Mutual Recognition Agreement found the scheme is working well. It made 30 recommendations, which jurisdictions substantially support. Second, the review of food regulation led to the development of model food legislation, which has now been adopted in most jurisdictions and will be introduced in the remaining jurisdictions in 2002. Lastly, governments have agreed to firm transitional arrangements for completing the reform of radiation protection legislation, architects regulation and petroleum (submerged lands) legislation.

Reform of government businesses

Governments have reformed their business activities under the NCP via the application of competitive neutrality principles, the structural reform of public monopolies and monopoly prices oversight arrangements. Significant publicly owned businesses in all jurisdictions apply competitive neutrality principles. Each government also has a mechanism for investigating complaints that their businesses (and those of local governments within their jurisdiction) are not implementing appropriate competitive neutrality arrangements. These bodies receive few complaints about competitive neutrality implementation.

Governments are continuing to address business structure issues. Victoria released a policy statement on forests in which it undertook to establish a new commercial entity (VicForests) applying competitive neutrality principles, including the identification and direct funding of community service obligations and market-based sawlog pricing and allocation. Western Australia is considering a consultant's review of competitive neutrality in native forest timber operations. Queensland is establishing a new statutory authority to undertake the regulatory functions currently administered by WorkCover Queensland, to enable WorkCover Queensland to more effectively apply competitive neutrality principles.

Some significant government business activities do not apply competitive neutrality principles, however. Some businesses (such as universities), while government owned, are not subject to direction by government; the NCP obligation in these cases is for governments provide a statement of competitive neutrality obligations to the business to encourage application of the principles. Western Australia does not require its health businesses to apply competitive neutrality principles, which is consistent with the NCP to the extent that the costs of implementation outweigh the benefits. The Productivity Commission's monitoring of the financial performance of a range of Commonwealth, State and Territory government trading enterprises revealed that some businesses are not earning commercial rates of return. This monitoring work also raised questions about the costing, funding and transparency of arrangements for delivering community service obligations and those for estimating debt guarantee fees.

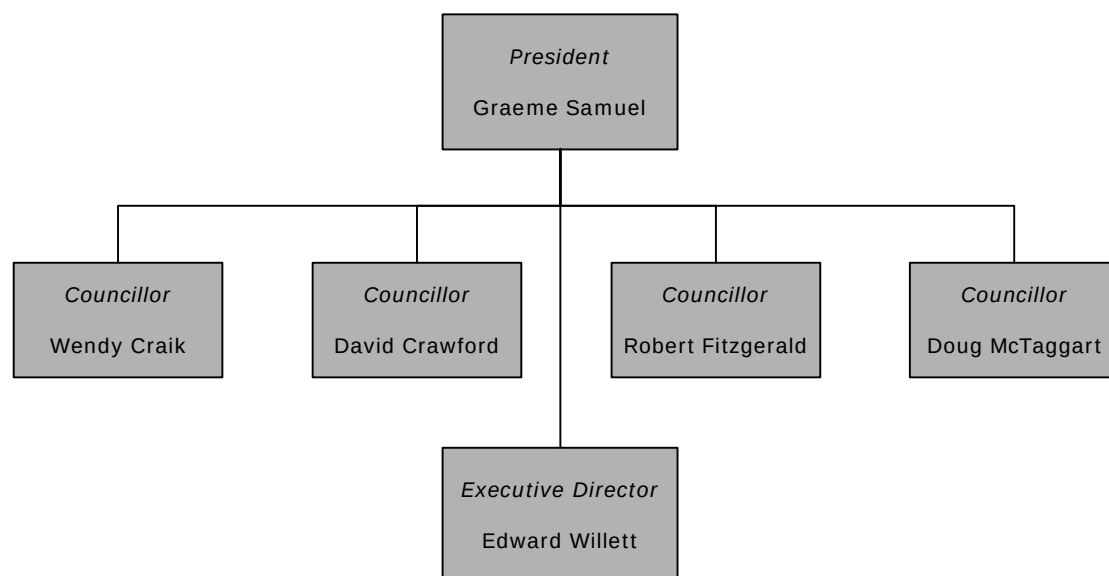
C1 Organisation

The National Competition Council is an independent advisory body for all Australian governments involved in implementing the National Competition Policy (NCP). The Commonwealth Government funds the Council and its secretariat through budget appropriations.

Structure

The Council comprises five part-time councillors (including a president) and a secretariat of 20 staff, and is located in Melbourne. The structure of the Council at 30 June 2002 is illustrated in figure C1.1.

Figure C1.1: National Competition Council organisation chart



The Council

Councillors

The Councillors are drawn from various parts of Australia and different industry sectors to provide a range of skills and experience. They are

appointed for a three-year term by the Commonwealth, State and Territory governments. The current Councillors are Graeme Samuel (President), Wendy Craik, David Crawford, Robert Fitzgerald and Doug McTaggart.

Graeme Samuel

Graeme Samuel is a company director. He was a co-founder of Grant Samuel & Associates, corporate advisers. From 1981 to 1986 he was executive director of Macquarie Bank, in charge of its Victorian operations, and a director of its Corporate Services Division.

His career as a banker was preceded by 12 years as a partner of leading Melbourne law firm Phillips Fox & Masel. He was the co-author of a text on the Securities Industry Code and has published numerous papers and journal articles on business affairs.

Graeme Samuel holds several other offices, including Chair of the Melbourne & Olympic Parks Trust, Commissioner of the Australian Football League, Member of the Docklands Authority and Director of Thakral Holdings Limited. He was formerly a trustee of the Melbourne Cricket Ground Trust (1992–98), president of the Australian Chamber of Commerce and Industry (1995–97) and chair of the Inner and Eastern Health Care Network.

Graeme Samuel attended Wesley College, Melbourne, and subsequently obtained a Bachelor of Laws from Melbourne University and a Master of Laws from Monash University. He was awarded the Law Institute of Victoria Solicitor's Prize in 1971, and appointed an Officer of the Order of Australia (AO) in 1998.

David Crawford

David Crawford is a company director. He is Chair of Westralia Airports Corporation, Export Grains Centre Ltd and Supersoftware (International), and a Director of Grain Biotech Australia. He is a Member of Transfield (Western Australia Advisory Board) and Chair of the Curtin University Graduate School of Business (Board of Advisors).

David Crawford was chief operating officer of Ranger Minerals NL between 1997 and 1998, following seven years with Wesfarmers, initially as managing director, Western Collieries and ultimately as executive director, Corporate Affairs, Wesfarmers.

Previously, he spent twelve years with CSR, including five years as an economist, and seven years with Western Collieries, where he held several senior management positions. His previous committee memberships include the Australia India Business Council, the Environmental Protection Authority Advisory Board, the Pacific Basin Economic Council, the Chamber

of Mines and Energy Executive Council, the Western Australia Coal Industry Council and the Australian Pacific Economic Cooperation Committee.

David Crawford has a Bachelor of Economics (Honours) from the University of Queensland and a Master of Arts (Political Science) from the University of Toronto.

Robert Fitzgerald

Robert Fitzgerald practised as a commercial and corporate solicitor for 20 years with the legal firms of C R Fieldhouse and Clayton Utz and as principal of his own commercial legal practice. He was also a senior management consultant with Horwath (New South Wales) Accountants, specialising in licensing and franchising.

Robert Fitzgerald holds the appointment of Commissioner of Community Services in New South Wales. He was the associate commissioner on the Productivity Commission's inquiry into Australia's gambling industries in 1999. His previous community positions include national president of the Australian Council of Social Services (1993–97), commissioner with the New South Wales Catholic Commission on Employment Relations, State president of the St Vincent de Paul Society (New South Wales) (1989–94) and chair of JOB Futures (a national network of community-based employment services organisations).

He has also held appointments as chair of the Franchise Code Administration Council, chair of the Commonwealth Franchising Task Force, member of the Advisory Council to the Law Foundation of New South Wales, member of the Special Policy Advisory Group to the Minister for Social Security and chair of the Ministerial Task Force on Community Services (New South Wales).

Robert Fitzgerald holds degrees in law and commerce from the University of New South Wales. He was appointed a Member of the Order of Australia (AM) in 1994.

Wendy Craik

Wendy Craik is the Chair of the Australian Fisheries Management Authority, a Council Member of the Australian Institute of Marine Science and a Board Member of the Cooperative Research Centres for Coastal Resources, the Great Barrier Reef Research Foundation and the Foundation for Rural and Regional Renewal.

Between 1995 and 2000, Dr Craik was the executive director of the National Farmers Federation. She was also the chief executive officer of Earth Sanctuaries Limited, a publicly listed company specialising in wildlife and

ecotourism. She has previously been the executive officer of the Great Barrier Reef Marine Park Authority and a member of the Australian Landcare Council, the CSIRO Land and Water Sector Advisory Committee, the Australian Information Economy Advisory Council and the Institute of Land and Food Resources (Melbourne University).

Dr Craik holds a Bachelor of Science (Honours) from the Australian National University, a PhD in Zoology from the University of British Columbia and a Graduate Diploma of Management from the Capricornia Institute of Advanced Education.

Doug McTaggart

Doug McTaggart is the Chief Executive Officer of the Queensland Investment Corporation. Between 1996 and 1998, he was the Under Treasurer and Under Secretary of the Queensland Department of Treasury, a director of the Queensland Office of Financial Supervision, a director of the Queensland Treasury Corporation and the chair of the QSuper Board of Trustees.

Between 1983 and 1996, Dr McTaggart held various academic positions as an economist. He is currently a Director of the Investment and Financial Services Association, and Deputy Chancellor and Council Member of the Queensland University of Technology. Until recently, he was a member of the Australian Accounting Standards Board and president of the Economic Society, Australia.

Dr McTaggart holds a Bachelor of Economics (Honours) from the Australian National University, and a PhD from the University of Chicago.

Council meetings

Table C1.1 lists the meetings of the Council held during 2001-02. While the Council generally meets on a monthly basis, its workload sometimes requires more frequent meetings. During 2001-02, the Council met on 12 occasions. It held the meetings in Melbourne and made use of teleconference facilities to ensure the maximum number of Councillors possible were involved in the discussions. In addition to the formal Council meetings, a number of teleconferences were held to finalise out-of-session matters. The Audit Committee of the Council also met during the year.

Table C1.1: National Competition Council meetings, 2001-02

31 July 2001	27 November 2001	19 March 2002
28 August 2001	18 December 2001	23 April 2002
25 September 2001	22 January 2002	28 May 2002
30 October 2001	19 February 2002	25 June 2002

The secretariat

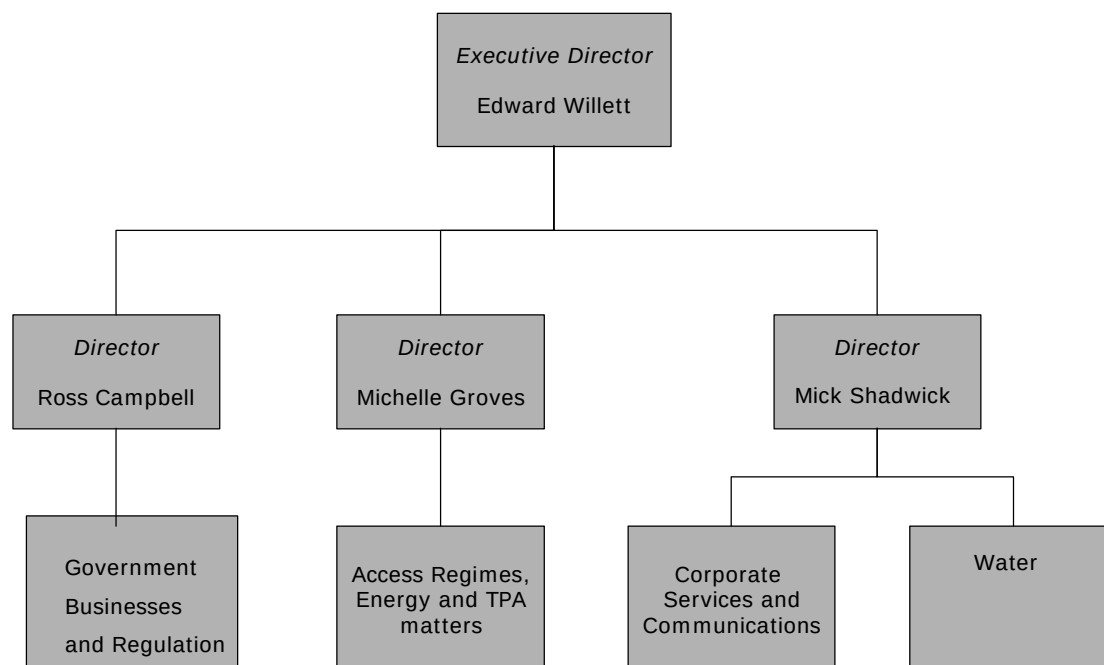
The Council is supported by a secretariat (figure C1.2) located in Melbourne. The secretariat provides advice and analysis at the Council's direction on matters related to the implementation of the NCP. It represents the Council in dealings with Commonwealth, State and Territory government officials and other parties with interests in NCP matters.

During 2001-02, the Council secretariat was involved in several intergovernmental committees dealing with competition issues, including the Gas Policy Forum, the National Gas Pipelines Advisory Committee, the Competitive Neutrality Roundtable Committee and the Council of Australian Governments senior officials meetings.

Secretariat staff also present conference papers on issues related to their work program and produce publications (including staff discussion papers), which are available on the Council's website (<http://www.ncc.gov.au>).

The Council supports the secretariat's consultative approach in discussing competition matters with officials from Commonwealth, State and Territory governments and with representatives from interest groups.

Figure C1.2: National Competition Council secretariat organisation chart



Overview of staffing developments

The number of secretariat staff employed by the Council in 2001-02 remained around 20, fluctuating slightly during the year. At 30 June 2002, the staff

comprised the Executive Director, three directors, 10 research/policy officers, a Corporate Services Manager, three administrative staff and a communications officer.

The Council is a small organisation that covers a diverse range of issues and has always drawn on the expertise of people in other organisations. As well as engaging consultants (who are sometimes under contract to work within the Council offices) the Council has seconded officers from other government and private organisations to work on specific projects.

The majority of secretariat staff are employed under the *Public Service Act 1999*. During 2001-02, staff were covered by a Certified Agreement that governed their conditions of employment. A new agreement was successfully negotiated between management and staff, and was implemented during September 2001. Four officers have been employed under Australian Workplace Agreements and three have been employed on contracts. The Council has one inoperative staff member who was involved in a road traffic accident on 18 January 2001. Information on staff profiles is provided in tables C1.2 and C1.3.

Table C1.2: Staff profile, 30 June 2002

<i>Level</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
Senior Executive Service Band 2 & Australian Workplace Agreement	0	1	1
Senior Executive Service Band 1 & Australian Workplace Agreement	1	2	3
Executive Level 2	5	6	11
Executive Level 1	1	0	1
Administrative Service Officer Grade 6	1	1	2
Administrative Service Officer Grade 5	0	0	0
Administrative Service Officer Grade 4	2	0	2
Administrative Service Officer Grade 3	0	0	0
Administrative Service Officer Grade 2	0	0	0
Administrative Service Officer Grade 1	0	0	0
Total	10	10	20

Table C1.3: Staff by employment status, 30 June 2002

<i>Level</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
Full-time permanent	8	9	17
Full-time temporary	0	0	0
Part-time staff	2	1	3
Total	10	10	20

Senior Executive Service (SES) information

The Executive Director position is at the SES2 level and the three director positions are at the SES1 level.

Consultants

The Council used the services of consultants in 2001-02 where it was considered efficient and cost-effective to do so. Table C1.4 lists the number and value of consultancies engaged. Some projects are ongoing, so the total cost will not be paid until 2002-03.

Table C1.4: Summary of consultants engaged, 2001-02

<i>Purpose</i>	<i>Contract amount (\$)</i>
Legal advice	57 335
Litigation	264 717
Economic advice	220 292
Communications and corporate services	110 473
Information technology	37 660
Total	690 477

C2 Functions

Agency overview

The role of the National Competition Council is to oversee and assist the implementation of the National Competition Policy (NCP) and related reforms outlined in frameworks developed and agreed on by all Australian Governments. The Council's responsibilities include assisting public awareness of competition reform agendas, recommending on the design and coverage of infrastructure access regimes under part IIIA of the *Trade Practices Act 1974* and assessing whether States and Territories have made satisfactory progress towards NCP reform.

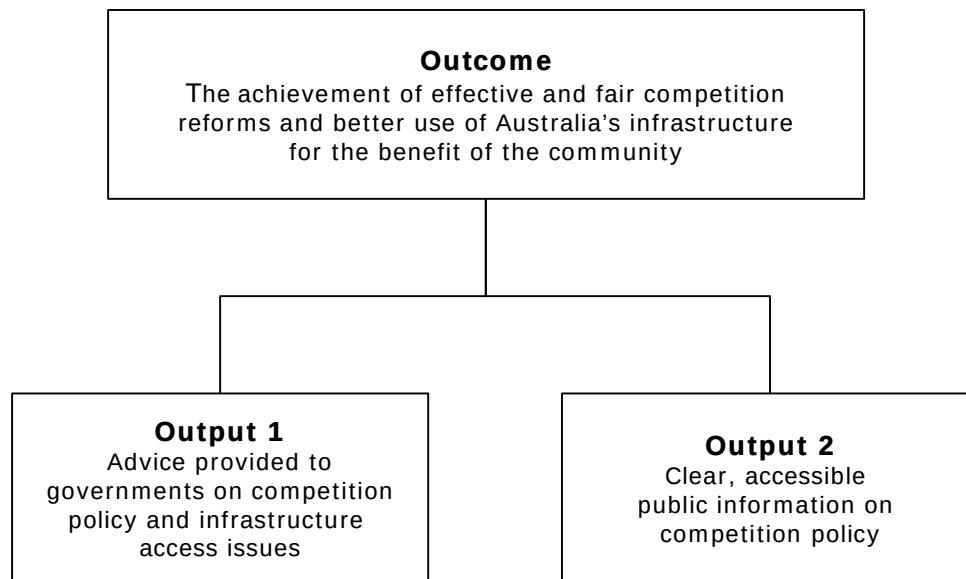
The Council vision is that it will work, through constructive engagement with governments, towards completing the reform program envisaged in April 1995. The Council's second broad goal is to help the community to become better attuned to the scope and potential outcomes of competition reform. This approach will enable increased competition to be introduced where it will result in greater economic growth, less unemployment, better social outcomes and the better use of resources for all Australians.

The above vision is embodied in the Council's mission: 'To help raise the living standards of the Australian community by ensuring conditions for competition prevail throughout the economy that promote growth, innovation and productivity'.

Agreed outcome and outputs

The Council's planned outcome and outputs, developed and agreed on through the budget process, are represented in figure C2.1. The planned outcome relates to the high-level Commonwealth Government outcome of 'Well functioning markets', which is part of the overall Commonwealth Government outcome of 'Strong, sustainable economic growth and the improved wellbeing of Australians'.

Figure C2.1: National Competition Council's planned outcomes and contributing outputs



Specific functions

The Council has statutory responsibilities under both the Trade Practices Act and the *Prices Surveillance Act 1983* to make recommendations to relevant governments on:

- the design and coverage of infrastructure access regimes; and
- whether State and Territory government businesses should be subject to prices surveillance by the Australian Competition and Consumer Commission.

Apart from these statutory responsibilities, the three NCP agreements establish the following roles for the Council:

- advice on the progress made against the Competition Policy Agreements;
- other advice on competition policy as agreed on by a majority of the stakeholder governments; and
- advice to the Commonwealth Government when considering overriding State or Territory exceptions from the Trade Practices Act.

The Council also has an implied function of generally supporting NCP processes and appropriate reform, as reflected in the Council's mission statement and goals (box C2.1 and box C2.2).

The Council delivers its various functions and responsibilities through its work program areas. Parts A and B contain more information about the Council's statutory and other responsibilities, and the Council's actions in relation to these responsibilities during 2001-02 (box C2.3).

Box C2.1: National Competition Council's mission statement

To improve the well being of all Australians through growth, innovation and rising productivity, by promoting competition that is in the public interest.

Box C2.2: National Competition Council's goals

- | |
|---|
| <ul style="list-style-type: none">• To facilitate timely implementation of effective and fair competition reforms by governments• To promote better use of Australia's resources• To build community awareness, understanding and support for Australia's NCP• To ensure the Council is a dynamic organisation, capable of providing a safe, healthy and professional work environment for its staff and developing their full potential |
|---|

Box C2.3: National Competition Council's work program

- | |
|---|
| <ul style="list-style-type: none">• Facilitation and assessment of governments' progress in implementing NCP and related reforms• Recommendations to governments on access to infrastructure• Ongoing improvement of the Council's operational standards in leadership, strategic direction, information systems support services, resource allocation and staff development• Building of community awareness and understanding of, and support for, the NCP |
|---|

C3 Management

Staff development and management

Training

Excluding the salary costs of National Competition Council staff undertaking training, a total of \$33 927 (representing approximately 2 per cent of the secretariat's salary costs) was devoted to staff training and development for 2001-02. All secretariat staff received some training during the year.

All staff received in-house training in: occupational health and safety regarding staff workstations and posture; strategic planning; database management; and computer skills. In addition, secretariat staff spent approximately 7 days in other training programs. Various staff participated in training programs in areas such as financial management, skill development, professional development, and strategic development. In addition, secretariat staff attended approximately 16 conferences on issues associated with competition policy and its implementation. One officer received assistance to undertake further tertiary education.

Industrial democracy

Industrial democracy plan

The Council's *Industrial Democracy Plan* was the basis of its industrial democracy practices during the year. The plan was reviewed in 2001-02 to ensure it continues to meet the needs of the Council and its staff. The Council's Executive Director has formal responsibility for the implementation of industrial democracy principles and practices.

Consultative mechanisms

The secretariat executive, which includes the Executive Director and the three directors, meets weekly. Minutes of this meeting are circulated to all

staff, who also meet weekly to review the work priorities and discuss other management issues and the secretariat's work program.

These staff meetings are the principal means of informing secretariat staff of management decisions and inviting staff consideration of issues facing the organisation. Proposed changes to research priorities, staffing arrangements, accommodation, office policies, information technology issues and training are discussed at these regular meetings. During 2001-02, most staff participated in decision-making regarding information technology requirements (including training), planning, and the roles and responsibilities of the staff and the executive. Section meetings were also conducted during the year.

Occupational health and safety

During 2001-02, the Council undertook or continued the following initiatives to ensure the health and safety of its staff and contractors:

- participation in occupational health and safety training;
- the operation of an occupational health and safety committee, which reports to the weekly staff meeting;
- encouragement of staff participation in lunchtime and after-hours exercise programs;
- eyesight testing for screen-based equipment users;
- the offer of the Health Futures program to all staff;
- the offer of flu vaccinations to all staff;
- the re-appointment of fire wardens and fire safety training;
- the re-appointment of a trained first aid officer;
- advice on ergonomic furniture use and posture, including an individual workplace assessment; and
- the purchase of ergonomic equipment based on the recommendations of the assessment.

The Council received one accident/incident report during 2001-02. No notices were lodged and no directions were given to the Council under ss 30, 45, 46 or 47 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991* during the year.

The Audit Committee requested an audit of compliance with the occupational health and safety agreement. Conducted in October 2001, the audit found the Council was compliant with the agreement. Four recommendations for further improvement were noted and all issues have now been addressed.

Outsourcing (corporate services)

During 2001-02 the Council outsourced or market tested the following corporate services functions:

- accounting and finance (the AIMS interface, reporting, the accounting package, account processing and monthly reconciliations);
- the editing and printing of Council publications;
- payroll and human resource management (payroll processing, maintenance of personnel files, and advice on industrial relations and personnel matters);
- the website restructure;
- library services and information;
- the maintenance of databases;
- property management; and
- internal office maintenance.

Certified Agreement 2001–03

The National Competition Council Certified Agreement 2001–03 was prepared in accordance with the *Workplace Relations Act 1996* (s. 170LK) and certified by the Australian Industrial Relations Commission on 4 September 2001. Operating for the period to 1 August 2003, the agreement sets out the terms and conditions of employment for secretariat staff below the SES level. It establishes the secretariat's salary structure and arrangements for performance development, including performance-based advancement through a broadband classification structure. The agreement also sets out the arrangements for a family-friendly and flexible workplace, including provisions for part-time work and home-based work. The agreement includes redeployment and redundancy provisions. It also provides for each member of staff to negotiate an Australian Workplace Agreement.

Finance and accounting

Treasury is contracted to provide financial services to the Council. It processed the Council's accounts during 2001-02 using the SAP (R3.1) package accounting software. As a Government body, the Council is required by the Department of Finance and Administration to reconcile its GST components on a monthly basis.

Corporate governance

A series of policies and procedures were reviewed during 2001-02, including delegations. Each staff member is issued with a *Policy Manual* and a separate *Procedures Manual* that detail the basic corporate governance matters of the Council. These documents detail issues such as Government values and what is expected of Commonwealth employees.

The Council's Audit Committee played a key role in improving the Council's financial reporting by oversighting the financial reporting processes, audit functions, risk management and internal controls. The Committee met during the year to approve policies and the year-end financial statements.

Contracts

During 2001-02, contracts were renegotiated for the use of hire vehicles, air travel, personnel and accounting services. Following the demise of Ansett, new contract negotiations were taken up with Qantas.

Equity matters

Social justice

Within its work program, the Council addresses social justice issues in three main contexts. First, in conducting its functions in relation to the national access regime, the Council must consider public interest issues. Matters that the Council may consider include:

- policies concerning occupational health and safety, industrial relations, access to justice and other government services, and equity in the treatment of different persons;
- economic and regional development, including employment and investment growth; and
- the interests of consumers generally or a class of consumers.

Second, in assessing jurisdictions' progress in implementing the National Competition Policy (NCP) reforms, the Council must consider the extent to which governments have undertaken reform processes. The NCP agreements allow governments to account for all of the costs and benefits of reform options, including social, environmental and economic considerations. The agreements recognise that social justice considerations can warrant restrictions on competition, although the Council also calls for an

examination of whether governments can meet social justice objectives in ways that do not restrict competition. At the same time, the NCP agreements recognise that many restrictions, by advantaging specific groups at a cost to the broader community, promote neither social justice nor economic efficiency.

Third, where it conducts reviews under the NCP principles, the Council is also required to consider social justice issues. The Council's focus is on maintaining (even strengthening) an organisation's social responsibilities, while maximising the benefits from competition.

Application of the Commonwealth disability strategy

The Commonwealth disability strategy recognises that many Commonwealth programs, services and facilities have an impact on the lives of people with disabilities. The strategy is about enabling full participation of people with disabilities. It obliges Commonwealth organisations to remove barriers that prevent people with disabilities from having access to these programs, services and facilities.

The Council's policy recommendations are designed to affect all Australians because they have a positive economic benefit. The Council's strategies are to increase the wellbeing of the community by promoting competition policies and reforms.

Individual recommendations are at the broadest level, so the impact on sections of the community is not necessarily specific. This approach entails viewing people with disabilities in the wider context and the design of the Council's policies does not discriminate against any group within the community. The performance criterion for the year was met, because the Council's policies did not isolate that part of the community with disabilities.

The Council's consultation process also does not discriminate against any group within the community, satisfying the performance criterion in 2001-02. Similarly, the Council's recruitment policy does not discriminate against race, disability, colour, sex or religion, or on any other grounds. Recruitment information is available through electronic and hard copy formats.

The Council has developed its workplace, including the office access and workstations, with the aim of reducing barriers to access by people with disabilities.

Workplace diversity

The Council continues to apply its Workplace Diversity Plan. All recruitment conducted during 2001-02 included a selection criterion relating to an

understanding of the principles and practical effects of workplace diversity policies. Selection panels included at least one male and one female, and were recorded by a professional scribe. At 30 June 2002, 10 secretariat staff identified themselves as members of an equal employment opportunity group (see table C3.1).

Table C3.1: Staff by equal employment opportunity (EEO) group, 30 June 2002

<i>Level</i>	<i>Female</i>	<i>NESB 1^a</i>	<i>NESB 2^a</i>	<i>A&TSI^b</i>	<i>Persons with disabilities</i>
Senior Executive Service	1				
Senior Officer Executive Levels 1–2	6		1		
Administrative Service Officer Grades 1–6	3				
Total	10	0	1	0	0

a Non-English speaking background (first and second generation). **b** Aboriginal and Torres Strait Islanders.

Source: Internal survey (response to this survey was optional).

The Council has identified and trained contact officers for both workplace diversity and sexual harassment issues, and distributed information on a harassment-free workplace to staff. No workplace harassment was reported during 2001-02.

Internal and external scrutiny

During 2001-02, the Council:

- tested the market for certain corporate service functions;
- was not involved in any cases of fraud; and
- induced no comments by the Ombudsman or decisions by the administrative tribunals on matters involving the Council.

Under both part IIIA of the Trade Practices Act and the national gas access code, the Australian Competition Tribunal reviews decisions made by the designated Commonwealth Minister or State Premier. The Minister's or Premier's decisions are made in response to a recommendation from the Council.

In February 2002, Freight Australia applied to the Australian Competition Tribunal for a review of the decision of the Parliamentary Secretary to the Treasurer to not declare the rail network services of the Victorian intrastate network.

The Council is also subject to external scrutiny through its published recommendations to all governments on matters relating to access

determinations and competition reforms, external publications and other work that may be placed on the work program.

In accordance with the Council of Australian Governments (CoAG) agreement of November 2000, the Council undertakes annual assessments of each government's performance in meeting its reform obligations as specified in the Agreement to Implement the National Competition Policy and Related Reforms, or as subsequently advised by CoAG. As part of the assessment, the Council also recommends the level of competition payments to be made to each State and Territory. The terms and operation of the Conduct Code Agreement, the Competition Principles Agreement and the Agreement to Implement the National Competition Policy and Related Reforms will be reviewed before September 2005, along with the Council's assessment role.

The Council's processes and procedures have been subject to audit by the Auditor-General.

Other matters

Communications

The Council dedicated considerable resources to its communications program during 2001-02, with a key focus on consultation initiatives. The secretariat and members of the Council met with representatives of State, Territory and local governments, community interest groups and private sector representatives and organisations during the year to discuss many competition policy matters. In addition, the Council facilitated two workshops: 'Managing Change in the Community' and 'Public Interest Test under National Competition Policy'. The workshops involved representatives from business, the environment, the wider community, consumer groups and farming groups from throughout Australia.

A major achievement of the Council's communications unit in 2001-02 was the development of the Council's new website (<http://www.ncc.gov.au>). The new site aims to enhance community understanding of the NCP by allowing greater access to information and by accommodating the needs of a wider audience. Between the site launch on 11 April 2002 and the end of June 2002, the website received over half a million hits.

The Council hosted information stands at two local government conferences, in Canberra and Sydney, providing an opportunity for local government practitioners to discuss with members of the secretariat, any competition policy issues that affect their municipality. In addition, the Council produced several publications and presented 17 speeches to various forums. It also released the following publications in 2001-02 to assist community understanding of its role and functions:

- *Assessment of Governments' Progress in Implementing the National Competition Policy and Related Reforms*, June 2001
- *NCC Update*, November 2001
- *2002 National Competition Policy Assessment Framework for Water Reform*, February 2002
- *Legislation Review Compendium*, Fourth Edition, February 2002
- *Competitive Neutrality: Scope for Enhancement*, Staff discussion paper, June 2002
- submissions:
 - Submission to the CoAG Energy Market Review, April 2002
 - Submissions to the Productivity Commission's Review of the National Access Regime (submissions provided in July 2001 and September 2001)
- issues papers:
 - *Application for Revocation of Coverage of the Parmelia Pipeline Gas Pipeline*, October 2001
 - *South Australian Government's Application for Certification of the State's Access Regime for Ports and Maritime Services*, November 2001
 - *Victorian Government's Application for Certification of the State's Rail Access Regime*, December 2001
 - *Application for Revocation of Coverage of the Roma Gas Distribution System*, February 2002

The Council and secretariat staff presented the following speeches in 2001-02:

- Graeme Samuel, President, 'National Competition Policy review', Presented to the Regulation Review Committee, Parliament of New South Wales, 11 July 2001;
- various members of the secretariat and the Council, 'Public interest test under National Competition Policy', Presented at the National Competition Policy Workshop, 12 July 2001;
- Ed Willett, Executive Director, 'Competition Reform — transforming the industry', Presented at the Utilicon 2001 Convention, 24 July 2001;
- Ed Willett, Executive Director, 'Progress of rural water sector reforms', Presented at the Utilicon 2001 Convention, 26 July 2001;
- Doug McTaggart, Councillor, 'National Competition Policy', Presented at the AgForce 2001 State Conference, 30 July 2001;

-
- David Owens, Project Manager, 'Regulators and reviewers', Presented to the Victoria University of Technology, Public Sector Research Unit, 20 August 2001;
 - various members of the secretariat and the Council, 'Managing change in the community', Presented at the National Competition Policy Workshop, 13 September 2001;
 - Graeme Samuel, President 'Competition policy — good for business or devil incarnate?', Presented at the City of Monash Economic Development Forum Dinner, 17 October 2001;
 - Graeme Samuel, President, 'National Competition Policy', Presented to the Committee for the Economic Development of Australia (Victoria), 23 October 2001;
 - Graeme Samuel, President, 'Exploring the myths and realities of National Competition Policy', Presented to the Committee for the Economic Development of Australia (New South Wales), 27 February 2002;
 - Graeme Samuel, President, 'National Competition Policy — what it means for the present and future of rural and regional Australia', Presented to the Australian Rural Leadership Program, 6 March 2002;
 - Ed Willett, Executive Director, 'Reviewing the achievements of the NCC and its role in 2003', Presented at the IIR Annual National Competition Policy Conference 13–15 March 2002;
 - Paul Swan, Project Manager, 'Victorian water reform', Presented to the Victorian Farmers Federation, 25 March 2002;
 - Graeme Samuel, President, 'Competition policy and economic reform — the way forward', Presented at the Melbourne Institute and the Australian Economic and Social Outlook Conference, 5 April 2002;
 - Ed Willett, Executive Director, Mick Shadwick, Director, and Paul Swan, Project Manager, 'Australia's urban water management', Presented to the Senate Environment, Communications, Information and Technology and the Arts Committee Inquiry, 23 April 2002;
 - Graeme Samuel, President, 'National Competition Policy', Presented to the Committee for the Economic Development of Australia (Queensland), 6 June 2002;
 - Graeme Samuel, President, 'National Competition Policy', Presented to the Committee for the Economic Development of Australia (Western Australia), 13 June 2002.

Freedom of information

The Council did not receive any requests for documents under the *Freedom of Information Act 1982* during 2001-02.

Categories of documents held by the Council

The Council secretariat holds three classes of document. First, it holds representations to the Council's President, Executive Director and staff. The Council receives correspondence covering aspects of government microeconomic policy and administration. Second, it holds files relevant to the Council's operations. The documents on these files include correspondence, analysis and policy advice prepared by secretariat officers. The three main categories of file are:

- Council views on matters relating to competition reform implemented by Commonwealth, State and Territory governments;
- Council recommendations on applications for access declarations and certification of access regimes. The designated Ministers are required to publish their decisions on these applications. The Ministers must give reasons for the decision and provide a copy of the Council's recommendation to the service provider and the applicant. The Council makes its recommendations and reasons publicly available after the designated Minister has published a decision. In the case of a declaration application, if the designated Minister does not make a decision, then the Council will publish its recommendation 60 days after it is provided to the Minister; and
- material relating to other work assigned to the Council (for example, the review of the *Australian Postal Corporation Act 1989* and the review of ss 51(2) and 51(3) of the Trade Practices Act).

Third, the Council holds documents on internal office administration. These include a broad range of documents relating to the personal details of staff and to the organisation and operation of the Council. These documents include personal records, organisation and staffing records, financial and expenditure records, and internal operating documentation such as office procedures and instructions.

Documents open to public access subject to a fee or available free of charge upon request

The following categories of document are publicly available:

- the Council's annual reports to Parliament;

- speeches by Council and Secretariat staff;
- discussion papers and guides on specific competition policy issues;
- the *NCC Update*;
- the Council's corporate plans;
- issues papers developed by the Council and applications received for declaration or certification, or under the national gas access code;
- submissions by interested parties on access declaration or certification applications, and applications under the national gas access code or other reviews, where information contained is not commercial-in-confidence;
- assessments and recommendations given to the Treasurer on State and Territory progress in implementing competition policy;
- community information papers and media releases;
- issues papers, draft reports and final reports on other reviews that are referred to the Council; and
- the Council's recommendations on declaration, certification and national gas access code applications.

These documents are available from various sources. The Council places as much material as possible on its website (<http://www.ncc.gov.au>) and most publications are also available through the Commonwealth Government bookshops. Other documents, publications and speeches can be obtained directly from the Council.

Facilities for access to Council documents

Applicants seeking access under the Freedom of Information Act to documents in the possession of the Council should apply in writing to:

Director (Freedom of Information Request)
National Competition Council
GPO Box 250B
Melbourne VIC 3001
Attention: Freedom of Information Coordinator

An application fee of \$30 must accompany requests. Unless an application fee is received or an explicit waiver is given, the request will not be processed. Telephone enquiries should be directed to the Freedom of Information Coordinator (telephone 03 9285 7484) between 9.00 a.m. and 5.00 p.m., Monday to Friday.

The Director (Freedom of Information Request) is authorised under s.23 of the Act to grant or refuse requests for access to documents. In accordance with s.54, an applicant may apply to the Executive Director within 28 days of receiving notification of a decision under the Act, seeking an internal review of a decision to refuse a request. The application should be accompanied by a \$40 application review fee as provided for in the Act.

If access under the Act is granted, then the Council will provide copies of documents after receiving payment of all applicable charges. Alternatively, applicants may make arrangements to inspect documents at the National Competition Council office, Level 12, Casselden Place, 2 Lonsdale Street, Melbourne between 9.00 a.m. and 5.00 p.m., Monday to Friday.

Annual reporting requirements and aids to access

Information contained in this annual report is provided in accordance with:

- s. 74 of the Occupational Health and Safety (Commonwealth Employment) Act;
- s. 50AA of the *Audit Act 1901*;
- The *Public Service Act 1999*;
- s. 8 of the *Freedom of Information Act 1982*;
- s. 29(O) of the Trade Practices Act; and
- the guidelines issued by the Department of the Prime Minister and Cabinet.

A compliance index is provided at the end of this section.

For inquiries or comments concerning this report or any other Council publications, please contact:

Executive Director
National Competition Council
GPO Box 250B
Melbourne VIC 3001
Telephone (03) 9285 7474
Facsimile (03) 9285 7477.

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C4 Financial statements

Financial statements

for the year ended 30 June 2002



INDEPENDENT AUDIT REPORT

To the Treasurer

Scope

I have audited the financial statements of Office of the National Competition Council for the year ended 30 June 2002. The financial statements comprise:

- Statement by Council President and Principal Accounting Officer;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Contingencies and Commitments; and
- Notes to and forming part of the Financial Statements.

The Council's President is responsible for the preparation and presentation of the financial statements and the information they contain. I have conducted an independent audit of the financial statements in order to express an opinion on them to you.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with my understanding of the National Competition Council's financial position, its financial performance and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

GPO Box 707 CANBERRA ACT 2601
Centenary House 19 National Circuit
BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

Audit Opinion

In my opinion the financial statements:

- (i) have been prepared in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and
- (ii) give a true and fair view, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Finance Minister's Orders, of the financial position of the National Competition Council as at 30 June 2002, and its financial performance and cash flows for the year then ended.

Australian National Audit Office



Allan M. Thompson
Executive Director

Delegate of the Auditor-General

Canberra
11 September, 2002

National Competition Council

Casselden Place Level 12 2 Lonsdale Street Melbourne 3000 Australia

GPO Box 2508 Melbourne 3001 Australia

Telephone 03 9285 7474 Facsimile 03 9285 7477



**STATEMENT BY THE COUNCIL PRESIDENT
AND PRINCIPAL ACCOUNTING OFFICER**

In our opinion the attached financial statements for the financial year 1 July, 2001 to 30 June, 2002 give a true and fair view of the matters required by Schedule 1 to the Finance Minister's Orders made under section 63 of the *Financial Management Accountability Act 1997*.



Mr. Graeme Samuel
President



Mr. Edward Willett
Executive Director

29th August 2002
Date

29th August 2002
Date

NATIONAL COMPETITION COUNCIL
STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2002

	Notes	2002 \$	2001 \$
Revenues from ordinary activities			
Revenues from Governments	2A	3,526,001	3,280,000
Interest	2B	11,752	31,807
Net gains from sales of assets	2C	2,600	—
Other		<u>26,110</u>	<u>191,824</u>
Total Revenues from ordinary activities		3,566,463	3,503,631
Expenses from ordinary activities			
Employees	3A	1,940,143	1,978,882
Suppliers	3B	1,486,323	1,962,150
Depreciation and Amortisation	3C	<u>58,560</u>	<u>98,060</u>
Total Expenses from ordinary activities		<u>3,485,026</u>	<u>4,039,092</u>
Net Operating Surplus (Deficit) from ordinary activities		<u>81,437</u>	<u>(535,461)</u>
Net Surplus (Deficit)		<u>81,437</u>	<u>(535,461)</u>
Net Surplus (Deficit) attributable to the Commonwealth		<u>81,437</u>	<u>(535,461)</u>
Total changes in equity other than those resulting			
From transactions with owners as owners		<u>81,437</u>	<u>(535,461)</u>

The above Statement should be read in conjunction with the accompanying notes.

NATIONAL COMPETITION COUNCIL
STATEMENT OF FINANCIAL POSITION
as at 30 June 2002

	Notes	2002 \$	2001 \$
ASSETS			
Financial Assets			
Cash	4A	210,575	175,406
Receivables	4B	42,290	213,998
Investments	4C	<u>200,000</u>	<u>100,000</u>
Total financial assets		<u>452,865</u>	<u>489,404</u>
Non-financial assets			
Land and Buildings	5A,C	21,913	39,491
Plant and Equipment	5B,C	123,173	60,129
Other	5D	<u>18,643</u>	<u>—</u>
Total non-financial assets		<u>163,729</u>	<u>99,620</u>
Total Assets		<u>616,594</u>	<u>589,024</u>
LIABILITIES			
Provisions			
Employees	6A	<u>643,748</u>	<u>519,489</u>
Total provisions		<u>643,748</u>	<u>519,489</u>
Payables			
Suppliers	7A	<u>168,553</u>	<u>346,679</u>
Total payables		<u>168,553</u>	<u>346,679</u>
Total Liabilities		<u>812,301</u>	<u>866,168</u>
NET ASSETS / (DEFICIENCY)		<u>(195,707)</u>	<u>(277,144)</u>
EQUITY			
Accumulated surpluses (deficits)		<u>(195,707)</u>	<u>(277,144)</u>
Total Equity	8A	<u>(195,707)</u>	<u>(277,144)</u>
Current liabilities		213,601	346,679
Non-current liabilities		598,700	519,489
Current assets		452,865	489,404
Non-current assets		163,729	99,620

The above Statement should be read in conjunction with the accompanying notes

NATIONAL COMPETITION COUNCIL
STATEMENT OF CASH FLOWS
for the year ended 30 June 2002

	Notes	2002 \$	2001 \$
OPERATING ACTIVITIES			
Cash received			
Appropriations		3,603,000	3,280,000
Interest		11,752	31,807
Other		<u>101,719</u>	<u>89,149</u>
Total cash received		3,716,471	3,400,956
Cash used			
Employees		(1,699,624)	(1,962,301)
Suppliers		<u>(1,780,252)</u>	<u>(1,699,007)</u>
Total cash used		<u>(3,479,876)</u>	<u>(3,661,308)</u>
Net cash from / (used by) operating activities	9	<u>236,595</u>	<u>(260,352)</u>

INVESTING ACTIVITIES

Cash Received

Proceeds from sales of property, plant & equipment	<u>2600</u>	—
Total cash received	<u>2600</u>	—

Cash used

Purchase of property, plant and equipment	<u>(104,026)</u>	(9,545)
Total cash used	<u>(104,026)</u>	(9,545)
Net cash from / (used by) investing activities	<u>(101,426)</u>	(9,545)
Net increase/(decrease) in cash held	135,169	(269,897)
Cash at the beginning of the reporting period	<u>275,406</u>	<u>545,303</u>
Cash at the end of the reporting period	4A,C <u>410,575</u>	<u>275,406</u>

The above Statement should be read in conjunction with the accompanying notes

NATIONAL COMPETITION COUNCIL
SCHEDULE OF COMMITMENTS
as at 30 June 2002

	2002 \$	2001 \$
BY TYPE		
OTHER COMMITMENTS		
Operating Leases	<u>171,948</u>	<u>343,896</u>
Total Other Commitments	171,948	343,896
COMMITMENTS RECEIVABLE	<u>—</u>	<u>—</u>
Net commitments	<u>171,948</u>	<u>343,896</u>
BY MATURITY		
All Net Commitments		
One year or less	171,948	171,948
From one to five years	—	171,948
Net commitments	<u>171,948</u>	<u>343,896</u>

SCHEDULE OF CONTINGENCIES
as at 30 June 2002

CONTINGENT LOSSES	—	—
CONTINGENT GAINS	<u>—</u>	<u>—</u>
Net contingencies	<u><u>—</u></u>	<u><u>—</u></u>

The above Statements should be read in conjunction with the accompanying notes.

NATIONAL COMPETITION COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

Note	Description
1	Summary of Significant Accounting Policies
2	Operating Revenues
3	Operating Expenses
4	Financial Assets
5	Non-Financial Assets
6	Provisions
7	Payables
8	Equity
9	Cash Flow Reconciliation
10	Executive Remuneration
11	Remuneration of Auditors
12	Average Staffing Levels
13	Financial Instruments

Note 1 : Summary of Significant Accounting Policies

1.1 Objectives of the National Competition Council

The National Competition Council (the 'Council') was established on, 6 November 1995 by the *Competition Policy Reform Act 1995* following agreement by the Commonwealth, State and Territory governments.

The Council is an independent advisory body for all governments on implementation of the national competition policy reforms. The Council's aim is to help raise the living standards of the Australian community by ensuring that conditions for competition prevail throughout the economy which promote growth innovation and productivity.

The Council's program objectives are:

- to promote micro-economic reform within the community, including by research and providing advice to governments on competition policy matters;
- to recommend on applications for declaration of access to services provided by nationally significant infrastructure and the certification of access regimes under Part IIIA of the Trade Practices Act;
- to assess progress with agreed competition policy reforms, and to recommend to the Commonwealth prior to July 1997, July 2001 and July 2002 whether the conditions for National Competition Policy payments to the States and Territories have been met; and
- to recommend on whether State and Territory government businesses should be declared for prices surveillance by the Australian Competition and Consumer Commission, and to report on the costs and benefits of legislation reliant on section 51 of Trade Practices Act.

1.2 Basis of Accounting

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders (being the *Financial Management and Accountability (Financial Statements 2001-2002) Orders*);
- Australian Accounting Standards and Accounting Interpretations issued by Australian Accounting Standards Boards;
- Other authoritative pronouncements of the Boards; and
- Consensus Views of the Urgent Issues Group.

The statements have also been prepared having regard to the Explanatory Notes to Schedule 1, and Finance Briefs issued by the Department of Finance and Administration.

The Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. Assets and liabilities arising under agreements equally proportionately unperformed are however not recognised unless required by an Accounting

Standard. Liabilities and assets which are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies (other than remote contingencies).

Revenues and expenses are recognised in the Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

The continued existence of the Agency in its present form, and with its present programs, is dependent on Government policy and on continuing appropriations by Parliament for the Agency's administration and programs.

1.3 Changes in Accounting Policy

The accounting policies used in the preparation of these financial statements are consistent with those used in 2000-2001, except in respect of:

- Output appropriations (refer to Note 1.4) ; and
- Equity injections (refer to Note 1.5).

1.4 Revenue

The revenues described in this Note are revenues relating to the core operating activities of the Agency.

(a) Revenues from Government

The full amount of the appropriation for departmental outputs for the year (less any savings offered up at Additional Estimates and not subsequently released) is recognised as revenue. This is a change in accounting policy caused by the introduction of a new requirement to this effect in the Finance Minister's Orders. (In 2000-01, output appropriations were recognised as revenue to the extent the appropriations had been drawn down from the Official Public Account).

The change in policy had no financial effect in 2001-02 as the full amount of the output appropriation for the 2000-01 had been drawn down in that year.

(b) Resources Received Free of Charge

Services received free of charge are recognised as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised at their fair value when the asset qualifies for recognition, unless received from another government agency as a consequence of a restructuring of administrative arrangements (Refer to Note 1.5).

(c) Other Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

Agency revenue from the rendering of a service is recognised by reference to the stage of completion of contracts or other agreements to provide services to Commonwealth bodies. The stage of completion is determined accordingly to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

1.5 Transactions by the Government as Owner

From 1 July, 2001, Appropriations designated as 'Capital – equity injections; are recognised directly in Contributed equity according to the following rules determined by the Finance Minister:

- To the extent that the appropriation is not dependent on future events, as at 1 July; and
- To the extent that it is dependent on specified future events requiring future performance, on drawdown.

(In 2000-01, all equity injections were recognised as contributed equity on drawdown).

The change in policy has no financial effect in 2001-02 because the full amounts of the equity injections in both 2000-01 and 2001-02 met the criteria now required by the Finance Minister.

Net assets received under a restructuring of administrative arrangements are designated by the Finance Minister as contributions by owners and adjusted directly against equity. Net assets relinquished are designated as distributions to owners. Net assets transferred are initially recognised at the amounts at which they were recognised by the transferring agency immediately prior to the transfer.

1.6 Employee Entitlements

(a) Leave

The liability for employee entitlements includes provision for annual leave and long service leave. No provision has been made for sick leave as all leave is non-vesting and the average sick leave taken in future years by employees of the Council is estimated to be less than the annual entitlement for sick leave.

The liability for annual leave reflects the value of total annual leave entitlements of all employees at 30 June 2002 and is recognised at the nominal amount.

The non-current portion of the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at 30 June 2002. In determining the present value of the liability, the Agency has taken into account attrition rates and pay increases through promotion and inflation.

(b) *Separation and redundancy*

Provision is made for separation and redundancy payments in circumstances where the Agency has formally identified positions as excess to requirements and a reliable estimate of the amount of the payments can be determined.

(c) *Superannuation*

Staff of the Council contribute to the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. Employer contributions amounting to \$180,291 (2001: \$166,757) in relation to these schemes have been expended in these financial statements.

No liability for superannuation is recognised at 30 June as the employer contributions fully extinguish the accruing liability which is assumed by the Commonwealth.

Employer Superannuation Productivity Benefit contributions totalled \$30,710 (2001: \$31,620).

1.7 Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased plant and equipment asset and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the inception of the lease and a liability recognised for the same amount. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets. The net present value of future net outlays in respect of surplus space under non-cancellable lease agreements is expensed in the period in which the space becomes surplus.

Lease incentives taking the form of 'free' leasehold improvements and rent holidays are recognised as liabilities. These liabilities are reduced by allocating lease payments between rental expense and reduction of the liability.

1.8 Borrowing Costs

All borrowing costs are expensed as incurred except to the extent that they are directly attributable to qualifying assets, in which case they are capitalised. The amount capitalised in a reporting period does not exceed the amounts of costs incurred in that period.

1.9 Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution.

1.10 Financial Instruments

Accounting Policies for financial instruments are stated at Note 13.

1.11 Acquisition 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 at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor agency's accounts immediately prior to the restructuring.

1.12 Property (Land, Buildings and Infrastructure), Plant and Equipment

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases costing less than \$2,000, which are expensed in the year of acquisition (other than where they form a part of a group of similar items which are significant in total).

Revaluations

All items of leasehold improvements and with historical costs equal to or in excess of \$5,000 and all items of computer, plant and equipment were revalued in accordance with the 'deprival' method (replacement cost) of valuation on 1 July 2000 and thereafter will be revalued progressively on that basis every three years.

The Council reviewed the valuations for:

- Leasehold improvements were initially acquired in November 1995 in connection with the leasehold and valued on 30/6/02 at cost. The valuation represented by the written down value was considered to approximate the 'deprival' value; and
- Most computers were replaced late in June 2000 and therefore are carried at cost as at 30/6/02. The valuation represented by the written down value was considered to approximate the 'deprival' value (replacement).

The financial effect of the move to progressive revaluations is that the carrying amounts of assets will reflect current values and that depreciation charges will reflect the current cost of the service potential consumed in each period.

Recoverable amount test

Schedule 1 requires the application of the recoverable amount test to departmental non-current assets in accordance with AAS 10 *Recoverable Amount of Non-Current Assets*. The carrying amounts of these non-current assets have been reviewed to determine whether they are in excess of their recoverable amounts. In assessing recoverable amounts the relevant cash flows have been discounted to their present value.

Depreciation and Amortisation

Depreciable property plant and equipment assets are written off to their estimated residual values over their estimated useful lives to the Council using, in all cases, the straight line method of depreciation. Leasehold improvements are amortised on a straight line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation/amortisation rates (useful lives) and methods are reviewed at each balance date and necessary adjustments are recognised in the current or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

Depreciation and amortisation rates applying to each class of depreciable asset are based on the following useful lives:

	<u>2002</u>	<u>2001</u>
Leasehold improvements	Lease term	Lease term
Plant and equipment	4 to 9 years	3 to 7 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 3C.

1.13 Inventories

Council provides the bulk of its publications free of charge which means the publications do not have a realisable value. Because of this Council expenses the cost of publications as incurred.

1.14 Taxation

The Council is exempt from all forms of taxation except fringe benefits tax and the goods and services tax.

1.15 Insurance

The Council has insured for risks through the Government's insurable risk managed fund, called 'Comcover'. Workers compensation is insured through Comcare Australia.

1.16 Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

Note 2 : Operating Revenues

	2002 \$	2001 \$
<u>Note 2A - Revenues from Government</u>		
Appropriations for outputs	3,506,901	3,280,000
Resources received free of charge	19,100	-
<u>Note 2B - Interest</u>		
Interest on deposits	11,752	31,807
 <u>Note 2C - Net Gains from Sales of Plant and Equipment</u>		
Proceeds from sale	2,600	-
Net book value of sale	—	—
Net Gain	<u>2,600</u>	<u>—</u>

Note 3: Operating ExpensesNote 3A – Employee Expenses

Remuneration (for services provided)	<u>1,940,143</u>	<u>1,978,882</u>
Total	<u>1,940,143</u>	<u>1,978,882</u>

Note 3B – Suppliers Expenses

Supply of goods and services	1,344,287	1,832,986
Operating lease rentals	<u>142,036</u>	<u>129,164</u>
Total	<u>1,486,323</u>	<u>1,962,150</u>

	2002 \$	2001 \$
<u>Note 3C – Depreciation and Amortisation</u>		
Depreciation of property plant and equipment	40,982	52,573
Amortisation of property plant and equipment	<u>17,578</u>	<u>45,487</u>
Total	<u>58,560</u>	<u>98,060</u>

The aggregate amounts of depreciation or amortisation expenses during the reporting period for each class of depreciable asset are as follows:

Leasehold Improvements	17,578	45,487
Plant and equipment	<u>40,982</u>	<u>52,573</u>
Total	<u>58,560</u>	<u>98,060</u>

Note 4: Financial Assets

Note 4A – Cash

Cash at bank and on hand	210,575	175,406
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All cash recognised is a current asset

Note 4B – Receivables

GST receivable	26,290	77,958
Appropriations	–	96,099
Other	<u>16,000</u>	<u>39,941</u>
	<u>42,290</u>	<u>213,998</u>

All receivables are current assets

Receivables (gross) are aged as follows:

Not Overdue	–	–
Overdue by:		
Less than 30 days	–	39,941
30 to 60 days	26,290	26,134
60 to 90 days	–	51,824
More than 90 days	<u>16,000</u>	<u>96,099</u>
Total receivables (gross)	<u>42,290</u>	<u>213,998</u>

	2002	2001
	\$	\$
<u>Note 4C – Investments</u>		
Term deposits (current)	200,000	100,000

Note 5: Non Financial AssetsNote 5A. Land and Buildings

Leasehold Improvements	342,433	342,433
Accumulated Amortisation	<u>320,520</u>	<u>302,942</u>
Total Land and Buildings	<u>21,913</u>	<u>39,491</u>

Note 5B. Infrastructure, plant and equipment

Plant and equipment - at cost	331,893	343,675
Accumulated Depreciation	<u>208,720</u>	<u>283,546</u>
Total Infrastructure Plant and Equipment	<u>123,173</u>	<u>60,129</u>

Note 5C - Analysis of Property, Plant and Equipment

TABLE A – Reconciliation of the opening and closing balances of property, plant and equipment.

	Land and buildings \$	Plant and equipment \$	Total \$
Gross value as at 1 July 2001	342,433	343,675	686,108
Additions – purchases of assets	-	104,026	104,026
Write-off's		(67,403)	(67,403)
Disposals	<u>-</u>	<u>(48,405)</u>	<u>(48,405)</u>
Gross value as at 30 June 2002	<u>342,433</u>	<u>331,893</u>	<u>674,326</u>
Accumulated depreciation/ amortisation as at 1 July 2001	302,942	283,546	586,488
Disposals	-	(48,405)	(48,405)
Depreciation/ amortisation charge for the year	17,578	40,982	58,560
Write off's	<u>-</u>	<u>(67,403)</u>	<u>(67,403)</u>
Accumulated depreciation/ amortisation as at 30 June 2002	<u>320,520</u>	<u>208,720</u>	<u>529,240</u>
Net book value as at 30 June 2002	21,913	123,173	145,086
Net book value as at 1 July 2001	39,491	60,129	99,620
	2002 \$	2001 \$	

Note 5D. Other Non – Financial Assets

Prepayments	<u>18,643</u>	<u>-</u>
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	2002 \$	2001 \$
Note 6 : Provisions		
<u>Note 6A – Employee Provisions</u>		
Salaries and wages	45,048	61,637
Leave	<u>598,700</u>	<u>457,852</u>
Aggregate employee entitlement liability	<u>643,748</u>	<u>519,489</u>
Current	45,048	61,637
Non-current	598,700	457,852
Note 7 : Payables		
<u>Note 7A – Supplier Payables</u>		
Trade creditors	<u>168,553</u>	<u>346,679</u>
Total	<u>168,553</u>	<u>346,679</u>
Supplier payables are represented by:		
Current	168,553	346,679
Non-current	–	–
Note 8 : Analysis of Equity		
<u>Note 8A – Equity Table</u>		
Item	Accumulated Results	
Opening balance as at 1 July	(277,144)	258,317
Net result and extraordinary items	<u>81,437</u>	<u>(535,461)</u>
Balance as at 30 June	<u>(195,707)</u>	<u>(277,144)</u>
Less: outside equity interests	–	–
Total equity attributable to the Commonwealth	<u>(195,707)</u>	<u>(277,144)</u>

	2002 \$	2001 \$
Note 9 : Cash Flow Reconciliation		
Reconciliation of cash per Statement of Financial Position to Statement of Cash Flows		
• Cash at year end per Statement of Cash Flows	410,575	275,406
• Statement of Financial Position items comprising		
Above cash : 'Financial Asset – Cash'.	410,575	275,406
Reconciliation of operating loss to net cash provided by Operating activities:		
Net Surplus / (Deficit)	81,437	(535,461)
Depreciation/ Amortisation	58,560	98,060
Gains on disposals of assets	(2,600)	–
(Increase)/decrease in receivables	171,708	(102,675)
(Increase)/decrease in prepayments	(18,643)	8,896
Increase/(decrease) in employee provisions	124,259	16,581
Increase/(decrease) in suppliers payables	<u>(178,126)</u>	<u>254,247</u>
Net cash from / used by operating activities	<u>236,595</u>	<u>(260,352)</u>

Note 10 : Executive Remuneration

The number of executives who received or were due to receive total remuneration of \$100,000 or more:

	2002 no.	2001 no.
\$100,000 to \$110,000	-	-
\$110,001 to \$120,000	-	3
\$120,001 to \$130,000	-	-
\$130,001 to \$140,000	2	-
\$140,001 to \$150,000	-	1
\$150,001 to \$160,000	-	-
\$160,001 to \$170,000	1	-

The aggregate amount of total remuneration of executives shown above	\$420,000	\$500,000
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The aggregate amount of separation and redundancy payments during the year to executives shown above.	-	-
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Note 11 : Remuneration of Auditors

Financial statement audit services are provided free of charge to the Council. The fair value of the services provided was \$ 19,100 (2001 \$20,000).

No other services were provided by the Auditor-General.

Note 12 : Average Staffing Levels

The average staffing levels for the Council during the year were:

	2002 no.	2001 no.
National Competition Council	20.0	20.0

Note 13 : Financial Instruments
Note 13A - Terms, conditions and accounting policies

Financial Instruments	Notes	Accounting Policies and Methods (including recognition criteria and measurement basis).	Nature of underlying Instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows).
<i>Financial Assets</i>		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash		Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.	The department invests funds with the Reserve bank at call. Rates have averaged 5% for the year. (2001: 6%). Interest is paid monthly.
Receivables for goods and services	4A	These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	All receivables are with the Commonwealth and /or other external entities. Credit terms are net 30 days (2001: 30 days).
<i>Financial Liabilities</i>		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Trade Creditors	7A	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	All creditors are entities that are not part of the Commonwealth legal entity. Settlement is usually made net 30 days.

Note 13 : Financial Instruments (cont.)Note 13B – Interest Rate Risk

Financial Instrument	Note	Non – Interest Bearing	
		2002	2001
Financial Assets		\$	\$
Cash at Bank		210,575	175,406
Cash on Deposit		200,000	100,000
Receivables for goods and services	4A	42,290	213,998
Total Financial Assets		452,865	489,404
Total Assets		616,594	589,024
Financial Liabilities			
Trade Creditors	7A	168,553	346,679
Total Financial Liabilities (Recognised)		168,553	346,679
Total Liabilities		812,301	866,169

Note 13C-Net Fair Values of Financial Assets and Liabilities

	Note	2002 Total carrying Amount	2002 Aggregate net Fair value	2001 Total carrying Amount	2001 Aggregate net fair value
Department Financial Assets					
Cash at Bank		210,575	210,575	175,406	175,406
Term Deposits		200,000	200,000	100,000	100,000
Receivables for Goods and Services	4A	42,290	42,290	213,998	213,998
Total Financial Assets		452,865	452,865	489,404	489,404
Financial Liabilities (recognised)					
Trade Creditors	7	168,553	168,553	346,679	346,679
Total Financial Liabilities (recognised)		168,553	168,553	346,679	346,679

Financial Assets

The net fair values of cash and non-interest-bearing monetary financial assets approximate their carrying amounts.

Financial Liabilities

The net fair values for trade creditors are approximated by their carrying amounts.

Note 13D - Credit Risk Exposures

The Council's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Performance.

The Council has no significant exposures to any concentrations of credit risk.

Note 14: Appropriations

	Departmental Outputs	Total
Year ended 30 June 2002	\$	\$
Balance carried forward from previous year	(449,463)	(449,463)
Appropriation reporting period (Act 1)	3,506,901	3,506,901
GST Credits	<u>147,981</u>	<u>147,981</u>
Annotations to Net Appropriations	<u>116,071</u>	<u>116,071</u>
Available for payments	<u>4,220,416</u>	<u>4,220,416</u>
Payments made	<u>3,783,551</u>	<u>3,783,551</u>
Balance carried to next year	<u>(436,865)</u>	<u>(436,865)</u>
Year ended 30 June 2001		
Balance carried forward from previous year	641,402	641,402
Appropriation reporting period (Act 1)	3,280,000	3,280,000
GST Credits	<u>138,905</u>	<u>138,905</u>
Annotations to Net Appropriations	<u>120,956</u>	<u>120,956</u>
Available for payments	<u>4,181,263</u>	<u>4,181,263</u>
Payments made	<u>3,731,800</u>	<u>3,731,800</u>
Balance carried to next year	<u>449,463</u>	<u>449,463</u>

National Competition Policy contacts

For further information about National Competition Policy, please contact the National Competition Council or the relevant Commonwealth, State or Territory competition policy unit.

National

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