Submission to the Productivity Commission's Review of National Competition Policy Reforms

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The Productivity Commission's Review of National Competition Policy Reforms

Introduction

The potency of competition has long been a, and probably the, dominant tenet of economics. It has been refreshed and re-anointed throughout much of the world as eth potency of competition in promoting national efficiency has received greater acknowledgement.

National Competition Policy in Australia has involved a two part reform agenda:
- ensuring that public monopolies were reformed along commercial lines and opened up to competitive provision and that those areas of natural monopoly did not discriminate between different users and potential users;
- review of regulations on competition to assess whether these are in the public interest, the onus being on restrictive regulations to be shown to be necessary.

An aspect that was understated was private ownership – Labor Governments found it difficult to acknowledge the demonstrable benefits of having businesses focused on profit maximisation and not encumbered with additional political agendas and dispensing patronage. The political opposition, often engendered by vocal groups funded by those governments, has now made it difficult to bring further privatisation – except in the very significant case of Telstra.

Thus, in spite of the demonstrable success the privatised electricity system in Victoria and South Australia, there is no longer any major constituency pressing for government divestment in NSW and Queensland (though part of the latter's generation is already privately owned).

For similar political reasons that led privatisation to be downplayed as an agent for improved efficiency, labour markets was also absent from the reform agenda. Australia's labour relations system remains rooted in an antiquated model forged to cater for an early 20th Century workplace environment. Whatever its previous merits for facilitating a fair and harmonious workplace system, it was developed when the vast majority of workers were in unions. It is no longer an appropriate model now that over a quarter of workers are not even "employees" and where union membership comprises only 15 per cent of the private sector workforce.

In this Submission we comment on just a few selectively chosen matters to identify issues in the national competition agenda. These include:
- Placing natural monopolies on a commercial footing open to all users;
- The review of regulations;
- Labour market regulations;
- Privatisation.

Natural Monopolies

A Legitimate Area for Government Intervention

Natural monopolies have become the final area of where economic regulation is widely viewed as a legitimate role for government. It is no longer argued by any influential body that competitive markets should be regulated other than under the normal rules of law. Where a monopoly bottleneck occurs, however, its ability to constrain supply can lead to reduced output and productivity. Some restraint on this is considered to be desirable.

Most natural monopolies in the past were government owned and determined for themselves which users had access to their facilities. Even those that were privately owned like that of AGL tended to be vertically integrated and faced little pressure for access to their networks.

Access regulation has opened up these facilities to competition. At the same time the monopoly features that once distinguished them are breaking down in many cases. IPA submissions to the PC and other bodies[1] on gas and electricity have identified areas formerly regarded as natural monopoly that are gradually facing rival suppliers. This is also the case in airports, which the government on PC recommendations has now freed from controls. As addressed below, it is also occurring, albeit all too slowly, with telecommunications.

Problems with the government or a regulator determining sale prices and conditions have been traversed many times – they include an inability of the regulator to know all the details of the business; lack of profit incentives and therefore excessive risk-aversion; reducing the incentive of the facility owner to seek out ways to find extra capacity; and a tendency to favour consumer interests as a result of the political and media influence of the (more numerous) consumers of the product. In some cases this may have resulted in facilities not being built; more readily identified are delays in construction and expansion (e.g. with the Dampier to Bunbury pipeline and with respect to the Queensland Dalrymple Bay port facility).

The PC has recognised such possible shortcomings from the declaration of facilities which requires open access and the subsequent establishment of a price by a regulator. It has made recommendations, notably in the recent Review of Gas Pipelines Regulations, aimed at combating these.

The Revolution in Telecommunications

The copper wire network in Australia is based on an open access regulatory system. Telstra owns and is responsible for the network, while the ACCC forces the carrier to rent the network out to the other carriers. As a result, wholesale price changes are not

[1] See for example, **Energy Forum Issues Paper** No. 32, August 2004, **Gas Pipeline Access and Pricing: The Productivity Commission's Incomplete Agenda** http://www.ipa.org.au/pubs/Moranwebpapers/Energy32.pdf; **Energy Forum Issues Paper** No. 30, April 2004, **Competition Benefits from Electricity Interconnectors** http://www.ipa.org.au/pubs/Moranwebpapers/Energy30.pdf; **Energy Forum Issues Paper** No. 27, August 2003, **Reforming the Regulatory Arrangements for Gas Pipeline Networks** http://www.ipa.org.au/pubs/Moranwebpapers/Energy27.pdf

controlled by market forces, but by a slow and time-consuming process of bureaucratic review, and often legal proceedings. The process can also be used by some companies as a weapon to wield against competitors—by claiming that another carrier is acting anti-competitively, companies can stifle others' business.

The Productivity Commission draft Review of National Competition Policy Reforms mooted that Telstra be split Telstra in two, to create a clean separation between its retail and wholesale functions. IPA sees this as an unnecessary and largely retrogressive step. Among other shortcomings, the line business would be forbidden to offer any cut-rate services to businesses or consumers because to do so would make the separation from Telstra meaningless. The (private) network only entity would be trapped between the ACCC and the telcos as the regulators attempt to micro-manage the industry—a prospect which would excite few firms.

Aside from its deficiencies in creating regulatory impositions, technological advances have actually made slicing Telstra down the middle unnecessary.

At the time of the original sale of Telstra, when nearly all telecommunications was conducted through the same copper wires, a disaggregation of Telstra accompanied by open access to the network system may have seemed attractive. As things presently stand, Telstra may have a monopoly over the copper wire system, but that no longer means that Telstra has a monopoly over the means of communications.

There is presently a revolution under way in 'computing' and 'communications'. Since the first e-mail message in 1971, the most powerful and the most useful of all the myriad functions that computers can fulfil has been that of communication.

Next year, over 35 billion e-mails will be sent each day.

Of course, innovation doesn't stop at e-mail. Developments in user-to-user software have all but broken any social restraint on breaking copyright in music and movies. Similarly, a new system, Voice over Internet Protocol [VoIP], promises to do the same for the copper wire network.

Simply put, VoIP is a method of making a call to a traditional copper-wired phone from a computer through an Internet connection. The quality can far surpass that of traditional phone calls, depending on the individual preferences of the users. (Like most computer programs, VoIP software is highly customisable.)

As long as one is connected to the Internet, the outward call bypasses the copper wire network—and, by doing so, bypasses Telstra's monopoly. The 22 cent phone call which is the Australian norm drops suddenly to a fraction of that. Moreover, calls between two VoIP services become absolutely free. And VoIP is not just idle experimentation. Skype, the most popular program, boasts that it has already been downloaded 33 million times.

To use VoIP services, all that is needed is an Internet connection, (preferably broadband). In Australia, one of the most common methods of broadband access is still through the copper wire networks, a system called ADSL. ADSL is subject to the same forced access regime that traditional voice services are—Telstra owns the lines and is forced to sell access to its competitors by the ACCC.

The telecommunications revolution, however, is also breaking this monopoly. Many Australians are connected to the Internet via their pay-television cable lines. Around the world, companies are starting to lay fibre-optic cables. The capacity of this technology dwarfs that of any previous such technology. In principle, optic cables can carry up to 25 trillion bits per second—enough, in a single cable, to carry all of the conversations in Australia and the United States at any one time, and still leave room to provide broadband speed Internet.

Innovation isn't limited to laying cables. Wireless broadband is steadily becoming more common in homes and businesses, and smaller ISPs are experimenting with full wireless services. Exetel is providing wireless services to metropolitan Sydney for prices comparable with normal ADSL connections.

Combining the extraordinarily fast Internet connections being developed and installed around the world with the monopoly-breaking Voice over IP, it is clear telecommunications is being radically transformed. Hence, any benefits of splitting Telstra in two will, at best, last for a few years, and will then be nullified by technological progress.

The Review of Regulations

In recent years the world has seen a marked shift towards reducing government impediments to international trade. The success of this has been a determining factor in the improved living standards the world has experienced over the past half century.

This is not new – a systematic culling of England's laws and regulations in the 200 years to the 1870's repealed most acts were constraints on competition and thereby contributed much to the industrial revolution.

Building upon a reform perspective that dates back to the early years of the Hawke Government, Australian Governments have sought to reduce regulatory impediments to the efficient operations of business. Prime Minister Hawke, addressing the Business Council of Australia in September 1984, said:

> *I am convinced that after eighty-four years of federation, we have accumulated an excessive and often irrelevant and obstructive body of laws and regulations. We will examine critically the whole range of business regulation, most importantly with a view to assessing its contribution to long term growth performance. We will maintain regulation which upon careful analysis, clearly promotes economic efficiency, or which is clearly an effective means of achieving more equitable income distribution. And we will abandon regulation which fails these tests.*

This offered a clear signal favouring deregulation---perhaps the clearest such signal previously given by an incumbent Government in Australia.

Following the Hawke initiative, regulation review units were set up in the Commonwealth and most States with a view of arresting and reducing the plethora of regulatory barriers to the supplier/consumer interface. Insufficient powers and resources were given for these regulation review watchdogs to have a major impact. But the initiative marked a change in attitude of government intervention in the economy. Previously government leaders had largely taken the view that their actions were unambiguous in bringing benefits. The initiative recognised that government was itself often the problem.

In this respect, Australia's measures echoed, albeit palely, the reforms that underpinned the economic take-off that we call the (English) industrial revolution.

In Australia, most areas of direct intervention of governments in business decisions have been much reduced over recent years. The considerable benefits of this have been recorded and publicised by the P.C.. We have reduced tariffs, abandoned restraints on market entry in transport and communications and opened up the energy industry to new competitors. By contrast, social regulation over standards, pollution and the like has tended to mount. The net position has been a continuation in the explosive growth in regulation.

Over recent decades, governments have adopted and adapted a series of social regulatory measures that have introduced a vast number of impositions on business. These include:

- Overt and hidden taxes;
- Mandated expenditures;
- Mandated activity;
- Resource and property confiscation; and
- Impossibly detailed and/or discriminatory regulation.

The examples are numerous.

More Tax
The GST is the classic new tax that was designed to substitute for other taxes. But it has not done so at either Commonwealth or State level.

The superannuation levy is a tax under another name. For companies, it is a compulsory payment (tax) made to private-sector tax 'farmers' (superannuation funds). For most retirees it will do little more than substitute for the public pension. The supreme irony was that, having set up this new levy, the government then introduced new taxes on it. They forced people to save for the future then confiscated a significant part of those savings.

The various workcover schemes fall into the same category, as do compulsory insurances for public and product liability. Do we really need $20 million of public and product liability insurance to set up a market stall?

More Costs
Mandated expenditures are a way of financing government policies while keeping the cost out of the public budget. An example is the compulsory courses which farmers

must attend and pay for to certify them to use agricultural chemicals—something they have been doing for many decades by reading the instructions on the package. The courses are provided by third parties and thus never appear as government impositions. Various supplementary compulsory trades certificates for plumbers, builders, etc., are in the same category.

Obligations to follow special procedures have also increased. Even construction of a suburban car port now often requires a soil test before a cement base may be laid – an unnecessary step that adds many hundreds of dollars to the cost.

More Blackmail

Mandated activities usually come in the form of 'If you want to do A, you must do B'. So, if you want to put up a building, you may have to provide facilities in it that are unrelated to your business. Or, if you want to clear 20 trees, you may have to plant 200. A company exerting this sort of leverage would be accused of third line forcing (blackmail) under s47 of the *Trade Practices Act*.

More Confiscation

Confiscation of property and resources without appeal or compensation now appears principally as environmental legislation. Native vegetation and fauna protection laws are designed to lock up private land and resources by forbidding activity over large areas of rural Australia without compensation. The Queensland *Vegetation Management Act* is the latest egregious example.

More Obfuscation

The list of over-complex, unadministrable and discriminatory legislation is endless and growing.

The environmental legislation mentioned above is a prime example. No-one can comply with it. No-one can administer it. It is in a constant flux. It discriminates against the rural sector even as it absorbs farmers' resources in endless, fruitless 'consultation' processes. Do we really need a native vegetation plan for every property in NSW?

Finally, we have the ACT enacting specific, discriminatory industrial manslaughter laws purely for business on top of existing criminal law.

For most businesses taking on a few employees and growing their business brings a whole range of new costs and risks—unfair dismissal, multiple leave provisions, anti-discrimination programmes, superannuation levies, workcover, etc., etc. And every rule has its own bureaucratic policeman who is anxious to 'help' the hapless business person incur the compliance costs. Such 'help' is increasingly mandatory and subject to a fee. The point is that all this adds to the costs and extends the risks faced by business.

For small business the difficulty is compounded by governments simplifying their own task through uniform legislation. Thus 'one size fits all'—which means that small businesses, with few in-house resources, face the same compliance demands as a large business. The fact is that most small businesses cannot even *know* the law that applies to them.

The level of noise from the business sector on these matters is generally drowned out by the strident protests and demands from hundreds of other special interest groups. Business concerns, particularly with the slow growing canker of incremental exactions and regulations, do not make good copy for the tabloids or television.

Business people, by definition, generally have very little spare time to study the dense verbiage of government documents or to travel to the multiple government sources of the anti-business policies. Moreover, the reach of government into business and personal life is now so deep and extensive that there is always a fear factor for protesters that the official or politician with whom they are dealing has ways to make life uncomfortable. By contrast, the environmental activists sitting in front of a bulldozer will generally not have their livelihood at stake—it may be their livelihood.

Addressing Over-Regulation

A major issue is how to re-energise the regulation reduction program. Stopping the cancerous growth of regulation from further weakening our business sector involves a few, fundamental changes in attitude and behaviour.

All levels of government should just stop:

- **feeling they have to respond to every demand from every interest group for government intervention;**
- **trying to eliminate every risk in society; and**
- **using the business sector as a vehicle to enact policy—virtually as an arm of government.**

All this does not imply more regulatory review agencies to examine new and existing regulation. Experience suggests that these quickly become public service Enemy Number One and they rarely have the support of their sponsoring minister.

Ministers and officials should have direct responsibility for a substantial rolling programme of deregulation.

These issues have also troubled overseas commentators. A past Chairman of the US Council of Economic Advisers once said, ‘Don’t just stand there, undo something’. Hahn and Litan[2] suggest a re-affirmation of the regulatory review initiatives that reached a high point in the Reagan years and inspired such measures in Australia. They argue that:

- The Office of Management and Budget (OMB) perform cost benefit reviews on all regulations;

[2] http://aei-brookings.org/admin/authorpdfs/page.php?id=1063

- All departments be required to submit to the OMB annual costs and benefits of major regulations
- OMB issue a scorecard on overall regulations and departments also issue one on each of their major regulations.

The closest equivalent to OMB in Australia is the Office of Regulation Review (ORR) located as a separate body within the PC. Over the past 15 years ORR has developed the considerably increased presence necessary to be effective. Even so, the net overall level of regulatory intrusion has increased over this period. Above all, it has been environmental regulations that have been the pace-setter. A strong re-affirmation in terms of a review regulation statement by the Prime Minister would be important to reinforce the ORR's authority.

OMB in the USA is a part of the equivalent of the Department of Finance and this may be a preferable umbrella department for the ORR. Victoria has experimented with an ostensibly independent Commission of Regulation and Efficiency. However, it is not clear that this is always able to exercise the strong powers to review the essentiality of new regulations that its charter specifies.

There is, however, no perfect placement for a regulation review agency. The key factor is its powers to enforce the spirit and letter of government's stated desire to pare back considerably on regulatory intrusion within the economy

Labour Relations

Since 2002 the Institute of Public Affairs has considered the issue of trade practice/competition law versus industrial relations/labour law.

By their intent, structure and nature

- Trade practice law seeks to prevent price fixing and ensure competition.
- Industrial relations/labour law sanctions price fixing and prevents competition.

The two legal and institutional regimes are by their nature diametrically opposed. Generally the justification for treating industrial relations law differently to competition law is based on the view that labour is not and cannot be treated or regulated like a commodity. That is, if free markets are allowed to operate for labour that labour would be exploited.

The defining point in the application of the two regulatory regimes always has been the nature of the contract at play.

- If the contract is employment (contract of service) labour law applies.
- If the contract is commercial (contract for services) competition law applies.

However the changing nature of work has caused the difference between the two to become blurred and presents a challenge to both competition and labour law.

- Once in excess of 90% of the workforce worked under employment contracts.
- Now 28% of the private sector workforce works under commercial contracts.

Generally the response to this challenge has been for labour law to seek to extend its reach either legally or by application into commercial contracts. Further, competition law has generally acquiesced to this encroachment.

In 1999 the National Competition Council reviewed the interaction of labour law with competition law. Unfortunately, the NCC review and conclusion treated the issue in a cursory manner at best. The NCC concluded that the existing employment exemptions in the Trade Practice Act [s51(2)a] were adequate and that competition issues were adequately addressed through the provisions and operation of the Workplace Relations Act. However the IPA takes the view that the WRA and all state labour law in Australia ignore the needs and rights of consumers and competition principles. Further that Australian labour law facilitates systemic destruction of competition.

It is a fact that

- If business people get together in a room to discuss and collude over prices and market share in an industry they can go to jail.

But

- If the same business people get together in a room with a union official to discuss and collude over the price for labour they collude legally and their agreements will be given legal sanction. In addition, this capacity to legally collude can give the cover and mask for illegal collusion over market share. This is said to happen particularly in the commercial constructions sector hidden by a culture of silence. The Cole Royal Commission into the construction sector unearthed some such collusion.

This perspective of Australian industrial relations law is a taboo subject within the culture of the business community. Yet when industrial relations is viewed from this perspective of competition issues, the systemic and legalized rorting of competition law frequently becomes glaring.

The IPA has sought to stimulate discussion on thistopic by

- Making a major submission to the Cole Commission.
- Holding seminars in 2003 and 2004
- Publishing papers and articles.

There is a point where industrial relations and labour law intersect defines the nature of and extent to which a free market is allowed to penetrate the Australian economy. Wherever this may lie, the current balance is badly servicing the needs of Australians and the Australian economy by corrupting the operation of free markets.

The IPA has published documents on the issue on its website under the "Work Reform" unit with a wide range of views represented[3].

Private and Public Ownership

Competition to be potent as a promoter of wealth must be accompanied by clear private property rights. Though downgraded somewhat in the economics profession from the late 1880s this was taken for granted and largely implicit in the works of

[3] http://www.ipa.org.au/Units/Workreform/workreformunit.html

early economists. Jean-Baptiste Say, writing in 1803, probably spoke for the whole profession when he wrote that only with secure property rights "can the sources of production …attain their utmost degree of fecundity", a truth he regarded as "so completely self-evident that demonstration is quite superfluous." (p. 98)

In this, he was echoing something long familiar to the ancient philosophers. Aristotle noted that

> What is common to the greatest number gets the least amount of care. Men pay most attention to what is their own: they care less for what is common. (Politics, Book II, Chap 3.)

The failure of the centrally planned socialist economies demonstrated the importance of property rights and the rule of law at the economy-wide level, the success of privatisation demonstrates the potency of individual property rights at the level of the individual firm. The study of some 1370 firm-years by Dewenter and Malatesta[4] shows that firms, once privatised, have a superior return on assets (actually over twice the return). In addition, the data shows that returns on assets and equity increased more rapidly for firms that were privatised than had been found in the period prior to privatisation.

This latter finding is important because governments normally take energetic steps to improve the management of state-owned firms prior to privatisation. In doing so, they will have already implemented of the most easily won improvements.

The Hilmer Report was written for and commented upon in the context of a reformist government that was, nonetheless, ALP and anxious to avoid interpretations that might beget a wholesale privatisation. At the time it was argued that "corporatisation", by placing a private sector type board of directors and emphasising the goals of the GBE as maximising the wealth of the shareholder, would bring an equivalent outcome to private ownership. Such views, never strongly held by those intent on studying outcomes of industries in public versus private hands, are now severely tarnished.

Government versus Private in Australian Electricity

Experience in Australia has demonstrated that private ownership has delivered better outcomes in terms of cost effectiveness and innovation than has generally been the case with government owned firms. The reasons for this have long been debated. They include:

- The inability of government firms to act independently of government as a shareholder intent on pursuing a wide range of goals
- Governments proclivity to appoint some board members as rewards for services rendered to them and to ensure that board members will not prove too independent from their own goals

[4] Dewenter K.L., and Malatesta P.H., *State-Owned and Privately-Owned Firms: An Empirical Analysis of Profitability, Leverage and Labor Intensity*, March 1999, School of Business Administration, University of Washington Seattle. This is an update of *Public Offerings of State Owned and Privately-Owned Enterprises*, Journal of Finance, 43 Feb 1997, p 275-298.

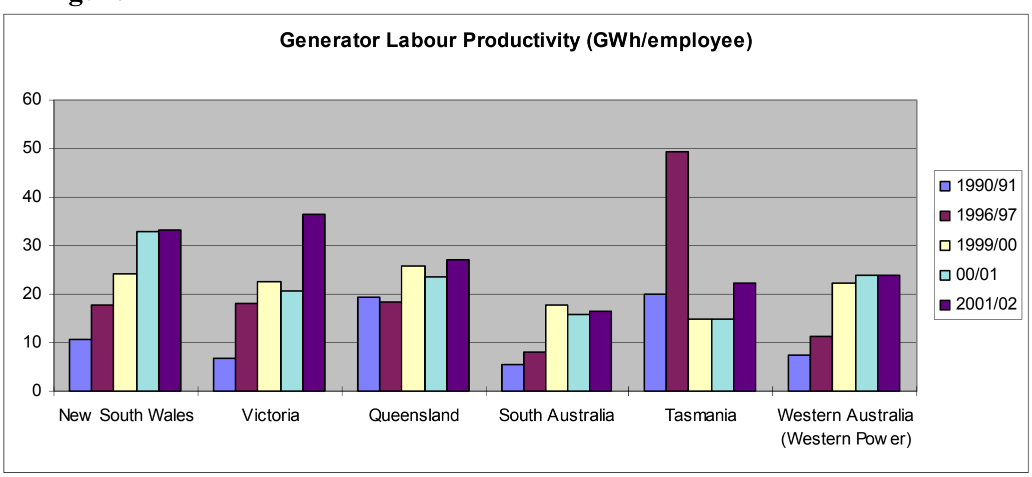
- The inability of a government firm to sell itself to new owners who might have new ideas on how to unlock the value inherent in the firm
- The inability of government owned firms, constrained by the government Treasury, to embark on innovative new investments or to sell off parts of their portfolio that fit less well with their overall strategic direction

Lower costs brought about by privatisation and corporatisation in Victoria include outsourcing generally, including competitive bidding for extensions and augmentations. In addition we have seen:

- eliminating over-manning at power stations;
- improving the operations of the power stations so that they are available to run for a greater amount of time
- eliminating over-manning at power stations;
- reduced losses in electricity distribution
- improved system reliability

Eliminating over-manning at power stations
In Victoria, there were in the early 1990s some 10,000 people employed in electricity generation compared to less than 2,000 direct employees today (to which should be added the equivalent of about 500 in employee equivalents involved in contracted-out work); this, illustrated below has taken place in a system that has increased its output by 35 per cent. Figure 1 illustrates the achievements and compares outcomes in different states.

Figure 1

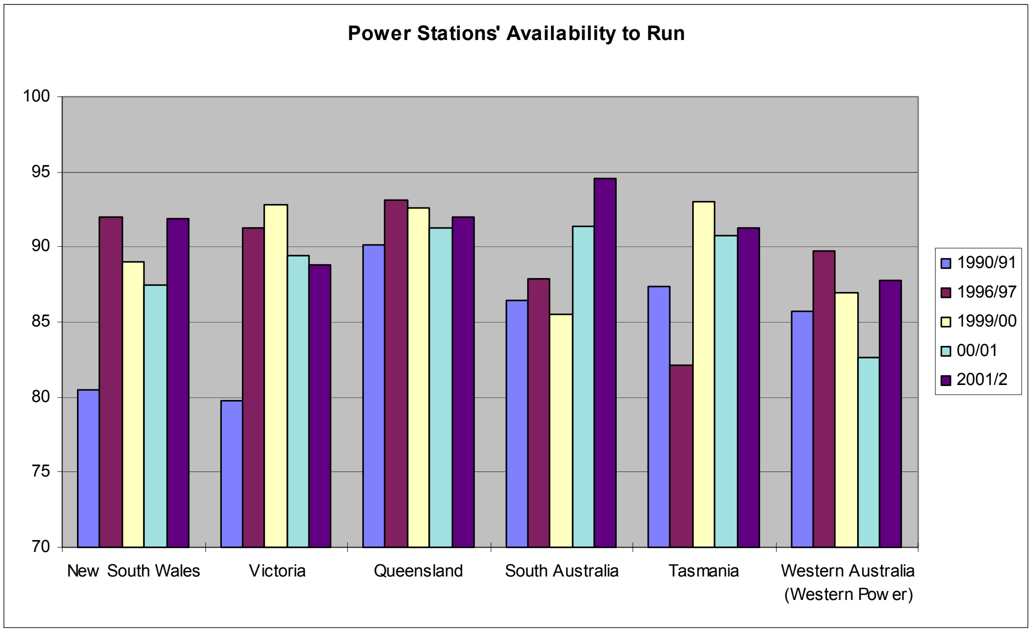


It is true that these improvements in productivity had an adverse effect on the employment in areas where generation takes place, especially the Latrobe and Hunter Valleys. However, employing excessive numbers of people is not a sound means of ensuring sustainable economies, either national or regional. In many cases the electricity businesses in the pre-Hilmer era were used as a sink for job creation but such policies, a re-run of which can be observed in the case being made for subsidising wind power, are always likely to be counter-productive.

Improving the operations of the power stations

Managing power stations so that they are available to run for a greater amount of time means an improvement in capital productivity. The performance in the different jurisdictions is illustrated in Figure 2

Figure 2



Reducing distribution costs

The changed ownership arrangements facilitated the introduction of new methods of work and gains from innovations like live-wire maintenance.

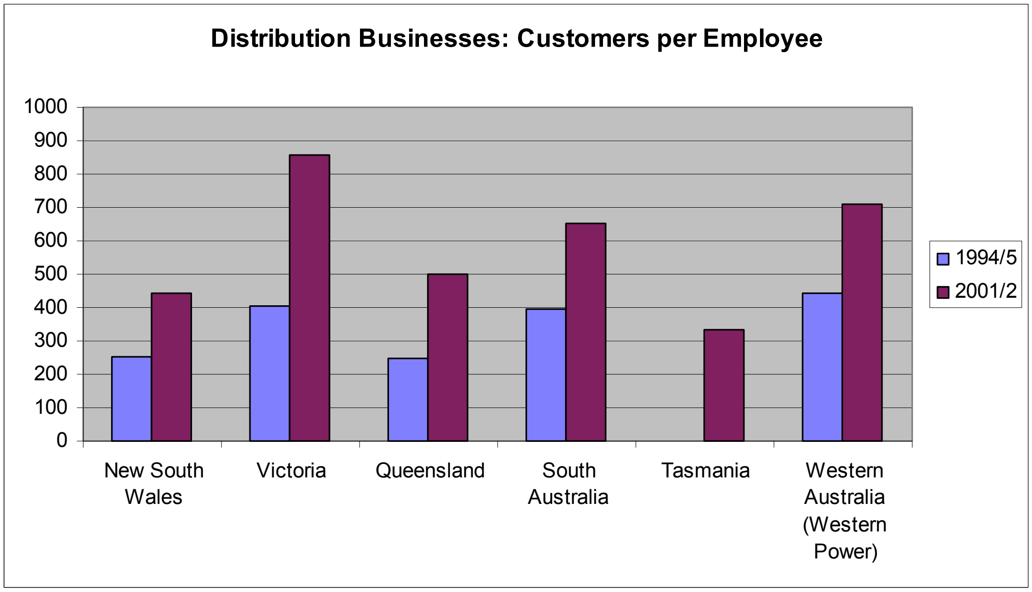
Across Australia, considerable improvements have been made in the electricity distribution industry's labour utilisation rates. This can be traced to the changed corporate governance that has taken place from integrated public service-type arrangements to businesses operating under company law.

As in the case of generators, Victorian distributors/retailers have shown far greater improvements in productivity than those of other states. All states' electricity businesses have lifted productivity in terms of customers per employee by over 60 per cent since 1994/5. In Victoria's case the outcome has been a greater than doubled productivity of employees in electricity retailing and distribution.

In terms of customers per employee, Victorian increased productivity levels have resulted in a formidable gap developing with other states. By 2001/2, Western Australia and South Australia were at about 75 per cent of Victoria's productivity; NSW and Queensland were between 50 to 60 per cent of the productivity of Victoria while Tasmania was less than 40 per cent this state's levels.

Figure 3 illustrates the productivity developments that have been seen.

Figure 3



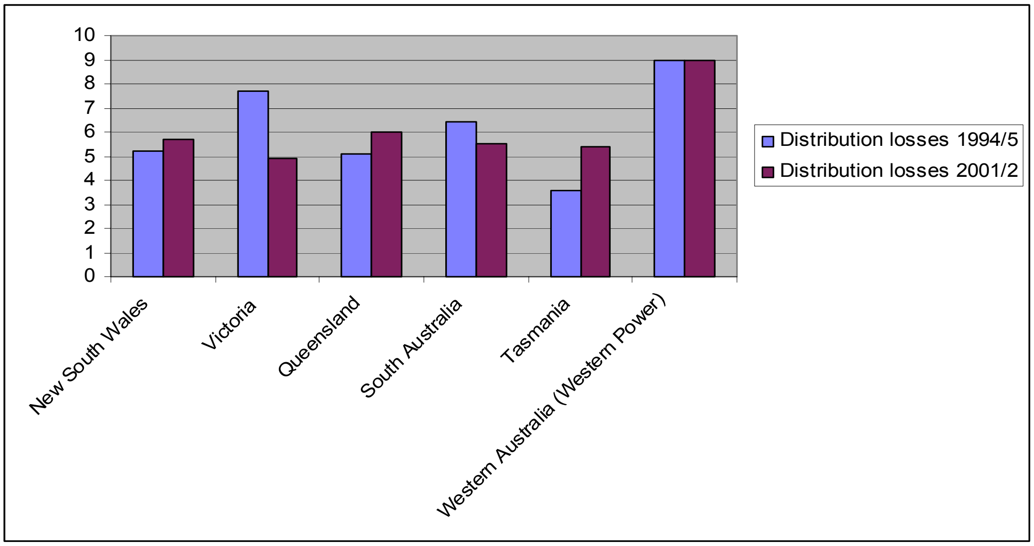
Source: ESAA

Reduced Losses in Electricity Distribution
Reduced losses in distribution translate into increased effective supply. In this area as with others, Victorian distributors have reduced the losses in distribution much faster than those of other states.

Victorian losses have been reduced by 36 per cent; other state systems except for that of South Australia have actually experienced increases in losses. For Victoria, since 1994/5 the more careful control of distribution lines has increased the available amount of energy delivered to the customer by 2.8 per cent, a valuable saving in costs and emission levels. During the same period, increased distribution losses cost NSW, Queensland and South Australia 0.5 per cent, 0.9 per cent and 1.8 per cent respectively of the energy generated.

Figure 4 provides a snapshot of losses between 1994/5 and 2001/2.

Figure 4



Source: ESAA

These and other economies have more than offset the increased costs that have developed as a result of the load becoming more peaky and requiring increased capacity due to the growth of summer air-conditioning demand.

Improved System reliability

Increased prominence has been given to system reliability after well publicised area-wide failures in the north east of the North America and in Italy. Some have placed the blame on such failures on the market system putting a greater priority on profit maximisation and correspondingly reduced emphasis on built-in redundancy.

A sample of two major failures is a slender basis for building an empirically based case. This is especially so when it is considered that the other major failure – and one involving a more prolonged outage – was that of the publicly owned system serving Auckland. Even in this case some writers have sought to portray it as a failure of privatisation since the New Zealand system had been corporatised[5].

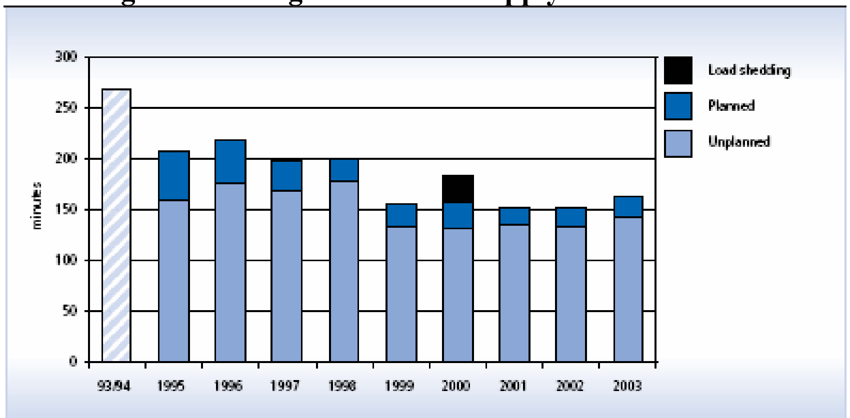
For Victoria, while comprehensive data was not kept of reliability prior to disaggregation and privatisation, there is sufficient evidence available to be confident that the reliability of the system has improved. This is shown in Chart 8.

Victoria's Essential Services Commission collects data by distribution business. The two charts below outline the data on minutes off supply. They show a progressive improvement in all five distribution businesses and a marked improvement since 1993/4, the last full year of operations of the SECV. Although the reliability of the rural system, a proxy for which can be seen on the second part of the chart with Powercor and TXU, is not on a par with the urban system it has shown a clear improvement over the period. Rural systems generally are not as reliable as urban systems for a number of reasons. These include the inherent thinness of demand and

[5] The most well known Australian failure, Victoria's gas outage in 1998, was for a system that had always been under private ownership.

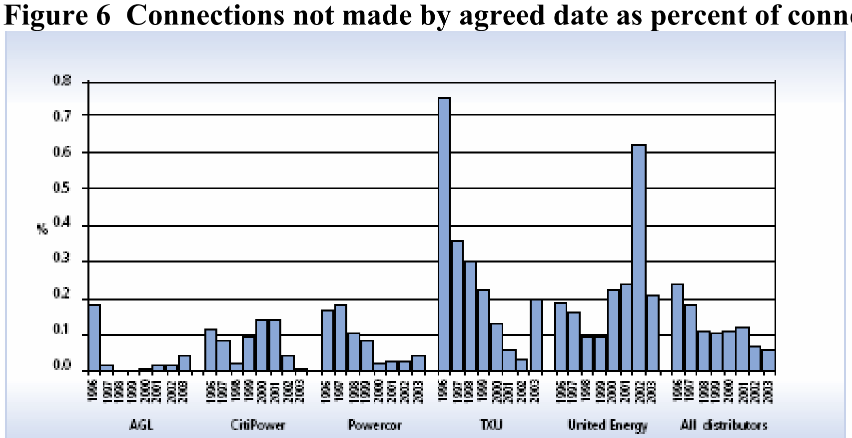
consequent inability to justify the same level of built-in redundancy, and the longer distances that crews must travel to fix breakdowns.

Figure 5 Average minutes off supply



Source: http://www.esc.vic.gov.au/apps/page/user/pdf/ElecDistReport_CalendarYr2003_August04.pdf

Figure 6 Connections not made by agreed date as percent of connections made



IPART of New South Wales also collects this sort of data for the state's corporatised distribution businesses. As the following table shows, the number of planned interruptions in NSW appears to have increased over recent years, particularly outside of the main urban area covered by EnergyAustralia.

Unfortunately information is not available on unplanned outages and the history is not readily available for earlier years.

Figure 7

Table A4.5 Number of planned interruptions to supply

DNSP	1998/99 No.	1999/00 No.	2000/01 No.	2001/02 No.
Australian Inland	186	363	442	749
Country Energy				6,419
Advance Energy	1,519	1,687	1,648	
Great Southern Energy	2,380	2,613	2,142	
NorthPower	1,766	2,470	2,553	
EnergyAustralia	850	983	986	967
Integral Energy	1,428	2,156	2,886	2,841
Total	8,129	10,272	10,657	10,976

Table A4.6 Number and percentage of planned interruptions to supply where DNSPs did not provide the required notice to affected customers

DNSP	1998/99		1999/2000		2000/01		2001/02	
	No.	%	No.	%	No.	%	No.	%
Australian Inland	0	0.0	4	1.1	11	2.5	0	0.0
Country Energy							92	1.4
Advance Energy	37	2.4	18	1.1	20	1.2		
Great Southern Energy	na	na	na	na	20	0.9		
NorthPower	14	0.8	4	0.2	12	0.5		
EnergyAustralia	20	2.4	20	2.0	12	1.2	4	0.4
Integral Energy[53]	na	na	14	0.6	73	2.5	7	0.2
Total	71	0.9	60	0.6	148	1.4	103	0.9

Source: Electricity distribution and retail licences Compliance report for 2001/02 Report to the Minister for Energy; http://www.ipart.nsw.gov.au/,

Although the information for NSW is fragmentary, this indicator would appear to suggest the system in that State has not shown the degree of improved reliability that is apparent in the privatised Victorian system. Other evidence that may similarly be interpreted to show other than an expected level of improvement includes data on call centre drop outs and street light repairs.

Inflexibilities Inherent in Public Ownership

The Victorian State Electricity Corporation and Gas and Fuel were split into some 15 major businesses, comprising five retail/distribution electricity businesses, three retail/distribution gas businesses and two transmission businesses. In the period since privatisation, every one of these businesses has undergone changes of ownership and/or fundamental changes in structure. By contrast, each of the GBEs in NSW and Queensland have shown little change, the main one being an amalgamation of some of the smaller NSW retail/distribution businesses.

Ownership changes in the Victorian industry are shown below.

United Energy	Electricity	Aug-95	Utilicorp consortium. Floated; now distribution Alinta, retail AGL.
Solaris	Electricity	Oct-95	AGL/Energy Initiatives (US) joint venture; EI bought out by AGL
Eastern Energy	Electricity	Nov-95	Texas Utilities Australia; sold to Singapore Power
Powercor	Electricity	Nov-95	PacifiCorp; distribution sold to HKI; retail sold to Origin
Citipower	Electricity	Dec-95	Entergy Corporation; distribution to Powercor/CKI; retail to Origin
Yallourn Energy	Electricity	Mar-96	PowerGen consortium; sold to China Light and Power
Ecogen	Electricity	Mar 99	AES; sold to Babcock and Brown
Hazelwood	Electricity	Aug-96	National Power/PacifiCorp consortium; now IP, expansion into S. Australia;
Loy Yang B	Electricity	Apr-97	Edison Mission Energy; sold to IP
Loy Yang A	Electricity	Apr-97	Horizon Energy Consortium; sold to AGL led consortium
PowerNet Victoria	Electricity	Oct-97	GPU; sold to SP
Southern Hydro	Electricity	Nov-97	Infratil Australia Consortium; sold to Meridian
Westar/Kinetik	Gas	Jan-99	Texas Utilities; sold to SPI
Multinet/Ikon	Gas	Mar-99	Consortium -Utilicorp United Inc, AMP; sold to Alinta/AGL
Stratus/Energy 21	Gas	Mar-99	Boral / Envestra; retail now Origin
Transmission Pipelines Australia	Gas	May-99	GPU Inc; floated
Duke Energy	Gas		Bought from BHP sold to Alinta

The changes in these companies' structures reflect the changing nature of the energy industry as it moves from central direction to a market based system. Among the implications of this change are the movement to reduce risk and the alliances that consequently need to be forged between entities at different stages in the supply chain. In addition, the price control of the regulated areas of the supply has encouraged a different type of shareholder from those originally buying those assets. As time goes on a further change is being intensified – the risk of additional costs from greenhouse measures, including those measures being required of incumbent businesses like International Power's Hazelwood facility which the Victorian Government has required to incur additional cost as a condition of its license extension.

Although redeployment of a business's assets may not indicate a greater efficiency of response to the politico-economic environment it faces, the rapidly changing nature of the electricity and gas industries indicates that such a response is to be expected. It has not occurred with the state owned businesses which have, for the most part, been forced to react to the changes in a defensive and static manner. Their ministerial shareholder, having witnessed the effects of corporate excesses in the 1980s, excesses that came close to bankrupting state governments in Victoria and South Australia, has been very conservative in permitting the GBEs to expand by acquisition and has no remit to undertake any major asset disposal.

The foregoing remarks have clear implications for the ownership of the Queensland, NSW, Tasmanian and Western Australian electricity industries that remain government owned. Productivity dividends available from privatisation, in addition to those stemming from enhanced competition, are available in the energy industries.

Much the same can be said of water businesses. In NSW irrigation suppliers have been privatised. Their earliest acts under a responsible profit-oriented board, were to pare labour costs by cutting out waste and out-sourcing. Further privatisations of water businesses should be explored both in the rural irrigation suppliers (for states other than NSW) and with urban water suppliers.

Finally, we have the case of Telstra. The firm's semi privatisation has been accompanied by a radical improvement in its productivity and replaced a sluggish public sector firm with one that has demonstrated innovation and a capacity to take risks in order to obtain profits.

Nonetheless, its effectiveness is hampered by its 50 per cent public ownership. As a high profile firm, Parliamentarians demand considerable effort by its employees in serving their consultative wishes. Given its ownership profile Telstra is obliged to accede to these demands. This in itself creates a considerable "paperburden" that would be much reduced in a fully privatised firm. However, it also creates other cost impositions. For example, Telstra faces pressures not to utilise offshore call centres to the full extent that it could. Similarly, it may feel obligated to provide more in the way of unprofitable regional services that it would freely choose (in this respect, remote areas of Australia are far better served than comparable areas in the USA).

Full privatisation can still allow conditions to be imposed on Telstra and other firms. But the advantage of these in a private firm is that their costs can be more readily contracted bringing both greater certainty and a limitation on the impositions, as well as a better monitoring. Full privatisation of Telstra should therefore be a priority measure that will complement the benefits brought about by national competition policy.