Utility Reform: How National Competition Policy is Changing Australia

A presentation by Graeme Samuel
President, National Competition Council

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It is important that, as a nation, we do not become complacent in our attitudes to the future.

Between 1960 and 1992 Australia slipped from being the third richest developed nation to only fifteenth.

As a result throughout this period, and particularly in the 1980s and 90s, successive governments have seen the need for significant change to our economy in order to increase the Australian living standards.

In particular, microeconomic reform has been at the forefront of many government agendas.

For instance, landmark decisions in the 1980s to float the Australian dollar, deregulate our financial markets and systematically reduce trade barriers have all helped establish a more flexible outward looking economy.

In turn these reforms have caused governments to focus on newer priorities including the performance of their own business enterprises, the harmonisation and minimisation of government, regulation as well of the creation of competitive national markets.

Somewhat ironically, in the latter part of the 20th century, nearly one hundred years on from Australia's federation, governments have recognised the benefits of adopting nationally co-ordinated approaches to

regulation and reform. In so doing, governments have also recognised that while we are a Federation of States, we are ultimately one country and one economy.

Utilities are fundamental to this picture. Utilities are the engine room behind our businesses and supply basic necessities to our communities. A focus on efficient and effective services is therefore essential. This has been comprehensively recognised by governments in the National Competition Policy reforms. Various aspects of Competition Policy affect government and private utility owners, customers, and companies wishing to expand their involvement in the field.

A key mechanism for this national approach to reform is the Council of Australian Governments commonly referred to as COAG. And it was in this forum, in October 1992, that governments initiated the national approach to competition policy reform when they establish an independent Committee of Inquiry, which commonly became know as the Hilmer Committee.

In 1995 all Australian governments committed to the reforms which were broadly in line with the Hilmer recommendations, as well as the related reforms in the gas, water, electricity and road transport industries. This package of reforms is National Competition Policy.

NATIONAL COMPETITION POLICY

National Competition Policy is having far reaching beneficial effects on our economy, on Australian living standards and undoubtedly on the utility sector. In either formal session or out of session COAG continues to oversight the development of NCP.

The policy has a number of aspects.

Governments have committed to review and reform legislation that restricts competition, unless the community benefits of the restriction outweigh the costs. For instance, this might require the review of state legislation which governs how and who can explore and develop gas fields, as this in turn has implications on the competitiveness of gas markets - and gas fired electricity enterprises. Alternatively, it may affect state legislation which imposes licence standards as this too can have implications for interstate operations and overall competitiveness of particular utilities.

Under Competition Policy the structural reform of government owned businesses has had a dramatic impact on the utility sector. This has been particularly evident in electricity with the separation of the competitive

and regulatory aspects of the industry and the introduction of greater competition between electricity businesses, for example, in generation.

Competition policy also includes the introduction of competitive neutrality so that privately owned businesses can compete with those owned by government on an equal footing.

As well as what may be referred to as the generic reforms, the Policy includes various specific reforms, including increases in competition and efficiency in industries on which business rely – specifically the gas, electricity, water and road transport sectors. It is these reforms that I want to specifically cover today, together with some observations on the operation of the National Access Regime.

ACCESS

Competition policy includes the introduction of a National Access Regime which enables access to be sought to significant natural monopoly infrastructure using one of three processes.

The Regime enables the development of state and territory access regimes. These state regimes are assessed by the Council against agreed principles with particular consideration of whether each regime is contributing to the development of the relevant national market. Thus, state and territory access legislation which conforms to the agreed requirements can be brought under the aegis of the National Access Regime. This process is commonly referred to as 'certification' and has been used to implement and approve the National Gas Pipeline Access Code under the National Access Regime.

In addition, voluntary access 'undertakings' can be developed by infrastructure owners and submitted to the ACCC for approval. This can be done by way of an industry code submitted by an industry body. This was the approach adopted in electricity, where governments had already substantially developed access arrangements to apply to their electricity utilities prior to the implementation of the National Access Regime.

And finally, applications can also be made to Council by third parties wishing to use someone else's infrastructure. The Council can then in turn make a recommendation to the relevant Government Minister for 'declaration'. This effectively creates a legal right to negotiate access agreements to an infrastructure service, backed by mandatory arbitration of access disputes by the ACCC. Most declaration matters to date have related to rail services.

The Regime is now five years old. It has been applied broadly in relation to electricity, gas, aviation and rail transport infrastructure; and to a lesser

degree for commercial shipping infrastructure. A separate part of the Trade Practices Act outside the National Access Regime regulates telecommunications services.

Essentially the objectives of the Regime are to encourage the efficient use of, and investment in, natural monopoly infrastructure as well as to promote competition in those activities that rely on such infrastructure. Meeting these objectives means applying the Regime carefully and selectively. The criteria for declaration, and the Council's application of these criteria, play a critical role in ensuring that the Regime is applied only where needed. Essentially, for an infrastructure service to be declared, the criteria require:

- first, that it is uneconomic to have more than one set of infrastructure providing the relevant service;
- second, that declaration of the service would promote competition in a market that depends on that service;
- third, that the infrastructure is nationally significant; and
- fourth, that regardless of whether the earlier criteria are met, the costs of declaration of the service aren't higher than the benefits.

Experience with the interpretation and application of these criteria to date have raised two contentious issues:

- whether declaration should apply to privately owned infrastructure, or just publicly owned infrastructure; and
- whether the term 'uneconomic' should be applied from the point of view of net public benefits rather than net private benefits.

Declaration of Private Infrastructure

The review by Hilmer into National Competition Policy concluded that:

The Committee is conscious of the need to carefully limit the circumstances in which one business is required by law to make its facilities available to another. Failure to provide appropriate protection to the owners of such facilities has the potential to undermine incentives for investments.

Nevertheless, there are some industries where there is a strong public interest in ensuring that effective competition can take place, without the need to establish any anti-competitive intent on the part of the owner for the purposes of the general conduct rules. The telecommunications sector provides a clear example, as do electricity, rail and other key infrastructure industries. Where such a clear public interest exists, but not otherwise, the Committee supports the establishment of a legislated right of access, coupled with other provisions to ensure that efficient competitive activity can occur with minimal uncertainty and delay arising from concern over access issues. (Hilmer 1993, p.248)

Basically, Hilmer did not believe that existing laws adequately addressed the problems that arose through control by one party of what is, in effect, a bottleneck service. Therefore Hilmer recommended that a national access regime be inserted into the **Trade Practices Act** 1974 (Cth).

The impetus behind the National Access Regime was the recognition that some markets have innate characteristics that result in persistent low levels of competition. 'Pipes and wires' networks with natural monopoly characteristics are good examples. These infrastructure services derive their natural monopoly status from characteristics that include:

- high entry costs;
- an efficient scale of entry that provides capacity well above initial market demand; and
- unit costs that decline as capacity expands and/or economies derived from several activities conducted together, mean new entrants have little hope of competing on costs.

These characteristics give the providers of those services considerable market power. One way natural monopolists can use this power is by charging monopoly prices which discriminate between users. This could undermine competition in downstream and upstream markets to the detriment of consumers in these markets.

More complex problems arise if the owner/operator of an essential service has a business in these upstream or downstream markets. An example is if a rail line service operator also provides a freight forwarding service. That owner/operator might discriminate against its competitors by offering its own upstream or downstream business terms and conditions that are more favourable than those offered to its competitors. Or, it could deny its competitors access. That such owners/operators are in a position to adopt either strategy may deter businesses from entering upstream or downstream markets, thus limiting competition.

The mechanisms set out in the National Access Regime are used to replicate competitive pressures – these mechanisms support negotiations with a protective layer of independent arbitration: where arbitration is able to take into account both the owner's business interests and economic efficiency.

Despite the column inches devoted to attacking the philosophy of access, in particular, the concept of access to privately owned infrastructure, the National Access Regime makes no distinction between private and public ownership.

Statements to the effect that access necessarily deters new investment take an inappropriately narrow view of the world.

For instance, the Australian experience in the gas industry does not support this view. In the gas industry much of the infrastructure is privately owned. In spite of – or maybe even because of – the gas access regime, investment in gas infrastructure is accelerating. Not only is there increasing activity and new entry in the upstream and downstream markets, but increasing investment in new transmission pipelines does not support the notion that access chokes investment. Council meetings with these companies and others confirm the importance of the access arrangements to these new investments.

Furthermore, it is important to remember that not all investment is good investment. Critics ignore the effects of NOT granting access – what happens to investment in other markets if access is denied? More broadly, investment is not desirable for its own sake, but rather for the benefits it brings in increasing living standards. Does anyone want or need two electricity distribution networks running down their streets? Does anyone argue in favour of such investment, regardless of whether it is public or private? Society is best served by investment that involves the most productive use of its resources.

There are also some practical issues associated with attempts to quarantine private infrastructure from the access arrangements. What does this mean for recently privatised electricity transmission and distribution systems? Should privatisation immediately herald removal of the application of the electricity access code? What would this mean for the operation of the National Electricity Market?

Public v Private Benefit Test of 'Uneconomic'

The purpose of one of the criteria for declaration is to ensure that the Council only recommends declaration when it would be uneconomic for anyone to develop another facility to provide the service. But does this mean 'uneconomic' from the point of view of a particular person or in terms of the net public benefits of infrastructure development.

Melbourne academic, Philip Williams[1] points to the perversity that could occur with a private test – an example is where a mine has a rail line with substantial excess capacity. The private benefit test would say that if a new mine would be sufficiently productive to support the development of another rail line, this criterion would not be met, declaration would be denied.

> *This would lead to the paradoxical result that a service would be more likely to be declared the less efficient the applicant is. It may even lead*

[1] Professor of Economics and Assistant Director of the Melbourne Business School, University of Melbourne.

> *to the absurd result that the opening up of a less efficient mine would contribute more to social welfare than would the opening up of a more efficient mine – because the more efficient mine would require additional (private) expenditure on another railway line.* (Williams 1998, para. 19)

Given such perversity, the Council has expressed its preference to use the public benefit test when assessing an application against this criterion. The Council's approach has been supported in the recent decision of the Australia Competition Tribunal in the Sydney Airport matter:

> *... the uneconomical to develop test should be construed in terms of the associated costs and benefits of development for society as a whole. Such an interpretation is consistent with the underlying intent of the legislation, as expressed in the second reading speech of the Competition Policy Reform Bill [which inserted Part IIIA into the Trade Practices Act 1974], which is directed at securing access to "certain essential facilities of national significance".*

The objective of competition policy, including The National Access Regime, is not just to promote competition, but to realise the benefits from competition, most notably, more efficient use and allocation of the country's resources.

It is particularly interesting to note the impact of the Access Regime in changing the culture of doing business.

It may be that the possibility of light-handed regulation via the threat of declaration is providing parties with sufficient incentive to persevere at the negotiating table. We are now seeing successful and mutually beneficial outcomes occurring without the need for active intervention and regulation.

GAS

Gas reform under Competition Policy stems from the 1994 agreements by COAG on free and fair trade of gas, while in 1997 all Governments signed the National Code.

The Gas Code, in particular, has been an important breakthrough in creating more competitive gas markets as it gives customers greater scope to negotiate with a range of gas suppliers, knowing that it is possible to access a pipeline to carry the gas to the required destination.

Although it is still relatively early days, it seems greater certainty of access is providing developers with incentives to expand the market for

natural gas. This in turn is fuelling the development of new pipeline proposals to link key gas basins with major markets.

For example, in 1998 a $50 million Interlink pipeline from New South Wales to Victoria was opened, allowing natural gas trades between the two States for the first time.

Already, this Interlink has brought socio-economic benefits as it allowed gas emergency supplies to flow into Victoria while the gas production facility at Longford was immobilised in 1998. This Interlink not only enabled hospitals to be supplied with gas, but also ensured that pressure was maintained in the Victorian gas network, thus averting a major collapse of the system, which could have shut down gas supplies in the State for several months.

Work on other new pipelines investments – like the AGL – Petronas pipeline from Papua New Guinea to Queensland, and the Eastern Gas Pipeline from Longford to Sydney – are now well advanced. Other proposals include the supply of gas from Victoria's Otway Basin, the Northern Territory's Bonaparte Basin, and the connection of the Bass Strait gas fields with Tasmania.

New investment is therefore proving a key benefit of the access reforms. Indeed some of these projects would not have been viable without access to distribution networks made possible under the Code.

In turn, access to transmission and distribution pipelines will facilitate new entry into gas production and increased intra-basin competition. In its submission on the application for coverage of the Eastern Gas Pipeline under the Gas Code, Woodside said:

> *Gas markets need competitive delivered gas prices in order to develop. … given the relatively underdeveloped state of Australia's gas pipeline infrastructure, and the desire for competition at all levels of the gas market, Woodside submits that the EGP should be subject to coverage under the [National] code for its entire length.*[2]

As the national pipeline grid continues to fill out, the potential of interbasin competition further increases, bringing with it benefits in terms of lower gas prices for consumers. For instance the construction of the AGL – Petronas pipeline will bring PNG gas into competition with Cooper Basin gas providing competition and therefore choice in the Queensland gas market for the first time.

The continued development of the gas pipeline grid poses a question: when will pipeline infrastructure have developed sufficiently such that

[2] Woodside, submission 22, p. 1.

regulation of transmission pipelines is no longer necessary to assure competition in gas sales markets? The Council's coverage processes under the National Gas Code are designed to deal with this question. We have already had some experience in dealing with it. To date, the Council has received 13 applications for revocation of coverage. It is has received one application for coverage of the EGP. Council recommendations for the first 10 revocation applications have been accepted by the relevant decision maker in each case. Coverage has been revoked for 8 of those 10 pipelines, primarily on the grounds that coverage would not promote competition in the relevant market containing gas sales. The Council will release a draft recommendation on the remaining three revocation applications later this week: these relate to the Moomba-to-Sydney gas transmission pipeline system.

The Council's recommendation on the application for coverage of the EGP under the National Gas Code, is currently before the Minister for Industry, Science and Technology, so it would be inappropriate for me to comment on the merits of the issues involved.

Although the Council endeavours to take a light handed approach to regulation I am more than aware however that the National Gas Code is not without critics.

It has been suggested that the Gas Code is seriously flawed, burdensome and ultimately a deterrent to new investment – that it will result in less choice for consumers and overall less competition.

These are serious issues that run directly counter to the Code's aims and indeed the Council's rationale when implementing it.

When agreeing to a uniform gas code, governments clearly recognised the benefits of applying just one set of rules to monopoly pipelines. However, they are also aware that regulation involves costs as well as benefits and should only be applied where absolutely necessary.

As such the Council only recommends regulation where it believes it is necessary to ensure active competition in a market. Where competition is robust or where regulation will no more encourage competition than non-regulation the Council role is minimal.

When assessing applications the ultimate question for Council remains 'Is regulation required to achieve healthy competition in the public interest?'.

In addition a key role of the Council under the Gas code is its capacity as an advisory body. The Council understands the need for certainty as to the likely coverage of new infrastructure and is available to advise investors on whether a proposed new pipeline would meet coverage

criteria and/or alternative approaches that can be taken to ensure access certainty.

Therefore, the Code is viewed by many as a critical incentive to new investment. For example the importance of sound regulation of distribution pipelines in Sydney and elsewhere are key to the viability of transmission pipelines such as the Duke Eastern Gas pipelines.

Furthermore, claims that two sources of competition in any market are sufficient to bring efficiency and customer focus is somewhat simplistic and contrary to many practical examples and case studies. In reality effective regulation requires much more robust analysis taking into account the relevant markets and competing products.

ELECTRICITY

Reform of the electricity industry has also been a major part of National Competition Policy. This part of the reform program has focused on the establishment and operation of the National Electricity Market or NEM.

As you are most likely aware, historically, electricity generation, transmission and distribution has been developed on a state by state basis with publicly owned monopolies dominating and little trade between the States.

In 1991 COAG began the structural and regulatory reforms of the industry enabling the commencement of the National Electricity Market in late 1998.

In doing so COAG spelt out four major objectives for the national competitive market.

- First, the ability for customers to choose their suppliers, including generators, retailers and traders;

- Second, that there should be non-discriminatory access to transmission and distribution network;

- Third, that the entry for new participants in generation or retail supply be free from legislative and or regulatory barriers; and

- Fourth, that interstate and intrastate trade is similarly free from legislative or regulatory impediments.

These early aims are directly reflected in the market objectives set out in the National Electricity Code. Implementation of the national market has slipped against original deadlines and work is still needed in some areas,

such as the extension of competition to domestic consumers. But the commitment to a competitive National Electricity Market still stands.

The national market effectively establishes a single wholesale market for electricity and an access regime for the transmission and distribution networks.

It includes South Australia, Victoria, New South Wales, the ACT and Queensland with the construction of an interconnect with Queensland underway. However, given the vast geographical distances, Western Australian and the Northern Territory are not participants. Tasmania, which is also not currently a NEM participant, has expressed its intention to join if the proposed Basslink undersea interconnector is established.

So as you can see Australia's electricity supply industry has undergone dramatic changes in terms of structure, regulation and access arrangements with the reform program now well established.

Reform to date is bringing price benefits with electricity bills falling about 23-30% on average, and up to 60% in some instances, for those NSW and Victorian businesses covered by the national competitive market. Wholesale prices in Queensland have fallen by around 23% since its internal competitive electricity market commenced.

Nevertheless considerable work remains.

To date a number of States have been allowed 'derogations' from the Code. These have been put in place to facilitate a smooth transition to the competitive market and, in some cases, to preserve pre-existing contracts or other commitments. The derogations involve a lessening of Code requirements in relation to nominated parts of the market.

It has always been intended in the COAG electricity agreements that these derogations would be transitional in nature and by and large cease by 2002. The Code provides a process for new derogations to be considered. However, there is a real question whether any further transitional measures should be needed. One possible exception is the introduction of full retail competition for domestic consumers.

A second issue still affecting the national market's effectiveness is the use and role of vesting contracts.

Until competition between retail suppliers is phased in and customers can choose their supplier, electricity prices have remained regulated. This regulation could have placed retailers in the difficult position of having to sell at a fixed price while buying from an uncertain and variable wholesale market. All States have therefore entered into vesting contracts with the wholesale market to reduce this financial risk to retailers.

These contracts lessen competition through what is effectively price fixing and as such have required approval from the ACCC, via authorisation under Part VII of the Trade Practices Act.

The intention expressed in the COAG electricity agreements was that these vesting contracts would cease by 31 December 2000 allowing market pressures to determine wholesale prices, including for supply of electricity to retail customers. However, the ACCC recently authorised vesting contacts in South Australia until December 2002 due to that state's relatively late introduction into the competitive market.

There may be a need for continued management of retailers' risk if there are delays in making retail competition effective. However, there may be other ways that this could be done while creating much less distortion in the generation market. For example, governments could arrange for an auction between competing wholesalers for the right to supply retail franchises. These auctions would result in contracts for wholesale supply to retailers, while maximum retail prices could be set, based on the auction results plus a reasonable retail margin. Such arrangements would ensure certainty for retailers without limiting competition in wholesale supply.

All participating jurisdictions have introduced vertical separation between generation, transmission and distribution, and ring-fencing between distribution and retail. Participating jurisdictions have also introduced horizontal separation in generation, producing a number of competing generators. Vertical separation was specifically required by the electricity agreements, while reforms to horizontal arrangements were subject to general obligations under NCP. Thus, the horizontal reforms in generation were implemented in accordance with reviews of structural and competitive arrangements in generation required by Clause 4 of the Competition Principles Agreement.

The structural reforms established three NSW generating companies and three generating companies in each of Queensland and South Australia. To varying degrees, they have also been accompanied by the construction of new generation plant. Victoria pursued a greater degree of disaggregation, making each generating plant a separate company.

When the reviews of the structure of electricity generation were undertaken, it was reasonable to expect that new transmission investments and/or new generation investments would ensure that pool prices did not exceed the cost of competitive entry for any sustained period. But in some areas, these supply-side responses have been limited and concerns have been expressed by various participants in the electricity market that competition between generators is inappropriately constrained in some way.

The Council has not yet developed a comprehensive view on whether these concerns reflect substantial problems in electricity generation that need to be addressed.

However, there are some points I can make at this stage.

First, commitments to competitive neutrality should ensure that government businesses in the electricity sector do not gain any net competitive advantage because of their public ownership. If any private businesses consider this commitment is not being met, the Council urges them to raise this with the jurisdiction concerned. Each jurisdiction has established a mechanism for investigating such allegations. The Council has a remit to ensure these mechanisms work effectively to meet the commitments on competitive neutrality.

Secondly, the Council is likely to become highly concerned by any move to reduce the number of generating companies in any jurisdiction.

And thirdly, the current variation in regional prices reinforces the desirability of progress on the development of further interconnection within the NEM, where this is economic. It has always been recognised that, where economically justified, interconnects between regions are an important part of developing the national market. But there have been long delays in considering one particularly important interconnect: the proposed SNI between NSW and South Australia. Improvements in the formal consideration process, in particular in the customer benefits tests, have now been implemented. However, there remains the risk that further delays in considering this proposal would result in failure to meet the policy's objectives of ensuring that there are no regulatory or legislative barriers to interstate trade.

It is true that there as been some progress on the construction of unregulated interconnects, where investors can control the flow along the line, and take a risk on the price differentials between the two ends. However, the Council is not convinced that the policy framework around this section of the market is yet fully developed.

The institutions which underpin the market are an important element of its success. The jurisdictions have recently reviewed liability arrangements in the NEM following the expiry of the transitional arrangements that provided some statutory immunities. This attention to institutional issues is appropriate. Further consideration needs to be broader than governance, and to look at the roles of the institutions concerned in market performance and market development and the way they are accountable to jurisdictions and market participants. The Council intends to engage with jurisdictions to discuss what further steps are needed.

Finally we are yet to see the full benefits of the electricity reforms flow through to domestic consumers.

While the initial timetable for introduction for full contestability was not feasible, due to delays in implementing the national market, a revised timetable is yet to be formally agreed.

Both the industry and governments need to focus on the form of retail competition that is to be introduced. This may range from metering of individual customers to methods that use average consumption profiles to calculate use.

The Council is aware that, in a number of other countries, introduction of retail competition has incurred very high costs, which may not yet be fully justified by the benefits.

Ultimately whichever method is chosen will affect costs, both for the supplier and consumer, as well as in terms of the overall level of competition, and therefore the potential benefit for consumers.

Therefore there needs to be scope for innovation and flexibility in any proposed solution which weighs the benefits of increased choice, competition and ease of transfer for consumers against the cost of implementation, recognising that the balance of these considerations may change over time.

In its Second Tranche assessment of governments' progress with NCP, completed a little over a year ago, the Council looked at the development to date of the NEM. The Council recognised that governments are at various stages with their electricity reform program and that realistic and achievable timetables are necessary to ensure effective and efficient implementation of NCP commitments.

In the lead-up to the Third Tranche assessment to be completed by July next year, the Council intends to closely monitor jurisdictions' ongoing progress against electricity reform commitments to ensure that an environment conducive to the completion of the electricity reform program is fostered.

The Council recognises that the establishment of the NEM and the structural reforms made by each jurisdiction are an important start to the creation of a fully competitive electricity market. However, considerable work remains to be done to see the full benefit of the reforms flow through to users and the Council will be considering, in its third tranche assessment, how well this has been achieved.

WATER

While the reform of the gas and electricity industries has taken a similar approach under Competition Policy, national water reform has taken a somewhat different course.

The water reforms give explicit recognition to the environmental and social impacts of water use and the need for an ecologically sustainable as well as economically efficient water industry.

Australia is now in its sixth year of water reform with the State leaders recently re-committing to the reforms which includes changes to water infrastructure management and structure as well as water prices, rights and trading and addressing environmental problems.

Essentially the reforms promote sound land water management and provide for the development of national principles and strategies that promote water use that makes good business sense, is good for the environment and will ultimately improve water quality for Australians.

In agreeing to the reforms Australian Governments have formally acknowledged, for the first time, that rivers, catchments and aquifers do not stop at State boundaries and that activity in one State can have dramatic effects thousands of kilometres away.

It is now clear that past over use and mismanagement of our water supply has left much previously productive land and many of our natural waterways in a perilous situation. Dry land salinity, caused in part by excessive land clearing and irrigation, is making farmland unusable. For instance, in the Murray Darling Basin, salinity has affected over two million hectares of productive land and is seriously affecting regional towns, such as Wagga Wagga, their buildings, roads and bridges.

Water reform also varies from the Competition Policy reforms in electricity and gas, as the benefits to the general public are not strictly financial. However the benefits do include improvements in the quality, reliability and health of our water supplies and the long-term sustainability of our agricultural industry.

Past methods used to calculate water bills have given little or no reward for reducing overall water usage or using water in an environmental sensitive manner. Traditional water prices have, in urban areas, been linked to property values while in rural areas entitlements were linked to land. Both methods of allocation did not reflect the true cost of providing the water consumed or provide users with the opportunity or incentive to change their water use behaviour.

Reforms to water pricing have meant that water charges, like existing charges for electricity and gas, are increasingly based on the actual amount of water used. As a result the cost of water has increased for some and decreased for others depending on usage.

Ultimately customers now have greater control over the size of their water bill and receive financial rewards for using water wisely. It is extraordinary that the introduction of this payment method has led to consumption in some areas falling by as much as 20% during the first year of implementation.

Businesses and industry also now have a financial incentive to minimise their water wastage, and the use of recycled water is slowly increasing, for such uses as irrigation on farms and recreational land. Australia wide 7% of waste water was recycled in 1999.

In rural areas the separation of water entitlements from land titles is allowing water to used as a valuable and flexible asset. Water can now be bought and sold to meet seasonal demand or traded permanently to meet long term needs. It also enables high value businesses, such as mining, horticulture and food processing to buy water to start up.

Every year in Victorian irrigation areas, between 1-4% of water rights are traded permanently while up to 17% are traded temporarily. This gives producers greater flexibility to alter crop types and maximise farm income. It is a striking fact that the same megalitre of water that produces a tonne of rice may provide five to twenty times the financial return when applied to wine grapes.

Reducing the overall demand for water means that governments can spend less taxpayers' money on new infrastructure such as dams. This is not only good for the environment but makes economic sense by helping to keep water prices down.

And it is both economic and environment impacts that governments have committed to analyse and take into account before undertaking any such new infrastructure projects.

Encouragingly, we have seen a strengthening of both public support and increased media attention given to the need for water reform.

In particular, our elected leaders including Premiers Olsen, Bracks and Carr as well as Federal Ministers Robert Hill and John Anderson continue to publicly stress the urgent need for reform. Such leaders not only ensure that water reform is given the highest priority but continue to reinforce the environment, economic and social repercussions of the challenge before us.

Perhaps of even greater interest is how water reform is uniting 'sometime adversaries' into new and effective alliances.

I would like to read you an extract.

Australia is facing a crisis. Our rural environment and natural resources are suffering. Problems such as salinity, river degradation and pollution, biodiversity loss, and soil degradation show us that the way our land is used and managed is not sustainable.

The only viable future is one that sustains the economy as well as being ecologically sustainable. It is essential that we find new ways of managing and using our land that are more in tune with the needs of our valuable environment. The solution will require a joint effort by our governments, the public sector and, importantly the wider community to achieve this future.

You may be surprised that this is from a recent joint statement by the Australian Conservation Foundation and the National Farmers Federation.

CONCLUSION

Today I have talked a little about the genesis of National Competition Policy particularly with regard to gas, electricity and water reform.

However what are the broader issues that the National Competition Policy and its implementation have unearthed?

It is interesting to look back only a few years and observe the gradually changing attitudes to aspects of Competition Policy in Australia.

While it is more than evident that the policy is not without its critics, in some areas there have been discernible shifts in attitude and perception regarding Competition Policy.

I was interested to note a report in The Age newspaper over the weekend (Stephen Bartholomeusz, 5/8/2000) of a research paper on the Australian economy issued by the US investment bank Goldman Sachs. The nub of the report was that Australia's productivity performance over the past is fundamentally the result of fifteen years of extensive economic policy reform.

Over the past decade Australia's GDP growth has been above the OECD average with only Norway and Ireland performing better.

As noted in The Age report:

"what has driven productivity here is the performance of the service industries – banking and finance, telecommunications, utilities, retailing and wholesaling. Those are the sectors that have been radically re-engineered through the deregulation and competition policies adopted over the past decade and a half."

Critics and opponents of these policies, often vested interests seeking continued isolation from the disciplines of competition that impact upon all of us throughout our daily lives, have resorted to pejorative labels such as 'economic rationalism', misinformation and scaremongering tactics in pursuit of their self interested objectives. Fortunately, successive Commonwealth, State and Territory Governments have shown the courage necessary to pursue a reform agenda focussing on exposing every part of the domestic economy to those competitive disciplines.

The Goldman Sachs report adds to a growing body of evidence that *"the pay off has been a decade of superior productivity economic growth – that the pain has been worthwhile."*(The Age, 5/8/2000)