
**FROM INDUSTRY ASSISTANCE
TO PRODUCTIVITY:
30 YEARS OF 'THE COMMISSION'**

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Foreword

It is 30 years since the Industries Assistance Commission, the first predecessor of the Productivity Commission, was created by Act of Parliament. To mark that milestone, it seemed appropriate to provide an account of the institution's activities over those three decades.

For an organisation to write its own history can be fraught, especially if, like this one, it has undergone several transformations and generated considerable controversy along the way. Our purpose, however, has been a modest one: to provide a brief 'document of record', eschewing historical interpretation (enticing though it may be). Disentangling the two is not always easy, of course, and we may not always have succeeded.

Indeed, looking back from the vantage point of the Australian economy today, it is hard not to conclude that the efforts of the Commission, often against the grain of political or public opinion, have been worthwhile — and that the willingness of successive governments to sustain such an institution has been vindicated.

The effectiveness of any institution is determined not only by its mandate and structure, but also by its people. This history is therefore also a tribute to the many people, at all levels, who have contributed to the organisation's work over the years. And it reflects our appreciation of the role played by many people outside the organisation — in government, business, community groups and the media — who have participated actively in the Commission's processes and thereby helped ensure the integrity of its findings and policy advice.

Gary Banks
Chairman
Productivity Commission

December 2003

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Abbreviations

ABS	Australian Bureau of Statistics
ABARE	Australian Bureau of Agricultural and Resource Economics
APEC	Asia Pacific Economic Cooperation
BACA	Department of Business and Consumer Affairs
BIE	Bureau of Industry Economics
BRRU	Business Regulation Review Unit
CCNCO	Commonwealth Competitive Neutrality Complaints Office
COAG	Council of Australian Governments
EPAC	Economic Planning Advisory Commission
GATT	General Agreement on Tariffs and Trade
GBE	government business enterprise
IAC	Industries Assistance Commission
IC	Industry Commission
ISC	Inter-State Commission
NCP	National Competition Policy
OECD	Organisation for Economic Cooperation and Development
ORR	Office of Regulation Review
PC	Productivity Commission
PMV	passenger motor vehicle
RIS	Regulation Impact Statement
SAA	Special Advisory Authority
TAA	Temporary Assistance Authority
TCF	textiles, clothing and footwear

INTRODUCTION

1

Introduction

The Productivity Commission has played a key role in policy development and reform since its formation in 1998. But its roots go much deeper. It is the lineal descendant of the Industry Commission and, before that, the Industries Assistance Commission (IAC), which was established 30 years ago. In turn, the IAC was created from the Tariff Board, which was founded in 1921.

Visible in the Productivity Commission are important features of the earlier agencies, but there are differences too. The main purpose of this paper is to trace the continuities and the changes over these past 30 years, in terms of Australian Government policy objectives and the tasks, tools and ethos of 'the Commission'.

Australian economic policy, driven by market pressures and the contributions of many institutions and individuals, has changed over the past three decades from a narrow, protectionist and anticompetition focus to a more open, pro-competition and community-wide focus. The Commission has helped to lay the foundations for these new policy directions.

Given its role over the years in critically examining existing policies and arguing for change, the institution has itself inevitably attracted some critical attention. Much of this has been played out nationally, but there has also been interest in the Commission 'model' by foreign governments and international agencies.

What makes the Commission unusual, if not unique, among public sector institutions around the world, is the combination of three core principles which it embodies:

- *Independence.* The Commission operates under the protection and guidelines of its own legislation. It has an arm's length relationship with the Government, which can tell it what to do but not what to say.
- *Transparency.* The Commission's advice and the information that it generates are open to public scrutiny.
- *A community-wide focus.* In providing advice, the Commission seeks to advance the interests of the community at large.

How these have manifested themselves in the activities and advice of the three commissions over the past 30 years is a central theme of this brief history.

The independence of any government agency depends not only on statutory form, but also on custom and use, and adequate funding. These aspects have varied over the years, as governments have periodically come under pressure from some quarters to curtail the institution's role or scope.

But the organisation has not only survived, it has seen its mandate renewed and broadened. The new Chairman of the Productivity Commission commented shortly after its establishment in 1998:

I am speaking to you today as the head of an organisation under some pressure. Still, it is hard to think of a time when that would not have been so ... Along the way, the previous commissions went through some difficult times, facing strong opposition from sections of industry and the union movement, as well as within government itself. The institution found itself under threat of closure or emasculation on several occasions. At the same time, it had its supporters. They included some industry groups which did not always like its findings, but valued the transparency and consultative nature of its processes. And successive governments from both sides of politics have seen sufficient value in the institution to renew and expand its mandate. (Banks 1998, p. 1)

Five years on, the Productivity Commission has a full program of inquiries and research. In reappointing Gary Banks as Chairman in 2003, the Treasurer declared:

... the Productivity Commission has provided a vital, independent source of public information and advice to government on policy reforms needed to underpin Australia's long term prosperity. (Costello 2003)

A widening remit

The Tariff Board had a much narrower remit than that of any of its successors. It was confined to advising on taxes and subsidies on internationally traded commodities, and on some other trade barriers. Its statutory objectives were to encourage the development of 'economic and efficient' Australian industries, which it sought to discharge for most of its life by recommending additional tariff assistance. In the 1960s, however, the Board became increasingly aware of the damage that such 'made-to-measure' tariff protection caused to economic efficiency and growth.

The evolution of understanding by the Tariff Board, and its persistence in delivering its new message, added to the impetus to broaden the purview of its successor, the IAC. Included in the remit of the new organisation were all forms of Commonwealth government non-regulatory assistance to industry, both primary and secondary. Although most IAC reports continued to be about assistance to a product or to an industry, there were also important inquiries into general assistance measures (for example, export incentives), and rural reconstruction and rural income fluctuations. And, as a harbinger of things to come, the IAC reported to the Government on approaches to general reductions in protection (1982) and on harmonising the customs tariff (1986).

The initial policy objectives guiding the IAC included not only economic development, but also the wellbeing of Australians and the efficient use of

the community's productive resources. Written into the *Industries Assistance Commission Act 1973* was the requirement that the IAC have regard to the desire of the Government to 'recognise the interests of consumers and consuming industries likely to be affected by measures proposed by the Commission' (appendix A). Far from being instructed to advise on protecting industry, the IAC was to account for the Government's desire to 'facilitate adjustment to structural change', while minimising the consequent social and economic hardship.

At times, however, the IAC struggled with some 'loaded' references, and it lacked the legislative mandate to report on matters that were incidental to references, thereby narrowing its focus. Further, it was transferred for a time to the Industry portfolio – which had a sectional, not a community-wide, focus. It was starved of referrals from the Government at a time when it lacked the power to generate its own work. Having helped to create the policy climate for reform of international trade policy, the IAC was somewhat sidelined while that reform was being initiated in the 1980s. Nonetheless, its transfer to the Treasury portfolio in 1987 heralded a revival.

In the *Industry Commission Act 1989*, the Government articulated for the first time its desire to reduce industry regulation, consistent with its social and economic goals. The Business Regulation Review Unit was thus incorporated into the Industry Commission. Also, the Commission was charged with analysing the social and environmental consequences of recommendations in its inquiry reports.

Accordingly, the Industry Commission reported on matters that were far broader than those of the IAC. Included not only were a wider variety of industries, but also the operations of statutory marketing corporations, urban planning and transport, public housing, workers' compensation, occupational health and safety, charitable organisations and defence procurement. Its research helped prepare the way for the National Competition Policy (NCP) framework agreed in 1995, and the Commission went on to release reports on competitive tendering by public agencies, State and local government assistance to industry, private health insurance and ecologically sustainable land management.

The creation of the Productivity Commission in 1998 brought with it a broader role and scope than its predecessors. The Commission is required to focus on ways of achieving a more efficient and productive economy, as the key to higher living standards. It addresses a wide range of reform issues with microeconomic dimensions, including not only impediments to improved economic performance in all sectors of the economy, but also areas of social, environmental and economic interaction. Examples have included major reports on Australia's gambling industries and the Great Barrier Reef, and its contribution to what will be a regular inter-governmental report on Indigenous disadvantage.

The Commission's remit has also on occasion extended beyond Australia. For example, New Zealand was party to its references on mutual recognition of regulatory standards, and on aspects of the closer economic relations agreement between the two countries.

Other organisations have been directly involved in this process of institutional evolution and amalgamation. First, the Industry Commission absorbed the functions of the Inter-State Commission and the Business Regulation Review Unit. Later, the Bureau of Industry Economics and the Economic Planning Advisory Commission merged with the Industry Commission to form the Productivity Commission. These other organisations made a substantial contribution to shaping the work of the new commissions.

A strong analytical tradition

In helping build a domestic constituency for reform, a consistent analytical theme over the years has been that preferential treatment of one group typically comes at a cost to others. A second, more strategic, proposition which has also been consistently maintained, is that the benefits of reform should not be delayed until the timing is 'ideal'. For example, in the trade policy domain Australia has gained most from unilateral, domestic reform; much of which would have been forgone had implementation waited on the actions of other nations. The Commission has also recognised that reforms that yield net benefits to the nation, can also inflict unreasonable short term harm on some sections of the community. They have accordingly emphasised the role of phased implementation in achieving good policy outcomes.

It has proved crucial to the reform process to be able to explain when and to what extent assistance provided to one industry harms producers in other Australian industries, as well as consumers or taxpayers. The Commission sharpened these explanations by quantifying the costs of industry protection and assistance, and the gains from microeconomic reform. Quantification of effects required appropriate tools of analysis.

For tariffs and other assistance to industries which competed with imports, the IAC developed the use of effective rates of assistance, building on the pioneering work of Australia's Professor Max Corden. While the number of detailed tariff inquiries fell, their breadth and complexity increased, as did the depth of the analytical approaches employed. GA (Alf) Rattigan, the first Chairman of the IAC, together with one of his senior advisors at the Commission, Bill Carmichael (later to become Chairman himself), realised the importance of developing quantitative models capable of analysing the economy-wide consequences of policy and policy changes for economic activity and employment, as well as for regions, sectors and individual industries. Effective rate calculations, although revealing, were not enough.

Consequently, the IAC helped construct increasingly sophisticated quantitative economic models of the Australian economy. This modelling work was to be extended to the world economy in later years. (Much of the early modelling was a cooperative effort between the IAC, some public service departments and universities.) Such modelling was later used by the Industry Commission, among other things, to make estimates of the potential gains from implementing NCP. Later, as the policy remit expanded, the Commission demonstrated the size of performance gaps by monitoring government trading enterprises and service providers. This modelling expertise, allied to consultative processes, gave governments some confidence that the Commission could competently undertake inquiries that involved complex economic interactions.

The Commissions has also raised the level of community debate on policy issues through a transparent inquiry process that encourages public participation. The tools of analysis and measurement that the organisations developed increased the transparency of the basis of their recommendations. All Commission publications are also readily available, including on the Internet. This accessibility has facilitated increased media coverage of its reports, as well as their increased use in Parliament and elsewhere.

Independent Commissioners and skilled staff

The independence of the institution has always been founded in the statutory appointment of its Commissioners, who have determined how things were done and what was said. The background of Commissioners has been varied, with most drawn from public service, academia and business. In the early days of the IAC, some appointments may have been made with an eye to representing certain points of view, with some tensions resulting. By the time of the Productivity Commission, appointments were made on the basis of providing varied but complementary experience in public policy issues, with a statutory requirement for Commissioners with expertise in the environment, in industry, and in social issues.

Throughout the three decades, the quality and commitment of the staff have been key assets of the Commission. The institution has been fortunate in attracting researchers and other staff of the highest calibre, including many of the universities' top graduates. Its rigorous analytical approach to complex issues has also given staff the opportunity to develop and enhance their skills. A fruitful interchange of professional economists grew between the Commission and other government agencies in Australia and abroad; and between the Commission, academia and private consulting firms. The net flow has been from the Commission to other employers, and a remarkable number of the most senior public service positions have been filled by former staff.

A quick guide

This history chronicles the major events of the three commissions, focusing on their roles and activities, and on aspects of their contributions. It does not set out to interpret much of this information, leaving that task to the reader and to other external authors.

Chapter 2 outlines how the last years of the Tariff Board set the scene for the establishment of the IAC. Chapters 3–7 place the development of the Productivity Commission and its predecessors in the context of the economic and political environment of the 30 years since 1973. The appendixes list people and reports of the commissions; provide extracts from legislation; and detail two policy perennials of the last three decades – passenger motor vehicles, and textiles, clothing and footwear.

DEEP ROOTS THE TARIFF BOARD

Tariff Board established	1921
Special Advisory Authority established	1962
Alf Rattigan appointed Chairman	1963
Vernon Report	1965
New tariff review approach proposed	1967
Labor Party elected (December)	1972
25 per cent across-the-board tariff cut (July); Crawford Report	1973

2

Deep roots: the Tariff Board

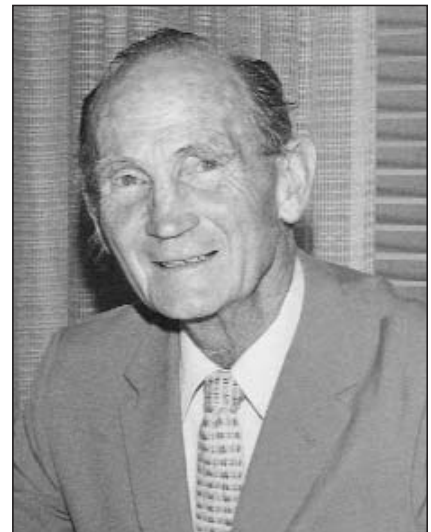
The Tariff Board was established by the *Tariff Board Act 1921* to advise the Commonwealth Government on questions of assistance for import competing industries.¹ The first Board members were part-time — a manufacturer, an importer and a public servant. Under the Act, the Board was to work independently, without any control by sectional interests.

The Act required the responsible Minister, before taking action, to refer to the Board for inquiry and report all matters relating to ‘the necessity for new, increased or reduced duties’ and ‘the necessity for granting bounties’. The Board was required to initiate a transparent inquiry process, whereby hearings were held in public and reports were made public. The Act also directed the Board to examine the wider implications of protection through annual reporting on the operation of the Customs Tariff and on the development of industries. The Board also had authority to initiate its own inquiries.

The Tariff Board’s traditional approach

The Board’s approach to tariff protection was established in the late 1920s and early 1930s and continued in fundamental respects until the 1960s. According to Alf Rattigan, Chairman of the Board from 1963 until its cessation and then inaugural Chairman of the IAC:

- work tended to be ad hoc, concentrating on particular products or areas of industry in response to demands for increased protection;
- despite clauses in the Tariff Board Act enabling a broader perspective, there was no attempt to widen the Board’s inquiries or examine the structure of protection as a whole. Moreover, the Board had no capacity to analyse the wider economic results of its work;
- inquiries covered a narrow range of products and were regarded as separate and complete in themselves;
- the scope for each reference was rigidly defined by the Government; and
- protection was considered only after manufacture had commenced, which tended to make the Board’s decisions captive because resources had already been committed (Rattigan 1967b, p. 2).



Alf Rattigan, Chairman Tariff Board 1963–73; Chairman IAC, 1974–76.

The Tariff Board had little effect on the development of Australian industries between the 1930s and the early 1960s. During World War II

there were rigid controls on imports; peace was followed by a worldwide shortage of goods. Quantitative controls were imposed and remained during the 1950s as the primary source of import control, rather than tariffs. They were removed in 1960 and, for the first time since the 1930s, tariffs became the major instrument for protection (Rattigan 1967a, 1968).

In the early 1960s, John McEwen was the politically powerful and protectionist coalition Minister for Trade. The Hon CR (Bert) Kelly, newly appointed Liberal Member for Wakefield, commented that, at the time, 'only a few odd people worried about tariffs' and that there was 'almost no political interest in tariff reform. Why worry? was the natural reaction — things are going along OK ... if any industry is in trouble we can afford to give it some more protection' (Kelly 1978, pp. 74, 75).

During this time, the Board continued its traditional approach. According to Rattigan, the impact was fourfold:

- being conducive to a creeping increase in the level and breadth of protection;
- producing a complex and inconsistent protective structure;
- discouraging the development of criteria that would enable the Board to carry out its functions properly; and
- limiting the scope for the Board to exercise its judgment (Rattigan 1968, p. 7).

In addition, the functions of the Board were 'to a large extent controlled from behind the scene by the Minister [J McEwen] and his Department [Trade and Industry]' (Rattigan 1986, p. 23).

A need for change

Moreover, circumstances had changed since the 1930s, making the traditional approach difficult to adapt to inquiries in the early 1960s. Competition was increasing from countries other than Britain. Australian production was becoming more complex with vertical and horizontal integration. And information on the prices and costs of production of overseas manufacturers was becoming unreliable.

Kelly noted a gradual change in attitude to protection in the mid-1960s, which he attributed to several factors. First, a key influence was the Vernon Committee report of 1965, even though the Government brushed it aside (box 2.1). Second, increased mineral exports eased balance of payments problems. And finally, and perhaps most importantly, the Tariff Board, under Rattigan, 'greatly improved' its standard of work and began to measure the economic effects of its recommendations (Kelly 1978, p. 85).

Box 2.1 The Vernon Report

In 1963, the Prime Minister announced an Economic Committee of Enquiry, chaired by Dr James Vernon, to conduct a wide ranging inquiry into the Australian economy. The committee examined economic issues relating to, among other matters, population and the workforce; productivity; the standard of living; costs, prices and wages; protection policy; investment; and research and development. Its report was released in 1965.

The Committee recommended several changes to the operations of the Tariff Board, including a focus on the economy-wide consequences of assistance to particular industries, an industry-specific rather than product-specific approach to inquiries, and the use of tariff benchmarks in deciding whether industries were efficient and economic.

Source: Vernon (1965).

By this time, the Board was concerned about its role and functions. It recognised that its traditional approach to tariff advice was no longer appropriate. A new approach was proposed in the Tariff Board's 1966-67 and 1967-68 annual reports (its sole non-inquiry output under its Act). The approach included a progressive and systematic review of the tariff structure and levels, concentrating inquiries on industries with high levels of protection, rather than on products (see box 3.4 on the proposed tariff review). To provide consistent points of reference, the Board indicated levels of protection (using a new concept, the 'effective rate of protection' developed by Professor Max Corden) that reflected low, medium and high cost production (box 3.6).² These would give a clearer meaning to the term 'economic and efficient'. Moreover, priority was to be given to developing a comprehensive record of inter-industry transactions (for example, input-output tables) to help analyse the inter-industry and wider effects of protection.

Political resistance to an 'economic and efficient' approach

This new approach sparked strong opposition from manufacturers and their supporters, and also from the Government (box 2.2). It stimulated intense public discussion that set the scene for the debate on the Bill to establish the IAC and that continued through the 1970s.

Rattigan detailed the considerable difficulty in obtaining the Government's approval for the Board's proposed tariff-making principles, noting that there was a three-year delay in the Government's agreement (Rattigan 1986, p. 80). During this period, levels of protection were high for Australian manufacturing industries (figure 4.2). Moreover, the tariff

Box 2.2 The protection debate and the Tariff Board

There was a well known conflict between the powerful Minister for Trade, John McEwen, and Mr Rattigan on the role of the Board and on Mr McEwen's attempt to bypass it, to limit its scope for independent assessment, or to ignore it in various ways ... Mr Rattigan's commitment to transparency, his courage, and his political skills were impressive. (Corden 1996, pp. 143-4)

Over the next few years industry and protection policy was a battleground. On one side were ranged many of the heavily protected industries and their industry associations, ... and the Trade Ministry; on the other were the Tariff Board, much of the economic press, most academic economists with interests in international trade, and primary industry organisations — though not the leadership of the political party that represented farmers, the Country Party — and a lone politician, Bert Kelly. One of the main weapons of those in the freer trade camp was to bring the battle into the open. 'Public scrutiny' or 'transparency' of policy became the banner under which the Tariff Board and its successor, the IAC, were to fight. The Minister for Trade and Industry (J McEwen) and the senior members of his department were clearly protectionist, and were not keen to have the extent (and sometimes the procedures) of industry assistance publicly displayed. (Snape et al., p. 21)

structure was not uniform. In 1969-70, the average effective rate of assistance to manufacturing was 35 per cent, ranging from -15 per cent for some beverages to 280 per cent for certain basic metal products. Effective rates for clothing and footwear, and motor vehicles were 83 per cent and 54 per cent respectively (IAC 1974f). However, in some manufacturing industries, tariffs were unused, being higher than required to protect the domestic industry against any imports. Assistance to rural industries varied considerably, from little or no assistance (as with maize), to substantial assistance to industries such as tobacco and market milk. Rural assistance, especially, took many forms, including bounties, home consumption pricing arrangements and promotion activities. Assistance to the rural sector was increasing as the terms of trade deteriorated.

The Tariff Board was not the only organisation advising on protection issues during the 1960s. In 1960, the Tariff Board Act was amended to enable a deputy chairman to conduct an inquiry and report to the Minister on a request from an industry for 'temporary' assistance in relation to imports. But local manufacturers, affected by declining domestic demand, became dissatisfied with the reluctance of the deputy chairman to recommend temporary assistance. In 1962, the Government again amended the Tariff Board Act to transfer temporary protection inquiries to an independent Special Advisory Authority (SAA). If the Government imposed temporary protection recommended by the SAA, it was then obliged to refer the issue to the Board for public inquiry. The temporary assistance had to be removed within three months of the Minister receiving the Board's report.

THE AUSTRALIAN

THURSDAY, SEPTEMBER 24, 1970

**TARIFFS
COST US
\$2700M.
A YEAR**

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However, the 'temporary assistance' recommended by the SAA tended to become long term assistance. McEwen appointed Sir Frank Meere, a professed protectionist, to head the SAA. According to Rattigan, manufacturers then tended to get temporary assistance more easily, at higher levels and for longer periods, often through misuse of the system (Rattigan 1986, p. 189). The SAA would typically grant temporary protection and then the Tariff Board would typically recommend against it so the Government would remove the temporary assistance. Following another request to the SAA, however, temporary assistance would again be recommended and granted. A roundabout thus occurred, with some products (particularly in the textile and clothing industries) receiving almost continual 'temporary' protection (in addition to normal duties) between 1962 and the early 1970s (see box 3.7 for further discussion of temporary assistance).



*Tariff Board Office, 'Blythswood', Rockingham St, Kew.
Destroyed by fire 30 June 1960. The Board moved to Canberra.*

The Whitlam Government and the Crawford Report

Decisive change in tariff policy came with the election of the Labor Party in late 1972. Gough Whitlam, as the newly elected Prime Minister, perceived protection, which restricted national wealth creation, as an obstacle to achieving his Government's social and economic policy objectives. He set out to 'de-McEwenize' the policy (Warhurst 1982, p. 36).

In the year following the Labor Party's election, economic activity was trending upward with a risk of escalating inflation, imports were declining and international economic events were unsettled by large oil price rises and the floating of the US dollar. Whitlam appointed a committee, chaired by Rattigan, to assess the proposal of an across-the-board tariff reduction to increase imports as a means of restraining inflation. Although Rattigan, as Chairman of the Tariff Board, had advocated a gradual reduction in high rates of assistance – rather than a sudden across-the-board reduction – he came to the view that the advantages of Whitlam's proposed approach (for example, control of inflation and encouragement of the transfer of resources into more efficient industries) outweighed the disadvantages (Rattigan 1986, pp. 165, 169). In July 1973, on the committee's unanimous advice, the Whitlam Government implemented a 25 per cent reduction in tariffs.³ Reactions at the time were mixed. In the years that followed, however, many blamed the cuts for rising unemployment. Reflecting on the events more recently, Whitlam emphasised the important break with the made-to-measure protection policies of the past.

John Stone (Deputy Secretary, Treasury 1971–79; Secretary, Treasury 1979–84) also reflected recently on those events, noting some unusual features of the decision-making process as he saw them (box 2.3).

Box 2.3 Gough Whitlam and John Stone reflect on the 25 per cent tariff cut

In Australia the 1973 tariff cut ended an ethos of protection all round which took its antecedents from the time of Scullin. McEwen used the tariff wall to establish a system of protection-on-demand. For decades this imposed a high flat tax on consumers. (Whitlam in CIS 1997, p. 11).

My personal papers on this topic reveal the lack of anything describable as due process; the prominent role of ministerial private office staff; the almost paranoid suspicion of public servants harboured by some (though not all) ministers; a few public servants on the make, telling Whitlam what he wanted to hear; and the total breakdown of any semblance of orderly and rational decision making. (Stone 2003b)

The Whitlam Government, recognising both the limited scope of the Tariff Board, and the value of its independent public process, requested Sir John Crawford in 1973 to advise and report on the establishment of a commission with a wider remit to replace the Tariff Board. Crawford identified three main reasons for establishing such a body:

- it could assist the Government to develop coordinated policies for improving resource allocation;
- given its independence, it could provide disinterested advice; and
- it could facilitate public scrutiny of those policies by means of transparent inquiry processes and public reports to Parliament (Crawford 1973, p. 94).

Crawford's key recommendations are summarised in box 2.4.

Birth of the IAC

Crawford's proposals were broadly accepted, and the Prime Minister introduced the Industries Assistance Commission Bill, reflecting the report, to Parliament in September 1973. As a self-declared 'Rattigan man', Whitlam emphasised a national and independent perspective:

The essence of the Tariff Board system is that it makes public inquiries and public reports on questions of assistance for industry referred to it by the Government. The Government proposes to extend this system [the Tariff Board] to industries in other sectors of the economy because it believes the system has, over a long period, proved its value to successive governments in an important and difficult area of government decision making ... Public inquiries and reports denote a deliberate, orderly and widely accessible system of communication between the Government, industry and the wider public ... The first and most important reason for establishing the Commission is to allow public scrutiny of the process whereby governments decide how much assistance to give to different industries ... Such a process must be independent and impartial ...

Whitlam continued:

Clause 23 contains several very important provisions, including one which states that the Government shall not take any action to provide assistance to a particular industry until it has received a report on the matter from the Commission.

Mr [Anthony] Street – Hear, hear!

Mr [Bert] Kelly – Hear, hear!

Mr Whitlam – I appreciate the support of the honourable members for Corangamite and Wakefield. This so-called 'mandatory provision' ... is an essential safeguard to the integrity of the system. It ensures that all groups which may be affected by a change ... will have an equal opportunity to express their views at a public inquiry. (CPD (H. of R.) vol. 85, pp. 1632, 1633)

Box 2.4 Sir John Crawford's proposal for a commission to advise on assistance to industries

Guidelines for the commission

- The commission should only advise the Government. It should not have executive or administrative responsibilities.
- It should be provided with a broad framework consistent with long term national economic and social policy goals.

Functions

- The commission should advise the Government on all forms of assistance to all industries, including mining and services.
- The Government should be free to refer any form of assistance to the commission, and it should be required to be advised by the commission before taking action to grant temporary assistance or to grant or change duties, subsidies, bounties etc. where assistance exceeds 12 months.
- The commission should be given the power to initiate its own inquiries.
- The commission should report periodically, in its annual reports, on assistance afforded to all industries, industries' performance, and the effects of industry assistance policies on the economy.

Membership

- Commissioners should be appointed on the basis of competence, not on their capacity to represent particular interest groups.

Procedures

- All communications of importance between the commission and the Government should be made public.
- In collecting and analysing information for inquiries, the commission should make the greatest possible use of other organisations, such as the then Bureau of Census and Statistics and the then Bureau of Agricultural Economics.

Source: Crawford (1973).

The Bill was debated extensively in the House of Representatives and the Senate. The Liberal Party supported the Bill (with amendments) but the Country Party was strongly opposed, even though the Australian Farmers' Federation supported it. Doug Anthony, leader of the Country Party, commented:

The Australian Country Party is opposed to the establishment of the Industries Assistance Commission, and therefore it opposes this legislation ... This is monumental legislation which will have far-reaching consequences on the use of the nation's resources and on the people who are making their living with and by those resources ... We are being asked to approve, in effect, the creation of a central planning authority with powers, duties and responsibilities which should be the Government's own ... in practice, the Government will find that it will have the greatest difficulty in rejecting the Commission's recommendations because if it does, it will lay itself open to a great deal of public criticism. (CPD (H. of R.) vol. 86, pp. 2353-4)

Following some amendments to the Bill in the Senate, most notably the establishment of a separate Temporary Assistance Authority (TAA) to replace the SAA, the Bill was passed. In 1973 the Tariff Board ceased operation. It had undertaken the groundwork for a more transparent approach to protection and its costs to the whole community. Rattigan noted that constant public debate had sustained changes to enable a more independent, transparent and community-wide approach to Government decision making on industry assistance. The greater public awareness of the issues enabled the Whitlam Government to gain parliamentary and wider support for the IAC legislation (Rattigan 1986, p. 274).

-
- 1 The Tariff Board was established by Acts of Parliament between 1921 and 1924, and became permanent in 1924. The history of the Tariff Board is outlined in Glezer (1982) and Capling and Galligan (1992).
 - 2 The effective rate is the percentage increase in value added per unit of output afforded by the assistance structure. While forms of assistance on outputs benefit the producers of those outputs, assistance on imported materials penalises the production process. The effective rate, therefore, measures the net extent to which the production process is assisted (box 3.6.).
 - 3 Exclusions were 'revenue' rates on items such as spirits, petrol and tobacco for which domestic excises offset the protective effects of the import tax.

INDUSTRIES ASSISTANCE COMMISSION

THE 1970s

IAC Act assented to on 11 December	1973
IAC commenced; report on PMVs; recession; devaluation of Australian dollar	1974
IAC staff level increased to over 500; green paper on manufacturing; Liberal-National Country Party Coalition elected	1975
Alf Rattigan retired; Bill McKinnon appointed Chairman; IAC reporting requirements amended by Minister; IMPACT project; Bland Review of public service; devaluation of dollar	1976
New reporting requirements for IAC; draft report on TCF and series of papers on structural adjustment; staff and budget cuts; selective tariff cuts; white paper on manufacturing	1977
IAC Act amended	1978
Study Group on Structural Adjustment	1979

3

The Industries Assistance Commission: the 1970s

Role and functions of the new Commission

The *Industries Assistance Commission Act 1973* was assented to on 11 December 1973, and the IAC commenced operations on 1 January 1974. The Act established a Commission to hold inquiries and to make reports to the Minister (see appendix A for a summary of legislation relating to the IAC and its successors). An additional function of the IAC was to furnish the Minister with an annual report on the operations of the Commission, on assistance provided to industry and its effect on the economy, and on industry performance. This annual reporting function was of considerable importance because it allowed the IAC to research and report publicly on a wide range of general (non-industry specific) issues.

Under the Act, the IAC was to operate within policy guidelines (detailed in appendix A). In particular, it was to have regard to the desire of the Government to:

- improve the efficiency with which the community's productive resources are used;
- encourage those economic activities that contribute to improving efficiency;
- facilitate adjustment to change;
- ensure that assistance measures are integrated with national economic policy; and
- provide for adequate public scrutiny (IAC Act 1973, s22).

In practice, the Government initiated the inquiries conducted by the IAC, although the Act gave the IAC the power to initiate inquiries into those industries whose assistance had not been reviewed for at least 10 years (if the industry was assisted by import duties) or six years (if the industry was assisted by other means).

Moreover, the Minister could not take any action on the provision of assistance to industries without first referring the matter to the IAC.

The IAC's independence and transparency were embedded in the legislation. Like the Tariff Board, the Commission would operate independently, under the authority of an Act of Parliament, be an advisory body only and have a Chairman and Commissioners that were statutory appointees who could not be removed except by Parliament. Transparency would be ensured through its public hearing process and its public release of inquiry and annual reports.

The guidelines required the IAC to focus more than the Tariff Board on the economy-wide implications of its recommendations. The IAC's reporting functions were also broader than those of the Board. And, unlike the Board, it was to provide advice on all forms of assistance to all industries, as recommended by Crawford. One obvious point of difference from the Tariff Board was the name of the new Commission (box 3.1).

Box 3.1 What's in a name?

Prior to the Crawford Report, the proposed commission had been generally referred to as the 'Protection Commission'. However, Sir John Crawford, in his consideration of an appropriate name, was of the view that this title was not appropriate because it was suggestive of too narrow a form of assistance. Instead, he suggested 'Industry Assistance Commission', 'Industry Assistance and Development Commission' and 'Industries Commission'. He recommended the last because 'it is simple, apt, and free from the connotations of an executive role, and the inevitability of protection or assistance, which the other names seem to me to carry' (Crawford 1973, p. 22).

Legislation, however, was drafted for the 'Industries Assistance Commission'. Parliament did not debate the name, so it was enacted. Crawford's suggestion of a simpler title was adopted with the formation of the Industry Commission in 1989, with a very broad definition of industry. By the 1990s, the focus had widened from assistance issues to other issues, such as industry performance (including productivity, regulation, competition policy and social issues: chapters 6 and 7).

John Howard (then Leader of the Opposition) explained why the Productivity Commission should be so named:

I am particularly keen to increase public scrutiny of Australia's productivity performance and to emphasise our commitment to a more competitive and productive Australia. When we win government we will merge the functions of the Industry Commission, EPAC [Economic Planning Advisory Commission] and the Bureau of Industry Economics [BIE] in a single entity which will be renamed the Productivity Commission.

The Productivity Commission will retain the functions of the Industry Commission and in addition be given full authority to examine restrictive labour market practices that retard productivity. (Howard 1995, p. 10)

During the administrative and legislative merger of the Industry Commission with the BIE and EPAC (1996–98), the interim Commission commenced with the following logo to denote the transition: 'EPAC, BIE, IC — forming the Productivity Commission'. Reports during this period were published under the title 'Industry Commission' with the merger logo.

Alf Rattigan was appointed as the IAC's inaugural Chairman (appendix B). He sought to build up the expertise of the IAC by:

- appointing Associate Commissioners who would enhance the work of the Commission and the community's understanding of the Commission's approach. (Associate Commissioners have been a feature of inquiries over the 30 years. Although usually appointed for their expertise on a particular inquiry, some have been appointed on a permanent basis);
- recruiting staff with economics and quantitative skills; and
- supporting the development of an input-output based model of the Australian economy (called IMPACT: box 3.2).

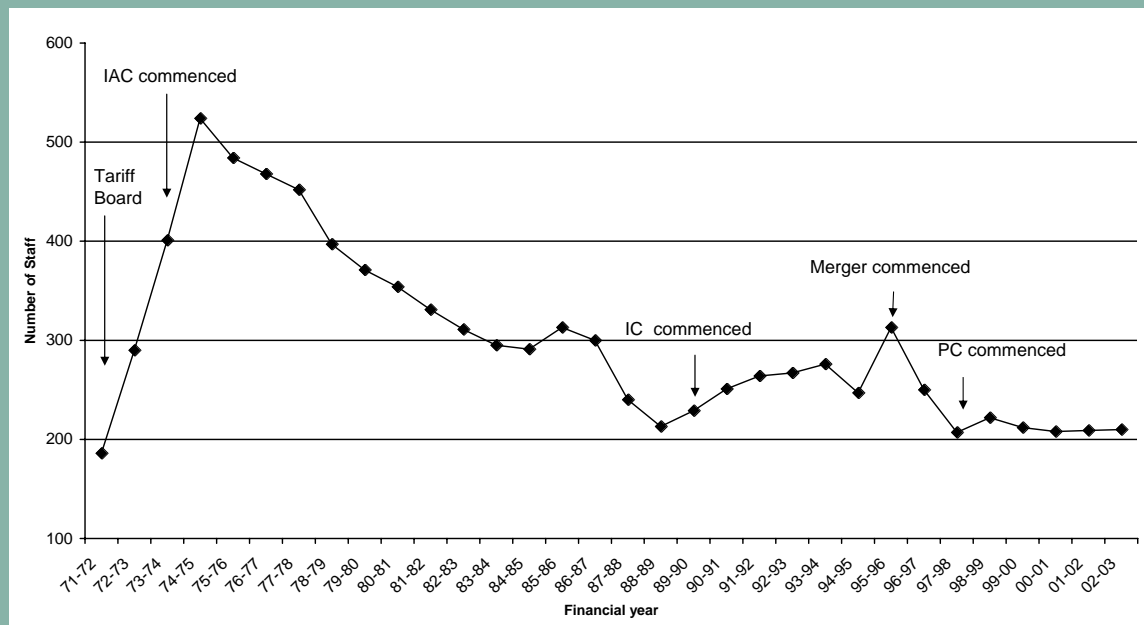
Box 3.2 IMPACT and quantitative modelling

With the IAC's new economy-wide focus, Rattigan and Bill Carmichael (then Head of Office and later Chairman: appendix B) perceived the need for a tool that quantified the effects of change in a range of factors (eg the level of trade and government policies) on other industries and on the economy as a whole. In conjunction with other government agencies and academic institutions, the IAC jointly sponsored the establishment of the IMPACT Project, which focused on the development of a large scale multisectoral model of the Australian economy – ORANI. The political difficulties of establishing this work (eg gaining the participation of other government agencies in the project) were detailed by Rattigan (1986).

Developmental work was undertaken at the IMPACT Research Centre (located at Melbourne University) with staff from the IAC based in Melbourne (until 1980). Other public service departments, such as the ABS, were also involved. The IMPACT Project staff produced numerous publications (listed in various Commission annual reports, such as the 1984-85 report) and the resultant ORANI model was made available to, and used by, a wide range of government, academic and private organisations. ORANI-based analysis was used to support IAC inquiries (such as the 1986 textiles, clothing and footwear report) and research (such as analysis of the effects of announced assistance reductions and the economic gains from microeconomic reforms: IAC 1986a, 1988a [app. 2], 1989a [app. 2]).

In the mid-1990s, the Productivity Commission expanded from using ORANI to the then recently developed MONASH model, which is a multi-period extension of ORANI.

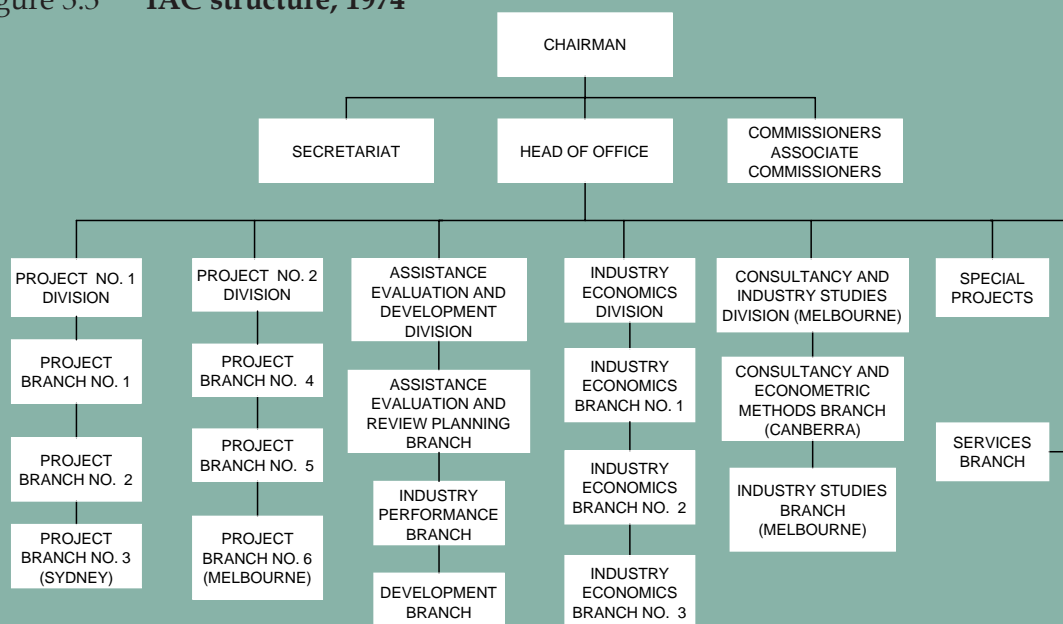
The IAC and its successors have also developed and used other quantitative economic models. An example is the Salter model (a general equilibrium model of the world economy) used to estimate the impact on the Australian economy of the completion of the Uruguay Round of trade negotiations (IC 1994a, p. 239), which evolved more recently into the Global Trade Analysis Project (GTAP) model, now maintained at Purdue University in the United States.

Figure 3.1 Staff levels: Tariff Board to Productivity Commission^a

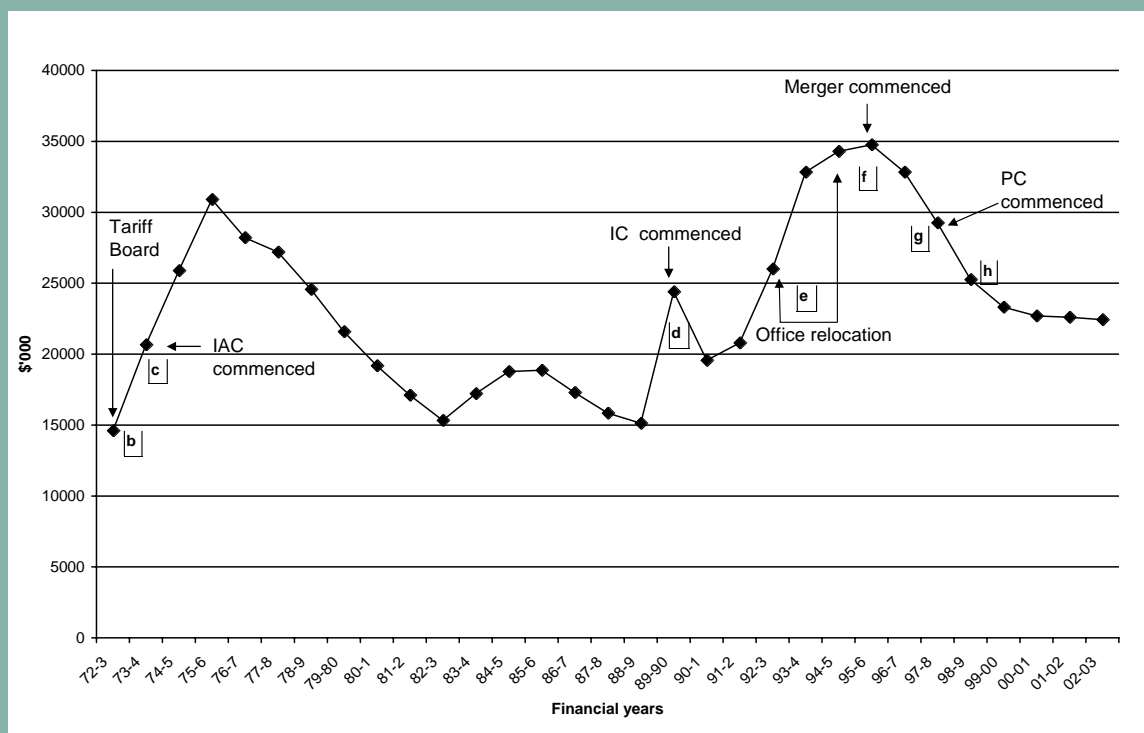
^a Staff numbers generally include permanent, temporary, full time, part time and inoperative staff. However, there are minor inconsistencies in definition and timing across years. Details of data extraction for each year are available on request.

Data sources: Public Service Board, IAC, IC and Productivity Commission annual reports.

Figure 3.3 IAC structure, 1974



Source: IAC (1974d).

Figure 3.2 Annual appropriations: Tariff Board to Productivity Commission^a

^a Appropriations (in real terms) deflated by a GDP implicit price deflator. Base year 2001-02.
^b Appropriation for Tariff Board. ^c Appropriation for Tariff Board and IAC. ^d Includes IAC and ISC appropriation and balance from BRRU. ^e \$16.8 million over three years was appropriated for the relocation of head office from Canberra to Melbourne. ^f Includes IC and EPAC appropriations and estimate for BIE. ^g Includes IC and EPAC appropriations. ^h Includes IC and Productivity Commission appropriations.

Data sources: Commonwealth Budget Papers: Appropriation Bills; ABS (2003).

Rise (and fall) of resourcing

Staffing levels increased from fewer than 200 towards the cessation of the Tariff Board to over 500 by the end of 1974-75 (figure 3.1). The organisational structure of the IAC reflected its inquiry focus, with several inquiry branches (project branches) and some non-inquiry branches, such as the Industry Economics Division, which conducted economic and empirical analysis of aspects of industries under review (figure 3.3). The Assistance Evaluation and Development Division serviced the annual reporting function by undertaking broader research on the structure of assistance and its effects. Although the head office of the IAC was located in Canberra, branches to undertake inquiries were established in Sydney and Melbourne, and the Industry Studies Branch and IMPACT Project team were also located in Melbourne.

The IAC's budget appropriation of \$5.8 million in 1974-75 (the first full year of operation) was over double that of the Tariff Board. The budget peaked, in real terms, in the following year and then experienced a steady decline through the 1970s and 1980s until the establishment of the Industry Commission (figure 3.2).

Changing portfolios

In keeping with the IAC's broader role, Gough Whitlam transferred responsibility for the IAC to the Department of Prime Minister and Cabinet. The Tariff Board had been the responsibility of the Department of Trade. This move linked the IAC to a Minister with a 'whole of government' role, rather than to a department with more specific responsibilities (Snape et al. 1998, p. 25). In particular, Whitlam wanted to prevent Jim Cairns (who had held ministries for trade and industry) from blocking IAC recommendations to reduce tariffs (Capling and Galligan 1992, p. 109). Departmental responsibility was to change several times during the life of the IAC and its successors, highlighting the sometimes difficult relationship between the various independent commissions and the bureaucracy (box 3.3).



This building on the corner of Kings Avenue and National Circuit was home to the IAC until 1979. (Subsequently renamed the Hinkler Building.)

Box 3.3 Portfolio responsibility: passing the parcel

In December 1974, responsibility for the IAC was passed from the Department of Prime Minister and Cabinet to the Special Minister of State. The IAC then successively became the responsibility of the departments of Business and Consumer Affairs, and Administrative Services, and in early 1983 became the responsibility of the Department of Industry and Commerce (DIC) (appendix C).

In his review of the IAC in 1983, John Uhrig commented on the portfolio responsibility for the IAC (chapter 4). He noted that several submissions to his review were critical of the responsibility for the Commission falling to DIC — a department not considered to be neutral on industry policy issues. The concern was that this arrangement undermined the effectiveness and independence of the Commission. However, Uhrig concluded that there was no evidence, so far, that this had occurred; it was a matter of perception rather than substance. He did not recommend a change (Uhrig 1984, p. 92).

Rattigan, in his autobiography, saw things differently. The ability of industry lobby groups to maintain or increase protection to their industries was heightened by a single department (one with an advocacy role for claimant industries) having a dominant role in calling for, and following through with, IAC reports (Rattigan 1998, p. 42).

In 1987, under the Hawke Government, responsibility for the IAC was transferred to the Treasurer, reflecting recognition of the need to relate the Commission's role more to national economic policy, and of the desirability of separating the Commission from a department with specific sectoral interests.

Allan Rocher, Opposition Member for Curtin, put his views to the House of Representatives during debate in 1989 on the Bill to form the Industry Commission:

The IAC has borne the brunt of attacks from protected industries and from Commonwealth departments which, in a cosy relationship with those industries, have developed the policies of protection and industry assistance that Federal governments have pursued. It is an uneasy relationship with the bureaucracy, which has caused some difficulties for the operations of the IAC in the past. The Department of Industry, Technology and Commerce ... appears to have sought to minimise the role and the independence of the IAC. The move of the IAC from the responsibility of that department to the responsibility of the Treasurer (Mr Keating) was designed to rectify some of those problems. (CPD (H. of R.) vol. 170, p. 2577)

The Industry Commission and subsequently the Productivity Commission remained the responsibility of the Treasurer.

The IAC's approach

The IAC's first three annual reports outlined its approach to industry development and assistance — an approach that was to underpin its future work. The approach involved:

- in a broad sense, the development of industries in a way that promoted the interests of the whole community, by encouraging the nation's limited resources into activities that would use them most efficiently;
- a gradual reduction in levels of assistance to relatively high cost industries (the 'tops down' approach), rather than increasing levels to low cost industries. Reductions in the disparities in assistance levels between and within industries (box 4.5) would ultimately lead to lower, more uniform assistance to Australian industry. Bill McKinnon, Chairman of the IAC from 1976 to 1983, noted that 'wide disparities in assistance can have adverse effects on both the efficiency of resource use and patterns of consumption ... A greater uniformity in assistance provides a framework within which the decisions of producers and consumers more closely reflect resource scarcities and consumer preferences' (McKinnon 1982, p. 2);
- encouragement of the expansion of industries with low levels of assistance by, for example, facilitation of access to overseas markets, and provision of assistance for innovation and research; and
- facilitation of adjustment to change (see below).



Bill McKinnon, Chairman, 1976–83.

Some rural industries, aware of the impact on their costs of high rates of manufacturing tariff protection, argued for tariff compensation — that is, for increases in their levels of assistance (for example, through export subsidies) to compensate for the distortion in costs and national resource allocation caused by high levels of tariff assistance to manufacturers. Tariff compensation was supported in the 1974 green paper on rural policy in Australia as a 'second best' option, with the best option being the reduction of protection to manufacturing.

Tariff compensation continued into the 1980s as a means of reducing disparities in assistance, although the IAC was not generally in favour of compensation (see, for example, IAC 1974e, app. 5.5). McKinnon argued:

The provision of compensatory assistance to selected low cost industries ... would disadvantage other low cost and efficient activities not in receipt of increased assistance. Like any piecemeal approach to assistance setting, the informational demands of this approach are high and in my view would disqualify tariff compensation as an ongoing element of a viable industry development strategy. (McKinnon 1982, p. 4)

Coverage and focus of inquiries

The Tariff Board focused almost exclusively on the manufacturing sector. Of the inquiries completed between 1960 and 1973, only 4 per cent related to industries other than manufacturing (IAC 1974e, p. 29). The range of work undertaken by the IAC was broader (see appendix D for a list of all inquiry reports by the IAC and its successors). Although over 80 per cent of inquiry reports in the 1970s related to assistance to manufacturing, the proportion of agriculture-related references increased considerably (although they also tended to be focused on assistance), and the IAC undertook a few mining and other inquiries (table 3.1). During the 1980s, the diversity of IAC reports expanded, although manufacturing continued to dominate (chapter 4). However, there was a major shift under the Industry Commission and Productivity Commission, in that the majority of their inquiries focused on nontraditional industries or cross-sectoral issues (chapters 5–7). The shift is greater if non-inquiry research reports are taken into account.

Table 3.1 Sectoral (and other) coverage of inquiry reports^a (per cent)

	<i>Manufacturing</i>	<i>Agriculture^b</i>	<i>Mining</i>	<i>Other^c</i>
IAC: 1970s	82	12	2	4
IAC: 1980s	74	19	–	6
IC ^d	10	16	2	72
PC	4	8	4	84

^a Reports categorised according to predominant industry activity – for example, a report on an agricultural industry that discusses environmental issues is categorised under ‘agriculture’ rather than ‘other’.

^b Includes forestry and fisheries. ^c Includes other industry sectors (eg services) and inquiry reports that were not industry specific (eg Harmonization of the Customs Tariff and the Review of the Prices Surveillance Act). ^d To 1998, when the Productivity Commission commenced. – Less than 1 per cent.

Source: Appendix D.

About one quarter of the manufacturing inquiries during the 1970s were undertaken within the Tariff Review, which the Tariff Board commenced in 1971 (box 3.4). Inquiries outside the review were often in relation to short term assistance and included such industries as tractors; soaps; passenger motor vehicles (PMVs); textiles, clothing and footwear (TCF); and iron and steel (IAC 1974a, 1976e, 1977b, 1980a, b). Unlike the terms of reference for the successor organisations, many inquiries did not specify a

Box 3.4 The Tariff Review

In its 1966-67 and 1967-68 annual reports, the Tariff Board proposed a systematic review of the tariff structure and levels. The Board's general aim in proposing the Review was:

... to contain industries in the high cost area other than those demonstrating clearly compensating external benefits and those which can show beyond reasonable doubt prospects of operating with substantially lower levels of protection within a reasonable time. Subject to these qualifications, this would involve recommending against protection for any new products requiring a high level of protection. (Tariff Board 1967, p. 9)

The review commenced in 1971, following three years delay by the Government (chapter 2), and took approximately 11 years to complete (Rattigan 1986, chapter 4). Nearly 70 reports were completed under the review (including five by the Tariff Board), accounting for about 55 per cent of employment in manufacturing. Industries reviewed included food processing machinery, cosmetics and toilet preparations, brooms and brushes, and rubber products (IAC 1974b, 1975b, 1978a, 1979a).

The review identified industries that had unused tariff protection ('water in the tariff'), those that could be operated profitably with relatively low assistance, and those that were highly protected and had little prospect of becoming internationally competitive.

The nature of the IAC's approach to the review changed during the 11 years. Although the Tariff Board had broadened its approach, the formation of the IAC, with its wider charter, increased the economy-wide focus of the reviews (IAC 1981a, p. 87). The Government sometimes instructed the IAC to take account of short term structural adjustment problems (for example, in the TCF industries). Such was the Government's concern about the capacity of the economy to cope with change that it temporarily deferred sending remaining references for review in 1977 (see the discussion of structural adjustment below). These concerns were formalised in amendments to the policy guidelines for the IAC in 1978 (appendix A). The review was completed in 1981-82.

The review led to reduced disparities in long term assistance across the different activities of many of the industries reviewed. However, there were notable exceptions where sectoral policies resulted in increased levels of assistance, such as in the TCF industries (figure 4.3). Moreover, the Government did not accept all of the IAC's recommendations and, in some instances following TAA reviews, it did not retain long term rates of assistance implemented under the review. Nonetheless, the review process 'proved to be a major advance on the ad hoc nature of the previous Tariff Board inquiries' (IAC 1981a, p. 91).

reporting date. Some reports took several years to complete – for example, while the references for the TCF and iron and steel inquiries were forwarded to the Commission in 1973 and 1974 respectively, both final reports were not released until 1980. Reasons for the length of these inquiries vary. They include the Government's request for several short term assistance references on these industries during the course of the inquiries, and the TCF inquiry's inclusion of a revised draft report.

Agriculture-related inquiries included some that covered the more traditional border protection issues (for example, almonds), but the majority covered a range of broader issues including rural income fluctuations, the financing of rural research, brucellosis and tuberculosis eradication, rural reconstruction adjustment assistance, and dairy industry marketing arrangements. The Bureau of Agricultural Economics¹ provided considerable data and fully researched submissions to assist the IAC in undertaking many of its rural sector inquiries. Some inquiry references related to the services sector (for example, assistance to the performing arts and assistance to tourist accommodation) and two were on mining.²

In addition to inquiries, the IAC undertook wide ranging research for inclusion in its annual reports, raising for public debate issues such as the impact of structural change, prospects for exports to Asia, and the Commission's approach to the development of industries (box 3.5). The IAC also commenced supporting research, with perhaps the most notable output being a series of papers on structural change and adjustment in the late 1970s (see below).



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Box 3.5 Themes from IAC annual reports: the 1970s

The 'whole of commission' views in these annual reports related to issues that had been subject to public debate for some time, and to emerging issues. As noted above, in its first three annual reports, the IAC focused on developing its approach to industry development and assistance. Subsequent annual reports followed this theme, addressing industry development and adjustment to change and, in the late 1970s, the impact of domestic protection policies on the growth in export markets.

Change is not easy

Change is rarely easy. Disturbance of the established order poses real difficulties for some people ... Yet change is inevitable and occurs constantly. Changes in technology, raw materials availability, labour costs and international trading conditions cause continual structural change.

... Changes in assistance to industries have tended to dominate public discussion of structural change. Research suggests, however, that adjustments resulting from changes in assistance have been less significant than those resulting from other changes. (IAC 1976h, preface)

Domestic policy can affect industry growth and trade

The Commission considers that the development of efficient activities can be facilitated more effectively by reducing constraints on the operation of competitive market forces, including impediments stemming from assistance supporting less efficient activities. A general policy of delaying reductions in high assistance could retard expansion of employment and investment opportunities in areas of the economy with significant growth potential ... particularly those exporting to burgeoning markets in Asia. (IAC 1979b, p. iii)

Responses to pressure for change

In a major response to pressures for change, the Government developed sectoral policies with the stated intention 'to facilitate changes in the industries concerned, to make them more competitive in the future and to allow them to adjust to new circumstances'. A review of sectoral policies in this report indicates that their effects in some industries are not consistent with these objectives or with the general objectives of industry policy. Quantitative import restrictions have had the effect of shielding some industries from change rather than facilitating adjustment to new circumstances. The result has been to preserve the least competitive parts of the economy, while shifting the burden of adjustment to more competitive industries and to the community as a whole. (IAC 1980c, p. iv)

Economic downturn and policy reversal

The IAC's research work was facilitated by the development of quantitative analytical tools established in the late 1960s and 1970s to support the Commission's functions (box 3.6). These tools also have formed the basis for analytical work undertaken by the Industry Commission and Productivity Commission.

Box 3.6 Analytical tools used by the IAC and its successors

Rattigan recognised that without analytical tools, the IAC would be unable to effectively carry out its functions. In addition to the development of quantitative modelling tools (including IMPACT: box 3.2), the IAC and its successors developed a variety of measurement techniques and data sources. One of the first was the 'effective rate of assistance'.

Effective rates of assistance and net subsidy equivalents: Effective rates of assistance (ERAs) and net subsidy equivalents were two measurement techniques that the IAC used to allow more meaningful comparisons of assistance across industries. They remain important measures of assistance today. The IAC continued the pioneering work of Professor Max Corden and the Tariff Board on measuring industry assistance. This has been picked up by the World Trade Organization (WTO) and the Asia Pacific Economic Cooperation (APEC) Forum and now is adopted in many countries. (The net subsidy equivalent is the amount of money that would be necessary to provide the same amount of assistance by subsidy as provided by the industry's effective rate.)

Data: Many sources of data have been used by the IAC and its successors, including industry, organisations such as the Organisation for Economic Cooperation and Development (OECD), and the Australian Bureau of Statistics (ABS). Rattigan oversaw the establishment of an ABS outpost officer located at the IAC to assist with data provision. This relationship with the ABS has continued. Other government agencies, such as ABARE, have provided considerable data and analytical assistance. The Commission has also conducted surveys to elicit data.

International benchmarking and performance monitoring: The Industry Commission and, more recently, the Productivity Commission, have monitored developments in international best practice and analysed the performance of Australian industries and government regulatory processes, using a variety of techniques.

By the end of 1974, the economy was in recession — inflation and unemployment were increasing, as was import competition from Australia's regional neighbours, while profitability was declining. Most of the remainder of the 1970s was characterised by low economic growth and high unemployment. Commonwealth and State Governments reacted by supporting increased levels of protection, particularly for already highly assisted industries.

Governments over the years had encouraged the decentralisation of industry and population to growth centres such as Albury–Wodonga, and to smaller towns such as Maryborough (Victoria). As a result, employment in many towns was heavily dependent on highly assisted manufacturing activities, particularly TCF. As unemployment grew and factories closed, State Governments (particularly Victoria and South Australia), unions and the wider community became increasingly concerned about tariff policy, the pace of structural change in industry, and adjustment assistance.

As previously noted, many blamed the recession on the 25 per cent across-the-board tariff cuts. This was the immediate response to the tariff cuts, but John Stone (then Deputy Secretary, Treasury) noted the longer term impact on tariff reform:

The outcome of the decision was so concentrated, so heavily, in some areas and so, if you like, unfair, that the public reaction against cutting tariffs lasted for at least a decade. (Stone 2003a, p. 3)

Calls for the reversal of the Government's tariff policy and increased protection came initially from the TCF industries. But opposition broadened to include many other manufacturing industries, following the release of the IAC's report on PMVs in 1974 (IAC 1974c). The report, the first of several automotive industry inquiries undertaken by the IAC and its successors, recommended the abolition of local content plans and the establishment of a tariff-only regime set at 25 per cent in the long term. (Appendix E summarises the history of assistance to the automotive and TCF industries, including the involvement of the IAC, the Industry Commission and the Productivity Commission.) The PMV report, released shortly after Leyland car manufacturers in Sydney announced the dismissal of 1000 workers, elicited considerable opposition. According to Rattigan:

... the National Executive of MTIA [Metal Trades Industry Association] — which claimed it represented over 6000 firms employing more than half the workforce in secondary industry — sent to the Government, and released to the press, a request that all activity by the IAC be stopped. The MTIA asserted that the IAC had embarked on a course of destruction of Australian industry ... (Rattigan 1986, p. 214)

The Government devalued the Australian dollar (in September 1974), partly to protect industry. Faced with increasing union pressure, it also imposed 'temporary' quantitative restrictions on a wide range of textiles, followed by PMVs, whitegoods and other industries (box 3.7). This heralded a trend in protection for the remainder of the decade, with a shift to quotas as a form of protection, and a continuing increase in temporary protection from the SAA period (chapter 2).

Box 3.7 The perils of 'temporary' assistance

In the 1970s, the Minister could ask the IAC or the Temporary Assistance Authority (TAA) to examine a request by industry for short term temporary assistance. As noted in chapter 2, the TAA replaced the SAA in 1974 under the IAC Act, but was independent of the IAC.

The IAC undertook several inquiries on short term assistance, mainly in relation to manufacturing (eg room air conditioners) but also for other industry sectors, such as beef and commercial theatre (IAC 1977c, 1975c, 1976f). The IAC's criteria for examining requests was outlined in its 1975-76 annual report (chapter 2). However, most requests for short term assistance went to the TAA. By 1984, the TAA had undertaken 63 reports, all relating to manufacturing. Under the IAC Act, the TAA focused on injury to industry to the exclusion of economy-wide effects — a narrower set of reporting criteria than the IAC.

Most temporary assistance granted was in the form of quantitative restrictions (import quotas, tariff quotas and voluntary export restraints) of which the adverse effects were outlined in the IAC's 1974-75 annual report (IAC 1975h, app. 2.3). The cost of TCF quotas in 1986 was estimated by the IAC as being equivalent to a 40 per cent consumption tax on TCF products (IAC 1987b, p. I.7). Temporary assistance was mostly granted to industries that were already highly protected, such as TCF. These quotas undid, at least to some extent, the 25 per cent across-the-board tariff cut.

A major problem with the temporary assistance in the 1970s, as in the 1960s, was that it tended to become long term assistance (chapter 2). It became embodied in sectoral plans (such as those for TCF and PMV) or was routinely granted through the TAA on request. Raw yarn production, for example, was provided with temporary assistance for nearly six of the 12 years that it had been produced in Australia as at 1975 (IAC 1976h, p. 53). This trend contributed to increased disparities in assistance levels between high cost and low cost industries within manufacturing (box 4.5), and inhibited adjustments necessary for long term improvement of resource allocation and the welfare of the community.

The use of temporary assistance tended to decline as sector plans for highly protected industries continued. By 1980, the TAA had fallen into disuse (Warhurst 1982, p. 67). It was abolished by the *Industries Assistance Amendment Act 1984*, and responsibility for advice on temporary assistance was transferred to the IAC. During the 1980s, the Button industry plans (chapter 4) continued to ease the pressure from the most protected industries to seek temporary assistance (Snape et al. 1998, p. 108).

The 1989 Industry Commission Act did not mention temporary assistance, yet this did not preclude the Commission from considering recommending it. The 1994 WTO Agreement on Safeguards developed at the Uruguay Round allows for emergency temporary assistance (or safeguard action) against imports of particular products. The Productivity Commission undertakes safeguard action inquiries in Australia. The Commission has completed one inquiry — the pig and pigmeat industries in which it found that safeguard measures could technically be justified, but that other policy approaches were preferred (PC 1998b).

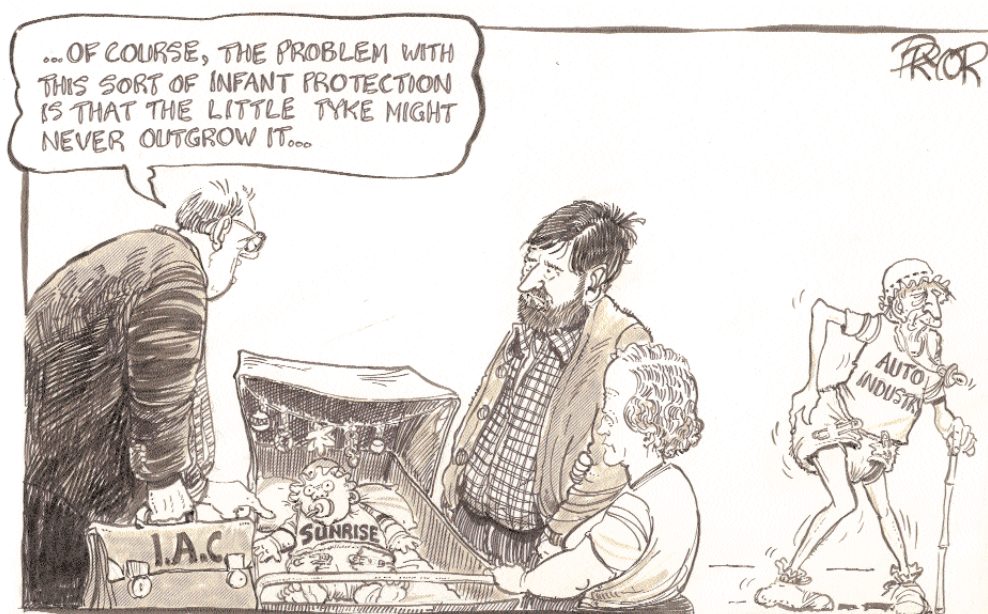
In 1975, the Government asked a committee (which included Rattigan) to 'advise on appropriate policies for the development of manufacturing industry' (Jackson Committee 1975).³ The report, released as a green paper, concluded, in general, that:

- the manufacturing industry was unhealthy and in crisis; and
- there was a case for new industry policies (and a related framework of industry strategy) aimed at improving the working of the economy, the quality of life, social cohesion, the involvement of Australians, and the capacity of industry to adapt to change.

Rattigan dissented from signing the report, noting that he supported some views of the green paper (for example, the emphasis on the need for better labour relations), but that he considered the approach reflected too narrow a perception of industry development:

My main areas of disagreement with the majority report arise from its main themes: that there is 'a deep seated and long-standing malaise' in the manufacturing sector and that manufacturing industries should therefore be treated more favourably by the Government than other industries in the economy; and that policies for manufacturing industries should be determined essentially by the industries themselves [by the establishment of industry councils]. I do not agree with such an approach because ... I believe it would not promote the interests of the community as a whole.

... specific policies for industries should be judged not only by their effects on the benefiting industries, but also by their effects on other industries and on the welfare of the community generally. (Rattigan 1975, pp. 2, 5)



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A change of government

In late 1975, the Liberal–National Country Party Coalition was elected with Malcolm Fraser as Prime Minister. This Government would be less supportive of tariff reform and the IAC. The Liberal Party had supported the Bill to establish the IAC, but the National Country Party had not (chapter 2). Glezer commented:

In large measure Fraser projected the mirror image of what Whitlam stood for on industry policy. The need to win votes was meshed with the virtue of conservative change. Where for Whitlam tariff policy had been the opportunity for a radical transformation in the scope of rational policy making and control over vested interests, for Fraser what the IAC persisted with was overly rationalistic and confronting against his allies ... Fraser, the leader of the avowedly market orientated party, used government intervention as a component of any policy, particularly where it would prop up business confidence ... Fraser's brand of instrumental protectionism was not compatible with the position and policies of the IAC. (Glezer 1982, p. 146)

With inflation and unemployment still high and structural adjustment issues still to the fore, the Government devalued the Australian dollar late in 1976 so as to, among other aims, 'improve the outlook for manufacturing industry and to encourage a reversal of some of the adverse trends which have impaired its recent growth' (Australian Government 1977, p. 2).

In the same year, the Minister for Business and Consumer Affairs wrote to the IAC, amending its reporting requirements to ensure that more account was taken of employment and regional implications, and the desirability of restructuring (appendix A). In addition, the IAC was required to publish draft reports (which had been its practice) to provide more fully for industry consultation.

In June 1976, McKinnon (formerly Deputy Secretary, Department of Trade and Industry; and Director and General Manager, Australian Industry Development Corporation) took over as the IAC's Chairman from Rattigan, who retired (appendix B).

Also in 1976, the Government established the Administrative Review Committee (chaired by Sir Henry Bland) to review public service costs. Although not specifically targeted at the IAC, it threatened the Commission's independence by recommending the transfer of its staff to the Department of Business and Consumer Affairs (BACA) — the department responsible for the IAC (box 3.3) — and staff cuts on a 'suck and see' principle. An *Australian Financial Review* article of that time observed:

The prospects of having its advice downgraded is the most likely outcome of the Bland strategy of removing the IAC's staff and putting them into the department ... In these circumstances the IAC would lose its intelligence independence. It would consist of Commissioners and a few staff

organising the actual logistics of hearings. It would, in effect, probably become a rubber stamp of the department ... (*Australian Financial Review*, 9 July 1976, cited in Rattigan 1986, p. 269)

Howard, new Minister for BACA, supported the IAC. Although staff transfers did not eventuate, the staff ceiling was to be reduced by 6 per cent, which was no more than the cuts for other government agencies. This, combined with other resource constraints, had an impact on the IAC during the remainder of the 1970s (box 3.8).

Box 3.8 Resource cuts at the IAC in the 1970s

The staff ceiling was 390 by June 1979 — down from over 500 when the IAC was established — and 350 in 1981 (figure 3.1). Combined with tighter budgets (figure 3.2) and increased workloads, the reduction in resources started to affect the work of the IAC, which commented:

The Commission's capacity to undertake the work required of it is to a major extent determined by the manpower and financial resources available to it. During the financial year 1976-77 the staff ceiling was reduced by 6 per cent (following an 8 per cent reduction during the previous year). In addition, there have been severe constraints on the financial resources available to the Commission.

During the same period the Commission has experienced a substantial increase in its workload. The continuation of strained resources together with the increase of inquiries with short deadlines ... has disrupted and in many cases lengthened the processing of normal inquiries. Any further limitations of manpower or financial resources must have an adverse effect on the quality of analysis and reports ... (IAC 1977e, pp. 43, 44)

To adjust to the constraints, the IAC undertook a review of the office organisation during 1977-78. This period of uncertainty did not assist staff morale:

The difficulties being encountered by the decline in total staff resources have been compounded by the loss of a significant number of senior experienced staff due to uncertainty among staff as to career prospects in the Commission. A freeze on recruitment and promotion during the several months that the reorganisation was being evaluated added to uncertainties created by the progressive decline in staff ceilings. (IAC 1979b, p. 51)

The office review recommended the relocation of the Melbourne and Sydney staff to Canberra. However, the Minister did not accept the centralisation of inquiry staff, and only the Econometric Services Division was relocated from Melbourne to Canberra (in 1980). The offices in Melbourne and Sydney were eventually closed in 1982, and inquiry staff were transferred to Canberra.

The ‘adjustment problem’

The Government’s approach to manufacturing industry policy was set out in its 1977 white paper on the manufacturing industry, which followed the 1975 green paper by the Jackson Committee (undertaken during the previous Labor Government’s term). Although the white paper recognised the benefits of reduced protection in the long term, it expressed concern about short term economic problems and the process of change. It suggested, therefore, that special temporary assistance measures may be necessary (Australian Government 1977). Support was expressed for sectoral plans to address ‘special problems’ in certain industries, such as TCF. (A 10-year sectoral plan for PMV had been introduced in 1975: appendix E). Further, the white paper supported the establishment of the Bureau of Industry Economics (BIE) and recommended industry advisory councils.

Given concern about the capacity of the community to absorb change, the white paper reiterated the need for the IAC to take into account the reporting requirements forwarded by the Minister in 1976 (to ensure that the IAC took more account of employment and regional implications) and added three new matters to be reported on for major references: employment effects of recommendations; the capacity of the economy to absorb change; and the reasons for changes in assistance (appendix A).

Within a few months, yet another study – the Crawford Study Group on Structural Adjustment – was commenced to examine the nature and extent of adjustment problems in manufacturing industry. Glezer (1982, p. 40) noted that the study’s ‘ready acceptance by the Prime Minister [Fraser] reflected his dissatisfaction with the Government’s formal statement [the white paper] as well as with the IAC and the tensions of industry policy formulation’. The Government generally accepted the Crawford Study Group Report, which was released in 1979. The report recommended that high levels of protection could be reduced ‘once economic circumstances permit’, but that there should be no general reductions ‘while unemployment remains above, say, 5 per cent and until industrial development initiatives are in place and working’ (Crawford 1979, p. 59). (Unemployment did not fall below this level during the remainder of the Fraser Government years, and has not done so since then.) Government intervention, in the form of industry development initiatives, was to include export grants and the establishment of an Australian Innovation Authority.

McKinnon commented:

... continuing concern about the employment effects of specific actions is desirable and necessary, and understandable particularly when the general level of unemployment in the economy is high. But it would be most unfortunate, I believe, if we lost sight of the objective of adjusting our industry to the world we live in. We cannot afford to allow short term problems to so dominate our thinking that longer term objectives drift permanently beyond our horizons ... (McKinnon 1976, p. 14)

Structural adjustment was to be a recurring issue for the IAC's successors during the 1980s and 1990s as recessions generated pressure to slow the reform process. The IAC used several forums to discuss the issue of structural adjustment. In 1977, it released three papers on structural adjustment specifically to promote public discussion. McKinnon (1976, p. 15) elaborated, during their preparation, that 'these [papers] will be designed to set out particular issues and problems and to elicit comment'. The IAC also commented on assistance and structural adjustment issues in several annual reports and in inquiry reports that included recommendations on structural adjustment. In its 1976-77 annual report, for instance, the IAC noted that it was:

... concerned with structural change because of its implications for future growth and because of the increasing costs of protecting certain industries from change. Where protection enables industries or sectors to resist change in their economic environment, the burden of adjustment is transferred to the rest of the community and often to the industries and sectors which would have the greatest potential for economic growth ... Facilitating structural adjustment could make a major contribution to the nation's material wealth by increasing its economic efficiency. (IAC 1977d, p. 41)

One relevant report was the 1977 draft report on the TCF industries, which recommended a substantial reduction in assistance to these industries but recognised that adjustment problems would exist and proposed special assistance measures to facilitate adjustment. However, manufacturers, unions, State Governments and the Fraser Government immediately opposed the draft recommendations. The key argument was that the draft recommendations would create uncertainty that would undermine confidence in investment in the industries. The Fraser Government promptly issued its own statement outlining its policy position on the industries, and asked the IAC to provide another draft that took account of Government policy. It also announced a three-year sectoral plan for the TCF industries, including the continuation of quantitative restrictions (appendix E). The revised draft was completed in 1979, and the final report to Government in 1980 recommended measures to begin adjustment within the industries (IAC 1980a).

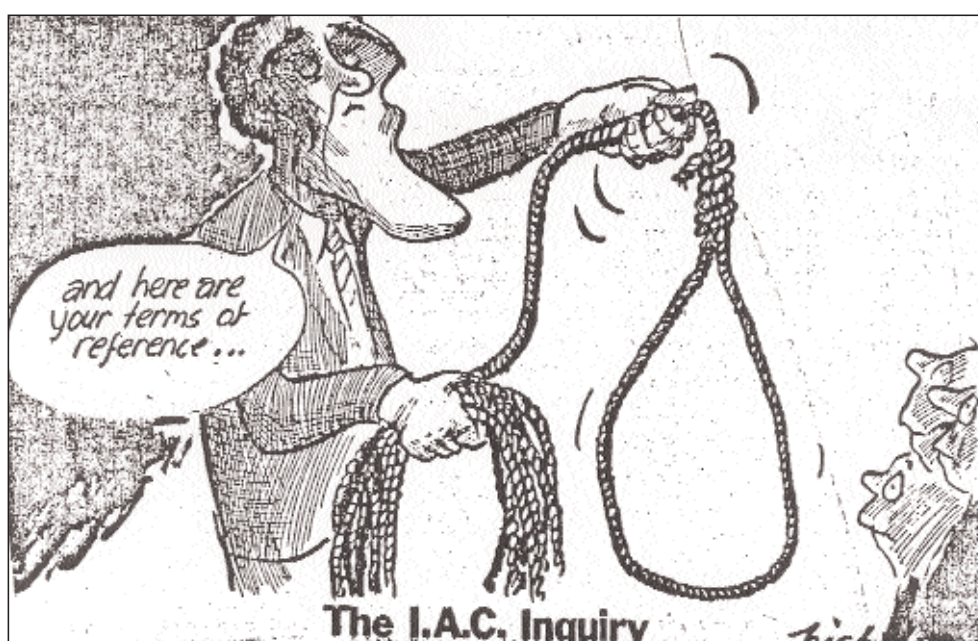
The Fraser Government was prepared, however, to reduce assistance to some industries, following IAC and other reports. After devaluing the Australian dollar in late 1976, the Government introduced tariff cuts in early 1977 on some 900 tariff items, of which the majority were already receiving low levels of assistance (for example, food). The cuts implemented the findings of an IAC report undertaken for the Tokyo Round of multilateral trade negotiations (IAC 1976a). Duties were reduced on the basis that there were unlikely to be adverse effects on the local industries, given that the cuts largely removed unused margins of assistance. Although the cuts reduced average levels of industry assistance, they increased disparities in assistance, with potentially adverse efficiency effects (Carmichael and Rattigan 1989).

New reporting rules

Concerned that the IAC might adopt a 'TCF type' approach to the remaining metal industry references in the Tariff Review, the Fraser Government decided to defer sending them (box 3.4). Fraser also established a committee of Permanent Heads to 'study ... the role of the IAC against the background of present economic problems in Australia' (Glezer 1982, p. 154). The committee suggested several amendments to the IAC's policy guidelines and reporting requirements, for incorporation in the *Industries Assistance Commission Amendment Act 1978*.

The amendments were introduced against a background of constrained staffing and financial resources at the IAC (box 3.8 and figures 3.1 and 3.2). The key amendments agreed by Parliament were intended to ensure the IAC's recommendations took account of Government policy (appendix A). The IAC was to have regard to the Government's desire to achieve sustained economic growth, and to the capacity of the economy to sustain change. Moreover, the Government could write to the IAC requesting that it take into account additional matters, and these matters could be priority ordered.

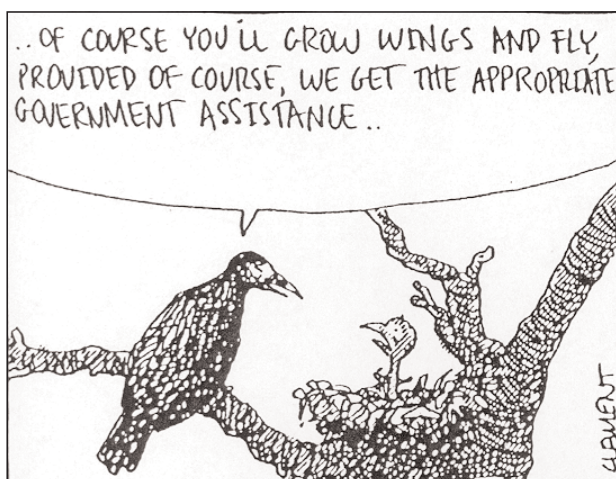
The reporting requirements which, in essence, incorporated those in the 1976 Ministerial letter and the white paper, also became more prescriptive. These detailed directions had the potential to impede the ability of the IAC to provide independent and impartial advice.⁴ In practice, the reporting requirements were addressed together in a section near the end of each inquiry report. Although they made a community-wide focus more



Nicholson of 'The Australian' newspaper [www.nicholsoncartoons.com.au].

difficult to achieve, they did not have an adverse impact on the IAC's recommendations or independence. The reporting requirements were eventually repealed in 1984 (chapter 4 and appendix A).

By the end of the 1970s, the average level of assistance to manufacturing had declined compared with that at the beginning of the decade (largely due to the 25 per cent tariff cut by the Whitlam Government) (figure 4.2).



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However, the average disguised divergent trends. In a difficult economic climate, assistance to some manufacturing industries (such as paper and chemicals) had declined, but assistance to other industries (particularly those with high assistance levels) had increased (figure 4.3). Sectoral plans, incorporating quantitative restrictions and various subsidies, were widely used by the Fraser Government. These plans contributed to increased disparities in assistance within manufacturing (box 4.5). However, with some exceptions (such as market milk), assistance to rural industries was generally low and declining.

An uneven balance sheet

By the end of the 1970s, the IAC had experienced six years of development and change in a generally unfavourable economic climate. Despite political opposition and resource constraints, the organisation continued to inform the Government and the public, through its public inquiry process and supporting research, of the costs of industry protection and to recommend the appropriate responses to pressures for structural change. Although the IAC's inquiry and related research work had broadened somewhat from the Tariff Board days of piecemeal assistance inquiries into manufacturing, the Commission's potential for non tariff work had not yet been realised.

- 1 Now the Australian Bureau of Agricultural and Resource Economics (ABARE).
- 2 IAC 1975a, d, e, f, g, 1976b, c, d, g.
- 3 See Glezer (1982, ch. 9) for an analysis of the reactions to the green paper.
- 4 For the Commission's comments on the amendments to the reporting requirements, see IAC (1978b, ch. 4).

INDUSTRIES ASSISTANCE COMMISSION

THE 1980s

Minerals boom	1981
Report on general reductions in protection	1982
IAC Act amended; Bill McKinnon resigned; Mike Codd appointed Chairman; Uhrig review of IAC; Labor Government elected; recession; dollar floated; exchange controls abolished	1983
IAC Act amended; Button PMV industry plan	1984
Codd resigned; George Johnson made acting Chairman; Bill Carmichael appointed Chairman	1985
Uruguay Round negotiations began; Button TCF industry plan announced; financial sector deregulation	1986
IAC proposed strategy to identify microeconomic impediments to industry competitiveness; May Economic Statement included staff and budget cuts for IAC; responsibility for IAC transferred to Treasury; terms of trade deteriorated; Australian dollar continued to depreciate	1987
'Impediments to competitiveness' references; Bill Carmichael retired; Dave McBride made acting Chairman; Greg Taylor appointed Chairman; May Economic Statement included program of general tariff reductions	1988
Report on government (non-tax) charges; Taylor resigned, McBride again acting Chairman; Tony Cole appointed Chairman; Garnaut report on Asia	1989

4

The Industries Assistance Commission: the 1980s

Reporting in a recession

The IAC anticipated that there would be a further evolution in the Commission's remit into the 1980s. Regarding inquiries, it noted:

Many of the issues which the Commission deals with in its inquiries seem to be changing. This is partly due to changing economic conditions. It seems probable that the economic conditions in which industry assistance policy will operate in the next few years will differ significantly from those which have prevailed over most of the period since the Commission was formed in 1974. (IAC 1981, p. 1)

Changing economic conditions at the beginning of the 1980s included the continued expansion of mineral exports, with the potential for domestic growth in output and employment, and inflationary pressures. Against this economic backdrop, and with the industry-by-industry Tariff Review winding up (box 3.4), the Government sent the IAC a broad reference on options for further general reductions in protection (box 4.1). According to Bill McKinnon, then Chairman of the IAC, the reference:

... represented a large step in the evolution from a development policy based on import replacement towards greater concentration on the consequences of protection on efficiency in resource use and community welfare. It is the first inquiry conducted by the Commission in which the focus of attention of the Commission and witnesses has been directed towards the general structure of protection and ways of improving it rather than on the adverse consequences of reductions in protection for individual industries. (McKinnon 1982, p. 14)

Box 4.1 Approaches to general reductions in protection

The Commission was asked to formulate methods for implementing general reductions in protection but it was not asked to consider whether general reductions were warranted or to express a preference for a particular option.

The Commission examined seven options for general reductions. It noted that the choice of a particular option depended on the relative weight placed on different Government objectives. Options that emphasised the objective of encouraging the development of competitive industries would involve larger reductions in high rates of protection (a 'tops down' approach) and have wider coverage, compared with options that focused on the community's capacity to absorb change (which would involve smaller reductions over a longer time period). An example of an option that would fulfil the 'encouragement of competitiveness' objective was for 'all rates of protection above 20 per cent to be reduced to 20 per cent with equal annual reductions over 10 years' (IAC 1982b, p. 1).

Source: IAC (1982b).

However, economic conditions deteriorated and, as the recession deepened, pressure to increase protection grew. By 1982-83, unemployment had increased to over 10 per cent (its highest rate since the 1930s Great Depression) and inflation was above 11 per cent (double the OECD average). Demand had contracted, gross domestic product was falling, a severe drought affected the rural sector, interest rates were high, and the terms of trade were deteriorating. The Fraser Government, increasingly concerned about the potential economic and social consequences of the IAC's options for general reductions in protection, did not act on the options. The report, however, was to have a longer term impact on tariff reform and become a key reference later in the decade for the 1988 announcement of general phased reductions under the Labor Government (see below).



Mike Codd, Chairman, 1983-85.

Other broad inquiries undertaken by the IAC in the early 1980s included budgetary assistance, export incentives and the commercial by-law system (IAC 1982a, c, d).

In early 1983, McKinnon resigned to take up the position of Secretary, Department of Immigration and Ethnic Affairs, and Mike Codd, formerly Secretary of the Department of Employment and Industrial Relations, was appointed as Chairman of the IAC (appendix B).

Enter the Hawke Government

The election of the Labor Government under Robert (Bob) Hawke in 1983, in the trough of the recession, heralded a significant shift in policy. According to Kelly (1992) this period saw the end of the 'Australian Settlement', devised in the early decades of federation.¹ Garnaut commented:

The floating currency and removal of exchange controls, the dismantling of most protection in a series of decisions from 1983, and a wide range of other reforms to remove structural rigidities, raise productivity and strengthen the educational base, marked a sharp break from earlier Australian policy. (Garnaut 2003, p. 63)

The Labor Government's first major policy reform involved floating the Australian dollar and abolishing exchange controls in December 1983 – the first steps in a series of financial deregulation reforms (following the 1981 Campbell Inquiry). This further opened the Australian economy to world markets and eased the introduction of another major reform – phased tariff reductions from 1988. The concept of made-to-measure protection was not sustainable in a world of freely floating exchange rates. The continued integration of world capital markets led to the removal of interest rate ceilings in 1984 and 1985, and foreign bank entry was permitted in 1985.

The Uhrig Review

With the recession as a backdrop, organisations critical of the IAC, such as the Australian Council of Trade Unions, placed pressure on the Labor Government to review the IAC's role and operations. Within months of coming to power, the Government announced an independent review of the IAC, to be undertaken by John Uhrig, Managing Director of Simpson Holdings and Chairman of the Australian Manufacturing Council. As Senator John Button, then Minister for Industry and Commerce, stated:

The principal reason for the Government requiring a comprehensive review of the IAC lay in a concern to ensure that the IAC will be able to maximise its effectiveness as a provider of practical advice to Government on questions of industry assistance. Over recent years, there has been increasing criticism of the contribution of the IAC to industry policy. Some of this criticism has been justified. But, while some of the blame can be directed to the Commission, a significant part of the problem lies in the legislative charter for the Commission and the nature of Government references ... In the Government's view the focus on protection has been excessive; the Government is of the view that it is essential that a wider range of more positive forms of assistance should be developed. (CPD (Senate) vol. S104, p. 2784)

The Government accepted the vast majority of the Uhrig Review's recommendations (box 4.2). Opposition Senator Peter Rae agreed with the general thrust of the Government's decision, but commented that the power of the IAC to initiate its own inquiries should not be revoked because it 'guaranteed a degree of independence'. The Senator also noted that the IAC's approach 'must be viewed in the context of the creation of jobs, and that



Benjamin Offices, 1979–95.

Box 4.2 The Uhrig Review of the IAC

The terms of reference for the review were broad ranging. Given that the Government's stated intention was that the role of the Commission be directed towards 'development and growth of Australian industry', the review was to identify what changes should be made to the IAC Act in relation to functions, operations, guidelines and reporting requirements.

Submissions to the review revealed widespread support for the IAC continuing as an independent body providing information to the community and advice to the Government, but many were critical of the IAC's performance and questioned the relevance and practicality of its advice. In particular, many submissions were concerned about the Commission's 'reliance on market forces' at a time when the economy was experiencing a downturn with long term unemployment problems, and a perceived lack of recognition of the non economic consequences of structural change.

The review, completed in December 1983, concluded that:

The Commission should be a more effective advisory body than it is at present. It should be more responsive to the information needs of Government in implementing its industry policy objectives. The Government too should play its part by specifying more clearly the information required. (Uhrig 1984, p. 97)

The review noted that three basic features should underpin the Commission's operations: that it should continue to be advisory only; that it should provide the maximum opportunity for public scrutiny; and that it should be independent (although Uhrig noted that independence was of little value if advice failed to address issues of Government concern).

Major changes recommended included:

- referring a wider range of issues relating to industry growth and development to the IAC, including industry-wide references and specific reference to service industries under the Act;
- encouraging the IAC to take a broader approach by ensuring references address issues of concern to government and industry;
- setting policy guidelines to reflect the objectives of industry policy;
- not subjecting anti-dumping, temporary assistance and commercial tariff concessions to the IAC's policy guidelines;
- removing existing reporting requirements and incorporating them in references;
- revoking the power of the IAC to initiate references;
- abolishing the TAA, with the IAC taking responsibility for temporary assistance advice (box 3.7); and
- improving the efficiency of operations (eg dispensing with first round public hearings).

Source: Uhrig (1984).

can only take place through the creation of a competitive position for Australian trade' (CPD (Senate) vol. S104, p. 2786).

The legislative changes required to implement the Review's recommendations were incorporated in the *Industries Assistance Commission Amendment Act 1984* (appendix A).² In his second reading of the Bill in the House of Representatives, John Brown (Minister assisting the Minister for Industry and Commerce) stated:

The Government believes that its acceptance of the vast majority of the review's recommendations will result in an emergence of a new era in the industry assistance advisory process. In particular, the improved operations and procedures of the Commission should allow it to become more effective in meeting the Government's industry policy objectives and needs. (CPD (H. of R.) vol. 139, p. 1737)

The amendments signalled significant changes for the IAC's future workload and role, including the repeal of somewhat prescriptive reporting requirements (appendix A) and the prospect of industry-wide references covering issues related to industry growth and development. These references, however, were not much in evidence until late in the 1980s (see below).

Some changes were not welcomed by the Commission. It reasoned, for example, that dispensing with public hearings before the draft report reduced public participation and removed much of the discipline for interested parties to forward their submissions early in the inquiry, thereby affecting its capacity to develop its report. Moreover, the transparency of IAC procedures suffered when a relatively more closed consultation process replaced public scrutiny via a hearing (IAC 1987b, pp. 26–8). Today, the Productivity Commission chooses, when appropriate, to substitute other forms of public consultation (such as roundtable discussions) for first round public hearings.

Former IAC Chairman, Alf Rattigan, expressed concern about the public hearing amendment and also commented adversely on the amendment to repeal the IAC's ability to initiate inquiries. While the IAC had not initiated any inquiries, Rattigan (1988, p. 43) noted that 'the possibility of doing so had enabled the Commission to obtain references that it may not otherwise have received'.

Another change constrained the Commission's ability to provide an economy-wide focus. It related to guidelines for anti-dumping inquiries — an area of industry assistance that has involved significant change in rules and administrative arrangements over the years (box 4.3).

Box 4.3 The IAC's diminishing role in anti-dumping

During the 1970s and 1980s, concern grew among Australian producers that certain goods were being 'dumped' on the Australian market, thereby undercutting local producers' prices and affecting their profitability. Dumping is said to occur when goods are exported at prices below those at which they would normally sell in the domestic market of the exporting country (article VI, GATT).

The *Customs Tariff (Anti-Dumping) Act 1975* empowered the Minister of Industry and Commerce to collect anti-dumping duties when satisfied that dumping had occurred. The Act also allowed local producers to appeal the decision to the relevant department which would then refer the issue to the IAC for inquiry and report.

The IAC received several such references during the 1980s. It was asked to answer two questions pursuant to the GATT rules and the Customs Act (s15): whether the product being exported to Australia was exported below normal value and, if so, whether the importation caused, or threatened to cause, material injury to the Australian industry. Following amendments to the IAC Act in 1984, the IAC could no longer also take into account the IAC Act (s22), which required it to adopt an economy-wide focus.

Until then, anti-dumping inquiries — such as those relating to polyvinyl chloride homopolymer, automotive and industrial filters, and nitrogenous fertilisers — had taken into account the economy-wide effects of anti-dumping action (IAC 1983a, b, 1984a). In respect of the inquiry on filters, the IAC noted:

Imposition of dumping duties effectively overrides tariffs or other protective measures which normally operate. By raising the price of imports, anti-dumping duties harm the interests of Australians using the goods under reference for further production, for sale and distribution, and for personal use. These adverse effects are capable of reducing the levels of production and employment in other sectors of the economy. (IAC 1983b, p. 19)

In 1983, the Government, in reviewing the Customs Tariff (Anti-Dumping) Act, recommended amending the IAC Act to limit the IAC's anti-dumping inquiries to the 'facts only' — that is, to answering the above two questions relating to injury. In other words, the IAC would not apply its section 22 policy guidelines. This was a recommendation of the Uhrig Review (box 4.2). Brown stated in his second reading speech for the Customs Tariff (Anti-Dumping) Bill:

The Government takes the view that such reviews should be confined to the facts of the particular case, that as the question at issue is one relating to unfair trading practices and is not an industry assistance matter, then the policy guidelines in the Industries Assistance Commission Act on industry assistance issues are not relevant. (CPD (H. of R.) vol. 134, p. 3395)

The *Industries Assistance Commission Amendment Act 1984* amended the 1973 IAC Act accordingly. In references thereafter (eg cherries in brine from Italy, and dining candles from The People's Republic of China) the IAC was precluded from incorporating economy-wide considerations in its assessments, although it made occasional relevant comments (IAC 1985a, 1986b).

Box 4.3 continued

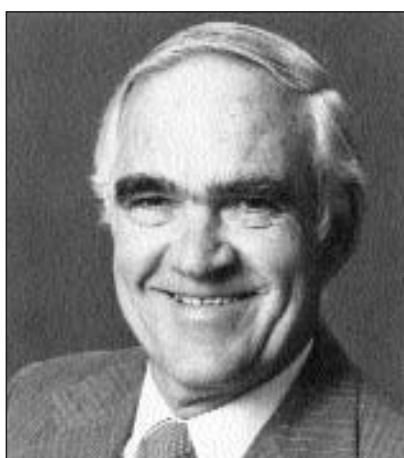
Such anti-dumping references comprised only a small part of the IAC's overall work program. Moreover, the IAC was not prevented from applying a wider focus to anti-dumping issues that arose in the context of its general inquiry program. The inquiry report on paper and printing, for example, examined dumping along with other trade-related assistance measures, and it discussed the economy-wide implications of anti-dumping action (IAC 1987a).

In his submission to the Gruen Review of anti-dumping legislation and administration (Gruen 1986), Bill Carmichael, Chairman of the IAC, argued for opening up the administrative system to public scrutiny and for adopting an economy-wide perspective that would:

... have an important practical effect — interests opposing anti-dumping actions would no longer be limited to arguing the 'facts', but would be able to focus attention on all the domestic effects of taking anti-dumping action. (IAC 1986g, p. 14)

However, the introduction of such provisions was not supported by the Gruen Review, and was opposed by the Government on the grounds of additional uncertainty, costs and complexity.

The Customs department was given responsibility for preliminary findings. In 1988, the Government established the Anti-Dumping Authority, following a recommendation of the Gruen Review. The authority advised the Minister on whether dumping duties should be imposed on goods, and on anti-dumping matters in general. The IAC Act was to be amended to remove the IAC as the body of review for anti-dumping matters. The Bill passed through the House of Representatives but was blocked in the Senate; it lapsed with the 1990 election. The Anti-Dumping Authority was abolished in 1998. The Commission has continued to publish data on anti-dumping activity in its annual review of trade and assistance.



Bill Carmichael, Chairman, 1985–88.

In early 1985, Codd resigned from the IAC to take up an appointment as Secretary, Department of Community Services. Carmichael, formerly Executive Commissioner (a position established under the IAC Act to provide assistance to the Chairman), was appointed as the IAC's new Chairman (appendix B).

Towards broader reforms

After the Uhrig Review, the IAC's inquiry focus gradually shifted to include other factors that affect industry efficiency and competitiveness, such as regulation and administrative arrangements. This change in focus was strengthened as the economic climate changed. By 1987, Australia's terms of trade had deteriorated substantially (by 20 per cent since 1984), imports had increased greatly, and the current account deficit and external debt had risen. However, Australia's trade balance would have been worse if not for the continued depreciation of the Australian dollar between 1985 and 1987. The IAC commented that Australia's economic problems should be addressed through a longer term economy-wide approach:

... a competitive industry structure can be maintained only if the economy is adapting to change. This points to the importance of removing impediments to adjustment and flexibility in the economy.

Most of these impediments are not industry or sector-specific in their effects. Many are pervasive throughout the economy. They are manifest in the markets for labour, capital, goods and services. But they generally share the characteristic of shielding established arrangements against competition from more efficient alternatives.

... Ultimately, competition is the only effective discipline on economic efficiency. If Australia is to improve its competitive performance in world markets, it needs to remove regulatory barriers to competition in its *domestic* markets ... (IAC 1987b, pp. 5–6)

Although this approach was incorporated in a forward inquiry program proposed by the IAC in its 1985–86 and 1986–87 annual reports, the Government did not respond. Button shed light on the difficulty of obtaining work for the IAC at this time:

From time to time Carmichael [Chairman of the IAC] complained that the Commission didn't have enough to do. He suggested it might widen its scope and conduct an inquiry into the transport industry or the mining industry. In Cabinet the transport Minister Peter Morris rejected an inquiry into 'his' industry. He liked a quiet life, and was not keen on restructuring. I pointed out that manufacturers made numerous complaints about water-front inefficiencies. Morris appointed an inquiry of his own. Nothing seemed to happen. The complaints were to go on. Gareth Evans as Minister for Resources said the mining industry didn't want to be inquired into. So nothing happened there either. (Button 1998, p. 264)

Moreover, some of the references the IAC did receive from the Government limited the scope of the inquiries or prescribed the advice to be given. An example of a limiting, 'loaded' reference was in relation to heavy engineering. The IAC was asked to report, among other things, on 'how the Government can give effect to its intention to maintain a heavy engineering industry' (IAC 1985e, p. A1). For its inquiry into book production, the Commission was to have regard to the Government's desire not to impede particular book imports by tariffs or quota restrictions (IAC 1985f, p. 42).

A shift to the Treasury portfolio and 'industry plans'

By 1987, the IAC's inquiry program had been greatly diminished and the Commission was, in the alleged words of one senior industry bureaucrat, 'withering on the vine'. Not until January 1988, after the IAC had been transferred to his portfolio, did the Treasurer announce a substantial forward work program for the IAC, noting:

The sharp deterioration of Australia's terms of trade over the past two years, and the more recent troubles in world share markets, have highlighted the need for our industries to become and remain internationally competitive, for efficiency to be improved across-the-board and for impediments to change to be removed.

... While the Commission will continue to conduct inquiries of a traditional kind into particular industries, the Government now intends that it also conduct broader ranging inquiries directed towards removing impediments to improved efficiency across the whole spectrum of industry. (Treasurer, Press release, no. 7, 26 January 1988, in IAC 1988a, app. 1)

The forward work program envisaged four inquiries on impediments to competitiveness: government (non-tax) charges on industry (box 4.4);



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Box 4.4 Inquiry on government (non-tax) charges

The inquiry focused on the impact of charges for government supplied goods and services on the competitiveness of Australian industry. It arose as part of the Commonwealth Government's program of structural reform of the economy, and from a concern that industry should not be burdened unreasonably by the level and structure of such charges. The report found:

- business paid approximately \$29 billion for government provided goods and services in 1986-87. This represented about 16 per cent (by value) of intermediate inputs to industry, or around 6 per cent of total costs of production;
- poor performance by public enterprises can generally be traced to some combination of unclear and sometimes conflicting objectives, the absence of effective competition, reliance on ineffective control and performance monitoring mechanisms, and institutional constraints inherent in Australia's federal system of government; and
- governments at all levels could initiate further action to improve performance. While this could (and should) include continued administrative reforms, the benefits available from improved public enterprise performance are unlikely to be fully realised unless broader approaches are adopted – in particular, dismantling barriers which presently shield many major public enterprises from competition. (IAC 1989c, p. xxvi)

The report, in identifying inefficiencies and their impact on business competitiveness, had a long term impact. The Government used it in developing its microeconomic reform agenda. The report also laid the foundations for later Commission inquiries into specific government trading enterprises (for example, rail, electricity and water: chapter 5).

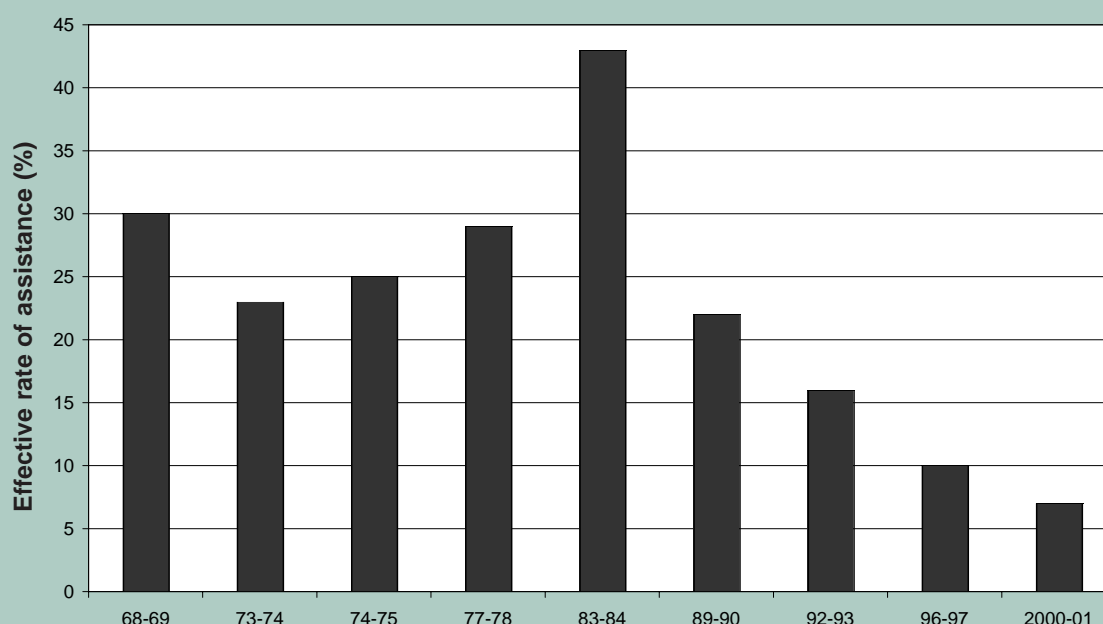
impediments to international trade in services; food processing; and travel and tourism. Several major traditional industry reviews were also proposed, including a review of the dairy industry. However, there were difficulties in getting Ministers to agree to wide ranging terms of reference. Terms of reference for the four 'impediments' inquiries were eventually forwarded to the IAC in mid- to late 1988, for completion in 1989. The delay with these inquiries, and the lack of other references, left the IAC underused until the announcement in 1989 of the formation of the Industry Commission (see below).

In the mid-1980s, average levels and disparities of assistance within manufacturing started to decline (figures 4.1 and 4.2), mainly due to the significant reductions in assistance afforded by existing quota regimes to PMV, and to a lesser extent, TCF, as a result of the depreciation of the Australian dollar (figure 4.3). The sectoral plans developed in the 1970s (chapter 3) continued to be favoured by the Government as a vehicle for assisting these and some other industries (for example, steel and heavy engineering). Button (Minister for Industry, Technology and Commerce) developed industry plans for mature industries, with an emphasis on

Box 4.5 Disparities in assistance matter for welfare

Differences in assistance levels across and within industries are important indicators of the potential for resources to be misallocated as a result of the assistance received. The larger the disparities, the greater is the potential for resources to be diverted to less productive activities, raising the welfare costs of assistance. The following chart uses the standard deviation as a measure of the dispersion in effective assistance levels. It is clear that the dispersion increased greatly after the 25 per cent tariff cut, largely as a result of the introduction of import quotas for the TCF and PMV industries.

Figure 4.1 Dispersion in effective assistance for manufacturing industries

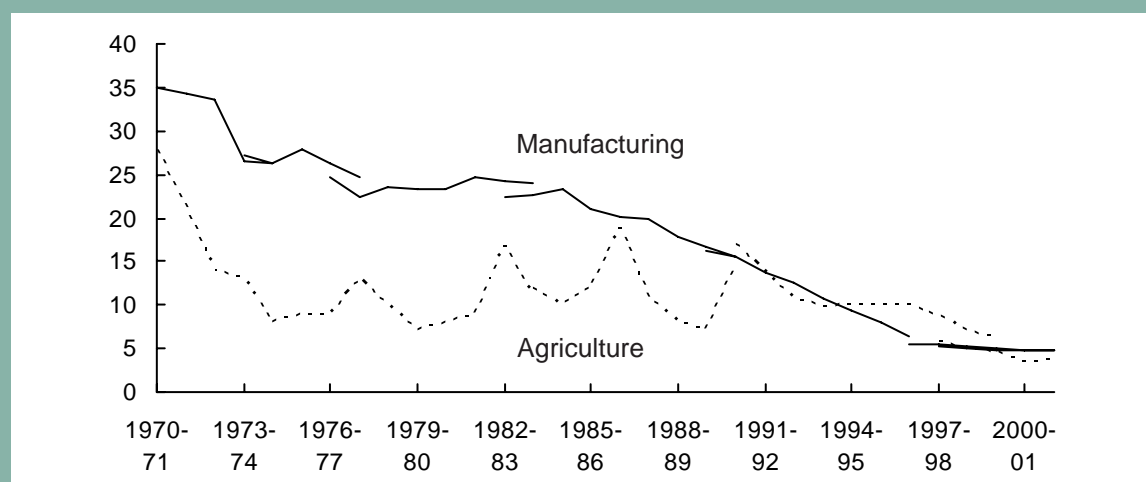


Source: IC (1995h).

negotiation with unions and employers. In particular, advisory tripartite industry councils (recommended in the 1977 white paper: chapter 3) 'provided a unique and unprecedented forum in which conflicting interests could work together in a non-adversarial situation to undertake a frank assessment of their industry's prospects ... the industry councils played an important role in minimising the potential for political backlash ...' (Capling and Galligan 1992, p. 132).

The Button industry plans for PMV and TCF (appendix E) were announced in 1984 and 1986 respectively, to commence in 1985 and 1989. Although each plan reflected particular industry features, they had some characteristics in common, such as an initial increase in assistance with scheduled

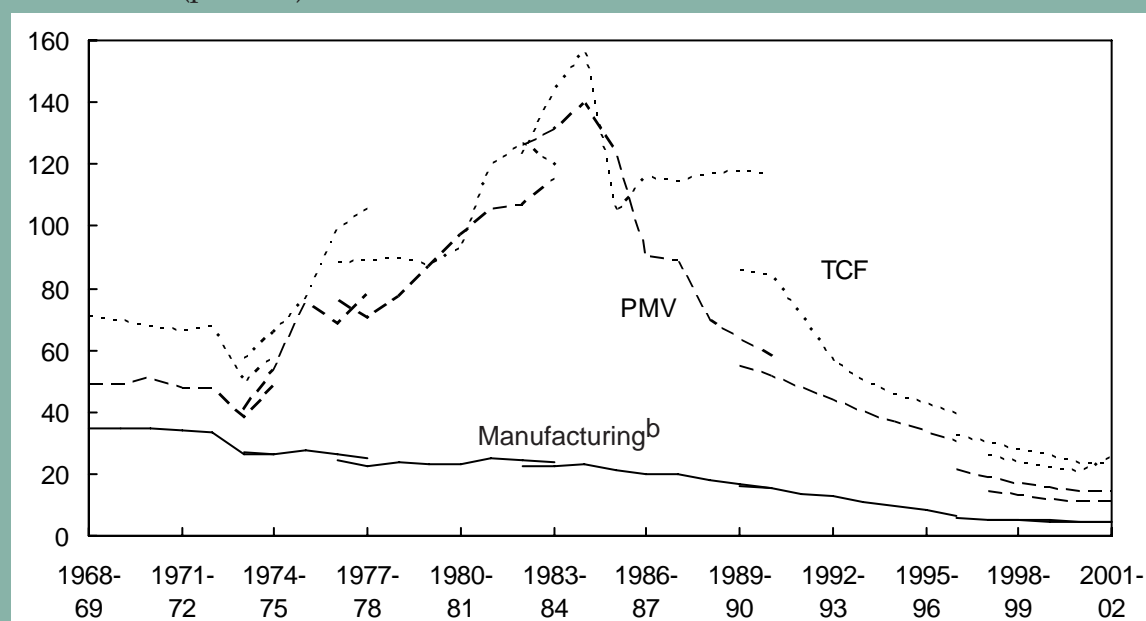
Figure 4.2 **Falling average effective rates of assistance^a to manufacturing^b and agriculture^b (per cent)**



^a See chapter 2, footnote 2 for a definition of the effective rate of assistance. Breaks in the series reflect the effects of periodic revisions to published data on industry inputs and outputs. ^b The effective rate of assistance to manufacturing is not directly comparable with the effective rate of assistance to agriculture, due to differences in coverage, data and methodologies.

Data source: PC (2002a).

Figure 4.3 **Average effective rates of assistance to TCF, PMV and manufacturing^a (per cent)**



^a Breaks in the series reflect the effects of periodic revisions to published data on industry inputs and outputs. ^b Includes TCF and PMV.

Data source: PC (2000a).

future reductions, the inclusion of safety net provisions to enable review and adjustment to the plan to cover certain contingencies, the establishment of a monitoring authority, and some specified adjustments to industry structure.

The IAC's assessment of these plans was similar: while the phasing out of import quotas under the plans should lower assistance, when reductions were completed, the industries would still receive substantially higher levels of tariff protection than afforded to other manufacturing industries (IAC 1987b, app. 5). On the general 'industry plan' approach the IAC stated:

The objective of a more internationally competitive economy can be pursued directly through identification and removal of impediments which ... are recognised by industry to be restricting adjustment and growth. Pursuit of this objective does not require that it be broken down into a series of discrete, and fundamentally incompatible, aims relating to the competitiveness and growth prospects of individual industries. (IAC 1987b, p. 17)

General tariff cuts again

Notwithstanding its concerns with the Button industry plans, the IAC agreed with the general objective of the Hawke Government's economic reform policies — that is, a more open, efficient and competitive economy. Reforms in the 1980s, such as financial deregulation and those announced in the 1988 May Economic Statement (box 4.6), started to move the

Box 4.6 The May 1988 Economic Statement

The May 1988 Economic Statement was announced in a period of economic growth with relatively high inflation. Although employment was growing, unemployment remained relatively high. The Australian dollar had depreciated substantially.

Reforms included:

- a substantial general phased reduction in tariffs (although TCF and PMV, with their own industry plans, were excluded) facilitated by the depreciation of the dollar. The Treasurer noted that the approach to general reductions drew on the earlier work of the IAC (box 4.1);
- reductions in assistance to some highly assisted agricultural industries;
- reductions of certain barriers to competition in communications;
- the termination of the two-airline agreement; and
- the relaxing of some administrative constraints on government business enterprises.

Sources: IAC (1988a, 1989a).

economy along this path. The IAC commented that the reforms ‘collectively constitute a major departure from past approaches and, if consistently pursued, will facilitate greater efficiency and competitiveness in Australian industry’, but there was much more to be achieved (IAC 1988a, p. iii).

These economy-wide reforms required strong political leadership. Writing on the Hawke Years, Clark (2003, p. 61) commented that ‘to achieve reform required not just community consensus but a similar mood at cabinet meetings. Those present witnessed Hawke’s great skills in securing agreement without Ministers with different views feeling they had been suborned’. The Government harnessed the support of the industries and interests that stood to gain from the reforms by enhancing their political power through its ‘recognition’ of ‘peak’ interest groups; it sought to lower the resistance of potential ‘losers’ by structural adjustment assistance and ‘compensation’.

Reform was facilitated by the increasing support from the Liberal-National Party Opposition, which, under Howard, would argue for even greater liberalisation than sought by the Government. Moreover, changing community attitudes to tariff assistance made the implementation of reforms more politically acceptable. John Hyde, Liberal Party Member for Moore during the 1970s and early 1980s, noted:

By the mid-1980s, people who not many years before had opposed any protection reduction, began arguing about how to reduce it. Instead of asking plaintively how they could compete with low wages paid in poor nations, manufacturers began asking how they could further increase the high productivity of their expensive workforce. More people appreciated that if Australia did not import, it could not export, realised that trade barriers reduced living standards and that a job saved by protection here, cost one there. (Hyde 2002, p. 83)

The push for ‘microeconomic reform’

In the context of these reforms, the Hawke Government and the IAC commenced publicly using the embracing term ‘microeconomic reform’, which was to become common place and a cornerstone of the Commission’s future work. The IAC described microeconomic reform as being ‘about achieving change — in government policies, institutional arrangements, and in the structure and performance of industry’ (IAC 1988a, p. 1). The term was new but the concept was not: tariff reforms of the 1970s were critical microeconomic reforms. What had changed was that the scope of the reform agenda had widened greatly.

The IAC pointed to microeconomic reform imperatives in its 1988-89 annual report (IAC 1989a, ch. 1), reiterating them in the 1990s:

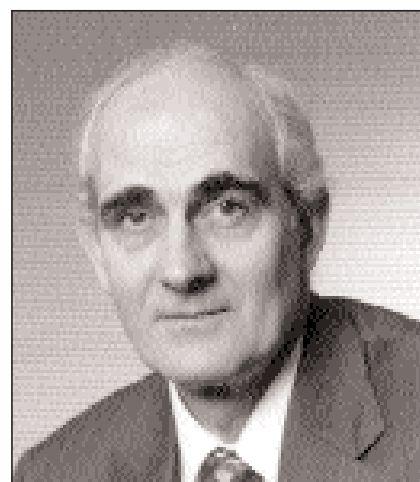
- exposure to competition is perceived as the key to improved performance;

- alternative assistance measures (for example, export market development schemes) may not promote a more competitive and efficient economy;
- the gains from removing major inefficiencies are substantial. Sustained real gross domestic product gains of almost 5 per cent were projected to flow (using the ORANI model) from removing major inefficiencies in the services sector, such as road and rail transport, and aviation (IAC 1989a, p. 19);
- all levels of government need to pursue reform;
- a consistent economy-wide perspective and independent public review procedures were needed for the full potential of microeconomic reform to be realised; and
- microeconomic reform must be ongoing.

By this time, Carmichael had retired. Greg Taylor, formerly Deputy Secretary, Department of Prime Minister and Cabinet, became Chairman of the IAC in May 1988. The following year, he resigned to take up the position of Secretary, Department of Employment, Education and Training. Tony Cole, also formerly Deputy Secretary, Department of Prime Minister and Cabinet, was appointed Chairman and led the IAC through its first amalgamation to become the Industry Commission (appendix B).

By the end of the 1980s, the IAC was starting to address a broader range of microeconomic reform issues, particularly in its inquiries into impediments to competitiveness. However, for most of the 1980s, the IAC's overall work focus had been similar to that of the 1970s, but with more emphasis on agriculture. Although less than in the 1970s, three quarters of all inquiries during the 1980s related to manufacturing (table 3.1). References on border protection to manufacturing still dominated, although some inquiry reports on manufacturing during the 1980s discussed a broader range of issues. The heavy engineering report, for example, assessed State and Territory government purchasing preferences as a means of achieving a more competitive industry (IAC 1985e).

The proportion of IAC inquiries that were agriculture related increased from 12 per cent in the 1970s to nearly 20 per cent during the 1980s. As in the 1970s, the majority related to agricultural assistance — for example, wheat, honey, and apples and pears (IAC 1983c, 1984b, 1985b). Some, like crop and rainfall insurance, were not



Greg Taylor, Chairman, 1988–89.

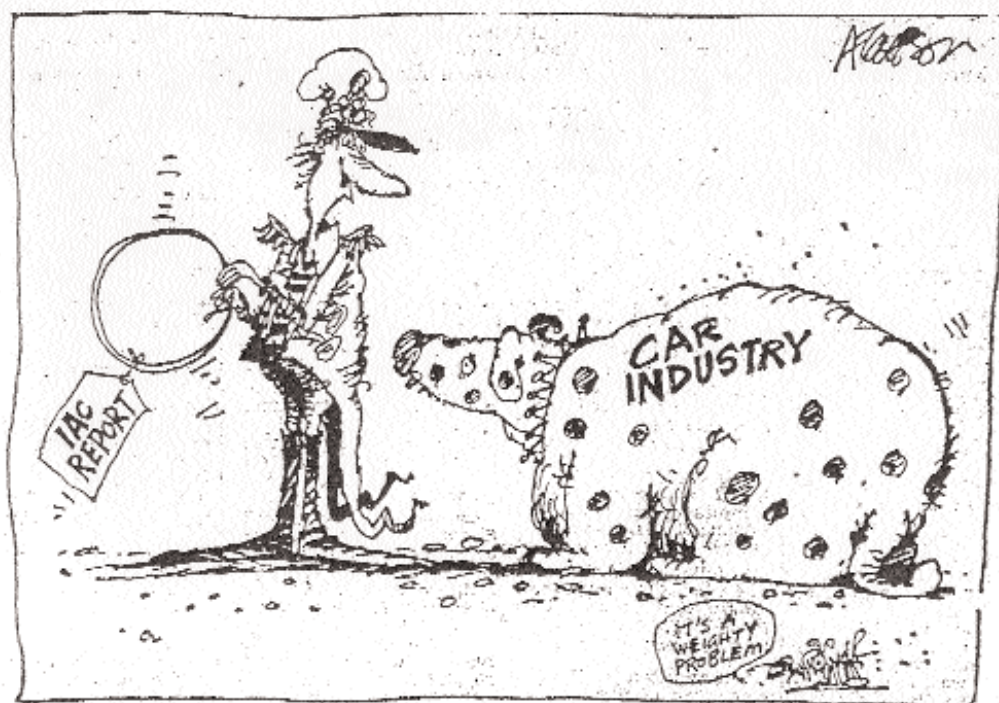


Tony Cole, Chairman, 1989–91.

industry specific (IAC 1986d). Others covered environmental and social issues, as had some of the agriculture reports in the 1970s. The rice report, for example, examined irrigation management issues such as water pricing policy, salinity costs and the transferability of water entitlements (IAC 1986e). The inquiry into the biological control of the plant, Paterson's Curse, examined its effect on the conservation of native vegetation and the impact of biological control (IAC 1985c). Income support measures were addressed in the rural adjustment report (IAC 1984d).

The proportion of 'other' inquiry reports undertaken during the 1980s (only 6 per cent) remained basically unchanged from the 1970s. They included industry reports on pharmaceutical products and coastal shipping (IAC 1986f, 1988c). Important to fulfilling the IAC's mandate to address matters from an economy-wide perspective were cross-sectoral inquiries, such as the 1982 reports on budgetary assistance and general reductions in protection (described above).

During the 1980s, the IAC continued as in the 1970s, to use the annual reporting mechanism as a means of raising issues and providing information to the public. The issues canvassed were wide ranging and included impediments to more competitive industries, the benefits from microeconomic reform, and domestic and external trade policy objectives (box 4.7).



"Come on, you're going to have to get through sooner or later!"

Cartoon courtesy of *The Advertiser* and cartoonist, Michael Atchison.

Box 4.7 Themes from IAC annual reports: the 1980s

The 'whole of commission' views in these annual reports related to issues which had been subject to public debate for some time, and to emerging issues.

Industry restructuring and trade

The Government's announced intention to pursue domestic industry restructuring and simultaneously to support international initiatives to promote a less restrictive world trading environment reflects the interdependent nature of industry and trade policies.

... The Government's industry and trade reform objectives need to embrace an approach which helps the community come to terms with what is now apparent from past experience that policies about change which are not concerned with its impact on all Australian industries and which involve procedures that do not embrace the whole Australian community are unlikely to be durable. (IAC 1984c, pp. 4, 5, 6)

Domestic and external policy objectives

The test of the relevance of our [international trade] bargaining position is whether it will advance the national objective of improved competitiveness through reducing disparities in incentives to domestic producers. While the international objective of trade reform can be achieved if governments pursue the domestic objective of improving their domestic incentives structure, that logic cannot be reversed. Reducing barriers to international trade does not guarantee, for individual participating nations, an improved domestic incentives structure. The *international* objective of lowering trade barriers is important. Its contribution to the *domestic* objective, of a less disparate environment of incentives and a more competitive industry structure, is paramount. (IAC 1985d, p. 3)

Impediments to competition

A competitive industry structure can be achieved and maintained only in an economy which is, itself, adapting to changes in the international economic environment. The most important impediments to a more competitive industry structure are those which reduce the flexibility of the economy by shielding uncompetitive activities, managements, technologies or work practices.

... government actions which raise the cost of inputs – whether raw materials, manufactured products or services – are an obvious impediment to growth. (IAC 1986h, p. 7)

Benefits from microeconomic reform

Reform in many areas of the economy will not be easy or achieved without adjustment costs. But we can no longer allow these costs to unnecessarily slow down the process of change. Microeconomic reform is proceeding apace in other countries. If we do not act now our competitive position and standard of living are in danger of decline. Significant domestic reform can prevent this. It can remove impediments to efficiency and free up the economy to produce more goods and services – to be consumed domestically and exported.

What needs to be done? Competition is the key; an economy-wide perspective and public review procedures are needed; alternative assistance measures are not the answer; all governments need to pursue reform; microeconomic reform is ongoing. (IAC 1989a, pp.1, 2)

The IAC also started to develop mechanisms for raising issues for debate outside the annual report context, by releasing a few working/discussion papers on topics such as assistance to mining and regulatory impediments to industry adjustment (IAC 1986c, 1988b). Such research continued to expand with the formation of the Industry Commission. It is now a mandated feature of the Productivity Commission's work program (chapters 5–7).

Changing international trade relations

Multilateral and regional trade liberalisation was another focus of the Hawke Labor Government. The Australian Government participated in the Uruguay Round of trade negotiations under the General Agreement on Tariffs and Trade (GATT), and was instrumental in forming the Cairns Group of major exporting countries and, later, the Asia Pacific Economic Cooperation (APEC) Forum. Nevertheless, Australia's position recognised the benefits of unilateral liberalisation. In 1985, Hawke argued that 'an essential requirement I believe is for trade policy to be seen more as an integral part of broad domestic economic management and less exclusively as the subject of international negotiations' (Snape et al. 1998, p. 5).

The IAC agreed with the need to bring together the domestic and international dimensions of trade policy. In a paper prepared for the IAC by two former Chairmen on a model for the Australian 'country report' under the GATT's Trade Policy Review Mechanism (TPRM), Carmichael and Rattigan noted:

... the report should recognise the interactive relationship between the 'external' dimension of trade policy (what contracting parties have agreed to pursue collectively, through multilateral cooperation, in the GATT) and those issues which belong to domestic policy (domestic adjustment and efficiency, which are beyond the reach of GATT's disciplines). (Carmichael and Rattigan 1989, p. 8)

Their paper formed the basis of the IAC's advice to the Department of Foreign Affairs and Trade, which compiled the report. The aim of the TPRM was to bring greater transparency to GATT negotiations on trade barriers. The IAC considered that it could assist in this transparency process by further developing a constructive, policy neutral informational role that focused on raising public understanding of the contribution of domestic transparency to a more open world trading environment. As the opportunities for gains from the Uruguay Round became apparent and microeconomic reform progressed, the IAC's work included more analysis of trade agreements and impediments to international trade (box 7.11).

More restructuring

The Hawke Government's reformist approach extended to the public service. In its 1987 May Economic Statement, the Government announced staff and budget cuts for the IAC as part of a package of cuts to the public service. IAC staff were reduced from 300 in 1986-87 to 215 in 1988-89, and the budget declined (in real terms) by approximately \$2 million over the same period, continuing the trend from the mid-1970s (figures 3.1 and 3.2). The IAC restructured its office in 1987-88, as it had done under similar pressure in the late 1970s (box 3.8). And, as noted earlier, a wider public service restructure involved the IAC becoming a Treasury portfolio responsibility (appendix C).

By 1989, several other public sector research and advisory organisations had been established, including ABARE, the BIE, the Bureau of Transport and Communications Economics, and EPAC. Also providing policy advice and information were ad hoc committees, industry councils, the Australian Manufacturing Council, the Business Council of Australia, other lobby groups, and consultancy companies. Some of them, however, were seen as more amenable than the IAC in their advice.

The IAC commented:

The past year [1988-89] has not been easy for the IAC. The absence of a forward inquiry program, the referral of industry policy questions to departmental research bureaus and ad hoc bodies, and delays in making appointments needed to meet the Commission's statutory minimum membership requirements, all fuelled uncertainty as to the IAC's future role and its contribution to the microeconomic reform program. (IAC 1989a, p. 8)



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The uncertainty was clarified by the Treasurer's announcement in August 1989 of the establishment of the Industry Commission, with a substantial new forward work program (chapter 5):

... the IAC is to be restructured to make it an effective catalyst for change.

Its charter will be greatly broadened and it will become the Government's major review and inquiry body in industry matters.

... The new Industry Commission (IC) will further the important role that the IAC has played in the structural adjustment process in Australia. It will build on the IAC's earlier work which was instrumental in awakening the community to the enormous costs of many industry assistance policies.

... As an institution, the IAC has been an important force, building community awareness of the need for Australian industry to be outward looking and internationally competitive. (IAC 1989a, p. 15)

The new body's charter was to be broadened, yet it could be argued that during the 1980s the IAC did not fully realise its potential under its existing charter (the IAC Act) to inform policy in a range of microeconomic areas. Instead, the IAC's inquiry program from the Government had focused on assistance to manufacturing and, to a lesser extent, agriculture, as in the 1970s. Although some reports canvassed broader issues, only at the end of the decade did the IAC, through wider references from the Government and its annual reporting function, begin to shift the focus of its work. The Industry Commission strengthened this trend in the 1990s.

Garnaut, in a report which examined the opening up of the Australian economy to trade with Northeast Asian countries, concluded that the most important step to enhance exports and competitiveness was to remove all protection by 2000. This became a backdrop to further general tariff reforms.

... The tide has turned through the 1980s, although we carry still most of the dead weight of a protectionist past. Through the 1990s, Australians, in a favourable international environment, will choose whether they step out in new, more hopeful directions through the twenty-first century.

... Australia's advantages this time [compared to the late 1970s] are a wider community perception of the magnitude and complexity of the task, and a recent record of solid achievement on policy change in the directions that are necessary for long term success. (Garnaut 1989, p. 1)

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- 1 The 'Australian Settlement' constituted a collection of mutually supportive economic and social policies: White Australia, industry protection, wage arbitration, state paternalism and imperial benevolence (Kelly 1992, pp. 1-2).
 - 2 In addition, two IAC amendment Acts (nos. 21 and 75) were assented to in 1983. They incorporated relatively minor amendments to the 1973 IAC Act (appendix A).

THE INDUSTRY COMMISSION

Industry Commission commenced (IAC, ISC and BRRU absorbed); ORR commenced; Commission commenced monitoring microeconomic reforms, including GBEs; Government announced forward work program including industry development references	1990
Tony Cole resigned; Tony Harris made acting Chairman; Stephen Sedgwick appointed Chairman; recession; second phase of tariff reductions	1991
Stephen Sedgwick resigned; Roger Mauldon made acting Chairman; Bill Scales appointed Chairman; Treasurer announced relocation of office to Melbourne; Melbourne office operational by end of year	1992
Reports on gains from Hilmer reforms, and on charitable organisations; first review of performance of government service provision; National Competition Policy	1995

5

The Industry Commission

This chapter chronicles the activities of the Industry Commission from its formation in 1990 to the commencement in 1996 of its merger with the BIE and EPAC to form the Productivity Commission. The Industry Commission continued to operate until the repeal of its Act in April 1998.

The first merger

The *Industry Commission Act 1989* was assented to on 17 January 1990. The Minister Assisting the Treasurer, Peter Morris, noted the following rationale for the establishment of the Industry Commission as the Government's 'review and inquiry body in industry matters':

Through its advice to the Government, the Industry Commission will play a key role in helping industry to become more efficient, more productive and more internationally competitive. And that is central to ensuring better growth prospects and better economic conditions in this nation over the years and decades ahead.

... the establishment of the Industry Commission represents the Government's continued commitment to that transparency and full community debate in the development of policies relating to industry. The Commission is intended to make a major contribution to further structural reform in Australia. It will be a catalyst for productivity and efficiency gains. (CPD (H. of R.) vol. 169, pp. 2423, 2427)

Under the 1989 Act, the new organisation absorbed the staff of, and the functions previously performed by, the IAC and the Inter-State Commission (ISC: box 5.1). According to Morris, 'in this enlarged body, the resources of the Inter-State Commission will have a key role in the identification and analysis of the interrelationships between all sectors of the economy and the transport sector' (CPD (H. of R.) vol. 169, p. 2424).

Despite this assurance, the main opposition to the Bill to establish the Industry Commission related to the amalgamation of the ISC. John Hewson, Liberal member for Wentworth, argued that the amalgamation was not in the 'spirit of the Constitution'. In particular, the Opposition was concerned that the States and Territories would be suspicious of cooperating with a Government that had 'effectively abolished' an authority responsible for matters of key interest to them. The National Party (Senator Stone: Queensland) also opposed the Bill, querying 'why abolish the Inter-State Commission? If it is doing such a good job, what is the point?' (CPD (Senate) vol. 138, p. 3896). In the event, the new Industry Commission Act (s4) incorporated a key feature of the ISC: 'this Act binds the Crown in right of the Commonwealth, of each of the States, of the Australian Capital Territory and of the Northern Territory ...'.

The Industry Commission also acquired the functions and resources of the Business Regulation Review Unit (BRRU: box 5.1), which was upgraded and renamed the Office of Regulation Review (ORR: box 5.2). This change was reflected in a revised office structure for the new Commission (figure 5.1).

Box 5.1 The Inter-State Commission and the Business Regulation Review Unit

The Inter-State Commission

The Australian Constitution states:

There shall be an Inter-State Commission, with such powers of adjudication and administration as the Parliament deems necessary for the execution and maintenance, within the Commonwealth, of the provisions of this Constitution relating to trade and commerce, and of all laws made thereunder. (s101)

For most of the years since federation there has been no Inter-State Commission. An ISC was first established in 1913 by the Labor Government to deal with intense lobbying between free traders and protectionists. Its last report was forwarded to the Government in 1917. In 1984, an ISC once again commenced operation. With its independence guaranteed by the Constitution, its role was to advise the Commonwealth Government on matters relating to interstate transport and wider trade-related matters. The ISC's central theme was:

... the improvement of the efficiency and equity of interstate transport arrangements and the development of a balanced national transport strategy and the infrastructure for implementing that strategy. (ISC 1989, p. 2)

The ISC investigated a variety of transport-related issues, including road user charges, waterfront reform and the efficiency of interstate transport arrangements. It had 15 staff in its last year of operation.

The Business Regulation Review Unit

The BRRU was established in 1985 to service the Industry Committee of Cabinet in the area of business regulation. Reporting to the Minister for Industry, Technology and Commerce, its roles were to: assess the impact of regulation on business and coordinate the regulation review process; screen new Commonwealth regulations; and liaise with State governments to facilitate the coordination of regulatory reform.

The BRRU reviewed numerous business regulations, including those on therapeutic goods, container deposit legislation, food standards and safe manual handling. It had four staff.

Sources: BRRU (1989); ISC (1989); Rattigan (1986).

Box 5.2 The Office of Regulation Review

On its establishment within the Industry Commission in 1990, the ORR was responsible for examining and advising the Government on proposed changes to regulation, preparing public information papers and submissions on regulation, and undertaking the business regulation request and response procedure (IC 1990a, p. 23). While the ORR's responsibilities have broadened over time, its overarching objective has essentially remained unchanged – that is, to improve the quality of the regulatory environment to the benefit of the Australian community.

During its first years of operation, the ORR provided advice to the Structural Adjustment Committee of Cabinet on a large number of regulatory matters, including: assisting regulatory agencies in designing new bodies of regulation; cooperating with State deregulation units in examining State regulation; and advising the Cabinet committee on new regulatory proposals relating to product liability and regulation of telecommunications.

An internal review of the ORR in 1993 found that it, while operating effectively, was devoting too many resources to its Cabinet role. A reweighting of its work priorities was recommended. The ORR's role was therefore expanded in 1993-94 to include:

- provision of secretariat services to the Council of Business Representatives;
- provision of advice in relation to review of existing legislation and access to delegated legislative instruments; and
- more effective enforcement of existing Cabinet requirements for regulation impact statements (RISs) (IC 1994a, p. 228).

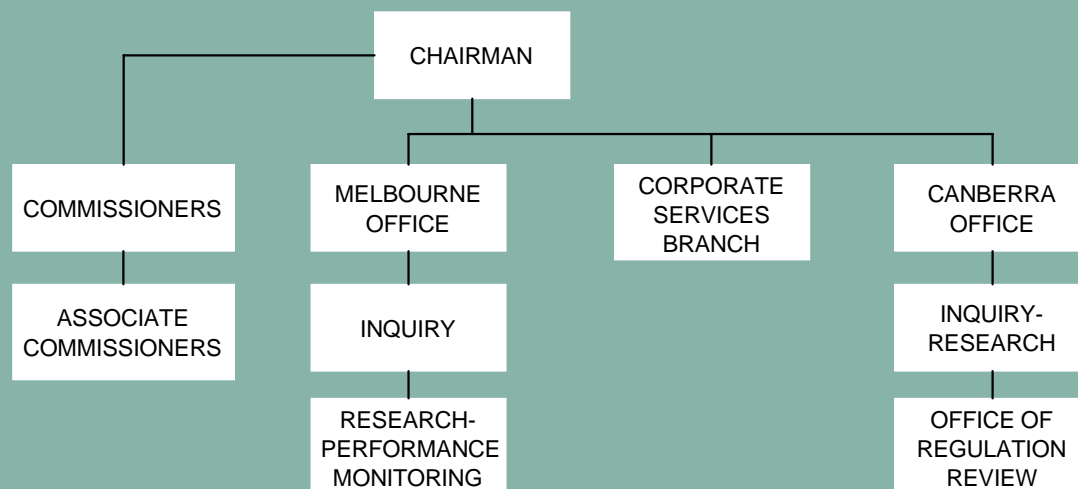
The scope of the ORR's activities was broadened further in 1997 when the RIS requirements became mandatory. The Government directed the ORR to report on compliance with the RIS requirements for specific regulatory proposals brought to Cabinet, and to report annually on overall compliance.

Also in 1997, the Government directed the ORR to issue a charter outlining its role and functions. This charter remains in force today. Functions include advising on appropriate quality control mechanisms for the development of regulatory proposals and for regulation review, and advising whether RISs meet Government requirements. The charter states that 'While maintaining an economy-wide perspective, the ORR is to focus its efforts on regulations which restrict competition or which affect (directly or indirectly) businesses' (PC 1998a, p. 112).

Activities undertaken during 2002-03 included: examining over 800 RIS queries and regulatory proposals; commenting on 120 RISs; formally training 510 Australian Government officials; assisting the Office of Small Business to develop regulatory plans and performance indicators; organising the annual meeting of State and Territory regulation review units; and presenting papers at APEC and OECD workshops. In 2003, the ORR also provided training to New Zealand officials.

Sources: Various IC and PC annual reports; various PC Regulation and its Review.

Figure 5.1 Industry Commission structure, 1995



Source: IC (1995a).

The staff and budgets of the IAC, ISC and BRRU were transferred to the Industry Commission. The ISC and BRRU, combined, accounted for less than 10 per cent of the absorbed staff and 20 per cent of the absorbed budget. The budget for the first full year of the Industry Commission's operations (1990-91) was approximately 20 per cent lower (in real terms) than for the year of amalgamation. However, it then increased steadily, as the Commission took on new activities (for example, government performance monitoring: see below), until the administrative amalgamation of the Commission with the BIE and EPAC was announced in early 1996 (figure 3.2). The staffing level of 250 in 1990-91, was higher than in the previous year, and continued to increase gradually until 1994-95 (figure 3.1).

Other significant changes incorporated in the Industry Commission's 1989 Act related to functions and policy guidelines. The Commission's functions were broadened from those of the IAC to include 'anything incidental' to inquiries and reports referred by the Minister (appendix A). This change enabled it to progress, from the tentative steps of the IAC, to undertake research on a wide range of issues (see below).

The retention of policy guidelines in the Act ensured that the Industry Commission, like its predecessor, took account of the Commonwealth Government's policies. The policy guidelines were similar, but not identical, to those of the 1984 IAC Amendment Act (appendix A). An additional policy guideline of the 1989 Act (s8[1][c]) which accommodated the incorporation of the BRRU, stated that the Commission must have regard to the desire of the Commonwealth Government to 'reduce regulation of industry (including regulation by the States and Territories) where this is

consistent with the social and economic goals of the Commonwealth Government'. Another addition was the requirement that the Commission report on the social and environmental consequences of its recommendations.

The Act further emphasised environmental considerations by requiring that at least one Commissioner had knowledge of, and experience in, environmental matters. All Commissioners were to be appointed on a full time basis. However, the 1989 Act was amended in 1995 to allow for permanent part time Commissioners.

The reporting requirements were considerably less prescriptive than those of the 1973 Act and most subsequent amendments (appendix A), specifying only that the Minister may require the Commission to report within the specified time, to provide a public draft report and to report on 'courses of action'.

Although the Commission and its predecessor operated under different Acts, the Commission retained and, if anything, enhanced the core features of the IAC, namely:

- independence from executive and administrative responsibilities for industry regulation and assistance;
- open and public inquiry processes; and
- an operating framework that required the Commission to report and advise on industry matters from a community-wide perspective.

In May 1992, Bill Scales, previously Chairman and Chief Executive of the Automotive Industry Authority, was appointed as Chairman of the Industry Commission, ending a period of uncertainty over leadership since Tony Cole resigned in early 1991 to take up an appointment as Secretary, Department of the Treasury. In the interim, Tony Harris and Roger Mauldon had acted for short periods, and Stephen Sedgwick, formerly Deputy Secretary, Commonwealth Department of Finance, had served as Chairman for less than six months (appendix B).

In the same month, the Treasurer announced the relocation of the Commission to Melbourne so it would be 'close to industry'. This decision was modified in 1993 to become a 'twin cities' policy, whereby just under half the staff would continue to be located in Canberra and the head office would be located in Melbourne. Although the work program continued unabated, the relocation caused considerable disruption to staffing.



Stephen Sedgwick, Chairman, 1991-92.



Bill Scales, Chairman, 1992-98.

The Melbourne office was operational by the end of 1992 and the relocation was completed by mid-1995, not long before another major organisational change (chapter 6). Of the original 254 Canberra staff, approximately one third remained in the Canberra office, 13 per cent transferred to Melbourne, 38 per cent found positions elsewhere, resigned or retired, and 17 per cent took voluntary redundancy packages (IC 1995a, p. 309). Although a significant core of staff remained, there was some loss of skills and 'corporate memory'. Nonetheless, the relocation provided an opportunity for the Commission to recruit staff with diverse experience, and recruitment in Melbourne during this period was substantial. Overall, Commission staff levels did not change significantly over this period (figure 3.1). The entire relocation process cost over \$15 million (including staff relocation, office fit-out and redundancy packages) (IC 1995a, p. 310). The Commission's budget increased accordingly over the relocation period (figure 3.2).

Directions for change

Cole, first Chairman of the Industry Commission, had commented in relation to the direction of industry policy in the 1990s:

In the broad, the direction for the 90s is quite clearly for change. I have argued on a number of recent occasions that the environment for reform in industry policy and on the wider microeconomic front has never been better ... The direction of change is also clearly towards greater efficiency ... In the past few years the scope of the microeconomic reform agenda has been broadened considerably to include much more than the traditional concerns about manufacturing and agricultural assistance. (Cole 1990, p. 2)

This approach was reflected in the Government's two-year forward inquiry program for the new Commission. It included references on energy generation and distribution, railways, product liability, exports of health services, recycling, statutory marketing arrangements, the availability of capital, and construction costs for major plants. A wide range of microeconomic reform issues were to be covered in the proposed inquiry program, including:

- the scope for more productive work and management practices in industry;
- the securing of improved efficiency within Commonwealth and State government business enterprises (GBEs);
- public/private participation and ownership in supplying infrastructure;
- the efficient provision of community service obligations;
- intergovernmental cooperation;

- economically efficient ways of achieving environmental objectives; and
- regulatory impediments to improved industry efficiency (IC 1990a, p. 20).

The new Commission was highly supportive of the Government's desire for it to address microeconomic reform issues. Harris, as acting Chairman, observed:

Pressing on with microeconomic reform is urgent because growth in Australia's material living standards has not kept pace with that of other nations with which we might like to compare ourselves. Productivity levels in Australian industry and growth in productivity compare poorly with OECD countries.

... The urgency for reform is underlined by the fact that the rest of the world is not standing still waiting for us to catch up.

... Microeconomic reform will not solve all of Australia's economic problems but it does provide a means of permanently raising output and material living standards. It provides a means of closing the productivity gap with other nations. (Harris 1991a, pp. 2, 3, 4)

However, as recession deepened during 1991-92 there was increasing pressure to slow the rate of microeconomic reform. Unemployment, having risen to over 11 per cent, was of greatest concern. As in the 1983 recession (chapter 4) and the late 1970s (chapter 3), the TCF and PMV industries highlighted the situation. Some State governments, such as Victoria and South Australia, were particularly concerned about the impact of increasing retrenchments in these industries (and the flow-on effects) on certain regional cities and urban areas, such as Stawell, Wangaratta and Geelong in Victoria. But the Commission's view on slowing the pace of reform was, in essence, unchanged from that of its predecessor:

Some States have deferred particular reforms and called on the Commonwealth to defer further reductions in tariffs. But easing the pace of reform now will not save jobs overall. To pause now will undermine the process of change that is required to tackle underlying and persistent unemployment in Australia. (IC 1992a, p. 1)

A second round of tariff cuts

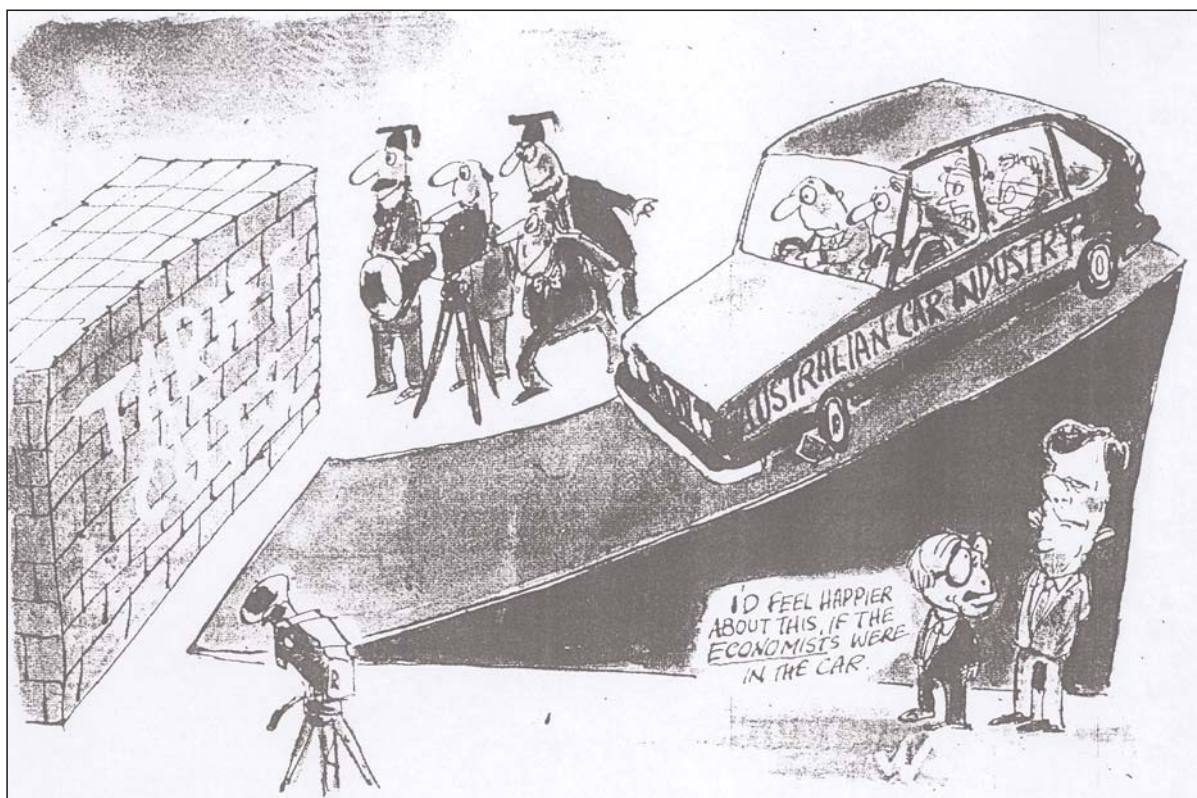
The Hawke Government did not ease the pace of reform. In 1991, it announced a second phase of tariff reductions that went beyond the 1988 general reductions (chapter 4). The general levels of assistance for manufacturing were to be reduced from 10 per cent and 15 per cent, to 5 per cent in 1996. Assistance to agriculture was to be reduced similarly. Protection for the TCF and PMV industries, however, was to remain relatively high, even though phased reductions were announced (to a maximum of 25 per cent for TCF and 15 per cent for PMV by 2000: appendix E). TCF tariff quotas were to be removed in 1993. However, the tariff reduction program was

not developed without debate within the Labor Party:

On this occasion the political timing was not ripe [compared with 1988]. The country was in the midst of a recession. The community didn't believe in further tariff cuts, nor did most manufacturers. Paul Keating and Bob Hawke wanted to push on with the reduction to 5 per cent, notwithstanding the recession. I was hesitant, knowing the depths of industry despondency. I agreed to recommend the further reduction simply because its economic effect would be delayed. (Button 1998, p. 270)

Implementation of the program was facilitated by an Opposition generally sympathetic to the policy approach and, indeed, pressing for more substantial reforms to protection and labour regulation. It was also assisted by the Commission's inquiry recommendations and continuing information and educational role on protection (Corden 1996, p. 146).

As a result of these reductions, effective rates of assistance for manufacturing (including TCF and PMV) and agriculture continued to decline through the 1990s (figures 4.2 and 4.3). Moreover, disparities in assistance within manufacturing decreased from a peak of 43 percentage points in 1983-84 to 16 and 7 percentage points in 1992-93 and 2000-01 respectively (box 4.5).



Nicholson of 'The Australian' newspaper [www.nicholsoncartoons.com.au].

Reforms to reduce business costs

By the mid-1990s (that is, before the merger forming the Productivity Commission: chapter 6), the Industry Commission had undertaken inquiries covering a broad range of microeconomic reform issues (box 5.3),

Box 5.3 Themes from Industry Commission annual reports

Themes from Industry Commission annual reports reflected its broader agenda as well as traditional policy concerns.

The need to press on with reform

Australia's most pressing economic and social problem is unemployment ... In response to the increase in unemployment, there have been widespread calls to slow the reform process — to put structural reform on hold ... But easing the pace of reform now will not save jobs overall. To pause now will undermine the process of change that is required to tackle underlying and persistent unemployment in Australia. (IC 1992a, p. 1)

Federalism and Australia's economic performance

Individually, Australian governments have embarked on reforms to improve productivity and the competitiveness of firms. However, the development of national markets and the efficient provision of government services also requires cooperation between governments across Australia ... The reform process increasingly involves complex questions concerning intergovernmental relations. Hence, a strengthening of cooperation between Australian governments is necessary to improve Australia's economic performance. (IC 1994a, p. 17)

Sustaining growth

Improving the performance of the Australian economy requires continuing effort on a number of fronts. Individual reforms may not always seem significant in isolation, but collectively they offer the prospect of a substantial boost to productivity and higher economic growth. Increased productivity is essential to underpin high living standards. (IC 1995a, p. 1)

Equity and microeconomic reform

Microeconomic reform is compatible with equity when undertaken on a broad front and prudently applied. However, some specific reforms, while increasing productivity and average living standards, can have detrimental effects on equity, particularly in the short term. Where people are harmed by reform, the social security and welfare system has an important role to play in assisting them. Furthermore, social policies ... must be improved continually to ensure that they raise the general welfare and productivity of the community. (IC 1996a, p. 13)

The productivity imperative

Past efforts to improve Australia's productivity are bearing fruit. But there is scope to lift productivity and living standards even further. While productivity growth can involve job losses in some firms and industries, measures which constrain national productivity will retard economic growth and harm future employment prospects for Australia as a whole. (IC 1997c, p. 1)

as suggested by the forward inquiry program. This was a substantial shift in focus from the traditional manufacturing references of the IAC. Almost three quarters of all Commission inquiries were outside of agriculture, mining and traditional manufacturing industry references, compared with only 6 per cent of IAC references in the 1980s (table 3.1).

Harris observed:

As protection has come down, and the reality of future reductions sinks in, manufacturers and others have been forced to improve their efficiency or cease operations. They have thus become acutely aware of the costs imposed by inefficiencies elsewhere. Hence, from this perspective, tariff cuts created the necessary preconditions for more broadly based microeconomic reform. (Harris 1991b, pp. 3-4, 6)

A consequent focus of the Industry Commission was on the performance of GBEs in delivering infrastructure services. As noted in chapter 4, the IAC's 1989 report on government (non-tax) charges, in highlighting the significance of government supplied inputs to industry, laid the foundations for future work in this area. The Commission noted:

Efficient government owned business enterprises are vital to Australia's economic performance because of the key role they play in influencing the quality and cost of economic infrastructure. (IC 1992a, p. 107)

The Commission's inquiries into GBEs — including rail, electricity, water and postal services (IC 1991b, c, 1992c, d) — demonstrated the importance of improving performance via a range of measures:

- the removal of barriers to competition (for example, legislative barriers to entry) and structural separation of activities to promote competition;
- institutional and administrative reforms designed to enhance commercial focus and accountability;
- privatisation, when appropriate, to promote on-going cost reductions; and
- other measures, such as pricing reform.

Scales (1992, p. 6) noted that a single approach to ownership is unlikely to be successful for all GBEs. 'Corporatisation, privatisation and public ownership all have a role to play. Whatever the approach, we must ensure that users of the services have a clear and unambiguous understanding about the cost of the service provided'.

GBE reform also formed an important element of the Industry Commission's expanding non-inquiry work program. The Commission monitored this area of reform as part of its provision of secretariat and research services to a steering committee of the Special Premiers Conference, subsequently called the Council of Australian Governments (COAG). Its first review was published in its inaugural 1989-90 annual

report as a component of a wider review of progress on microeconomic reforms undertaken by Commonwealth, State and Territory governments. According to Scales (1994, p. 4) 'the importance of this work is that it is a potential driver of further reform. It can provide benchmarks against which individual enterprises are able to evaluate their performance and to adopt best practice techniques from their counterparts'.

Other reforms monitored in the annual review of microeconomic reform included those that were industry specific or related to international trade, labour markets or environmental management. In 1995, reforms that implemented the NCP were added (box 5.4).

Box 5.4 National Competition Policy

In 1995, a COAG meeting of Commonwealth, State and Territory governments agreed to implement an NCP package of measures designed to extend pro-competitive policies to previously exempt sectors of the economy (unincorporated enterprises, GBEs and the professions). The NCP package established the Australian Competition and Consumer Commission and the National Competition Council, along with agreed principles on the structural reform of public monopolies, competitive neutrality between public and private sectors, the prices oversight of government enterprises, access to essential facilities, and a program of review of legislation restricting competition.

A feature of NCP implementation was that the Commonwealth Government would provide competition payments to the States and Territories that met specific reform requirements. Information from the States and Territories on these reforms was first submitted to the Industry Commission in 1995-96 to comprise part of the ongoing annual review of microeconomic reform by jurisdiction.

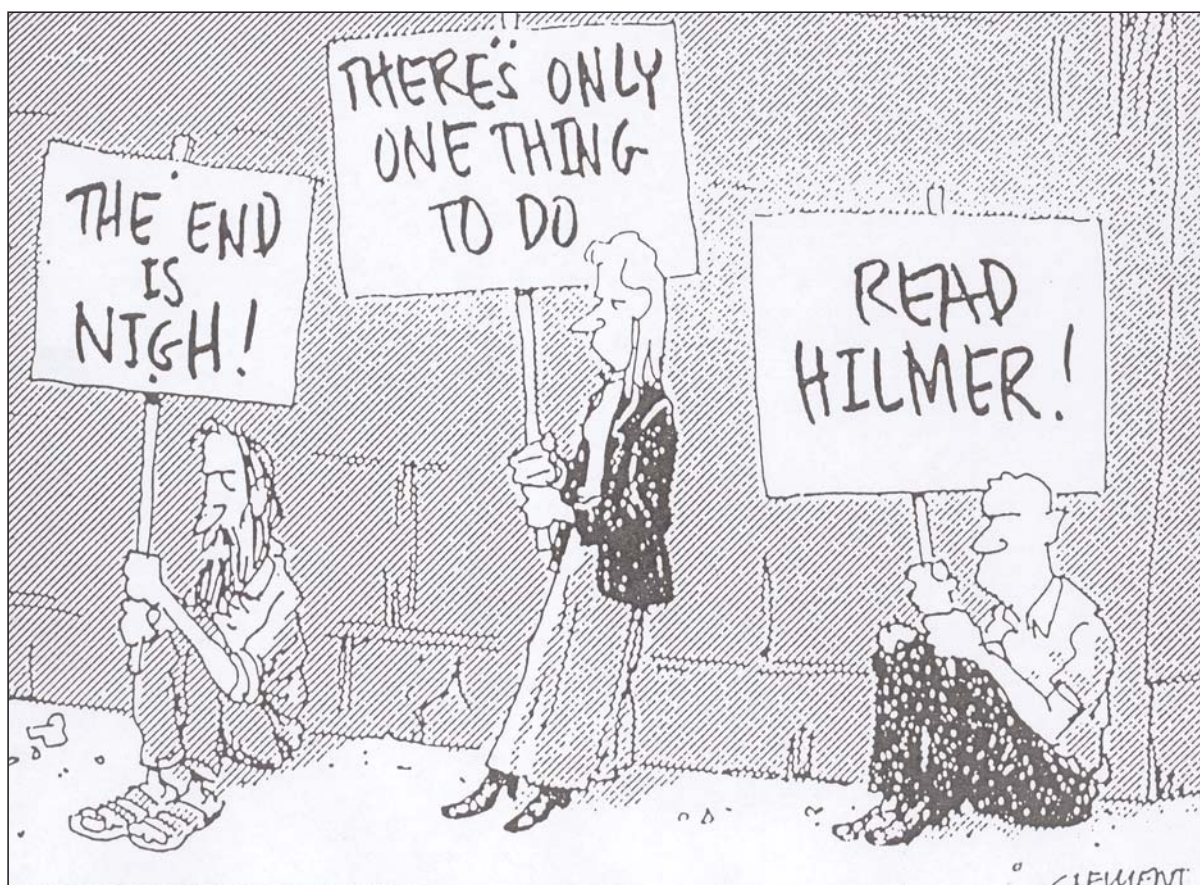
Source: IC (1996a, app. H).

Regulation was another focus in the microeconomic reform agenda. Scales (1992, p. 6) argued that 'the reform agenda must also be aggressively extended into the area of regulation, where inappropriate and unnecessary regulation, can and does undermine the ability of Australia to achieve its full economic potential. The cost of such regulation needs to be made explicit'.

Several Commission inquiries in the early 1990s identified outdated, inefficient or anticompetitive regulations — for example, petroleum products, meat processing and workers' compensation (IC 1994b, d, e). However, according to the Commission, microeconomic reform should not only relate to existing regulation but also ensure that new regulations are well designed. This remains a primary rationale for the ORR (box 5.2).

By the mid-1990s, other non-inquiry activities of the Commission included general reporting (including annual reporting on trade and assistance) and independent studies requested by the Government mostly for other agencies. The findings of much of this non-inquiry work formed the basis for political consensus on a range of important issues. For example:

- a study on the growth and revenue implications of the Hilmer reforms at the request of COAG (box 5.5);
- secretariat support for an independent committee of inquiry on the wine industry;
- a review of electricity generation options for the New South Wales Government; and
- a report on pigs and pigmeat arising from an offer made by the Minister for Primary Industries and Energy in response to a rally by pig farmers (IC 1995 d, e, f, i).



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Box 5.5 Quantifying the impact of Hilmer reforms

In seeking to reach agreement on NCP (box 5.4), State and Territory governments expressed concern about whether they would share adequately in the gains from the reforms that they would undertake. As a result, the Industry Commission was asked to quantify the impact of implementing Hilmer and related reforms, including the impact on government revenue. It was to model reforms in electricity, gas, ports and mutual recognition, and extend the application of the Trade Practices Act to exempt sectors.

The research task was demanding in its scale, timing and technical complexity. The Commission noted that no single number could capture the full benefits of reform and that precision was neither attainable nor claimed. The report set out its assumptions and a sensitivity analysis testing the robustness of results. A special purpose version of ORANI was used.

The estimated gains were substantial — a 5.5 per cent increase in real gross domestic product, a \$9 billion increase in real consumption and a 3 per cent increase in real wages. The following were key messages from the research:

- the implementation of competition reforms is important for Australia's economic future;
- there are significant strategic advantages for government in continuing reform on a broad front;
- concern about revenue consequences for government should not be an impediment to reform; and
- participation by all levels of government is required to make the economy more competitive.

The findings of this research reinforced the political consensus on proceeding with competition policy reforms, and laid the basis for a fuller understanding of the gains from competition policy reform and for competition policy payments by the Commonwealth to the States and Territories.

Sources: IC (1995a, d).

Social and environmental issues

At the request of COAG, the Commission began to monitor the performance of government service provision (box 5.6).

Social issues were also receiving greater prominence in the Commission's inquiry program. The public housing inquiry dealt with the important social issue of providing adequate housing for low income Australians (IC 1993a). It highlighted the need for reform in the provision of social infrastructure, particularly in the ways in which government can deliver public housing and rental assistance more efficiently and effectively, for example, by the Commonwealth Government extending its income support role to rent assistance for low income households. An inquiry report on workers' compensation examined prevention, compensation, rehabilitation and return to work, interaction with other government programs, and superannuation and insurance regulation (IC 1994b). The Commission's inquiry into charitable organisations received considerable media coverage when the report was released in 1995. It focused on reforms that would assist community groups and governments in allocating resources better to help people in need. For example, the inquiry found that costs could be reduced

Box 5.6 Performance indicators for social infrastructure

Governments make significant resource commitments to the provision of social infrastructure services, with outcomes that are important to the economic and social wellbeing of Australians and to the productivity of the economy as a whole. Performance monitoring is one way of ensuring incentives are in place for government provided services to achieve desired outcomes and, over time, raise performance levels.

Under COAG, a Steering Committee (comprising Commonwealth, State, Territory and local governments, with the Industry Commission as secretariat) published its first review of the performance of government service provision in 1995. Initially it developed performance indicators and presented data for public hospitals, public housing, government schools, vocational education and training, police, court administration, corrective services, and support services for individuals and families.

Over time, the review has been expanded. In 1997, for example, three new service areas were reported on: aged services, disability services and children's services. In the following year, fire and ambulance services were included, together with additional performance indicators for health, schools and housing. The Productivity Commission has continued to progress performance monitoring (chapter 7).

The publication has been widely used by governments at all levels, service agencies and the wider community. It has improved accountability and enabled more analysis by governments and agencies of variations in performance, with consequent benefits in the effectiveness and efficiency of service delivery.

Sources: SCRCSSP (1995, 1997, 1998).

and the quality of service to clients enhanced if the selection of service providers by governments was made more transparent, contestable and accountable (IC 1995g). Other Commission inquiries into social issues covered urban transport, meat processing, and occupational health and safety (IC 1994c, d, 1995b).

Against a backdrop of difficult economic conditions and high unemployment, the Commission's report on impediments to regional industry adjustment considered what needed to be done to help people and businesses within regions adjust to pressures to change (IC 1993b). The terms of reference asked the Commission to identify impediments to adjustment that could arise from labour market arrangements. This was the first occasion in the 30-year history of the Commission that industrial relations issues were subject to such direct consideration. It proved to be a particularly contentious issue (box 5.7). (Later in the 1990s the Productivity Commission undertook reports specifically on work arrangements: chapter 6.)

By the mid-1990s, the Industry Commission had also addressed environmental and natural resource management issues in several inquiry reports, including pulp and paper, greenhouse gas emissions, recycling, mining, water resources and waste water disposal, environmental waste management industries and urban transport (IC 1990b, 1991a, d, e, 1992c, 1993c, 1994c).

THE AUSTRALIAN Labour market analysis is political dynamite

**The Canberra Times
Restrictions limiting
regional growth: IC**

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Box 5.7 **Impediments to regional adjustment: the Industry Commission's first foray into industrial relations**

A central theme of this inquiry was the difficulty that uniformity in policy and regulation can pose for regional adjustment and development, given the diversity among regions. In identifying impediments to regional industry adjustment, the Commission's report recognised regional diversity and focused on arrangements that were amenable to government or community action, including aspects of the labour market; social security and taxation systems; problems with government provision of infrastructure services; and confused responsibilities across tiers of government.

It was the Commission's findings on labour adjustment that were most contentious, provoking a strong reaction from unions and welfare groups in particular.

It found on labour mobility: The social security system ... can have unintended side-effects on regional labour mobility. There is evidence that, on balance, people have been moving from relatively low to high unemployment areas. The uniformity and duration of unemployment benefits are seen as contributing to people migrating to, and remaining in, regions with lower costs of living and lifestyle advantages. This is both an understandable and indeed rational response for the individual. However, where job prospects are low in such areas, it can exacerbate regional adjustment problems.

It found on workplace flexibility and labour costs: Greater recognition needs to be given to the particular conditions faced by workplaces in different regions when workplace bargaining is undertaken. From a regional perspective, this is best achieved under arrangements in which general minimum employment standards provide the only constraint on workplace agreements, and employees have freedom to choose who negotiates on their behalf at the workplace.

It found on labour retraining: ... Greater flexibility in wages and work practices, for those individuals requiring an upgrading of skills, would provide increased potential for training and retraining by employers and thereby help redress the limited skills which are a feature of prolonged unemployment in many regions. (IC 1993b, pp. xix, xxi, xxiii)

The Government considered the report in the context of its white paper on employment and growth. The Commission's report provided a focus for continuing public debate on enterprise bargaining and labour force flexibility. Many 'radical' insights in the report became conventional wisdom in time.

Source: IC (1993b).

The Commission also completed several industry development references, a new type of reference — for example, on forest products, and computer hardware and software (IC 1993d, 1995c). The Commission was asked to identify and quantify impediments to growth, investigate industry strengths and weaknesses, and identify ways of improving prospects for those industries. These references supplemented the Commission's inquiries into impediments to growth on a broader front. Industry development references were not continued past the mid-1990s, although elements of the approach of identifying impediments, strengths and weaknesses appeared in the terms of reference of some industry references.

In conclusion, the first half of the 1990s not only saw a substantial expansion in the Commission's work program, encompassing broader economic, social and environmental issues and a greater emphasis on non-inquiry work, but of particular note was the extent of the involvement of the States and Territories. They became increasingly active participants in inquiries as much of the inquiry work concentrated on matters that had an impact at the State and regional level — for example, the inquiries into rail transport, intrastate aviation, public housing and workers' compensation (IC 1991b, 1992b, 1993a, 1994b). The States and Territories also became involved in developing references for the Commission and, occasionally, they requested that the Commission undertake research for them. They also provided the information that the Commission requested to enable its annual review of progress in microeconomic reform.

Expansion of the Commission's work program would continue during the second half of the 1990s, as it became involved in a further merger (chapter 6).

FORMING THE PRODUCTIVITY COMMISSION

	1996
Interim Commission assumed responsibility for BIE; Liberal–National Party Coalition elected; Prime Minister announced intention to form the Productivity Commission	March
Completion of administrative merger in a ‘machinery of government’ sense	June
Commission report on stocktake of microeconomic reform	July
EPAC ceased separate administrative operations	Nov
Productivity Commission Bill introduced to House of Representatives	Dec
High staff turnover continued; budgetary contraction; PMV and TCF inquiry reports; health insurance report; ORR’s role broadened; Parliamentary debate on Bill continued	1997
	1998
Bill Scales resigned as Chairman of IC; Gary Banks made acting Chairman	Feb
Industry Commission and EPAC Acts repealed; Productivity Commission Act assented to	April

6

Forming the Productivity Commission

This chapter chronicles the merger, administratively to begin with and then by legislation, of the Industry Commission with the BIE and the EPAC. The new Productivity Commission was born out of a more vigorous and lengthy parliamentary debate than had taken place at the formation of the Industry Commission. The process took over two years to complete.

The Coalition's plans for a Productivity Commission

In July 1995, John Howard, then Leader of the Opposition, canvassed in his 'headland speech' the direction of economic reform under a Coalition Government, including the establishment of a Productivity Commission:

To focus national attention on the critical importance of boosting productivity, I foreshadow that in government we will merge the functions of the Industry Commission, EPAC and the Bureau of Industry Economics in a new body to be known as the Productivity Commission. It will discharge the current functions of the Industry Commission and, additionally, will have responsibility for a broader charter emphasising productivity. (Howard 1995, p. 1)

Following its election in March 1996, the Government, with Peter Costello as Treasurer, announced that the Productivity Commission would be formed by merging the functions of the Industry Commission, the BIE and EPAC, while retaining the broad institutional design of the Industry Commission (box 6.1).

The formal establishment of the Productivity Commission required the passage of legislation, so for the interim the Treasurer requested the administrative formation of the new Commission by the end of June 1996. The merger process differed across agencies. The BIE, as an administrative construct, could be merged without the need for legislative change. EPAC, on the other hand, required the passage of legislation to formalise the merger, as did the Industry Commission. The administrative merger of the agencies was completed quickly, but Parliament took nearly another two years for the necessary legislative changes to be passed.

The merger took place during a time of unprecedented debate about policy directions for Australia. The Chairman of the Productivity Commission commented:

There has been a backlash against many of the policy reforms of the past decade, particularly those which have exposed Australian workplaces and regions to increased competition. And this reaction has spilled over to the institutions of government associated with that transformation. (Banks 1998, p. 1)

Box 6.1 The Bureau of Industry Economics and the Economic Planning Advisory Commission

The Bureau of Industry Economics

The BIE, established administratively in 1977 and located within successive Commonwealth departments responsible for industry, conducted economic research into Australia's manufacturing and service industries. It also evaluated and reviewed existing programs, and sought to improve the community's awareness of issues affecting industry. It had a staff of about 90.

The objectives of the BIE were to:

- understand developments affecting the competitiveness of enterprises in manufacturing and service industries, and the role of policy;
- be an advocate for good public policy on industry; and
- help generate a more informed climate for the development of policy (DIST 1994, p. 34).

During its operation, the BIE produced numerous reports and occasional papers. In later years, it focused on international benchmarking (eg benchmarking of the waterfront: BIE 1995), the environment, trade and investment, program evaluation, and microeconomic reform. Its 1995-96 publications are representative of its work (IC 1996a, attach. I.1 and app. J).

The Economic Planning Advisory Commission

Economic Planning Advisory Council (EPAC) was established by the *Economic Planning Advisory Council Act 1983*. It was drawn from government, business, union, professional, consumer and welfare sectors, and was chaired by the Prime Minister. Its role was to provide broadly based advice on the medium and longer term economic outlook, and on policies that might assist the achievement of sustained economic growth. Its functions under the Act (s6) included investigating and advising the Minister on matters relating to economic and social issues; and promoting public debate of those issues.

In 1994, the Council was replaced by the Economic Planning Advisory Commission, created by an Act of Parliament. It had responsibility for publishing studies on medium term issues, coordinating budget submissions and undertaking taskforce work. It had a staff of about 20.

The two EPACs published reports covering a diversity of issues, including child care, private infrastructure, tariff reform and economic growth, education in the 1990s, investment in health care, and Australia's ageing population. Its last reports, undertaken while merging to form the Productivity Commission, are listed in the Industry Commission's 1996-97 annual report (IC 1997c, app. E).

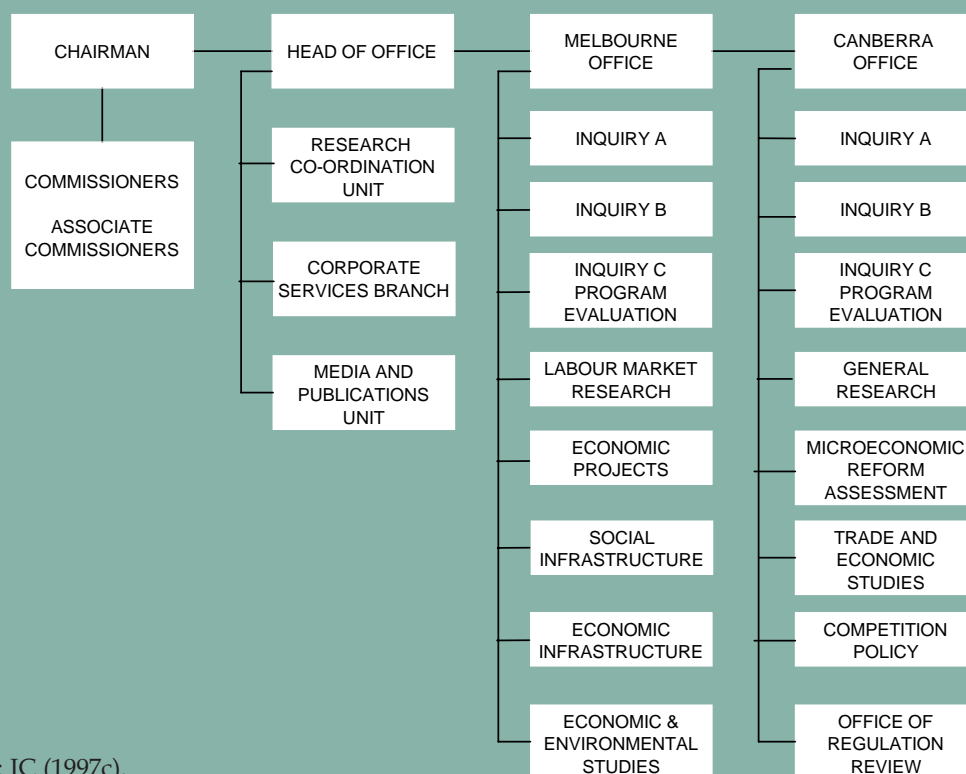
The administrative merger

The merger took place within tight guidelines. An interim Commission, comprising the three merged organisations, was allocated a budget that declined substantially, from approximately \$31 million in 1995-96 to around \$23 million in 1998-99. Total staff declined from over 300 to just over 200 during the same period, and the two city structure (with head office in Melbourne) was maintained.

In March 1996, the interim Commission assumed responsibility for the BIE (which had been transferred from the Department of Industry, Science and Technology to Treasury), including its liabilities and staff. EPAC, on the other hand, did not cease separate administrative operations until mid-November. The Chairman of the Industry Commission (Bill Scales) held the position of acting Commissioner of EPAC, and the Commission undertook certain EPAC functions paid from EPAC appropriations, until EPAC ceased to exist by legislation in 1998.

During the merger, the three Canberra office locations were integrated and a new office structure (figure 6.1) was developed by Scales and his new

Figure 6.1 Interim Commission structure, 1997



Source: IC (1997c).

Head of Office, Robert Kerr, to reflect the broader functions of the future Productivity Commission. New branches were established in both offices, including the Social Infrastructure Branch in Melbourne.

By the end of June 1996, the Treasurer's directive to establish a Productivity Commission on an administrative basis had been achieved in a 'machinery of government' sense. However, for most staff, that date did not represent the finalisation of the administrative contraction. Between June 1996 and June 1998, overall staff fell from 313 to 207 (table 6.1). Staff turnover was high, with many BIE and Industry Commission staff choosing to resign or accept voluntary redundancy packages. However, staff recruitment was also high (150 over the period), particularly in the Melbourne office. As a result, the proportion of total staff in the Melbourne office increased from about 35 per cent at June 1996 to nearly 55 per cent by June 1998.

Table 6.1 Staff movements during the merger^a

<i>Year^b</i>	<i>IC</i>	<i>BIE</i>	<i>EPAC</i>	<i>Total</i>	<i>Separations^c</i>	<i>Main reason for separation</i>	<i>Recruitment</i>
1995-96	208	83	22	313	87 (IC) 10 (BIE)	Resignation Resignation	49
1996-97	na	na	na	250	76 (IC) 39 (BIE)	Voluntary retirement package ^d	74
1997-98	na	na	na	207	70 ^d	Resignation	27

^a At 30 June. ^b Includes permanent, temporary, full time, part time and inoperative staff. ^c Separations not available for EPAC. ^d For amalgamated organisation. na Not applicable.

Sources: IC (1996a); IC (1997c); PC (1998c).

Despite the turnover, a core of longer-serving staff remained, ensuring continuity and minimising the potential disruption to the work program. Existing inquiries and supporting research were completed within time-lines, and new projects were commenced. Of the staff employed at the Productivity Commission at the end of September 2003, approximately one quarter had worked there (and for its predecessor organisations) for at least 10 years and nearly 15 per cent had been so employed for at least 15 years (although there might have been breaks in employment due to secondment).

Shortly after the Government's announcement of a new Commission, the Treasurer asked the Chairman, Bill Scales, for advice on which work programs in the BIE and EPAC should be maintained. Scales advised

carrying forward all the functions of the organisations except EPAC's budget submission function. This advice was subsequently reflected in the Productivity Commission's forward work program (chapter 7).

Business as usual

The work program for the interim Commission included reports on the PMV and TCF industries, health (medical and scientific equipment industries, private health insurance and the pharmaceutical industry); and environmental issues (ecologically sustainable land management, and packaging and labelling which included product recycling).¹

The work program also included other work that the Government commissioned, for example:

- a three-month stocktake of progress in microeconomic reform, which identified several areas – such as industrial relations, health, competition policy, education and training, and public administration – for immediate action or further review (PC 1996a);
- a labour market benchmarking study, which addressed a request from the Treasurer to provide advice on a work program to identify restrictive work practices and significant labour market arrangements that added to the cost of doing business (PC 1996b). Emanating from this study was the stevedoring work arrangements report – the first in a series of research reports on workplace arrangements in key industries (PC 1998e). The report identified scope to improve stevedoring workplace performance. It was the first report to be released under the Productivity Commission authority in April 1998, and was complemented by the joint release of an international benchmarking report on the performance of the Australian waterfront (PC 1998d). Together, the reports provided an input to further Government reforms to improve waterfront competitiveness; and
- a report on the effects of import competition on the Australian Atlantic salmon industry (IC 1996c).

Supporting research was also undertaken during the merger period (for example, research on community service obligations, information industries and compliance costs of taxation). Submissions to other bodies included the New South Wales dairy industry review and a review of cross-media rules. Much of this work was commenced under the 'anything incidental' provision, because legislation had not yet been passed to repeal the Industry Commission Act.



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Performance monitoring of GBEs continued under the interim Commission, and the monitoring of government service providers was expanded to include services for the aged, people with a disability and children. Also expanded were the activities of the ORR, to include reporting on compliance with RIS requirements (box 5.2).

BIE and EPAC work programs were completed – for example, BIE reports on the international benchmarking of electricity and business licences (BIE 1996a, b) and an EPAC report on child care (IC 1997c, app. E). The new organisation also continued some work, such as the BIE's international benchmarking. The Productivity Commission waterfront benchmarking report (mentioned above) followed two reports published by the BIE in

**Report sets
PM straight
on health^a**

**Health-insurance study
that everyone wanted^b**

**Painful truths from
commission inquiry^c**

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1993 and 1995. The methodology used to benchmark waterfront performance was acknowledged by industry and academics as an advance on that used in previous studies. During the merger, work also commenced on benchmarking the Australian black coal industry, telecommunications and institutional arrangements for road provision.

A rough passage through Parliament

Although the administrative merger of the three organisations commenced in March 1996, two years passed before the Productivity Commission was established in legislation (April 1998). The delay was due to several factors, including the scheduling of the proposed legislation for debate and the lengthy debate that ensued.

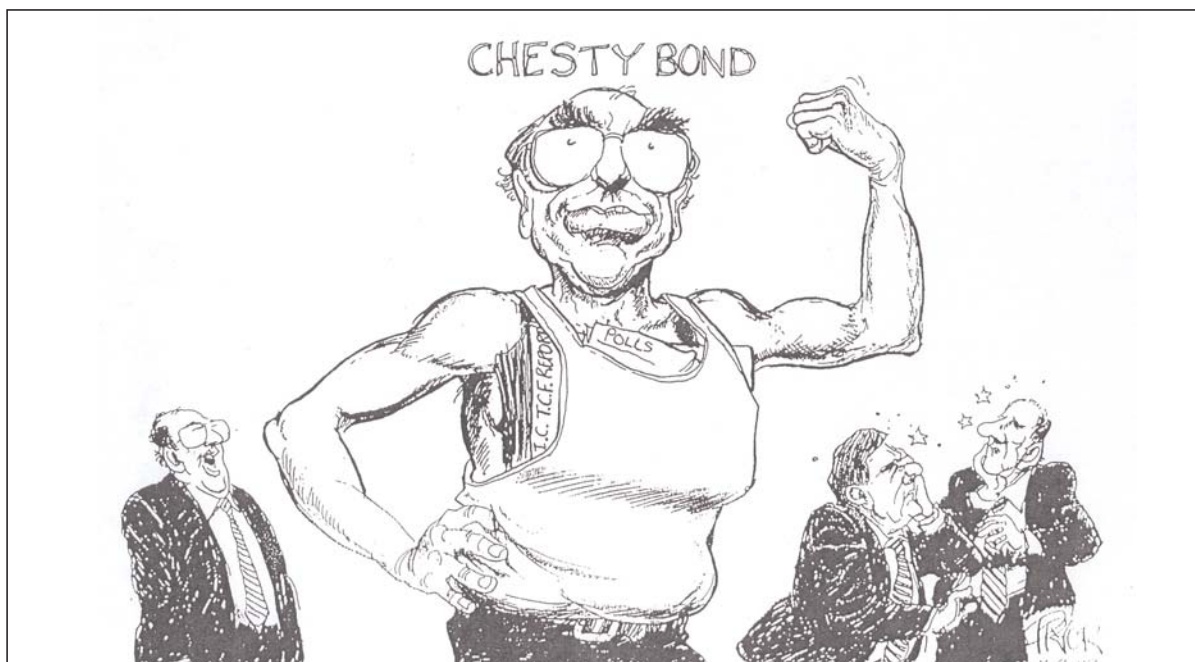
The Productivity Commission Bill, introduced into the House of Representatives in December 1996, set out the functions, powers and policy guidelines of the Productivity Commission, as well as its composition and procedures.² The Bill was intended to reinforce the three core features: independence, transparency and an economy-wide focus. When introducing the Bill, Christopher Miles, Parliamentary Secretary (Cabinet) to Prime Minister Howard, described the proposed Productivity Commission as follows:

The Productivity Commission will be the Government's principal advisory body on all aspects of microeconomic reform. It will continue to pursue the current functions of the IC, EPAC and BIE, but it will also have a broader charter. It will continue to have open and transparent consultative processes which engage industry and community groups in informed debate on important public policy making.

Sound policy development must be based on a full appreciation of the facts. A primary role of the Productivity Commission will be to identify impediments to improve productivity in particular sectors. It will also have due regard to the important relationships between improved use of resources in one sector and the rest of the economy. It is only with this sort of information and economy-wide focus that governments can make sensible and considered choices as to future policy – choices that will ensure better and more sustained growth prospects for all Australians. (CPD (H. of R.) p. 7720)

Between December 1996 and April 1998, the Bill was extensively (and, at times, hotly) debated in the House of Representatives and the Senate. Senate consideration also included the Senate Economics Legislation Committee report on the Bill. Various Labor Members and some independent Members debated amendments to the Bill, while the Democrats and Western Australian Greens argued against the Bill in its entirety.

Opposition appeared to be fuelled to some extent by three controversial Industry Commission reports. The report on the stocktake of progress in microeconomic reform was released a few months before the introduction of the Bill. In late December 1996, the draft report on the automotive



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industry was released. The majority of the Commission recommended tariff cuts from 2001, but a minority view disagreed. By the time the Bill was debated in the Senate in September 1997, the Commission had released its final automotive industry report (IC 1997a), along with a draft report on the TCF industries. The final TCF report, released shortly after debate concluded in the Senate, recommended that tariffs should be reduced, accompanied by transitional adjustment (IC 1997b). Several parliamentarians were critical of these reports, expressing concern about the potential detrimental impact of the Commission's recommendations (and the establishment of a Productivity Commission) on regional employment.

Another concern raised in debate was that the Treasury portfolio would monopolise economic and industry policy advice. Some argued that centralising this advice would increase the risk of the Government adopting inappropriate policies.

After much debate, and numerous amendments to the Bill, assent was given to the Act to form the Productivity Commission in April 1998 — nearly 17 months after the Bill was introduced to Parliament. Ultimately, the Productivity Commission Act differed in significant ways from the Industry Commission Act (appendix A). Its functions were broadened considerably beyond those of the Industry Commission (to reflect the activities of the BIE and EPAC) and focused more on productivity performance of industry and industry development. They included the provision of secretariat services and the investigation of competitive neutrality complaints. The number of policy guidelines was increased to reflect concerns about

**Industry inquiry
targets TCF tariffs^a**

**Motorists
back car
tariff cuts^b**

Inquiry into textiles industries^c

**No easy solution
to TCF dilemma^d**

**IC's new plan to
sell the benefits
of tariff cuts^e**

**IC maps micro reform
highway for vehicle industry^f**

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economic and environmental impacts, and included a requirement that the Commission should, if practicable, use at least two economic models if a report relies on models. Other changes involved:

- increasing annual reporting requirements to include, for example, reporting on complaints about competitive neutrality of government businesses;
- increasing the requirements regarding the experience of Commissioners, so that at least one Commissioner had skills and experience dealing with the social effects of economic adjustment and social welfare service delivery, and at least one had acquired skills in working in an Australian industry. The requirement in the Industry Commission Act that a Commissioner have experience in environmental issues was maintained;
- removing that part of the Industry Commission Act that specified actions that the Minister cannot take relating to financial assistance to industry and changes in import duties;
- establishing a Deputy Chairman with functions similar to those of the Executive Commissioner under the IAC and Industry Commission Acts; and
- making the conduct of inquiries less legalistic.

In February 1998, Scales resigned as Chairman to take up an appointment as Secretary of the Victorian Department of Premier and Cabinet. Following a couple of months as acting Chairman, Banks, formerly Executive Commissioner with the Industry Commission, was appointed as Chairman of the new Productivity Commission (appendix B).

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- 1 IC (1996b, d, e; 1997a, b, e; 1998k).
 - 2 Also introduced was the Productivity Commission (Repeals, Transitional and Consequential Amendments) Bill, which provided for consequential matters arising from the formation of the Commission. It repealed the *Industry Commission Act 1989* and the *Economic Planning Advisory Council Act 1983*, and made transitional provisions relating to those Acts.

THE PRODUCTIVITY COMMISSION

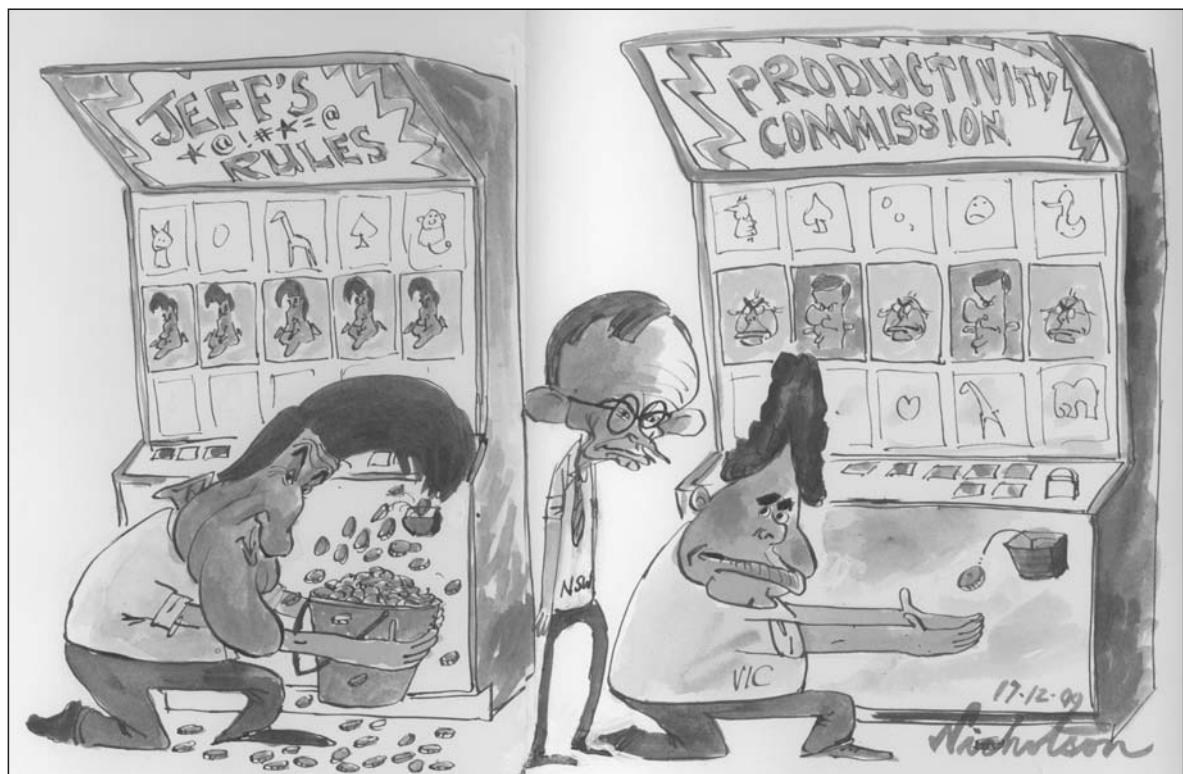
Productivity Commission Act assented to (April); Gary Banks appointed Chairman; CCNCO established; Treasurer announced first work program; productivity surge in 1990s linked to reform; waterfront reports released	1998
Gambling report; rail inquiry first in series on competition regulation of infrastructure	1999
Broadcasting report; GST implemented	2000
Liberal-Nationals Coalition re-elected	2001
PMV report	2002
Reports on TCF, indicators of Indigenous disadvantage and Great Barrier Reef; negotiation of free trade agreement with US	2003

The Productivity Commission

Building on strong foundations

The Productivity Commission not only met considerable opposition during its formation, the federal Labor Party vowed to replace it with a National Development Authority should it win office in August 1998. In a speech responding to the organisation's critics (titled 'Why have a Productivity Commission?') the Commission's new Chairman, Gary Banks (1998, p. 1) observed that over the years the institution had always had opponents, but there were also many supporters. Nevertheless, Banks recognised that an 'image problem' persisted. He acknowledged scope to enhance the Commission's performance, particularly in its usefulness as a resource for all governments, in its consultative processes and in its ability to take and communicate a community-wide perspective in its reports.

In an early signal of wider political acceptance of the Commission's potential contribution on national reform issues, all State Premiers and Chief Ministers called in 1999 for the Commission to conduct an inquiry into Australia's health system. Victoria's Premier, Jeff Kennett (not always a supporter), stated that 'the concept of an independent umpire will allow, I think, the community to have confidence that governments, right around



Nicholson of 'The Australian' newspaper [www.nicholsoncartoons.com.au].

Australia are putting forward their views and their suggestions and allowing those to be independently assessed' (ABC National Radio, 23 July 1999). South Australian Premier, John Olsen, observed that 'what the premiers and chief ministers have done today in unanimously agreeing to a Productivity Commission report is to bring the independent umpire in to engage the Commonwealth' (ABC National Radio, 23 July 1999).

This call closely followed the release of the Commission's draft inquiry report on Australia's gambling industries. This inquiry is generally credited with having changed some popular misperceptions about the organisation and won support from new quarters (box 7.1).

Box 7.1 The gambling report wins over some critics

In discussing the Interactive Gambling Bill in the Senate in 2000-01, representatives of several parties that had opposed the Bill to establish the Productivity Commission drew on the Commission's gambling report to support their arguments (eg Senator Sherry, Tasmania, Deputy Leader of the Opposition; Senator Bishop, Western Australia, ALP; Senator Harradine, Tasmania, Independent: CPD (Senate) pp. 17959, 24837, 43). Several commented favourably on the report. Senator Woodley (Queensland, Democrats) noted:

I recommend that everyone interested in this particular issue should read the Productivity Commission report ... The key findings present some very stark statistics on Australia's reliance on gambling. (CPD (Senate) p. 24840)

Senator Stott Despoja (South Australia, Leader of the Australian Democrats) commented:

The 1999 Productivity Commission report was the first comprehensive investigation into gambling in this country. It gives a picture not only of the regulatory structure of the gambling industries and the economics but also of the social consequences of the rapidly expanding gambling market. (CPD (Senate) p. 24852)

An *Australian Financial Review* editorial stated:

The earlier Labor support for the Productivity Commission approach represented an about-turn because the Federal Opposition has generally been critical of the economic reform watchdog. But the Commission has won applause for its recent report on gambling which applied its disciplines to what is as much a social as an economic issue. (*Australian Financial Review*, 9 August 1999, p. 20)

Innovations in transparency

In recent years, the Productivity Commission's transparency has been considerably enhanced by its use of Internet technology. This technology has facilitated speedier and easier public access to Commission reports, as well as submissions, transcripts, media releases and so on. When a report is released, it is immediately and simultaneously available to anyone with Internet access across the country (or internationally). In 2002-03, there

were 5.2 million hits on the Commission's website. The Commission's consultative processes, once largely confined to informal industry visits and formal public hearings, have been extended in various ways. They now include: the collection of external feedback on the quality of a selection of inquiry and research reports; external consultations to discuss the Commission's current and future research (box 7.2); and conferences, roundtables and workshops to use wider sources of expertise.

Box 7.2 Ensuring research adds value

The bulk of the Productivity Commission's research program is determined by requests from governments to conduct inquiries, other commissioned work and benchmarking reviews, and to report annually on government services and other matters. In turn, the inquiry and commissioned work shapes the supporting research program of work that the Commission selects to support its other statutory activities and responsibilities. The directions for the supporting research are also influenced by extensive external consultation and by contributions from Commissioners and staff.

All of the Commission's research must be relevant to its charter and observe its research guidelines: absolute priority is given to work commissioned by the Government; emphasis is given to research that supports the inquiry program; and research should be relevant to public policy issues (PC 2003a, p. 11). Also, the Commission has set objectives for the development and implementation of its research:

- to provide high quality, policy relevant information, analysis and advice to governments and the community;
- to produce objective reports that meet the Commission's statutory requirements to report on industry development and productivity;
- to develop analytical frameworks and elicit information that improve the Commission's general capabilities to perform its functions; and
- to use available resources effectively and efficiently. (PC 2003a, p.1)

Each year, the Commission conducts consultation meetings to discuss current and future research with a range of government departments and agencies, peak employer bodies, unions, community and environmental groups. Organisations that contributed in 2003 included the Brotherhood of St Laurence, the National Farmers' Federation and the Australian Conservation Foundation. The views of State and Territory governments are gathered from consultation visits and invitations to make suggestions. Suggestions for research cover a wide range of topics and, despite differences in perspective, often reveal considerable agreement among those consulted on priority areas for research.

The Commission's Research Committee must approve research proposals. Progress is monitored and tested through internal and external process, including seminars and workshops that may be held to expose research to critical review. Draft research reports are often refereed externally before publication.

Source: PC (2003a).

The Commission has sought to make its inquiries as inclusive as possible, particularly given popular interest in the social and environmental issues that it is now addressing. The inquiry into the Disability Discrimination Act, for example, provided accessible venues, a hearing loop system and Auslan interpreters for public hearings, and released some documents in Braille, audio-tape, large print and electronic formats. In seeking comment from the public, inquiry draft reports (or, in some cases, position papers) remain a critical component of the public consultation process. They set out reform options for comment, and often contain requests for further information. Submissions on the draft report, together with public hearings and, in some cases, roundtables, are essential for testing the preliminary findings and proposals. Over a four-year period (1998-99 to 2001-02), over 3300 submissions were made to inquiries. Moreover, the Commission has deliberately enhanced the accessibility of reports by including overviews and 'key points' boxes, and improving the page layout.

Although these changes in inquiry processes and reports have been driven by the Commission's desire to make its inquiries more accessible and transparent, changes in the nature of its inquiries have also encouraged the Commission to seek more flexible approaches:

- the issues addressed in inquiries have over time become more complex and less amenable to 'tried and true' approaches; and
- timeframes for completion (as specified in inquiry terms of reference) are now often shorter than the 'typical' twelve months of the past. For example, the inquiry on pigs and pigmeat had 140 days (PC 1998b), post-2005 automotive assistance had six months (PC 2002c) and the current inquiry on housing affordability must report within eight months.



Nature Conservation House. The Commission's Canberra home since 1995.

As noted in chapter 3, many inquiries in the 1970s had no specified timeframe.

Some of the changes would not have been possible without wider technological improvements. These include computer software packages and, indeed, the advent of personal computers – not available to IAC staff relying on the typing pool in the 1970s.

Greater sensitivity of modelling

The Commission's ability to take a community-wide perspective and communicate this effectively to the public has also been enhanced by its use of modelling and its approach to adjustment and distributional issues. The robustness of the Commission's advice has been improved by the statutory requirement that the Commission must, if practicable, use at least two different economic models when using modelling to inform policy judgment. If modelling alternatives are not available, then the Commission must seek and publish an independent assessment of the model that it uses.

Modelling can provide useful insights into how the impacts of policy changes in one area can flow through to other firms and industries. However, models are necessarily constrained in how well they capture the complexity of a modern economy, assumptions legitimately vary and data can be limited. But, as Banks (2002a, p. 9) had observed before the formation of the Productivity Commission, 'battles' over the technical intricacies of competing models tended to confuse rather than inform debate over policy choices. Some agreement on the policy scenarios to be modelled and on the use of workshops to expose to expert assessment the modelling used by the Commission (and any other models used by participants) has helped to focus attention on commonalities and differences in projected outcomes. The economic modelling workshop held as part of the Commission's 2003 TCF inquiry, for example, allowed a comparative assessment of the preliminary findings from five modelling studies of the impacts of post-2005 reductions in assistance.



Gary Banks, Chairman, 1998-.

More focus on adjustment implications

Adjustment and distributional issues are at the heart of much public debate on the benefits of past microeconomic reforms and future policy directions. The Commission has sought to improve the usefulness of its analysis and advice by including a more explicit consideration of these issues in individual inquiries and more generally. An early initiative of the

new Productivity Commission was research on the nature of structural change in the Australian economy. The Commission published workshop proceedings containing papers prepared by five leading policy analysts, culminating in the Commission outlining its views on the adjustment and distributional issues that it confronts in providing policy advice — see below (PC 1998i, 1999e, 2001d). A key task for the Commission in reporting on the impacts of competition policy reforms on rural and regional Australia was to inform policy makers and the community about the longer term demographic, social and economic trends driving change. In other inquiries, the Commission focused on the design of appropriate transitional assistance arrangements and on whether existing general social safety nets were adequate or needed to be supplemented with specially targeted support measures (see below).

A new work program

As noted in chapter 6, the Productivity Commission's expanded functions under its Act were reflected in a new organisational structure (figure 6.1). The main change was the replacement of the Competition Policy Branch with the Commonwealth Competitive Neutrality Complaints Office (CCNCO) (box 7.13) following legislative formalisation of the Productivity Commission in 1998.

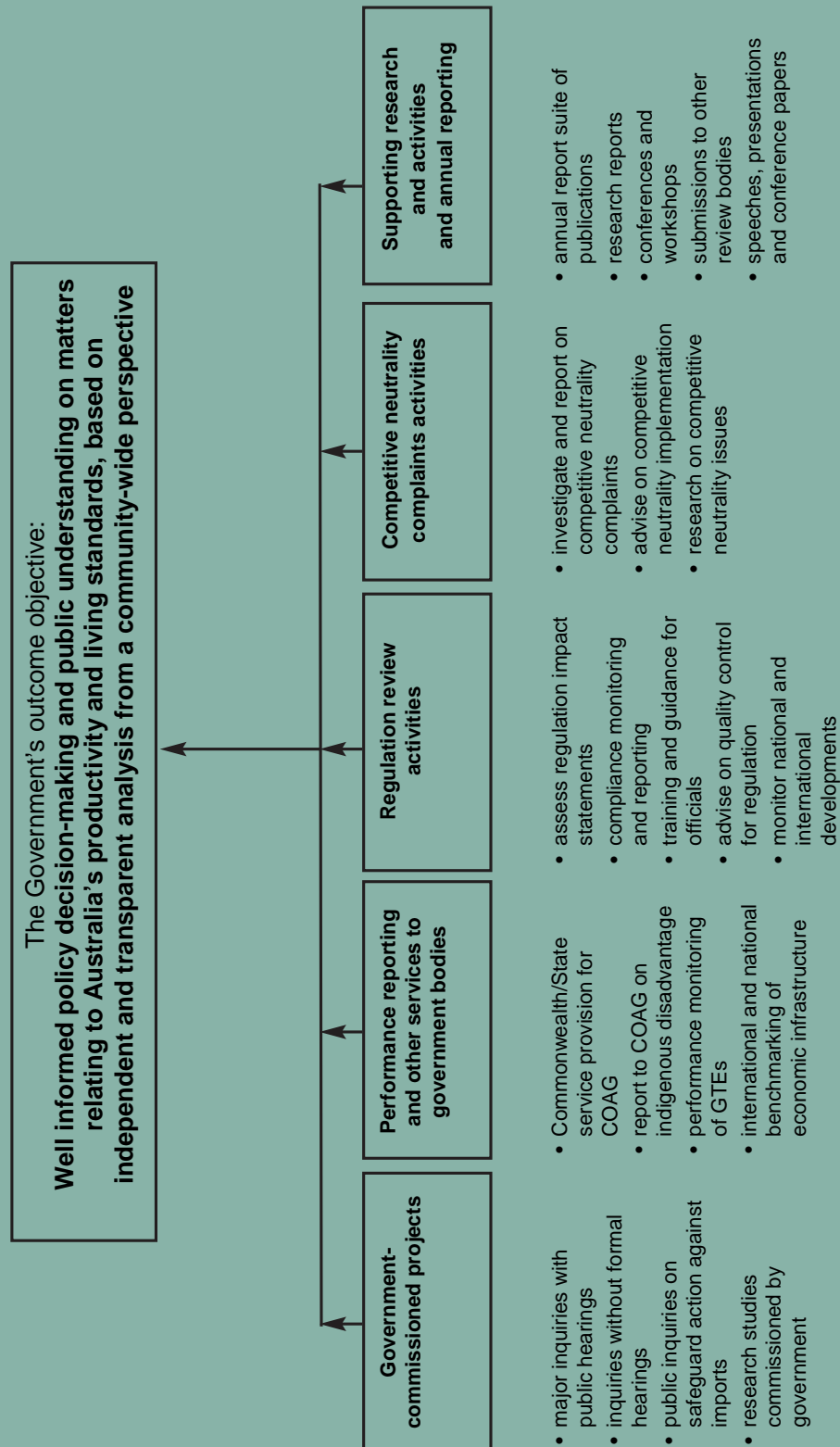
In announcing the Productivity Commission's first work program, the Treasurer stated:

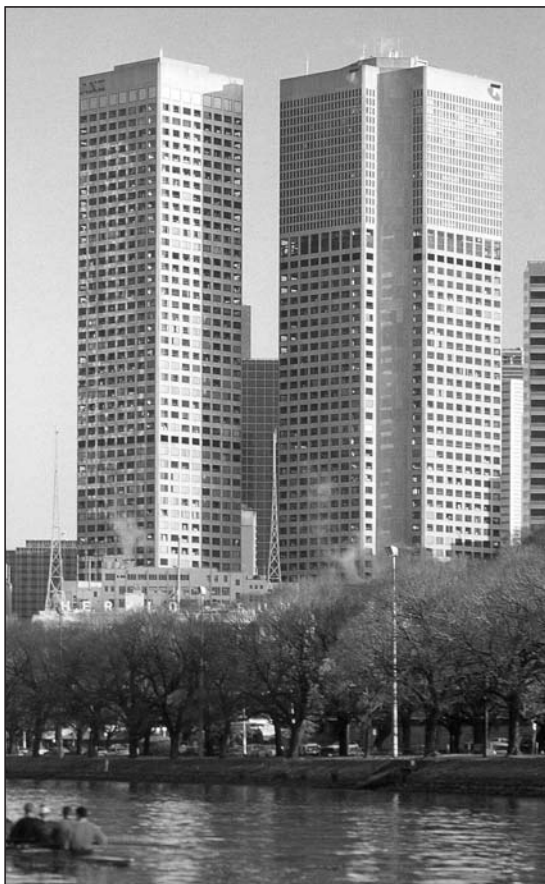
The Commission has an expanded charter and more varied responsibilities when compared with the former Industry Commission. The Government's intention in creating the Commission is to have a flexible institution able to handle considerable and varied responsibilities. (Costello 1998, p. 1)

The work program included a formal inquiry program, which the Treasurer noted would 'continue to be an important part of the Commission's work'. He added 'however, reflecting the Commission's other responsibilities they [inquiries] will take less of the Commission's time and resources than has been the case in the past'. The work program also included: other commissioned research studies, such as the remainder of a series of studies on workplace arrangements, following on from the waterfront study (chapter 6); annual reporting; benchmarking; competition policy (including the CCNCO); labour market analysis; performance monitoring; regulation review (including the ORR); Commission initiated research; and program evaluation.

These broad work program categories (condensed into five output streams: figure 7.1) encompass the Commission's work since 1998. During the early years of the IAC, the categories of performance reporting, regulation review and competitive neutrality complaints did not exist, and other categories were considerably narrower. For example, in contrast to

Figure 7.1 Productivity Commission performance framework





35 Collins St. The Commission's Melbourne home since 1993.

2003, the IAC had no Government commissioned research studies and few research reports. Within the inquiry program, only 4 per cent of IAC inquiries during the 1970s were outside of agriculture, mining and traditional manufacturing industry references, compared with over 80 per cent of inquiries undertaken by the Productivity Commission (table 3.1).

The Commission has undertaken its expanded range of activities and number of publications with a budget and staff numbers substantially below those available to its predecessors (figures 3.1 and 3.2). In real terms, the Commission's budget in 2002-03 was lower than that of the IAC during most of the 1970s and that of the Industry Commission in the mid-1990s. Moreover, the 2002-03 budget was approximately one third less than that of the three merging organisations in 1995-96. The budget declined between 1998-99 and 2002-03, although the Commission's activities expanded.

In the mid-1970s, the IAC had a budget similar (in real terms) to that of the Productivity Commission in 1998-99, yet the IAC employed about twice the number of staff (figures 3.1 and 3.2). This difference could reflect a general

increase in real wages over time and the change in the composition of Commission staff from a large proportion of junior staff (including graduates, a typing pool and computer operators) to a higher proportion of senior experienced staff.

A 'flexible' institution

This brief history has demonstrated the expansion in the number, nature and complexity of policy issues that the various commissions have addressed since the tariff reviews of the early 1970s. The Commission today covers social and environmental issues, adjustment, productivity and performance, trade liberalisation, and competition policy and regulation issues (box 7.3). This wide coverage reflects the functions and policy guidelines in the Commission's Act, and the changing requirements of government and the community. In many instances, the Commission builds on work undertaken by its predecessors, especially the Industry Commission.

Box 7.3 Themes from Productivity Commission annual reports

The ‘whole of commission’ views in these annual reports related to issues that had been subject to public debate for some time, and to emerging issues.

Microeconomic reform and adjustment to change

While reforms have benefited the community at large, they have also added to adjustment pressures for some individuals, groups and regions. Concerns and confusion about past reform – and about the effects of change more generally – are threatening to halt socially beneficial reforms. This underlines the importance of having policy choices informed by the best available information on the benefits and costs of reforms, including the adjustment and distributional consequences, as well as attention to implementation issues. (PC 1998c, p. 1)

Microeconomic reform’s role in Australia’s productivity surge

The Australian economy is experiencing robust growth in productivity – mounting evidence of the reward for past efforts in implementing microeconomic reforms and establishing sound fiscal and monetary policy settings ... further reform can build on the substantial gains already achieved ... Examination of industry and firm level evidence, together with the lengthening period of faster growth now observed, point to a substantial role for microeconomic reform in tapping Australia’s productivity potential. (PC 1999b, pp. 1, 3)

Benefits of globalisation

The 20th Century has seen historically unparalleled advances in global living standards and reductions in poverty. Greater economic integration among nations has played a role in underpinning increased prosperity. The benefits of liberalised trade and investment, as well as increased domestic competition, have been apparent in Australia’s improved economic performance. Yet there are concerns and misconceptions evident in Australia and many other developed countries about aspects of ‘globalisation’, and particularly the rules governing the world trade system. These concerns threaten to erode community support for the policies and institutions needed for further improvements in living standards and reductions in poverty. (PC 2000b, p. 1)

A need for more balanced regulation of infrastructure

The Commission has found that there is an important, continuing role for pro-competition regulation of infrastructure to enhance economic welfare and to curtail abuses of market power. However, refinements are necessary to reduce the risks of regulatory failure. Most important of these is the risk of deterring investment in efficient infrastructure facilities, which would be to the long term detriment of users and consumers, and of living standards generally. (PC 2001h, p. 1)

Gains from extending the reach of markets

Competition, choice, property rights and cost-reflective pricing are proving to be effective instruments in delivering better economic, social and environmental outcomes. However, governments face challenges in ensuring that market mechanisms contribute effectively to achieving community objectives and need to pay attention to design details if unintended or adverse outcomes are to be avoided. (PC 2002b, p. 1)

A key contribution on social issues

While the Commission's predecessors were predominantly involved in core economic issues (industry assistance, infrastructure provision and regulation, competition issues and so on), there has been a growing recognition that economic analytical tools can contribute to policy issues with important social dimensions. This has been reflected in, and to some extent influenced by, the Commission's research and reports. A key example was the Industry Commission's charities inquiry (IC 1995g). This was taken a step further in the Productivity Commission's inquiry into Australia's gambling industries, one of the first conducted by the new organisation (PC 1999a). It provided an analysis not only of the regulatory framework for the gambling industries, but also the social costs and benefits of these industries, including a comprehensive assessment of the extent and impacts of problem gambling (box 7.4). The report received extensive media coverage, mostly favourable. The Commission's findings were cited extensively in Parliament, with over 150 mentions in 1999-2000 (box 7.1).

**Gambling inquiry unmask
human face of economics^a**

**Social costs
hidden price
of gambling^b**

**Gambling study is
worthy of debate^c**

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^b © The Australian, 26 November, 1999; ^c © The Australian, 24 July, 1999.

Prime Minister John Howard commented:

I commend to all people who are concerned to achieve a balance in social policy a careful study of the Productivity Commission's final report ... it represents the first really comprehensive analysis of the gambling industry in Australia. I think it's a very balanced attempt to strike the right pitch ... I think it makes very interesting and very compelling reading. (Howard 1999, p. 2)

Box 7.4 The social costs and benefits of the gambling industries

The inquiry into Australia's gambling industries attracted considerable public attention. Although some Premiers saw the inquiry findings as an attack on their State's revenue base, public comment on the report was generally favourable (box 7.1). Community consultation was extensive, involving more than 300 submissions, over 60 meetings, two rounds of public hearings, six roundtable discussions and three gambling surveys. The Commission's website registered considerable interest at the time and still does in 2003.

The Commission was asked to inquire into the economic and social impacts of the gambling industries, and the effects of the different regulatory structures that surround those industries. The report highlighted the prevalence of problem gambling, the social costs (as well as the benefits), and the lack of attention to problem gambling in policy formulation and industry regulation. The following were among the key findings:

- nearly 300 000 Australian adults have significant problems with their gambling, accounting for 15 per cent of regular gamblers and one third of the gambling industry's revenue;
- the prevalence of problem gamblers is related to the degree of accessibility of gambling, particularly gaming machines;
- while there are benefits from the liberalisation of gambling – namely the consumer gains from access to a service that gives people enjoyment – there are also substantial social costs to problem gamblers and their families;
- policy approaches need to be directed at reducing the costs of problem gambling – through harm minimisation and prevention measures – while retaining the benefits to recreational gamblers; and
- current regulations are deficient. Self-regulatory approaches are unlikely to be as effective as explicit regulatory requirements; an ideal regulatory model would separate clearly the policy making, control and enforcement functions.

Three years on, in reviewing developments since the release of the gambling report, the Commission's Chairman (Banks 2002b) found that considerable progress had been made in addressing problem gambling (eg recognition within the industry that there *is* a problem, and the introduction of useful regulatory and self-regulatory initiatives). It remains unclear, however, whether problem gambling and its associated impacts have moderated. State and Territory budget forecasts indicate a continuing rise in government dependency on gambling taxes, and significant regulatory deficiencies remain.

Sources: Banks (2002b); PC (1999a).

The report continues to be cited in policy discussions and public debate on gambling, and is the most sought after report on the Commission's website.

Health and ageing are other policy areas with important social dimensions in which the Productivity Commission has played a role. Commission projects in these areas have included inquiry reports on nursing home subsidies and superannuation legislation, a major conference in 1999 on policy implications of the ageing of Australia's population, roundtables on key issues in health policy (for example, cost pressures in health care systems and the Scotton model of managed competition), and research reports on private hospitals, pharmaceutical prices and aged care (PC 1999c, 2001a).

The COAG Steering Committee has continued to enhance and expand the Commission's review of the performance of government services, review work that the Industry Commission commenced as part of its secretariat service (chapter 5):

- the quality and comparability of the data (measuring the effectiveness with which a service achieves its desired outcome and the efficiency with which resources are used) has continued to improve;
- additional performance indicators have been incorporated (for example, for health, the inclusion of maternity services and general practitioners);
- existing indicators have been refined (for example, the scope of the employer views survey was expanded for vocational education and training, and definitions for police services delivery were refined);
- reporting by jurisdictions on existing indicators has improved; and
- progress has been made on reporting on the full cost of service delivery.

In 1997, the Prime Minister asked the review to give particular attention to the performance of mainstream services in meeting the needs of Indigenous Australians. COAG reinforced this request in 2000. The review collects data (by jurisdiction) on services to Indigenous clients, in areas such as education, health, justice and housing assistance. However, the extent of reporting varies across both services and jurisdictions.

In 2002, as part of the COAG reconciliation commitment, COAG commissioned the Steering Committee to prepare a regular report on key indicators of Indigenous disadvantage — a markedly different task from the review's existing collation of Indigenous data. This new work focused on outcomes, not individual government services. The framework had a 'whole of government' perspective, looking at the combined impact of policy interventions across portfolio areas. It had its genesis in work undertaken by the Ministerial Council for Aboriginal and Torres Strait Islander Affairs. Following extensive consultation with Indigenous leaders and

communities, researchers and government officials, a reporting framework was submitted to COAG in June 2003, and the first report released in November (box 7.5). In his letter to the Chairman, endorsing the framework on behalf of COAG, the Prime Minister noted:

The framework will provide relevant and meaningful indicators that can demonstrate the impact of government policies and programs on outcomes for Indigenous people. I commend the Steering Committee for the Review of Commonwealth and State Service Provision for its excellent work on this important project. (22 August 2003)

Box 7.5 Overcoming Indigenous disadvantage

The indicator framework is based on a 'preventive model' which focuses on the causal factors that lead to disadvantage. At the apex of the framework are three priority outcomes that reflect a vision for Indigenous people that is shared by governments and Indigenous people alike:

- safe, healthy and supportive family environments with strong communities and cultural identity;
- positive child development and prevention of violence, crime and self harm; and
- improved wealth creation and economic sustainability for individuals, families and communities. (SCRGSP 2003, p. xxi)

Beneath the priority outcomes are two tiers of indicators. The first tier (headline indicators) provides an overview of the state of Indigenous disadvantage, and includes such indicators as life expectancy at birth, labour force participation and unemployment, and victim rates for crime. The second tier of the framework incorporates strategic areas for action chosen for their potential to have a lasting impact in reducing Indigenous disadvantage (for example, early childhood development and growth, and substance use and abuse) together with related indicators.

A key message to emerge from the report is that disadvantage is broadly based, with major disparities between Indigenous and other Australians in most areas. This is most fundamentally reflected in the 20 year gap in life expectancy for Indigenous people, relative to the rest of the population.

Source: SCRGSP (2003).

Environmental issues have also loomed large

As evident from previous chapters, the various commissions have a long history of addressing environmental and natural resource issues in their inquiry reports. The Productivity Commission has continued this focus through, for example, its 1999 inquiry into the implementation of ecologically sustainable development by the Commonwealth (PC 1999d), and its 2003 inquiry into the impact of native vegetation and biodiversity regulation. One focus has been the incentive for private and public conservation of biodiversity (box 7.6). Other research topics have included water quality in the Great Barrier Reef, pastoral leases and non pastoral land use, and greenhouse policies. The Commission's ability to address environmental issues was enhanced by the establishment of the Economic and Environmental Studies Branch during the merger, and legislation formally expanding the Commission's ambit to non-inquiry research.

Box 7.6 Research on the conservation of biodiversity

The public sector has long been a prominent provider of conservation services through national and State parks and reserves. Private sector activities, often on private land, have been less apparent. Many ecosystems are poorly represented in the public reserve system, and many public conservation areas are not large enough on their own to maintain ecological processes and viable populations of flora and fauna in the long term. With more than 60 per cent of Australia's land under private management, conservation cannot be adequately addressed without private sector participation. Efficient and effective contributions by both the private and public sectors are critical to ensuring appropriate outcomes can be achieved and future generations can enjoy the benefits of biodiversity.

The Commission's paper on constraints to private sector conservation of biodiversity found that a number of institutional arrangements – particularly aspects of land tenure, competitive neutrality, native wildlife and taxation frameworks – can constrain otherwise desirable private conservation activities. These institutional frameworks are characterised by extensive and often complex legislation and regulation that can increase the relative costs and risks of private conservation activities compared with those of other viable land uses (PC 2001b). This research was complemented by a detailed case study of Earth Sanctuaries Ltd, the first publicly listed Australian company with wildlife conservation as its primary goal (Aretino et al. 2001b).

Subsequent reports examined opportunities for governments to facilitate biodiversity conservation by enabling markets to allocate resources better. Removing unnecessarily restrictive regulatory constraints, clarifying rights and responsibilities for biodiversity conservation, and establishing appropriate cost sharing frameworks were identified as ways in which governments could improve biodiversity conservation and economic outcomes (PC 2001c; Aretino et al. 2001a). In addition, the Commission found that there may be a role for governments in creating new markets to facilitate biodiversity conservation.

More work on adjustment and distributional issues

Economic reform, including trade liberalisation and regulatory change, provides benefits to many people, industries and communities, but also imposes costs on others. How adjustment to change is ‘managed’ has been a major ongoing issue for the Commission over the years, as evidenced in previous chapters. As noted earlier in this chapter, the Productivity Commission has sought to improve the usefulness of its analysis and advice on this issue by releasing research papers and its inquiry reports. Its 2001 paper set out the key principles that should guide policy formulation on structural adjustment (box 7.7).

Box 7.7 Principles for policy formulation on structural adjustment

The Productivity Commission noted:

Good policy outcomes require robust evaluation processes. These should involve explicit consideration of the likely benefits, costs and distributional effects of reform proposals — not just for particular groups, but across the wider community.

... Reforms are proposed because of the considerable benefits they can bring to the community. But reform usually involves adjustment and other costs. Assessments of whether the expected benefits of a policy change exceed its costs need to be made.

Where a reform proposal is likely to yield a net benefit for the community, but would impose significant transitional costs, there is a need to assess the scope for reducing those costs, and how this might best be achieved.

Existing policy settings often favour some groups over others. Policy changes will typically affect this balance. Where distributional objectives have been specified, the cost effectiveness of alternative measures for achieving these objectives needs to be assessed. If substantial and uneven distributional effects are likely, the desirability and feasibility of taking offsetting actions should be examined.

Reform proposals can require trade offs among different policy objectives. These need to be identified and information provided to assist policy makers to appreciate the implications of different policy choices.

... In some circumstances, there is a role for additional measures to promote equitable outcomes and improve the efficiency of the adjustment process.

... There are few hard and fast rules to aid decision making in this area. Particular reform proposals need to be examined on a case-by-case basis. Issues to be addressed are whether additional measures can target transitional problems effectively, are cost efficient, involve an equitable sharing of their financing costs, and are transparent with clear lines of accountability. (PC 2001d, p. x)

Box 7.8 One more inquiry into automotive assistance

There have been several inquiries into the PMV industry since the IAC's first inquiry in 1974 (appendix E). Effective rates of assistance increased (from about 50 per cent to about 140 per cent by the mid-1980s) and then declined substantially (to 15 per cent in 2000: figure 4.3). In light of the Government's post-2000 assistance arrangements for the automotive industry, the Treasurer asked the Productivity Commission to evaluate the existing arrangements and assess the long term viability of and opportunities for the industry. The Commission was required to identify policy options to facilitate the achievement of an internationally competitive and globally integrated automotive sector. It found:

In recent years, the automotive industry has transformed itself to become a major exporter and innovator. It has also greatly improved its productivity and the quality of its products. But it can do more to become truly internationally competitive ... This transformation has been influenced by reductions in tariffs, which have exposed the industry to increased international competition and also reduced costs for consumers and increased their vehicle choices.

... The industry has developed some key strengths, including its ability to respond quickly, innovatively and cost effectively to small volume market opportunities ... A serious weakness is the adversarial workplace culture that continues to be evident in some parts of the industry.

... Although assistance to the automotive industry will decline again in 2005, it will still be well above that for most other Australian industries. Further assistance reductions would benefit consumers and keep pressure on the industry to continue to improve its performance, as well as being consistent with Australia's APEC commitments ... To meet the twin objectives of establishing a clear path to lower assistance and giving the industry time to adjust, a decade of policy certainty is desirable. (PC 2002c, p. xii)

The Commission provided three options for reducing tariffs on PMVs and components, the preferred option being to provide for a pause at 10 per cent from 2005, before reducing tariffs to 5 per cent in January 2010 and keeping this rate until 2015. It also provided three options for funding the Automotive Competitiveness and Investment Scheme (ACIS), the preferred option being funding of up to \$2 billion provided over five years, together with continuation of the policy by-law arrangement for vehicle producers worth an estimated \$800 million. The Commission paid particular attention to the formulation of the options to ensure they recognised that the industry would need time to adjust.

The Government accepted the general thrust of the Commission's proposed tariff regime. In responding to the Commission's report, it announced that it would provide an assistance package which would deliver \$4.2 billion through ACIS to the industry over 10 years (50 per cent more than the Commission had proposed), and that it would reduce tariffs on PMVs to 5 per cent in 2010. The Commission is to undertake a further inquiry in 2008 to determine whether changes to the tariff reductions are warranted (Macfarlane 2002).

In particular, like its predecessors, the Productivity Commission continues to address adjustment issues related to declining industry assistance. In the Commission's most recent review of assistance to the PMV industry (box 7.8), it developed options for industry assistance with the objective of giving the industry time to adjust. This approach follows a long tradition of phasing tariff cuts over time on adjustment grounds. However, the Commission has given increasing attention to additional measures to support the adjustment process.

The Commission's options have been designed to minimise the potential for disruptive change to the industry. Nevertheless, diverse pressures for adjustment will remain. As for other industries, any pronounced or regionally concentrated adjustment could warrant specific measures to assist affected employees or regions. (PC 2002c, p. xii)

Similarly, adjustment issues have been 'at the forefront of the Commission's mind' in formulating post-2005 assistance options in its most recent TCF inquiry (PC 2003c, p. xxvi). In its position paper, the Commission commented on the ability of TCF businesses (and regions) to adjust to further reductions in tariffs (box 7.9).

Box 7.9 Adjustment issues are integral to TCF policy formulation

The Productivity Commission noted:

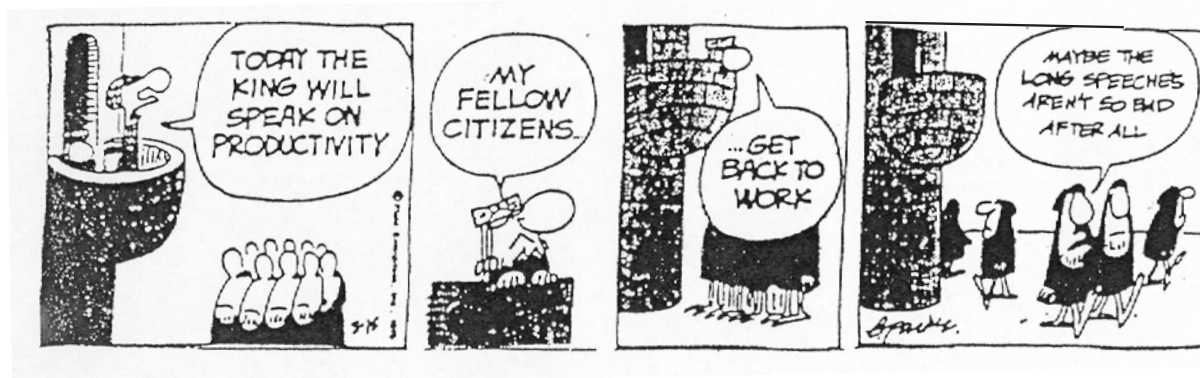
Adjustment in Australia's TCF sector to changing global realities is far from complete. More firm closures are inevitable and sectoral output may decline further.

... While assistance policy should not discourage necessary change, it must give time for firms, their employees and surrounding regions to adjust.

... In overall terms, future adjustment in the sector could be somewhat less difficult than in the past. Some of the least competitive firms have already gone; skill levels have improved in many TCF industries, increasing the alternative job opportunities potentially open to some employees; and most of the TCF dependent regions are now more economically diverse and operate in wider employment catchments – for example, Geelong/Melbourne and Wangaratta/Wodonga.

On the other hand, characteristics of the TCF workforce suggest that many factory-based employees displaced from the sector could still have difficulty finding alternative employment.

... Further, even though regional dependence on TCF activity is lower than in the past, the closure of large firms in centres like Wangaratta and Devonport would be disruptive to regional economic activity and the social fabric of these communities. The same could also be true for some TCF clusters within metropolitan centres. (PC 2003c, pp. xxiv, xxv)



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Understanding productivity and performance

When the Leader of the then Opposition, John Howard, foreshadowed the establishment of the Productivity Commission under a Liberal Coalition Government (chapter 6), he stressed the importance of improving productivity in Australia and the role that the new Commission could play in achieving that improvement. A focus on 'productivity performance' was included in the Productivity Commission's statutory functions (appendix A). Given this focus – and its importance to living standards – the Commission built on the work of the three merging organisations with the objective of providing policy relevant information on the productivity and performance of all sectors of the economy (box 7.10).

Box 7.10 Productivity: the mainspring of living standards

Productivity isn't everything, but in the long run it is almost everything. (Krugman 1992, p. 9)

Indeed, productivity is the mainspring of material living standards. It is a necessary condition, even if not a sufficient one, for a more prosperous society ... (Banks 2003b, p. 2)

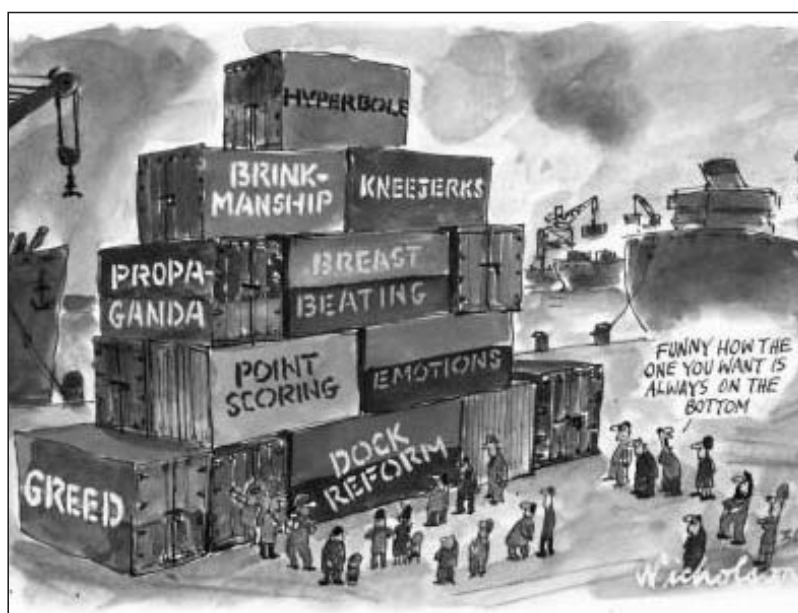
If Australia is to meet the challenges of a more competitive and rapidly changing world – and to sustain improvements in its productivity and living standards – it must continue to build a more responsive and flexible economy. That means completing existing microeconomic reforms. It also means acting to identify and initiate the next generation of reforms, given the lags that can occur between the implementation of policy changes and receipt of the full benefits. But it also means taking care in the way reform is implemented, including accounting for any significant adjustment implications. (PC 1999b, p. 3)

A key thrust of this research has been to analyse the origins of the surge in productivity in the 1990s. A series of studies, including case studies of industries in the manufacturing and services sector, led to the conclusion

that reforms in industry assistance and industrial relations regulation have played a key role in the turnaround in Australia's productivity performance (eg Parham 2003; Parham, Roberts and Sun 2001).

Productivity growth, in a broader sense, was the focus of a workshop on microeconomic reform and productivity (IC 1997d) and several research papers during the merger (for example, an assessment of Australia's productivity performance: PC/ANU 1998). Subsequent research has included an analysis of sources of Australia's productivity revival; the links between microeconomic reform and productivity; and skill and Australia's productivity surge. Of current interest is the impact of new technologies and innovation on productivity growth.

Improving workplace productivity has also been the focus of several industry studies, commencing with an examination of the waterfront during the merger to form the Productivity Commission (chapter 6). Further studies undertaken by the Productivity Commission on workplace arrangements in the coal industry, meat processing and city building projects showed how existing arrangements were impeding enterprise performance and productivity growth (PC 1998f, g, 1999g).



Nicholson of 'The Australian' newspaper [www.nicholsoncartoons.com.au].

Government, the broader community and international organisations, such as the OECD, have made considerable use of the Commission's ongoing research on Australia's productivity performance.

As well as reporting on the performance of Australia's social infrastructure (noted above), the Commission has continued, as a part of its annual reporting, to monitor and report on the performance of economic infrastructure industries and on the impact of microeconomic reform. It has expanded this work to provide more detailed and relevant information (PC 2002d). Related research has included studies of trends in infrastructure prices over the past decade, international benchmarking of telecommunications services, and international benchmarking of water rights arrangements (PC 2002e, 2001e, 2003b).

Trade liberalisation issues remain central

The Commission and its predecessors have consistently supported trade liberalisation as a force for efficiency, economic growth and rising living standards. In 1973-74, the first IAC annual report detailed the structure and levels of assistance to manufacturing and rural industries (chapter 3). Reporting of this kind has continued to the present day, albeit in an expanded format. The Productivity Commission's 2001-02 annual review, for example, discussed assistance and structural adjustment; types and levels of assistance (including budgetary and tariff) to the manufacturing, rural, mining and service sectors; recent developments in assistance to industries and businesses; and recent developments in trade policy (PC 2002a).

The Productivity Commission and its predecessors have undertaken several inquiries into international trade arrangements. An IAC report on international trade in services examined impediments to trade in services (eg shipping and telecommunications) in the context of the Uruguay Round (which included, for the first time, discussions on trade in services:



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IAC 1989b). The Productivity Commission's report on international air services reviewed Australia's international aviation policy in the context of the General Agreement on Trade in Services and Australia's other multilateral, bilateral and regional trade arrangements (PC 1998k).

The Commission's work has focused on informing public debate about the gains for Australia from trade liberalisation (box 7.11).

Other topics for the Commission's research in this area have included restrictions on trade in financial, professional and distribution services; modelling of the effects of removing general tariffs; the removal of tariffs on goods from least developed countries; and multilateral liberalisation of services trade.

Box 7.11 The gains from trade liberalisation

The Productivity Commission Review of Australia's General Tariff Arrangements examined, among other things, international developments and trade arrangements. The report noted that Australia, while benefiting most from its own reduction in tariffs, had also gained from growth in world trade, from liberalisation by other countries and from multilateral negotiations (PC 2000a).

A Productivity Commission submission to the Department of Foreign Affairs and Trade on the approach that Australia should take to the Fourth Ministerial Conference of the World Trade Organisation in 2001 noted:

- liberal trade policies have been key contributors to world development and poverty alleviation. These policies do not appear to be exacerbating global inequality, and may be reducing it;
- domestic liberalisation continues to offer the main benefits but Australia stands to make additional gains if its trading partners reduce their trade barriers; and
- the Australian Government should continue to support multilateral liberalisation and be cautious in entering any bilateral or other preferential arrangements, given the potential costs of trade diversion.

More recently, the Commission's Chairman observed that most of Australia's liberalisation has been unilateral, undertaken voluntarily rather than in return for reciprocal 'concessions' from other countries. This has occurred partly as a result of Australia having been effectively precluded from participation in multilateral trade negotiations because agricultural exports were 'off limits' in the GATT. However:

This turned out to be an important advantage, as we were among the first countries to act on the recognition that a country gains most of all from reducing its own trade barriers, *regardless of what other countries do*. (Banks 2003a, p. 8)

Nonetheless, reductions in foreign barriers to Australia's exports can also bring additional gains, but these are hard for a small country to achieve solely in a trade bargaining context that depends on offering reciprocal concessions:

The task is to find ways through which the gains from domestic reform by our trading partners can be better recognised in their policy formulation. While each country needs to come to terms with this in its own way, Australia's beneficial experience with trade liberalisation may provide a useful role model. (Banks 2003a, p. 17)

A new thrust on competition policy and regulation

During the past three decades, Australian governments have increasingly embraced a pro-competitive regime, not only for external trade and capital flows but also (especially under the NCP agreements) for public utilities, statutory bodies, for the professions, and widely throughout the Australian economy. The Industry Commission reviewed the performance of GBEs in delivering infrastructure services, and identified outdated, inefficient or anticompetitive regulations in several key industries, such as rail transport and energy generation and distribution (IC 1991b, c) (chapter 5).

Competition policy has continued to be an important focus of the Productivity Commission. Inquiries to address competition issues have covered broadcasting (box 7.12), international airline services, rail reform,

Box 7.12 The broadcasting inquiry

The Treasurer asked the Productivity Commission to 'advise on practical courses of action to improve competition, efficiency and the interests of consumers in broadcasting services'. Key messages from the report included:

The digital revolution promises consumers new and better broadcasting services throughout Australia. Broadcasting, telecommunications and the Internet are converging rapidly, not only in terms of technology and services, but also in company structures ... If policies are to be effective in an environment of continuing uncertainty, regulatory distinctions between media, services or delivery platforms should be avoided.

Competition in Australian media may be increased or threatened by digital broadcasting and convergent technology. Broadcasting policy must be reformed quickly to deal with the new competitive dynamics ... As an initial step, fundamental reform is needed to make better use of the broadcasting spectrum (the 'airwaves'). The spectrum should be priced and allocated as a scarce resource ... Rapid and certain conversion to digital television is the key to unlocking the spectrum. It will create opportunities for new players and new services. Innovation should be embraced.

Diversity of sources of information and opinion is most likely to be served by diversity in ownership of media companies, and by competition ... Anticompetitive legislation should be removed ...

The cross-media rules prevent mergers among 'old' media companies, and will impose increasingly severe constraints on them. The rules' effectiveness will decline as convergence proceeds. The cross-media rules should be removed once a more competitive media environment is established ... (PC 2000d, pp. 2, 3)

Broadcasting policy in Australia is particularly contentious. The Commission's report has thus elicited considerable debate, particularly regarding proposals and the preconditions for the removal of the cross-media rules. The report remains a central point of reference in policy debates. It remains popular on the Commission's website and continues to be cited in the media and in Parliament.

the international telecommunications market, a review of the Prices Surveillance Act, the national access regime, and the price regulation of airport services (PC 1998h, 1999f, h, 2000d, 2001f, g, 2002f). Some inquiries have been undertaken as part of the NCP review of legislation (box 5.4) – for example, the inquiries into architects, the Prices Surveillance Act and the national access regime (PC 2000c, 2001f, g). The key theme in the Commission's work is the need to maintain incentives for efficient investment in infrastructure (box 7.3).

Complaints regarding competitive neutrality between public and private sectors are handled by the CCNCO (box 7.13).

Box 7.13 The Commonwealth Competitive Neutrality Complaints Office

The CCNCO was established under the Productivity Commission Act as an autonomous office within the Commission. Its role (PC 1999b, p. 92), which derives from obligations on all jurisdictions under the Competition Principles Agreement, is to:

- receive and investigate complaints on the application of competitive neutrality to Commonwealth Government businesses, and make recommendations to the Treasurer on appropriate action; and
- provide advice and assistance to agencies implementing competitive neutrality.

One example was a complaint by the Conference of Asia Pacific Express Couriers in relation to customs treatment of Australia Post. The CCNCO found that Australia Post derived a regulatory advantage over private couriers by virtue of differing value thresholds for formal screening by the Australian Customs Service. Legislation passed in 2001 improved the consistency of the treatment of Australia Post and private sector competitors.

The ORR, as part of its charter to focus on regulations that restrict competition (box 5.2), has played a role in monitoring the Australian Government's legislation review program. This particular reform program is drawing to a close. In 2001-02, the ORR commented that although approximately 1800 reviews of potentially anticompetitive legislation were pending completion under NCP, regulatory reform must be ongoing:

The review and reform of regulations involves all Australian governments and has generated significant gains for Australia, including higher growth, productivity and incomes. However, periodic review is required to ensure that regulations reflect economic, social, environmental and other changes in society. (PC 2002g, p. 1)

The ORR continues its other regulation review activities, focusing on RISs so as to improve the quality of the regulatory environment to the benefit of the Australian community.

An ongoing role

In sum, the Productivity Commission has continued to build on the performance of its predecessors. It has taken on a broader role as the requirements of government and the community have changed, so that it now addresses the whole gamut of issues in improving performance across the economy, moving into areas of complex economic and social interaction. In a sense, it has realised more fully the vision for the original IAC. A solid platform for the Productivity Commission was provided by the Industry Commission, which managed under the Treasury portfolio (and with a somewhat broader ambit than that of the IAC) to reinvent itself to take on a range of microeconomic reform issues.

The Commission's contribution will continue to evolve as society faces new challenges in the future. Yet, even though the Productivity Commission differs in many ways from the original IAC, the fundamentals remain the same. The key role of the Productivity Commission has not changed from that of its predecessors — put simply, it is 'to help governments make better policies for the benefit of the Australian community' (Banks 1998, p. 1). As in the past, the Commission's niche remains in those areas of public policy where reform is difficult but the potential payoffs are large. Also unchanged is the organisation's commitment to the three core principles — independence, transparency and a community-wide focus — that have underpinned its contribution to public policy in Australia over the past 30 years.

APPENDIXES



A

LEGISLATION AND REGULATION



Legislation and regulation

This appendix outlines the legislative and regulatory changes for the Productivity Commission and its predecessors (table A.1), the changes in functions (table A.2) and policy guidelines over time.

**Table A.1 Legislation and regulation:
Industries Assistance Commission and its successors**

<i>Year</i>	<i>Regulation</i>	<i>Key features (including key changes from previous legislation/ regulation)</i>
1973	IAC Act No. 169	Repealed Tariff Board Acts 1921-1972 Functions and guidelines (see below) Separate Temporary Assistance Authority (TAA) Commission to conduct inquiries Commission can initiate inquiries
1976	Letter from the Minister for Business and Consumer Affairs (IAC 1976, app. 4.2)	Draft report to be published
1976	Letter from the Minister for Business and Consumer Affairs (IAC 1976, app. 4.2)	Reporting requirements changed to explicitly include social and locational consequences of assistance changes
1977	Government policy announced in white paper on manufacturing	Three new reporting requirements, in addition to those in the 1976 letter, to be incorporated as appropriate in major references: <ul style="list-style-type: none">• to report on employment effects• to relate recommendations for change to capacity of economy to absorb the changes• to report on assistance required to maintain present level of activity and employment, and if recommending a lower level, explain why
1978	IAC Amendment Act No. 1	Amended 1973 Act to change guidelines (see below) and reporting requirements, including to report on: <ul style="list-style-type: none">• assistance required to maintain present level of activity and employment, and if recommending a lower level, explain why• whether the structure of industry can be improved• consequences of change — economic, social, employment, regional

Table A.1 continued

Year	Regulation	Key features (including key changes from previous legislation/ regulation)
1983	IAC Amendment Act No. 21	Amended 1973 Act to include Commercial Tariff Concession Orders to the list of matters that may be referred by the Minister to the Commission
1983	IAC Amendment Act No. 75	Amended 1973 Act to change, among other things, appointment of Commissioners, disclosure of interests and TAA arrangements
1984	IAC Amendment Act No. 118	Amended 1973 Act to change the guidelines (see below) The 1978 Amendment Act reporting requirements (above) were repealed and replaced by reporting requirements to be specified in the reference Other changes included repeal of the power of the Commission to initiate inquiries, repeal of the TAA, changed arrangements regarding temporary assistance and anti-dumping references, no first round public hearings without consent of the Minister and reduced formality of hearings
1989	Industry Commission Act No. 9	Repealed the <i>Industries Assistance Commission Act 1973</i> and parts of the <i>Inter-State Commission Act 1975</i> Broadened functions (see below) and changed policy guidelines (see below) Revised reporting requirements including that Minister may require a publicly available inquiry draft report Requirement for at least one Commissioner to have knowledge of, and experience in, environmental matters Transitional arrangements for incorporation of the Inter-State Commission
1995	Industry Commission Amendment Act No. 150	Allowed for the appointment of permanent Commissioners on a part time basis
1998	Productivity Commission Act No. 14	Substantially broadened functions (see below) with provisions specific to the new functions eg the provision of secretariat and research services, and competitive neutrality complaints Added considerably to the policy guidelines (see below) Specified detailed reporting requirements for annual report Changed focus of conduct of inquiries to shift emphasis from unused legal powers Added to skill and experience requirements of Commissioners Removed standing provisions requiring that public hearings necessarily be held for inquiries

Table A.1 **continued**

<i>Year</i>	<i>Regulation</i>	<i>Key features (including key changes from previous legislation/ regulation)</i>
1998	Productivity Commission (Repeals, Transitional and Consequential Amendments) Act No. 15	Repealed <i>Economic Planning Advisory Commission Act 1983</i> and <i>Industry Commission Act 1989</i>
1998	Productivity Commission Regulations No. 255	Requirement to tender for consultancies exceeding \$20,000

Policy guidelines

Below are the key policy guidelines for the Industries Assistance Commission and its successors, as specified in the relevant Acts of Parliament.

Industries Assistance Commission

Industries Assistance Commission Act 1973

Section 22:

- (1) In the performance of its functions, the Commission shall have regard to the desire of the Australian Government, in pursuing the general objectives of national economic and social policy and urban and regional development, to improve and promote the well-being of the people of Australia, with full employment, stability in the general level of prices, viability in external economic relations, conservation of the natural environment and rising and generally enjoyed standards of living, and, in particular, to the desire of the Australian Government to:
 - (a) improve the efficiency with which the community's productive resources are used;

(continued p. 131)

Table A.2 Statutory functions

<i>Act</i>	<i>Statutory functions^a</i>
<i>Industries Assistance Commission Act 1973</i>	<ul style="list-style-type: none"> • to hold inquiries; and • to make reports to the Minister in respect of matters affecting assistance to industries and other matters referred to the Commission.
<i>Industry Commission Act 1989</i>	<ul style="list-style-type: none"> • to hold inquiries and make reports to the Minister in respect of such 'matters relating to industry' as referred by the Minister. ('Matters relating to industry' include legislative or administrative action taken, or to be taken, by the Commonwealth or a State or Territory in relation to industry); and • to do anything incidental to those functions.
<i>Productivity Commission Act 1998</i>	<ul style="list-style-type: none"> • to hold inquiries and report to the Minister about matters relating to industry, industry development and productivity that are referred by the Minister; and • to provide secretariat and research services to government bodies as directed by the Minister; and • to receive and investigate complaints about the implementation of competitive neutrality arrangements in relation to Commonwealth government businesses and business activities and to report to the Minister on its investigations; and • to provide advice to the Minister about matters relating to industry, industry development and productivity, as requested by the Minister; and • to undertake, on its own initiative, research about matters relating to industry, industry development and productivity; and • to promote public understanding of matters relating to industry, industry development and productivity; and • to perform any other function conferred on it by the Act; and • to do anything incidental to any of the preceding functions. <p>('Matters relating to industry, industry development and productivity' include legislative or administrative action taken, or to be taken, by the Commonwealth, a State or a Territory that affects or might affect the productivity performance of industry, industry development, or the productivity performance of the economy as a whole.)</p>

^a Annual reporting is another function of the Productivity Commission and its predecessors under the Acts. However, it is not listed under the 'functions' provisions and, therefore, is excluded from the above.

- (b) encourage those economic activities in Australia, and the producers of the goods and services concerned, which contribute to improving the efficiency with which the community's productive resources are used;
- (c) facilitate adjustment to changes in the economic environment by industries and persons affected by those changes;
- (d) recognise the interests of consumers and consuming industries likely to be affected by measures proposed by the Commission;
- (e) ensure that any measures for assistance to, and development of, industries are integrated with national economic policy as a whole;
- (f) ensure that Australia's trade and protection policies are compatible; and
- (g) provide adequate scope for public scrutiny and evaluation of the basis of the Commission's reports.

Industries Assistance Commission Amendment Act 1978

Section 22(1)(a) was replaced by:

- (a) achieve sustained growth in the Australian economy through balanced development of Australian industries with a view to providing increased opportunities for employment and investment;
- (b) improve the efficiency with which the community's productive resources are used, while ensuring that any measures to achieve changes in the structure of industry are taken only after having due regard to the capacity of the economy to sustain those changes and to absorb any members of the workforce displaced by those changes.

Section 22(2) was replaced by the following, among other things:

- (2) If at any time the Minister considers that there are additional matters to which the Commission should have regard in the performance of its functions, he may, by notice in writing to the Commission, inform the Commission accordingly and the Commission shall have regard to those matters.

Industries Assistance Commission Amendment Act 1984

Section 22(1) of the 1973 Act was replaced by the following:

- (1) In the performance of its functions, the Commission shall have regard to the desire of the Commonwealth Government:

- (a) to encourage the development and growth of efficient Australian industries that are internationally competitive, export-oriented and capable of operating over a long period of time with minimum levels of assistance;
- (b) to facilitate adjustment to structural changes in the economy by industries and persons affected by those changes, and to minimise social and economic hardships arising from those changes; and
- (c) to recognise the interests of other industries, and of consumers, likely to be affected by measures proposed by the Commission.

Industry Commission

Industry Commission Act 1989

Section 8:

- (1) In the performance of its functions, the Commission must have regard to the desire of the Commonwealth Government:
 - (a) to encourage the development and growth of Australian industries that are efficient in their use of resources, self-reliant, enterprising, innovative and internationally competitive; and
 - (b) to facilitate adjustment to structural changes in the economy and to ease social and economic hardships arising from those changes; and
 - (c) to reduce regulation of industry (including regulation by the States and Territories) where this is consistent with the social and economic goals of the Commonwealth Government; and
 - (d) to recognise the interests of industries, consumers, and the community, likely to be affected by measures proposed by the Commission.
- (2) In the performance of its functions, the Commission must also have regard to any other matters notified to it in writing by the Minister.
- (4) Where a matter is referred to the Commission for inquiry and report, the Commission must also inquire into, and, in the same report, report on the social and environmental consequences of any recommendations it makes.

Productivity Commission

Productivity Commission Act 1998

Section 8:

- (1) In the performance of its functions, the Commission must have regard to the need:
 - (a) to improve the overall economic performance of the economy through higher productivity in the public and private sectors in order to achieve higher living standards for all members of the Australian community; and
 - (b) to reduce regulation of industry (including regulation by the States, Territories and local government) where this is consistent with the social and economic goals of the Commonwealth Government; and
 - (c) to encourage the development and growth of Australian industries that are efficient in their use of resources, enterprising, innovative and internationally competitive; and
 - (d) to facilitate adjustment to structural changes in the economy and the avoidance of social and economic hardships arising from those changes; and
 - (e) to recognise the interests of industries, employees, consumers and the community, likely to be affected by measures proposed by the Commission; and
 - (f) to increase employment, including in regional areas; and
 - (g) to promote regional development; and
 - (h) to recognise the progress made by Australia's trading partners in reducing both tariff and non-tariff barriers; and
 - (i) to ensure that industry develops in a way that is ecologically sustainable; and
 - (j) for Australia to meet its international obligations and commitments.
- (2) In the performance of its functions, the Commission must also have regard to any other matters notified to it in writing by the Minister.
- (3) The Commission, in all reports on matters referred to it, must provide a variety of viewpoints and options representing alternative means of addressing the issues in the report. If the report relies on formal mathematical economic modelling, the Commission must either:

- (a) if practicable — utilise at least two different economic models, with the assumptions and results of those models made explicit in the report; or
- (b) if it is not practicable to utilise at least two different economic models, appoint, and report on the views of, an independent reference panel on the modelling.

B

**CHAIRMEN, COMMISSIONERS
AND SENIOR STAFF**

INDUSTRIES ASSISTANCE COMMISSION: JANUARY 1974 TO MARCH 1990

CHAIRMEN ^a				
<i>Name</i>	<i>Commenced</i>	<i>Ceased</i>	<i>Acting</i>	<i>Notes</i>
G A Rattigan	01/01/74	31/05/76		Retired.
W A McKinnon	01/06/76	26/03/83		Resigned and appointed as Secretary, Department of Immigration and Ethnic Affairs.
M H Codd	26/03/83	13/03/85		Resigned and appointed as Secretary, Department of Community Services.
G F Johnson			14/03/85-29/07/85	Acted until appointment of W B Carmichael, then appointed as Executive Commissioner.
W B Carmichael	30/07/85	29/03/88		Retired.
D L McBride			16/03/88-30/05/88	Acted until appointment of G F Taylor, then returned to appointment as Commissioner.
G F Taylor	30/05/88	28/02/89		Resigned and appointed as Secretary, Department of Employment, Education and Training.
D L McBride			01/03/89-23/08/89	Acted until appointment of A S Cole, then returned to appointment as Commissioner.
A S Cole	23/08/89	08/03/90		Commenced with Industry Commission when established.
EXECUTIVE COMMISSIONERS/DEPUTY CHAIRMEN ^a				
W B Carmichael	14/09/84	29/07/85		Appointed under s11 of the 1973 IAC Act as Executive Commissioner to assist the Chairman.
G F Johnson	30/07/85	30/06/86		Retired.
COMMISSIONERS ^a				
D J Pekin	01/01/74	31/12/78		Appointed as Associate Commissioner from 05/02/79.
R Boyer	01/01/74	30/06/81		Granted leave of absence for 01/04/80-31/03/81. Not reappointed on 30/06/81.
G F Johnson	01/01/74	29/07/85		Appointed as Executive Commissioner on 30/07/85.
D L McBride	01/01/74	08/03/90		Reappointed under the Industry Commission Act on 09/03/90.
C W Conron	01/01/74	01/04/79		Resigned.
N V Watson	01/01/74	10/06/76		Also appointed to Temporary Assistance Authority (TAA) for five years from 01/01/74. Retired 10/06/76.
A G Lloyd	30/01/74	28/01/77		Reappointed as a part time Associate Commissioner from 01/02/77.

COMMISSIONERS^a

<i>Name</i>	<i>Commenced</i>	<i>Ceased</i>	<i>Acting</i>	<i>Notes</i>
R G Mauldon			01/06/74-30/11/74 01/12/76-08/06/78	Acted while A G Lloyd was on leave. Acted while F A Pascoe was on leave. Reappointed under the Industry Commission Act on 09/03/90. Term of appointment expired.
H A Rolfe	29/04/79	08/03/90		Resigned.
P B Westerway	29/04/74	28/04/79		Previously an Associate Commissioner, then appointed a member of the TAA from 22/09/76 for two years following the retirement of N V Watson. Granted leave of absence as a Commissioner from 01/12/76 during appointment with TAA.
F A Pascoe	02/07/74 04/03/75	09/02/75 08/06/78		On 08/06/78, resigned as Commissioner but continued with the TAA.
N P Hancel	01/01/79	31/07/80		Resigned.
J R Seear	01/01/79	30/09/82		Reappointed as a part time Associate Commissioner from 01/10/82.
J L Sheaffer	01/01/79	31/12/85		Retired.
J G Carey	02/04/84	01/04/89		On 03/04/89, appointed as a part time Commissioner.
C H Fitzgibbon	22/08/85	31/12/86		Retired.
J C McColl	05/10/85	30/06/88		Appointed as a Royal Commissioner for the Joint Commonwealth/State Royal Commission on grain handling on 13/10/86; granted leave of absence from the IAC, then resigned on 30/06/88.
K L Brown	01/01/87	01/04/88		Resigned and became a part time Commissioner.
A W Mumme	01/10/88	29/09/89		Term of appointment expired.
M L Parker	01/06/89	08/03/90		Reappointed under the Industry Commission Act on 09/03/90.
K J Horton-Stephens	01/06/89	08/03/90		Reappointed under the Industry Commission Act on 09/03/90.

ASSOCIATE COMMISSIONERS^{a, b}

S J Cossar	01/01/74	31/12/80		Ceased as a full time Associate Commissioner on 31/12/80; appointed as a part time Associate Commissioner from 01/01/81.
G P Hampel	01/01/74	14/09/74		Term of appointment expired.
L R Dudley	01/01/74	25/05/74		Term of appointment expired.

ASSOCIATE COMMISSIONERS^{a, b}

<i>Name</i>	<i>Commenced</i>	<i>Ceased</i>	<i>Acting</i>	<i>Notes</i>
C H Grace	01/01/74	16/07/74		Term of appointment expired.
R G Mauldon	19/02/74	28/04/79		Commenced as Commissioner on 29/04/79.
K Collings	18/03/74	03/09/77		Member of the TAA; retired.
P D J Robinson	16/04/74	03/03/78		Member of the TAA; retired.
C G Dyson	30/06/74	23/02/83		Resigned.
D L O'Connor	19/07/76	03/10/80		Ceased as a full time Associate Commissioner on 03/10/80; appointed as a part time Associate Commissioner from 04/10/80.
F G Atkins	13/04/78	11/09/80		Ceased as a full time Associate Commissioner on 11/09/80; appointed as a part time Associate Commissioner from 12/09/80.
D J Pekin	05/02/79	30/11/81		Retired.
G C Hauff	12/03/79	28/02/82		Retired.
J W Cahill	15/09/80	03/05/84		Retired.
J R W Hunt	26/06/84	14/02/86		Retired.

HEADS OF OFFICE^a

W B Carmichael	1974	1984	Appointed as Executive Commissioner on 14/09/84.
M L Parker	1987	1989	Appointed as Commissioner on 01/06/89.

FIRST ASSISTANT COMMISSIONERS^a

P J Barrett
W R Bates
A C Cuthbertson
R C Duncan
R J Filmer
G C Hauff
A R Lawson
L D Martin
N R Miller
A W Mumme
M L Parker

^a Full time appointments (except where noted).^b Permanent, excluding those appointed for the duration of particular inquiries.

INDUSTRY COMMISSION: MARCH 1990 TO APRIL 1998**CHAIRMEN^a**

<i>Name</i>	<i>Commenced</i>	<i>Ceased</i>	<i>Acting</i>	<i>Notes</i>
A S Cole	09/03/90	14/02/91		Resigned and appointed as Secretary, Department of Treasury.
A C Harris			15/02/91-01/08/91	Acting when A S Cole resigned, then returned to appointment as Commissioner.
S T Sedgwick	02/08/91	20/01/92		Resigned and appointed as acting Secretary, Department of Finance.
R G Mauldon			20/01/92-21/06/92	Acting when S T Sedgwick resigned, then returned to appointment as Commissioner.
W I Scales AO	21/05/92	27/02/98		Resigned and appointed as Secretary, Victorian Department of Premier and Cabinet.
G R Banks			27/02/98-16/04/98	Appointed as acting Chairman of Productivity Commission on 17/04/98.

EXECUTIVE COMMISSIONERS/DEPUTY CHAIRMEN^a

G R Banks	04/08/93	26/02/98	On 27/02/98, commenced as acting Chairman.
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COMMISSIONERS^a

D L McBride	09/03/90	30/06/91	Appointed as a part time Associate Commissioner on 01/07/91.
R G Mauldon	09/03/90	31/12/94	Retired.
M L Parker	09/03/90	31/08/95	Retired.
K J Horton-Stephens	09/03/90	16/04/98	Finished term as Commissioner when the Industry Commission Act was repealed.
T J Hundloe	16/05/90	08/01/97	Resigned.
A C Harris	16/05/90	04/09/92	Granted indefinite leave from 07/01/92 to take up Head of the Office of the Treasurer; resigned on 04/09/92 to take up position of NSW Auditor-General.
G R Banks	19/06/91	03/08/93	Appointed as Executive Commissioner from 04/08/93.
J R Rae	01/12/92	13/02/98	Resigned.
H J Owens	08/02/93	16/04/98	Reappointed under the Productivity Commission Act on 17/04/98.
N R Stevens	14/12/93	23/12/93	Resigned.

COMMISSIONERS ^a

<i>Name</i>	<i>Commenced</i>	<i>Ceased</i>	<i>Acting</i>	<i>Notes</i>
M Joyce	22/03/95	06/06/97		Resigned.
J Cosgrove	27/06/95	16/04/98		Reappointed under the Productivity Commission Act on 17/04/98.
R H Snape			27/02/98 - 16/04/98	Reappointed as Commissioner under the Productivity Commission Act on 17/04/98.

ASSOCIATE COMMISSIONERS ^{a, b}

G R Banks	09/03/90	18/06/91		Appointed as Commissioner on 19/06/91.
N Gruen	19/04/94	29/08/97		Resigned.
R H Snape	06/02/95	26/02/98		Acted as Commissioner from 27/02/98.
S Richardson	06/02/95	26/06/97		Part time. Resigned.

HEADS OF OFFICE ^a

J F Spasojevic	24/05/90	20/08/93		
R Kerr	05/09/96	16/04/98	19/02/96 - 04/09/96	Commenced with Productivity Commission on 17/04/98.

FIRST ASSISTANT COMMISSIONERS ^a

W R Bates	
F C Keith PSM	
R Kerr	
A R Lawson	
A J Moran	
G Pitkethly	
H Silver	

^a Full time appointments (except where noted).^b Permanent, excluding those appointed for the duration of particular inquiries.

PRODUCTIVITY COMMISSION: FROM APRIL 1998

CHAIRMEN ^a				
<i>Name</i>	<i>Commenced</i>	<i>Ceased</i>	<i>Acting</i>	<i>Notes</i>
G R Banks	20/05/98	Ongoing	17/04/98-19/05/98	
EXECUTIVE COMMISSIONERS/DEPUTY CHAIRMEN ^a				
R H Snape	24/02/99	04/10/02		Deceased.
COMMISSIONERS ^a				
J H Cosgrove	17/04/98	07/05/02		Retired.
H J Owens	17/04/98	Ongoing		Appointed as Deputy Chairman on 24/02/99.
R H Snape	17/04/98	23/02/99		Part time.
J Sloan	17/04/98	Ongoing		Part time.
M C Woods	17/04/98	Ongoing		
R N Byron	15/07/98	Ongoing		
D H Robertson	13/12/00	Ongoing		Part time.
A M Hinton	27/03/02	Ongoing		
HEADS OF OFFICE ^a				
R Kerr	17/04/98	Ongoing		
FIRST ASSISTANT COMMISSIONERS ^a				
R Clarke				
G Pitkethly				
H Silver				

^a Full time appointments (except where noted).

C

PORTFOLIO RESPONSIBILITY

C

Portfolio responsibility

Table C.1 Portfolio responsibility for the Productivity Commission and its predecessors

<i>Year^a</i>	<i>Portfolio</i>	<i>Minister</i>
1974	Prime Minister and Cabinet	The Hon. EG Whitlam QC, MP
1975	Special Minister of State	The Hon. Lionel Bowen MP
1976 & 77	Business and Consumer Affairs	The Hon. John Howard MP
1978 & 79	Business and Consumer Affairs	The Hon. Wal Fife MP
1980	Business and Consumer Affairs	The Hon. RV Garland MP
1981	Business and Consumer Affairs	The Hon. John Moore MP
1982	Administrative Services	The Hon. Kevin Newman MP
1983 & 84	Industry and Commerce	Senator the Hon. John Button
1985 & 86	Industry, Technology and Commerce	Senator the Hon. John Button
1987 to 90	Treasury	The Hon. PJ Keating MP
1991	Treasury	The Hon. John Kerin MP
1991 to 93	Treasury	The Hon. John Dawkins MP
1994 & 95	Treasury	The Hon. Ralph Willis MP
1996 to 2003	Treasury	The Hon. Peter Costello MP

a As reported at the time of printing the relevant directory.
Sources: Commonwealth Government Directory, various years.

D

INQUIRY REPORTS

Industries Assistance Commission - Inquiry Reports

Publication year	Title of inquiry report	Number of report	Presiding Commissioner (as identified on report)
1974	Galvanised Steel Coil (By-law)	1	C H Grace
1974	Woven Man-made Fibre Fabrics: Tariff Revision	2	N V Watson
1974	Automatic Dry-cleaning Machines (By-law)	3	C H Grace
1974	Paper, Tariff Revision	4	N V Watson
1974	Fibreglass Insect Screening (Dumping and Subsidies Act)	5	D J Pekin
1974	Steam and Other Vapour Generating Boilers; Super-Heated Water Boilers; Cast-Iron Vee Pulleys; Communication Transceivers; Wood, Cut to Size for Making Boxes; Wooden Beadings and Mouldings Builders' Carpentry; Wooden Tools, Tool Bodies and Tool Handles, Broom and Brush Bodies and Handles; and Certain Planar Forms of Wood (NZAFTA)	6	G F Johnson
1974	Photographic Film and Paper (Dumping and Subsidies Act)	7	R Boyer
1974	Building Materials, etc. (By-law)	8	G F Johnson
1974	Calcium Carbide	9	D J Pekin
1974	Glass and Glassware	10	D J Pekin
1974	Steam, Gas and Water Fittings	11	G F Johnson
1974	Industrial Tractors	12	N V Watson
1974	Gloves, Mittens or Mitts	13	N V Watson
1974	Food Processing Machinery, etc.	14	N V Watson
1974	Injection Moulding Machines (Dumping and Subsidies Act)	15	R Boyer
1974	Polyamide and Polyester Yarns	16	N V Watson
1974	Tyre Cord and Tyre Cord Fabrics	17	N V Watson
1974	Foundation Garments	18	G F Johnson
1974	Wood Working and Metal Working Machinery, etc; Gas Welding, etc. Equipment and Electrical Welding, etc. Equipment; Industrial and Laboratory Furnaces and Ovens, etc.	19	N V Watson
1974	Report by the Textiles Authority on Certain Items of Apparel	20	G F Johnson
1974	Passenger Motor Vehicles, etc.	21	C W Conron
1974	Nitrogenous Fertilizers	22	D J Pekin
1974	Textile and Apparel Machinery, etc; and Paper Making and Printing Machinery, etc.	23	R Boyer
1974	Glass Fibre Rovings and Chopped Strand Mat (Dumping and Subsidies Act)	24	D J Pekin
1974	Thermoplastic Moulding Compounds (Dumping and Subsidies Act)	25	D J Pekin
1974	Diesel Engines Exceeding 1500 kW	26	G F Johnson
1974	Mattresses, Quilts, Eiderdowns and Cushions	27	C H Grace
1974	Commercial Motor Vehicles, Parts and Accessories	28	C W Conron
1974	Report by the Textiles Authority: Yarns, Knitted Fabrics and Towelling	29	G F Johnson
1974	Tomatoes; Tomato Paste, etc. (By-law)	30	K Collings

1974	Polyester Yarn for Use in the Manufacture of Automotive Seat Belt Webbing (By-law)	31	S J Cossar
1975	Mushrooms	32	C H Grace
1975	Report by the Textiles Authority: Apparel - Section 1 - Men's Shirts, Woven Pyjamas and Other Woven Nightwear	33	G F Johnson
1975	Stress Relieved Strand Wire Cable (By-law)	34	C H Grace
1975	Report by the Textiles Authority: Apparel: Section 2	35	G F Johnson
1975	Report by the Textiles Authority: Certain Textile Floor Coverings	36	G F Johnson
1975	Almonds (By-law)	37	Hylda A Rolfe
1975	Heat Transfer Printing Paper (By-law)	38	C H Grace
1975	Second-hand Railway Locomotives	39	K Collings
1975	Report by the Textiles Authority: Bags and Sacks of Man-made Fibre	40	C G Dyson
1975	Fabricated Asbestos, etc.	41	C H Grace
1975	Brucellosis and Tuberculosis: Bovine Brucellosis and Tuberculosis Slaughter Compensation Scheme	42	C W Conron
1975	Floor and Wall Tiles	43	D J Pekin
1975	Textiles Authority Report: not released by the Government	45	G F Johnson
1975	Tanned and Finished Leather: Dressed Fur		
1975	Textiles Authority Report: not released by the Government	47	Hylda A Rolfe
1975	New Land Farms Assistance to New Land Farms in Western Australia	48	R Boyer
1975	Cosmetics and Toilet Preparations	49	S J Cossar
1975	Gas Fired Instantaneous Water Heaters (By-law)	50	C W Conron
1975	Production of Gold	51	G F Johnson
1975	Leather and Leather Substitute Products	52	S J Cossar
1975	Dyeline Base Paper (By-law)	53	J G Crawford
1975	Rural Income Fluctuations - Certain Taxation Measures		
1975	Interim Report: Superphosphate, Assistance for the Consumption of Phosphatic Fertilizers	54	Hylda A Rolfe & D J Pekin
1975	Superphosphate Production (Tariff Revision)	55	D L McBride & P B Weterway
1975	Aluminium and Articles Thereof etc.	56	D J Pekin
1975	Filament, Fluorescent and Other Discharge Lamps	57	D L McBride
1975	Nitrogenous Fertilizers Subsidy	58	Hylda A Rolfe
1975	Beef, Short Term Assistance to Beef Cattle Producers in Australia	59	R G Mauldon
1975	Iron and Steel Industry, Short Term Assistance for Hoop, Strip, Sheets and Plates of Certain Alloy Steels	60	R Boyer
1975	Aerospace Industry	61	C W Conron
1975	Dairy Industry	62	J G Crawford
1975	Interim Report: Fruitgrowing: Apple and Pear Industry, Fruitgrowing Reconstruction Scheme, Dried Vine Fruit Industry	63	R Boyer
1975	Interim Report: Footwear	64	G F Johnson
1975	Motor Vehicles - Import Restrictions	65	D L McBride
1975	Copper Foil; and Primary Shapes Produced by Rolling, Drawing, Extruding of Non-ferrous Metal	66	R Boyer

1975	Copper Ore and Concentrate	67	C W Conron
1975	Sheets and Plates of Iron or Steel - Import Restrictions	68	R Boyer
1975	Tourist Accommodation Industry - Short-term Assistance	69	Hylda A Rolfe
1975	Miscellaneous Industrial Machinery	70	R Boyer
1975	Precision Ground Steel Ball Bearings - Tariff Quota	71	R Boyer
1975	Hostery	72	G F Johnson
1975	Interim Report: Financing Promotion of Rural Products (Export Inspection of Rural Products)	73	A G Lloyd
1975	Interim Report: Domestic Refrigerators, Washing Machines and Clothes Dryers	74	D L McBride
1976	Paints, Varnishes and Lacquers	75	D L McBride
1976	Rural Reconstruction	76	J G Crawford
1976	Fruitgrowing. A: Fruitgrowing Reconstruction; B: Apples and Pears; C: Dried Vine Fruit; D: South Australian Riverland	77	Parts A-D R Boyer
1976	Cellulose Acetate Flake	78	D J Pekin
1976	Multilateral Trade Negotiations - General Rates of Duty. First Report (Abridged Version)	79	D J Pekin
1976	Welding Consumables and Flux Cored Solder	80	D L McBride
1976	Agricultural Tractors	81	D L McBride
1976	Spectacle and Sunglass Frames, Sunglasses, etc.	82	G F Johnson
1976	Other Electronic Equipment (Electronic and Electrical Equipment-Sub-Industry E2)	83	C W Conron
1976	Telecommunications Equipment	84	C W Conron
1976	Report by the Textiles Authority: Knitted and Woven Apparel	85	G F Johnson & D L McBride
1976	Petroleum and Mining Industries	86	C W Conron
1976	Railway and Tramway Locomotives, Rolling Stock, etc.	87	C H Grace
1976	Interim Report: High Alloy Steels	88	R Boyer
1976	Report by the Textiles Authority: Sheets, Curtains, etc.	89	G F Johnson
1976	Financing Rural Research	90	A G Lloyd
1976	Batteries Part A: Storage Batteries (Accumulators)	91	Hylda A Rolfe
1976	Short Term Assistance to Commercial Theatre	92	R Boyer
1976	Interim Report: Domestic Refrigerating Appliances, etc. (Chest Freezers of up to 350 Litres Capacity)	93	D L McBride
1976	Pharmaceutical and Veterinary Products	94	R Boyer
1976	Animal Foods, etc.	95	R Boyer
1976	ADP Equipment and Parts	96	C W Conron
1976	Interim Report: Fabrics for Use as Bed Sheeting, Pillow Casing or Bolster Casing	97	W A McKinnon
1976	Financing Promotion of Rural Products	98	A G Lloyd
1976	Dairy Industry Marketing Arrangements	99	J G Crawford
1976	Shipbuilding	100	W A McKinnon
1976	Crude Oil Pricing	101	C W Conron
1976	Soaps and Detergents, etc.	102	R Boyer
1976	Electric Motors, Generators and Rotary Converters	103	D L McBride

1976	Batteries Part B: Primary Batteries	104	W A McKinnon
1976	Files and Rasps	105	D L McBride
1976	Assistance for the Consumption of Phosphatic Fertilizers	106	Hylda A Rolfe & D J Pekin
1976	Motor Vehicles - Extension of Import Restrictions	107	C W Conron
1976	Measuring, Checking, Precision Instruments and Apparatus, etc.; Clocks and Watches, etc.; Medical Apparatus, Lenses, etc.; Cine Cameras, Projectors, etc.	108	F A Pascoe
1976	Monochrome Television Receivers and Certain Electronic Components	109	F A Pascoe
1976	Interim Report: Commercial Motor Vehicles, Parts and Accessories: Interim Report on Short Term Assistance	110	C W Conron
1976	Brassieres	111	W A McKinnon
1976	Assistance to the Performing Arts	112	R Boyer
1976	Certain Man-made Fibres, Yarns and Fabrics	113	W A McKinnon
1976	Interim Report: Review Inquiry No. 12 - Clothing: Tariff Quotas as from 1 March 1977	114	G F Johnson
1976	The Australian Olive Industry	115	R Boyer
1977	Calcium Carbide	116	D J Pekin
1976	Sacks, Bags and Certain Polyolefin Fabrics	117	F A Pascoe
1977	Watt Hour Meters (Developing Country Preferences)	118	D L McBride
1977	Certain Sheets and Plates of Iron or Steel - Tariff Quotas	119	W A McKinnon
1977	Tyres	120	Hylda A Rolfe
1977	Pumps and Compressors	121	G F Johnson
1977	Certain Paper and Paperboard - Tariff Quotas	122	D L McBride
1977	Interim Report: Orange Juice	123	R G Mauldon
1977	Electrical Control Apparatus and Insulating Fittings	124	D L McBride
1977	Interim Report: Plywood and Veneer (Thick Plywood)	125	R G Mauldon
1977	Interim Report: Review Inquiry No. 12: Clothing Children's Knitted Tracksuits, Playsuits, Rompersuits and Like Garments: Tariff Quotas	126	G F Johnson
1977	High Voltage Switchgear from India (Anti-dumping)	127	W A McKinnon
1977	Production of Gold	128	C W Conron
1977	Short Term Assistance to Certain Fabrics of Acetate Yarn	129	W A McKinnon
1977	Polyethylene Coated Paper and Paperboard for the Manufacture of Containers (By-law)	130	W A McKinnon
1977	Certain Internal Combustion Piston Engines and Parts Therefor	131	G F Johnson
1977	Transformers and Inductors	132	D L McBride
1977	Interim Report: Textiles, Clothing and Footwear: Review of Quotas	133	G F Johnson
1977	Interim Report: Short Term Assistance for Room Air Conditioners	134	D L McBride
1977	Malleable Cast Iron Fittings (Developing Country Preferences)	135	R Boyer
1977	Potatoes and Processed Potato Products	136	Hylda A Rolfe
1977	Glucose and Glucose Syrups	137	W A McKinnon
1977	Certain Spun Yarns and Wool Textiles and Other Goods	138	G F Johnson
1977	Ceramic Tableware	139	C W Conron

1977	Self-propelled Harvesters (By-law)	140	W A McKinnon
1977	Standard Wire, Cables, etc. of Copper; Insulated Electric Wire, Cable, etc.	141	C W Conron
1977	Agricultural Wheeled Tractors Exceeding 105 kW	142	C W Conron
1977	Paradichlorobenzene (By-law)	143	W A McKinnon
1977	Passenger Motor Vehicles	144	W A McKinnon
1977	Interim Report: Copper Ores and Concentrates	145	Hylda A Rolfe
1977	Interim Report: Bench or Pedestal Drilling Machines Belt Driven Pulley Operated (Non-power Fed)	146	W A McKinnon
1977	Further Short Term Assistance Arrangements for Textiles, Clothing and Footwear	147	G F Johnson
1977	Mushrooms (NAFTA)	148	C H Grace
1977	Tourist Accommodation Industry	149	Hylda A Rolfe
1977	Interim Report: Brandy and Whisky	150	W A McKinnon
1977	Tyre Cord Fabric	151	G F Johnson
1977	Files and Rasps	152	D L McBride
1977	Injection Moulding Machines (By-law)	153	S J Cossar
1977	Commercial Motor Vehicles, Parts and Accessories	154	C W Conron
1977	Metal Working Machine Tools	155	W A McKinnon
1978	Export Incentives	156	C W Conron
1978	Starting, Regulating and Control Apparatus and Other Electrical Equipment	157	D L McBride
1978	Interim Report: Sporting and Recreational Equipment: Tennis and Squash Racquets (Developing Country Preferences)	158	Hylda A Rolfe
1978	Bottle Washing Machines (Developing Country Preferences)	159	R Boyer
1978	Domestic Refrigerating Appliances, etc.	160	D L McBride
1978	Rural Income Fluctuations	161	A G Lloyd
1978	The Music Recording Industry in Australia	162	R Boyer
1978	Razors, Razor Blades and Razor Blade Blanks	163	W A McKinnon
1978	Ball and Roller Bearings	164	R Boyer
1978	Interim Report: Hoists, Pulley Tackle and Winches	165	Hylda A Rolfe
1978	Interim Report: Vices	166	Hylda A Rolfe
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1978	Brooms and Brushes	170	Hylda A Rolfe
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1978	Fisheries and Fish Processing Industry	182	D J Pekin
1978	Certain Paper and Paperboard	183	D L McBride
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1978	Works Trucks, Certain Mobile Machines, etc.	192	G F Johnson
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1979	Commercial Ship Repair	194	D J Pekin
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1979	Oxo Alcohols, Butyl Acetates, etc.	196	D J Pekin
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1979	Certain Discontinuous Yarns of Polyester and Polyester/Viscose (By-law)	198	G F Johnson
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1979	Short Term Assistance to Non-adjustable Spanners	200	C W Conron
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1979	Bags, Sacks and Certain Polyolefin Fabrics	203	C W Conron
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1979	The Sugar Industry	209	W A McKinnon
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1979	Paper Products	214	D L McBride
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1979	Spanners and Wrenches	216	W A McKinnon
1979	Gearboxes, Gears and Shaft Couplings - Temporary Assistance	217	W A McKinnon
1979	Tanned and Finished Leather; Dressed Fur - Short Term Assistance	218	D L McBride
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1979	Short Term Assistance to Certain Bits of Cemented Carbides	224	J L Sheaffer
1979	Interim Report: Passenger Motor Vehicles and Components - Export Facilitation	225	W A McKinnon
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1979	Baby Carriages and Parts Therefor	229	J L Sheaffer
1979	Rubber Products	230	C W Conron & R G Mauldon
1979	Asbestos	231	Hylda A Rolfe & J R Seear
1979	Chemical Products (Part B)	232	N P Hanckel
1979	Dental Materials	233	J L Sheaffer
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1980	Double Edged Safety Razor Blades	235	J L Sheaffer
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1980	Cast Alloy Steel Parts for Crushing or Grinding Machines - Short Term Assistance	237	R G Mauldon
1980	Copper and Certain Copper Products (Including Removal of Export Control)	238	J R Seear
1980	Apples and Pears	239	R G Mauldon
1980	Textiles, Clothing and Footwear. Part A: General; Part B: Textiles; Part C: Clothing; Part D: Footwear; Part E: Headwear; Part F: Foundation Garments; Part G: Hosiery; Part H: Carpets, Carpeting, etc.	240 Parts A-H	W A McKinnon & G F Johnson
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1980	Musical Instruments and Parts and Accessories Therefor	246	D L McBride
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1981	Preparations, Extracts and Juices of Meat	284	J R Seear

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1981	Customs Tariff Simplification. Volumes 1 and 2.	286	D J Pekin
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1981	Miscellaneous Textile Products	295	G F Johnson
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1983	The Dairy Industry - Interim Report on Extension of Underwriting for 1983-84 Season	319	R G Mauldon
1983	Grain Harvesters	320	R G Mauldon
1983	Certain Iron and Steel Products and Certain Alloy Steel Products	321	M H Codd
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1983	Interim Report: Heavy Commercial Motor Vehicles, Parts and Accessories	325	D L McBride
1983	Lawnmowers, Certain Engines and Parts	326	G F Johnson
1983	Certain Thick Plywood	327	D L McBride
1983	Harvesting and Processing of Fish, Crustacea and Molluscs	328	R G Mauldon
1983	The Wheat Industry	329	G F Johnson
1983	Polyvinyl Chloride Homopolymer (Anti-dumping)	330	M H Codd
1983	Interim Report: Industrial Overalls	331	G F Johnson
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1983	The Dairy Industry	333	R G Mauldon
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1984	Certain Nitrogenous Fertilizers (Anti-dumping)	337	M H Codd
1984	Computer Hardware and Software; Typewriters, Calculating and Other Office Machines; Parts and Accessories; Recording Media, Metal Working Machine Tools, Robots	338	M H Codd
1984	Certain Consumer Electronic Equipment and Components	339	D L McBride
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1984	Interim Report: Tableware and Other Goods of Ceramics	341	J L Sheaffer
1984	Injection Moulding Machines and Parts	342	J L Sheaffer
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1984	The Demand for Heavy Engineering Products in Australia: Annexure to IAC Interim Report 354 - The Heavy Engineering Industry	354A	W B Carmichael
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1986	Harmonization of the Customs Tariff	381 Vols. 1-3	J R W Hunt
1986	Pharmaceutical Products	382	G F Johnson
1986	Certain Fluorescent Lamps (Tubes) from the Federal Republic of Germany and Canada (Anti-dumping)	383	A W Mumme
1986	Report on Vegetables and Vegetable Products	384	R G Mauldon
1986	Luggage, Handbags and Similar Containers	385	J G Carey
1986	The Textile, Clothing and Footwear Industries	386 Vols. 1-3	D L McBride
1986	Outboard Engines	387	J C McColl
1986	Certain Knife Blades and Cutlery Blanks (Concessional Arrangements)	388	A W Mumme
1986	Aluminised Steel for Use in Muffler Components and Exhaust Systems (Concessional Arrangements)	389	A W Mumme

1986	The Chemicals and Plastics Industries	390 Vols. 1 & 2	G F Johnson
1986	Cultivation Machinery	391	R G Mauldon
1986	Certain Aircraft Parts and Servicing Equipment (Concessional Arrangements)	392	A W Mumme
1986	Crop and Rainfall Insurance	393	D L McBride
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1987	Pulp, Paper, Paper Products and Printing Industries	401	R G Mauldon
1987	Medical and Scientific Equipment. Measuring, Professional and Scientific Equipment. Appliances and Parts, and Medical, Dental, and Veterinary Equipment	402	J C McColl & D L McBride
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1988	Coastal Shipping	415 Parts A-C	A W Mumme
1989	Commercial Tariff Concessions (PVC Foam Blocks and DC Electric Motors)	416	G F Taylor
1989	Food Processing and Beverages Industries: Interim Report on Government Regulation of Packaging and Labelling	417	G F Taylor
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1989	Sodium Carbonate (Soda Ash)	419	M L Parker
1989	The Dried Vine Fruits Industry	420	J G Carey
1989	Concessional Entry of Aluminium Steel for Use in Mufflers and Exhaust Systems	421	D L McBride
1989	Government (Non-tax) Charges	422 Vols. 1-4	J G Carey
1989	Travel and Tourism	423	D L McBride

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1989
1990

Industry Commission - Inquiry Reports

Publication year	Title of inquiry report	Number of report	Presiding Commissioner (as identified on report)
1990	Pulp and Paper: Bleaching and the Environment	1	ML Parker
1990	Interim Report: Paper Recycling	2	ML Parker
1990	Aids and Appliances for People with Disabilities	3	AS Cole
1990	Product Liability	4	ML Parker
1990	The Automotive Industry	5	AS Cole
1991	Recycling	6	ML Parker
1991	Mining and Minerals Processing in Australia	7	D McBride
1991	Construction Costs of Major Projects	8	ML Parker
1991	The Commercial Tariff Concession and By-law Systems	9	Gary R Banks
1991	Statutory Marketing Arrangements for Primary Products	10	R G Mauldon
1991	Energy Generation and Distribution	11	K J Horton-Stephens
1991	Exports of Education Services	12	A C Harris
1991	Rail Transport	13	A C Harris
1991	Australian Dairy Industry	14	DL McBride
1991	Costs and Benefits of Reducing Greenhouse Gas Emissions	15	GR Banks
1991	Exports of Health Services	16	Roger G Mauldon
1992	Cost Recovery for Managing Fisheries	17	T J Hundloe
1991	Availability of Capital	18	Gary Banks
1992	The Australian Sugar Industry	19	Roger Mauldon
1992	National Procurement Development Program	20	ML Parker
1992	Raw Material Pricing for Domestic Use	21	Keith J Horton-Stephens
1992	Review of Overseas Export Enhancement Measures	22	Keith J Horton-Stephens
1992	Commercial Restrictions on Exporting (Including Franchising)	23	ML Parker
1992	The Australian Horticultural Corporation: Effectiveness in Increasing International Competitiveness	24	R G Mauldon
1992	Intrastate Aviation	25	Gary Banks
1992	Water Resources and Waste Water Disposal	26	ML Parker
1992	Book Production	27	Tor Hundloe
1992	Mail, Courier and Parcel Services	28	Keith J Horton-Stephens
1993	Horticulture	29	R G Mauldon
1993	Taxation and Financial Policy Impacts on Urban Settlement	30	Gary Banks
1993	Port Authority Services and Activities	31	Roger G Mauldon
1993	Adding Further Value to Australia's Forest Products	32	Bill Scales
1993	Environmental Waste Management Equipment, Systems and Services	33	Tor Hundloe

1993	Public Housing	34	M L Parker
1993	Impediments to Regional Industry Adjustment	35	Gary Banks
1994	Workers' Compensation in Australia	36	Helen Owens
1994	Urban Transport	37	Keith J Horton-Stephens
1994	Meat Processing	38	Roger Mauldon
1994	The Tobacco Growing and Manufacturing Industries	39	Tor Hundloe
1994	Petroleum Products	40	Max Parker
1994	Defence Procurement	41	Keith J Horton-Stephens
1995	New and Advanced Materials	42	Tor Hundloe
1995	Vehicle and Recreational Marine Craft Repair and Insurance Industries	43	M L Parker
1995	Research and Development	44	Gary Banks
1995	Charitable Organisations in Australia	45	W I Scales AO
1995	Computer Hardware, Software and Related Service Industries	46	Max Parker
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1996	Competitive Tendering and Contracting by Public Sector Agencies	48	Keith J Horton-Stephens
1996	Packaging and Labelling	49	Nicholas Gruen
1996	Tourism, Accommodation and Training	50	Tor Hundloe
1996	The Pharmaceutical Industry	51	Helen Owens
1996	The Machine Tools and Robotics Industry	52	Maurice Joyce
1996	Implications for Australia of Firms Locating Offshore	53	Gary Banks
1996	Book Printing	54	Tor Hundloe
1997	State, Territory and Local Government Assistance to Industry	55	W I Scales
1996	Medical and Scientific Equipment Industries	56	Jeffrey Rae
1997	Private Health Insurance	57	Gary Banks
1997	The Automotive Industry	58	W I Scales AO
1997	The Textiles, Clothing and Footwear Industries	59	John Cosgrove
1998	A Full Repairing Lease: Inquiry into Ecologically Sustainable Land Management	60	Jeffrey Rae
1998	Telecommunications Equipment, Systems and Services	61	Gary Banks

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Publication year	Title of inquiry report	Number of report	Presiding Commissioner (as identified on report)
1998	The Australian Black Coal Industry	1	John Cosgrove
1998	International Air Services	2	Richard Snape
1998	Pig and Pigeon Industries: Safeguard Action against Imports	3	Richard Snape
1999	Nursing Home Subsidies	4	Mike Woods
1999	Implementation of Ecologically Sustainable Development by Commonwealth Departments and Agencies	5	Neil Byron
1999	Progress in Rail Reform	6	Helen Owens
1999	Progress in Rail Reform: Supplement to Inquiry Report: An Assessment of the Performance of Australian Railways, 1990 to 1998	6 Supplement	Helen Owens
1999	International Telecommunications Market Regulation	7	Mike Woods
1999	Impact of Competition Policy Reforms on Rural and Regional Australia	8	John Cosgrove
1999	Impact of Competition Policy Reforms on Rural and Regional Australia: Supplement to Inquiry Report: Modelling the Regional Impacts of National Competition Policy Reforms	8 Supplement	John Cosgrove
1999	International Liner Cargo Shipping: a Review of Part X of the <i>Trade Practices Act 1974</i>	9	Neil Byron
1999	Australia's Gambling Industries	10	Gary Banks
2000	Broadcasting	11	Richard Snape
2000	Review of Australia's General Tariff Arrangements	12	John Cosgrove
2000	Review of Australia's General Tariff Arrangements: Supplement to Inquiry Report: Modelling the Effects of Removing General Tariffs	12 Supplement	John Cosgrove
2000	Review of Legislation Regulating the Architectural Profession	13	Judith Sloan
2001	Review of the <i>Prices Surveillance Act 1983</i>	14	Neil Byron
2001	Cost Recovery by Government Agencies	15	Helen Owens
2001	Telecommunications Competition Regulation	16	Mike Woods
2001	Review of the National Access Regime	17	Gary Banks
2001	Review of the <i>Superannuation Industry (Supervision) Act 1993</i> and Certain Other Superannuation Legislation	18	John Cosgrove
2002	Price Regulation of Airport Services	19	Richard Snape
2002	Citrus Growing and Processing	20	John Cosgrove
2002	Independent Review of Job Network	21	Mike Woods
2002	Radiocommunications	22	David Robertson
2002	Review of Section 2D of the <i>Trade Practices Act 1974</i> : Local Government Exemptions	23	Helen Owens
2002	Economic Regulation of Harbour Towing and Related Services	24	A M Hinton
2002	Review of Automotive Assistance	25	Gary Banks

E

HISTORY OF ASSISTANCE
TEXTILES, CLOTHING
AND FOOTWEAR
AUTOMOTIVE

E

History of assistance to two sectors: The textiles, clothing and footwear, and automotive industries

This appendix sets out a brief history of assistance to the textiles, clothing and footwear industries (from 1969) and the automotive industry (from 1960).

Table E.1 Assistance to the textiles, clothing and footwear industries

<i>Year</i>	<i>Event</i>
1969	Temporary quantitative restrictions on all knitted shirts and outer garments. They were removed after one month, but reapplied two years later for 18 months.
1971	Negotiations with foreign low cost suppliers of clothing for 'voluntary' export restrictions.
1972	Tariff quotas introduced on a selection of intermediate and final goods.
1974	Import licensing reintroduced on imports from Taiwan. Voluntary Restraint Arrangements negotiated with Hong Kong, South Korea, India and China. Australia became member of first Multifibre Arrangement.
1975	Country-specific quotas imposed.
1976	Non-discriminatory global quotas imposed.
1977	IAC TCF inquiry. Three-year industry program announced.
1978	Tariff quotas introduced on a range of hosiery, knitted underwear and sleepwear.
1979	Tariff quotas introduced on certain fabrics. One-year extension to the three-year assistance program for TCF industries announced.
1980	IAC TCF inquiry. Seven-year program of assistance for TCF industries announced. Sale of quota entitlements above base quota announced.
1981	The TCF Advisory Committee (replacing TCF Review Committee) established.
1982	Bounty assistance to local production of most yarns commenced. Start of seven year plan.
1986	IAC TCF inquiry. Preliminary details of TCF Industry Plan — the Button Plan — announced in response to IAC report.
1988	Textile Clothing and Footwear Development Authority established. Changes to 1987 Plan announced as part of May Economic Statement. Changes included: the sunset for quotas brought forward by six months to 1995; and a five percentage point reduction in previously announced 1996 tariff levels.

Table E.1 continued

<i>Year</i>	<i>Event</i>
1991	Changes to the 1987 TCF Plan announced as part of May Industry Statement. Import Credit Scheme introduced.
1992	Further changes in tariff cuts, quota elimination brought forward to 1993.
1993	Further changes to the 1987 TCF Plan announced in the July Industry Statement. TCF quotas abolished.
1995	Overseas Assembly Provisions Program introduced.
1997	Remaining bounties phased out.
1999	Productivity Commission TCF report recommended a program of phased reductions to 5 per cent by July 2008 without pause from July 2001, policy by-laws to be terminated as of July 2008, Overseas Assembly Provisions Scheme to be extended, a program of adjustment assistance to be implemented.
2000	Expanded Overseas Assembly Provisions Scheme was rolled over in June, scheduled to end in 2005.
2002	In July further reductions in TCF tariffs were put on hold until January 2005. Several smaller grant schemes (part of the post-2000 package) were terminated. Strategic Investment Program introduced with funding capped at \$700 million. In January 2005, items at 25 per cent to be reduced to 17.5 per cent, those at 15 to 10 per cent and those at 10 to 7.5 per cent.
2002	Productivity Commission asked to review post-2005 assistance arrangements.

Sources: IC (1997b); PC (2003c).

Table E.2 Assistance to the automotive industry

<i>Year</i>	<i>Event</i>
1960	The Government abolished import licence controls.
1964	The Government announced the first Motor Vehicle Manufacturing Plan (plan) in May 1964.
1965	The first plan became effective in January 1965 and consisted of three levels which linked the required amount of local content in Australian produced vehicles to the size of the models' production volumes. Once the required volume was met, the remaining content received duty free entry under by-law. Level A required 95 per cent local content. Level B1 and B2 were interim arrangements, pending the Government's decision on the Tariff Board's 1965 report, which required lower levels of local content for models with smaller production volumes.
1966	The plan was accompanied by the Car Component Manufacturing Programs. Under these programs certain components which met a minimum specified local content (usually 85 per cent) were deemed to have 100 per cent local content when used by a vehicle producer under the plan.
1966	Following the Government's consideration of the Tariff Board's 1965 report level B1 and B2 were replaced by three small volume provisions.
	The tariff rate on PMVs was increased from 35 per cent to 45 per cent.

Table E.2 continued

<i>Year</i>	<i>Event</i>
1968	The Government introduced a local content level of 85 per cent for vehicles with production volumes below 25 000.
1971	The Government announced that the 45 per cent, 50 per cent and 60 per cent local content levels would be phased out by the end of 1974 and that the 85 per cent and 95 per cent local content levels would continue until 1979.
1973	The Government sent a reference to the Tariff Board to report on assistance to the industry. The Government announced a 25 per cent tariff reduction across-the-board reducing the tariff rate on PMVs from 45 per cent to 33.75 per cent, the tariff rate on LCVs and 4WDs from 35 per cent to 26 per cent.
1974	In its 1974 report the IAC recommended that the automotive industry be assisted by a tariff-only regime which should be set at 25 per cent in the long term. The Government introduced a trigger tariff mechanism which increased from 35 per cent to 45 per cent for completely built up (CBU) vehicles when the import share of the PMV market exceeded 20 per cent.
1975	After consideration of the IAC's 1974 report, the Government introduced a new plan which replaced the three small volume provisions and the 85 per cent and 95 per cent local content levels. The new plan, scheduled to run until the end of 1984, required that 85 per cent local content be achieved on a company weighted average basis. The Government also introduced the 80/20 market sharing policy (using import quotas), restricting the import share of the PMV market to 20 per cent. PMV derivatives and LCVs were also subject to import quotas from February 1975 to March 1976. The tariff rate on many components was standardised at 25 per cent and tariff quotas were imposed on completely knocked down (CKD) vehicle packs.
1976	The Government introduced a revised plan in September 1976 after consideration of the IAC's 1975 report. The revision allowed participants in the plan to phase into the 85 per cent local content level. Import quotas on CBU PMVs, LCVs and CKD vehicle packs were removed. The tariff rate on LCVs was increased to 35 per cent and the tariff rate on 4WDs was reduced to 25 per cent. The tariff rate on CKD vehicle packs was to be phased up to 35 per cent by December 1976 and tariff quotas on CKD vehicle packs were removed.
1977	The Government re-imposed import quotas on CBU PMVs.
1978	The tariff rate on 4WDs was reduced to 22.5 per cent and the tariff rate on PMVs was increased to 57.5 per cent. The Car Component Manufacturing Programs which accompanied earlier local content plans were phased out by 1978.
1979	The Government announced the introduction of export facilitation measures for vehicle producers into the plan in February 1979, and sent references to the IAC to report on the details of an Export Facilitation Scheme (EFS) and to report on assistance measures post 1984.

Table E.2 **continued**

<i>Year</i>	<i>Event</i>
1981	The Government announced that the EFS would be extended to include component producers under specialist component producer provisions. The IAC released its report on post 1984 assistance arrangements for the automotive industry and the Government announced a new plan for the automotive industry.
1982	Export facilitation measures became effective in March 1982. Export facilitation measures allowed vehicle producers to reduce the level of local content in their vehicles below 85 per cent, conditional on their export performance.
1983	The Government sent a reference to the IAC to report on substitution between PMVs and LCVs. The IAC released its report in December 1983. An industry sponsored and administered Component Commonisation Scheme commenced, which aimed to standardise component specifications. The Government established the Car Industry Council to provide advice on post-1984 assistance arrangements. The council reported in December 1983.
1984	The Government announced a new plan in May 1984, scheduled to run until 1992.
1985	The new plan (commonly referred to as the Button Car Plan) became effective in January 1985. Tariff quotas were introduced to replace import quotas and set at around 22 per cent of the export PMV market each year with a penalty duty of 100 per cent for out-of-quota imports. The intention was to phase the penalty duty down to 57.5 per cent by 1992, equal to the general tariff for imports inside the quota, rendering tariff quotas redundant. The 85 per cent local content scheme was retained. Under the local content scheme vehicle producers were able to import duty free vehicles and/or components worth up to 15 per cent of the value of their production, if they sourced locally, at least 85 per cent of the value of the vehicles they produced. Imports in excess of the 15 per cent were penalised by a progressively higher duty the longer a vehicle producer failed to comply with the scheme. The export facilitation scheme was broadened. Restrictions limiting the use of export credits to the importation of components were removed to allow the importation of CBU vehicles, the definition of eligible exports was amended to allow substantially similar goods to qualify, and vehicle producers were allowed to participate in the special component producers' export facilitation provisions. Labour Adjustment Training Arrangements (LATA) were put in place. Vehicle producers and component producers were to be designated for the purposes of the LATA, which provided retraining assistance to retrenched workers. The Component Development Grants Scheme was established and allocated \$150 million. The Automotive Industry Authority (AIA) was established and allocated \$150 million over five years to report annually on the industry's performance and outlook and to perform certain advisory and administrative functions in relation to the plan.
1986	The Government introduced penalties for low volume production. To receive the full 15 per cent duty free entitlement under the local content scheme, vehicle producers had to reach production volumes of at least 30 000 units per year, per model.

Table E.2 continued

<i>Year</i>	<i>Event</i>
1987	The export facilitation scheme was extended to include vehicle importers and the upper limit of the scheme was increased to 15 per cent.
1988	Following a mid-term review of the 1984 plan, import quotas were abolished in April 1988 and the tariff rate on PMVs was reduced to 45 per cent and scheduled to fall 2.5 per cent per year until 1992. Tariff rates on LCVs and 4WDs were reduced to 20 per cent. The limits on vehicle producers and component manufacturers to earn export credits under the export facilitation scheme were increased, and the vehicle importers scheme was extended for two years beyond 1992 (as originally scheduled). It was announced that the local content scheme would be abolished in January 1989.
1989	The local content scheme was abolished in January 1989 and replaced with a dual tariff arrangement which aligned tariff rates on OE components to the tariff rate on PMVs. The Component Commonisation Program, an industry self help program supported by the Government, ceased.
1990	The Government sent a reference to the Industry Commission to report on assistance arrangements to the industry from 1993 to 2000.
1991	Following the release of the IC's 1990 report, the Government announced new assistance arrangements for the industry to 2000. Scheduled tariff rate reductions and access to the 15 per cent duty-free entitlement were continued. Penalties for low volume production were continued but set to expire in December 1996 and LATA was replaced by the Labour Adjustment Package. Export facilitation arrangements were expanded and made more flexible and market oriented. Export value base year hurdles were abolished, export credits were to be earned on value added in local content instead of full local content value, upper limits on earning export credits were abolished, restrictions on the sale and transfer of export credits were abolished and the definitions of eligible imports and exports were broadened.
1992	Tariff rates on LCVs and 4WDs were reduced to 15 per cent and tariff rates on replacement components for PMVs and derivative PMVs were maintained at 15 per cent from 1992 to 2000. The Government introduced a specific tariff of \$12 000 per vehicles, in addition to the ad valorem tariffs on new vehicles, for high volume importation of second hand vehicles.
1994	The AIA was abolished in July 1994 and its functions taken over by the Department of Industry Science and Technology.
1996	The Government sent a reference to the IC to report on the assistance arrangements for the industry from 2000. Penalties for low volume production were discontinued. The tariff rate on LCVs and 4WDs was reduced to 5 per cent where it was scheduled to remain until 2000.
1997	IC report on the automotive industry (post-2000) released.

Table E.2 **continued**

<i>Year</i>	<i>Event</i>
2001	Commencing January, the Government's post-2000 assistance arrangements consisted of a 15 per cent tariff on PMVs and replacement components, to decline to 10 per cent in 2005, and the introduction of an Automotive Competitiveness and Investment Scheme (ACIS).
2002	<p>August: Productivity Commission report on post-2005 assistance – preferred option on PMVs and components was to leave the tariff at 10 per cent until 2010 and then reduce it in one step to 5 per cent, with no further reductions until 2015. ACIS to continue with a preferred option of up to \$2 billion funding provided over five years, plus continuation of the policy by-law arrangement for vehicle producers worth an estimated \$800 million.</p> <p>December: With tariffs to be reduced from 15 to 10 per cent in 2005, the Government announced a post-2005 automotive package: tariffs to decline from 10 to 5 per cent in 2010; \$4.2 billion of budgetary assistance to be provided through ACIS over 10 years.</p>
Sources: IC (1997a); PC (2002h).	

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