



## Structural Reform in the Australian Transport Industry

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### Abstract:

In the early 1980's there was an emerging consensus that government intervention in Australian industry was seriously flawed. Regulation of markets and mis-direction of government business enterprises were blamed for hampering Australia's economic progress. Nowhere were these problems deeper than in the transport sector

There has since been appreciable progress in the liberalisation of markets and the reform of institutional arrangements applying to government business enterprises in the transport sector. Nevertheless unfettered market processes are not the predominant means of allocating resources in this sector and government interventions continue to exact a heavy toll. The reform task requires more effort.

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## **Introduction**

In the closing years of the 1980s a policy consensus had developed that if Australia was to realise its economic potential, macro-economic policy needed to be supplemented by a sustained process of micro-economic reform. This term had been in vogue for some time amongst a small coterie of economists and policy advisers. By the time of the March 1990 Federal election it had become a rallying cry of both major political parties and was common currency in any media discussion of Australia's economic prospects.

The term micro-economic reform has come to apply to a wide range of issues which involve scrutiny of the way in which individual businesses and industries respond to the market, the regulatory environment in which they operate, and the impediments which they face in so doing. Governments have, of course, long taken responsibility for macro-economic policy and have acted upon interest rates, aggregate wage outcomes, exchange rates, money supply and so on in order to influence economic performance. However, many sections of the Australian economy have been very sluggish to respond and it was felt that the many of the reasons for this were to be found in misdirected government interventions at the micro-economic level. A large number of institutional and regulatory factors were dampening the workings of markets and constraining opportunities to achieve maximum efficiency and effectiveness of economic activity.

Allied to this was an ever growing impatience with the evident inefficiencies of many of our large government business enterprises. Some observers felt that these problems could be solved simply by employing better managers. Others felt that privatisation was needed. There was also an emerging school of thought advocating reforms based on economic analysis of the contracting between and within organisations. According to this third school, most of the critical "drivers" of good management (whether in private or public sector enterprises) were again to be found in market structures. This view was supported by observations of experience in other countries as described for example by Deane (1989). The worst combination of circumstances, from the point of view of good management, was held to be a management without any clear commercial objective operating in an uncontested market framework. Many government owned transport providers in Australia over the last thirty years have been in this category.

Interest in micro-economic reform was not of course confined to the transport sector, but this sector did become a symbol for the whole debate and it has remained a barometer of progress.

This paper discusses the nature of and progress so far in micro-economic reform in the transport sector. We do however wish to leave behind the somewhat general epithet of micro-economic reform. Analysis of the problems leads more specifically to a recognition of the need to reform particular **structures** - including both institutional and market structures. We will therefore use the term structural reform.

## What is structural reform?

Structural reform means reform of both institutions and markets. Institutional reform is basically aimed at improving **productive** economic efficiency, ie reducing the cost of producing any given set of outputs. Market reform is aimed at improving **allocative** and **dynamic** economic efficiency, ie the production of goods and services which meet consumer desires and which adapt to changing technological possibilities and consumer budgets and preferences.

The distinction between institutional and market reform is for presentational purposes only. It does not gainsay the complementarity of the two streams of reform - market reforms are sought as a critical and continuing control mechanism over the technical efficiency of organisations, long after the first flush of organisational reform has faded.

## Institutional reform

Institutional reform of Government business enterprises may be conveniently packaged into three levels of change:

- commercialisation
- corporatisation
- privatisation.

Each of these successive levels of reform is more radical, but not intrinsically better. The most appropriate solution for any organisation will depend upon a wide range of economic and financial factors which need to be analysed in depth for specific organisations; it will also depend on the market environment (which again highlights the complementarity of institutional and market reform).

## Commercialisation

Commercialisation occurs when, without substantial change in corporate structure or ownership, a government business enterprise seeks a quantum improvement in its productive economic efficiency. Government support is a prerequisite for this (as well as other forms of institutional reforms). Commercialisation requires targeting of much higher levels of productivity which in turn invariably involves more flexible work practices, greater concentration on core business activities with greater use of contracting out, and a reduced work-force. Government support is usually necessary in two forms: money to fund redundancy payouts and "backbone" to give resolute support to management in what is often a heavily-charged industrial atmosphere.

Because of the critical importance of government support, commercialisation tends to occur when a government changes rather than when a management changes. Although managements are often held responsible for the uncommercial practices, governments should usually shoulder the greatest proportion of blame for poor performance of government business enterprises. "Bad" managements have

usually been conditioned to a series of government decisions and interventions which have sent messages to management that inefficiency will be funded, that a key attribute of good investment is public visibility, that accommodating union requirements is a primary business objective, and that short term disruption of services to the public is too high a price to pay for any long term gain. Just as it is remarked that dogs and their owners look alike, the managers of government business enterprises - whatever their inherent skills and experience - soon come to resemble their owners in terms of their commitment or otherwise to efficient outcomes.

Another aspect of commercialisation is a desire to increase cost recovery levels. However, in the early stages of commercialisation, there is an understandable reluctance by governments to allow organisations, which government itself has claimed to be inefficient, to improve financial performance by simply raising prices. This is particularly so where the organisations have some degree of market power.

### Corporatisation

While all government business enterprises can attempt to become more commercially oriented, corporatisation is a more formal mechanism to try to make a government business enterprise subject to the same structure of accountability and incentives as a private sector organisation (New South Wales Steering Committee on Government Trading Enterprises (1988)). The precise conditions under which businesses may be corporatised will depend on specific State or Commonwealth legislation. The New South Wales legislation (State Owned Corporations Act 1989) for example follows the New Zealand approach of implementing four main institutional reforms (as well as market reforms discussed later). The institutional reforms are to achieve:

- a clear commercial objective as a focus for management effort: the objectives should be to maximise shareholder value
- Board and managerial authority to achieve the objective: the Board must consist of Directors chosen for their specific commercial skills and experience and not as delegates of various community, union and political interests
- rigorous external monitoring of the performance of the organisation and its management in meeting the objective
- performance-based incentives for management and the Board to achieve the objective.

To put these conditions in place is by no means straightforward for a traditional government enterprise. Although it requires the commercialisation initiatives described in the previous section, its essence is the creation of an institutional structure which will continue to deliver productive efficiency over a long period. Corporatisation is intended to replace permanently an essentially political proprietorship with a commercial proprietorship.

Corporatisation has adherents in all political parties but in practice, the "arm's length" relationship between a government and a government business enterprise can look much less attractive to the ministers involved when seen from close up. It means greatly reducing their power to influence the day-to-day conduct of

businesses that may decide to do unpopular things for which the public, unversed in (or unimpressed by) the theories of economic rationalism, may hold ministers directly responsible.

### Privatisation

Supporters of privatisation believe that the conflict between a government's political imperatives and the commercial objectives of even a corporatised entity means that the corporatisation structure is inherently unstable and bound eventually to be seriously diluted. They believe that corporatisation is not an alternative to, but a stepping stone to privatisation.

Privatisation means selling all or part of an enterprise either to another company in the industry (a trade sale) or to individual or institutional shareholders (a share flotation). Privatisation is clearly the most direct route to maximising and sustaining the commercial focus of an organisation. Naturally it can also be prompted by other considerations including a boost to government revenue from asset sales, an influx of commercial expertise from a buyer company, or operating/marketing synergies from a joint venture or merger with a purchasing company.

### Market reform

The second main part of structural reform is market reform which, as noted earlier, is aimed at achieving allocative and dynamic economic efficiency (as opposed to productive efficiency). However market reform is complementary to institutional reform as market processes can provide the most telling incentives for an organisation to achieve productive efficiency.

Some of the key ideas associated with market reform are:

- removal of regulatory impediments to competition other than on safety or other, rigorously established public interest grounds
- the setting of prices and outputs in accordance with the pressures of a competitive or contestable market
- an equivalent set of commercial and regulatory conditions applying to the different service providers in any market, whether publicly or privately owned. This condition is referred to as competitive neutrality and requires corporatisation of publicly owned competitors as a minimum.

These ideas have been explored in the contemporary Australian context by Logan et al (1989).

Market reform is a much more sophisticated challenge than implied by the much over-simplified regulation/deregulation debate. While contestability is a good thing from an economic viewpoint, economies of scale in an industry, or other barriers to entry and exit, can greatly diminish contestability as a control on market power even when formal entry controls are removed. Regulatory review is therefore an essential part of structural reform and regulatory frameworks need to be designed for the specific circumstances of the industry in question. Regulatory

intervention however should be no heavier than required to meet the explicit market deficiency which it is intended to address and should be demonstrably cost effective in meeting that objective.

The concept of Community Service Obligations (CSOs) is important in the structural reform of both institutions and markets. At the institutional level it helps to maintain a clear distinction between the commercial responsibilities of an organisation and the social requirements of governments. At the market level it is important wherever possible to allow different suppliers to tender for the contract to undertake services sought by government as CSOs. Without competition for CSO contracts there will inevitably be extensive negotiations between governments and government business enterprises about what activities constitute a CSO and what they cost. Where there is only one buyer and one seller of CSOs, disputes arise about matters such as candidate CSOs, costing methodology, the impact of joint products and appropriate rates of return on capital. By contrast, obtaining tender prices from competitive suppliers for a service defined by the buyer (and not the seller) is a much cleaner process.

## Summary

Against this background we now briefly review the structural reform which has occurred in the main sections of the transport industry, drawing principally from Minister for Transport and Communications (1988, 1989), Department of Transport and Communications (1990) and Economic Planning Advisory Council (1990). We deal in turn with:

- air transport
- sea transport
- long distance rail transport
- long distance road transport
- urban public transport.

## Air Transport

Air transport can be divided into four sectors, namely:

- airways
- airports
- domestic aviation
- international aviation.

## Airways

Flight information, air navigation, air traffic control and aviation safety promotion services formerly provided by the Federal Department of Transport and

Communications are now provided by the Civil Aviation Authority (CAA), a commercialised State owned enterprise.

Commercialisation has led to the phasing out of some CAA activities and major reductions in the number of staff. The CAA has also invested in new generation centralised air navigation infrastructure facilities. It is seeking to optimise the use of airspace (and the new facilities) by passing on to users, through airways charges, the benefits of CAA's increased productive efficiency. The CAA is also seeking to redefine aviation safety requirements, recognising that the existing requirements are extremely strict by world standards and that this adds to air transport costs.

Policy analysts and commentators have given scant attention to the CAA's regulatory environment, structural configuration or market behaviour. As a topic for inquiry and debate, this has been eclipsed by airline/airport industry regulatory reform (see below). Questions which may repay examination in future are:

- Does the CAA have so much market power in its dealings with the airlines that some form of regulatory intervention is justified, or do the airlines have adequate countervailing market power?
- The CAA has played a major role in developing price and non-price mechanisms for rationing Sydney's congested peak period airspace. Has the CAA's contribution in this area been consistent with its commercial charter and existing regulatory framework, and has it promoted allocative efficiency?
- Does the CAA's charging structure generally promote efficient use of resources over time?

## Airports

Major airports in Australia were corporatised under the banner of the Federal Airports Corporation (FAC) in 1988. The Corporation operates the primary and secondary airports in capital cities as well as Coolangatta and Launceston (17 airports in all).

While the FAC appears to have achieved an improvement in the management and operation of airports, the overall degree of structural change in the market has been extremely limited.

Although all airports were intended to be individual profit centres the great majority make losses with only Sydney, and to a lesser extent Melbourne and Coolangatta, performing near to a commercial standard. Apart from peak movement charges in Sydney, airport landing charges remain the same at all FAC airports for similar aircraft irrespective of the utilisation or cost structure of the airport.

Common ownership of so many airports by one authority encourages cross-subsidisation and does not appear to be justified by economies of scale in owning large numbers of airports (airport economies of scale exist but within an individual airport). Common ownership also stifles any competition between airports which would otherwise be possible in some circumstances. Arguments exist both for some separation of ownership and privatisation initiatives, the latter subject to appropriate regulatory review.

## Domestic aviation

Domestic aviation has been "deregulated" since 1990. This has resulted, as predicted, in greater fare competition and a concerted pursuit of productivity improvements by incumbent and new airlines.

Market reform was however only partial. Barriers to the entry and successful operation of new airlines were put in place by the government in providing long-term leases of prime terminal space to the incumbent airlines with minimal requirements to make space available to other airlines. Further, the only two airlines in the region with anything like equivalent market power to the incumbent domestic airlines (Qantas and Air New Zealand), were excluded from contesting the domestic market. A third significant airline, East-West, was taken over by Ansett prior to deregulation.

Australian Airlines is to be privatised with preference in the first instance to a trade investor. This is likely to be an overseas international airline; Qantas will not be allowed to purchase a stake in Australian. This seems a strange situation given a high degree of agreement that in the long-term the region will not be able to sustain the current number of major airline players. It appears to arise out of a conflict between market reforms and specific privatisation policies in the international and domestic arenas.

## International aviation

There has been little structural reform in international aviation in the 1980s. Services to and from Australia continue to be conducted under bilateral intergovernment agreements, although since mid 1989 increased emphasis has been given to improving tourism and trade when negotiating these agreements.

Prompted perhaps by the move to free trade in aviation services within Europe, there has been a joint Australian and New Zealand Government study of the costs and benefits of forming a single Australasian aviation market (BTCE & Jarden Morgan (1991)). However, the Australian Government has subsequently announced that there will be a stable policy environment for aviation at least for the remainder of the present Parliament. Qantas is to remain Australia's single designated passenger carrier for the foreseeable future.

The undertakings regarding the future aviation policy environment will increase the proceeds from the impending airline privatisations. The partial privatisation of Qantas may have negative implications for market reform, but it does have the potential to bring greater commercial discipline to Qantas. The sale may also enhance the airline's ability to compete in the international market, where a carrier's size and its associations with other airlines are major determinants of success. However, these positive impacts will be dampened by the structural rigidity that is imposed on the Australian domestic and international aviation markets by ownership restrictions and the single designation policy, as well as any non-commercial influences arising from the Government's controlling shareholding in Qantas.

## Sea transport

Sea transport can be divided into:

- port authority reform
- stevedoring industry/waterfront reform
- coastal shipping
- international shipping

### Port authority reform

[In its March 1989 report on waterfront reform, the Inter-State Commission (ISC) recommended that port authorities be commercialised, reform their pricing structures, and review their leasing and licensing arrangements to promote maximum practical competition.] At subsequent Commonwealth-State Ministerial meetings State and Territory representatives agreed to develop and announce separate plans and timetables for port authority reforms in line with the ISC's recommendations

Overall progress in the commercialisation of port authorities has been slow. New South Wales is the frontrunner, with its Maritime Services Board achieving impressive gains in productive efficiency. Port authority pricing reform is being pursued nationally, but it is too early to see any gains in allocative and dynamic efficiency due to commercially inspired pricing and investment decisions. Each port authority, while appearing to have considerable market power, is disciplined to some extent by large users' countervailing power and by the threat of external regulation. Cross subsidies from bulk to non-bulk shippers have been eliminated. Cross subsidies within port groups such as the Maritime Services Board (Sydney, Illawarra and Hunter ports) are being phased out.

As with airports, leasing and licensing arrangements for the provision of common-user sea terminal facilities tend to be incompatible with strong competition in the user industry. Nevertheless economies of scale often favour the provision of common-user terminal facilities. There is no clear regulatory framework governing investment in such facilities or user access rights. The uncertainty of the regulatory environment could lead to underinvestment in common-user facilities, although at present this does not appear to be a major problem.

### Waterfront reform

[Under an In-Principle Agreement between the Federal Government, stevedoring employers and unions and the ACTU, ratified in October 1989, the stevedoring industry is being reformed by:

- replacing the traditional industry employment system with enterprise based employment, ]

- rationalising industry awards to enable the development of a multi-skilled workforce that can be more flexibly deployed (with fewer demarcation disputes), and
- enticing 3,000 older workers to leave the industry, and recruiting and training 1,000 replacement workers, at a cost to taxpayers of \$154 million over 3 years.

Two major enterprise agreements had been negotiated by early 1991, notwithstanding major difficulties in the negotiating process. However it has taken longer than planned to negotiate and conclude a new stevedoring industry award. In June 1991 the Industrial Relations Commission declined to endorse a wage and productivity package agreed by the Federal Government, waterfront employers and unions because elements of the package were outside the current national wage guidelines. On the redeployment front some 280 surplus gangway watchmen have left the industry, but the intended large scale movement of older workers out of the industry has yet to commence.

Progress to date has been slower than the Government planned. The target increase in productivity is less than that achieved in the waterfront industries of the United Kingdom or New Zealand. Moreover the average redundancy payments per worker offered in Australia are higher than in those two countries. There are serious concerns that productivity improvements in container terminals will not flow through to lower prices for users. On a positive note, the Australian results have been achieved without provoking large scale strikes, true to the Federal Government's ideals of avoiding confrontation and "harnessing business, trade unions and governments in a co-operative pursuit of their common interest" (Prime Minister (1990)).

### Coastal and trans-Tasman shipping

The coastal trade is reserved for ships receiving no foreign government subsidies and whose crews are paid Australian wage rates while working in the coastal trade. There is also a ship licence fee, and ships must comply with prescribed safety and other requirements. Permits can be issued for transport by unlicensed ships when no licensed ship is available and use of an unlicensed vessel is deemed to be in the public interest.

Australian flag ships qualify for a 7 percent capital grant and accelerated depreciation if they adhere to crewing levels established by the Maritime Industry Development Committee (typically 21 crew members per ship). The average crewing level of Australian ships was 33 in 1984, is now about 25, and is expected to be reduced to the average OECD level of 21 by 1992. Under existing legislation the ships capital grants scheme will continue until 1997.

Coastal shipping accounts for some 90 billion tonne kilometres a year, or about half the annual non-urban domestic freight task. The continuing heavy protection of Australian flag shipping in the coastal trades therefore imposes a major cost disability on Australian industry.

A review of trans-Tasman shipping in the late 1980s failed to produce any reform initiatives. This trade is effectively reserved, by action of their union movements, for Australian and New Zealand vessels. The Australian and New Zealand Governments have adopted the common objective of reducing costs to at

least OECD levels by mid 1992. To this end, cost, freight rates and service levels are to be constantly monitored by government officials. However it is difficult to see real improvement being sustainable unless the unofficial cartel is ended.

### International shipping

During the 1980s non-Conference shipowners increased their share of the export liner shipping task. Their market share has now stabilised at about 45 percent.

Conference shipowner agreements are regulated under Part X of the Trade Practices Act 1974, which has been amended to narrow the scope of the Conferences' exemption from the provisions in Part IV of the Act outlawing anti-competitive and restrictive practices. Conference agreements are now subject to public disclosure requirements and must meet minimum standards. The Trade Practices Act also provides for the formation of shipper bodies through which shippers are granted dispensation to act collectively for the purpose of negotiating agreements with the Conferences.

The regulatory framework for international shipping permits non-Conference shipowners to compete freely with the Conferences. This arrangement promotes efficiency, and there is no serious objection on efficiency or other grounds to the restrictions which apply to the Conferences' tactics in dealing with shippers.

### Long distance rail transport

Structural reform in the long distance rail industry has been characterised through the 1980s by a relatively slow but steady process of commercialisation. Railway productivity has increased significantly over the country in all systems. However only Australian National has an institutional structure which is close to corporatisation. Corporatisation is being considered in both New South Wales Freight Rail and for Queensland Railways. However, the conditions for corporatisation are still some way off in both these states. Reports of the Railway Industry Council (1990) indicated the need for continuing reform in the rail industry, although the report covers little new ground compared to the principal railway report of ten years earlier (ARRDO (1981)).

There has been a gradual relaxation in regulations which have restricted certain traffics to rail in some states (interstate traffic has been deregulated since 1954). Regulations remain on the carriage of some traffic by road in Queensland, Tasmania and Western Australia. However most regulations which still remain are for traffics in which rail has, or should have, a strong competitive advantage in any case. In some ways such regulations will be likely to constrain the commercial freedom of railways to maximise net revenue rather than constrain the modal choice of users.

Nevertheless it is not clear that residual regulations are justified and that the structural reform process might not be better served by ending the regulations and

imposing special levies on road transport for any specific road or environmental damage which is associated with road use.

The National Freight Initiative (Travers Morgan and Booz Allen Hamilton (1990)) could represent a major step in structural reform of railways both in improving the productive efficiency of interstate freight and in acting as a catalyst for productivity improvement throughout railway systems. At the time of writing, the impetus for setting up the National Rail Freight Corporation (NRFC) has slowed due both to political factors and to difficulties in establishing a formula for the sharing of funding and of risk between States and Commonwealth. One view is that the concept of NRFC is flawed, given Australia's particular Federal System. An alternative view is that NRFC is the only sensible commercial way to run a national rail freight service and that it is essential to find a way around traditional Federal/State responsibilities to accommodate it.

Perhaps the most surprising thing about NRFC is that so many States wish to take a stake. NRFC could have been an opportunity for States with non-interventionist economic ideals, to buy out of a national freight business in which they have no particular shareholder expertise and which is expected to lose money for some years yet.

In the long distance passenger market road coach services have been long operated by the private sector in competition with each other and with rail and air services. The airline fare discounting which has followed interstate airline deregulation has put in doubt the future of long distance interstate trains in their present form, (most notably the Indian Pacific).

Intrastate markets have been much more restricted. In some States, notably Western Australia, South Australia and (to a lesser extent) New South Wales, there has been extensive replacement of country passenger rail services by road coach. Queensland and Victoria still operate large loss making country rail networks. Most States protect either their country rail services or rail replacement coach services from private competition but in 1988 NSW fully deregulated this market and put its own road coach services out to private contract.

## **Road transport**

The road transport industry has been the transport sector which has been most driven by market forces and with least involvement, in an operating capacity, of the public sector. It has been subject to much criticism and much study over the years, but continues to grow presumably because it is an efficient provider of freight services. The most recent attempt to reform the industry has concentrated mainly on cost recovery. The move to improve cost recovery from heavy road vehicles has been couched in terms of "levelling the playing field" between road and rail, and improving the equity in charging structures between and within different classes of heavy vehicles.

The Inter-State Commission (1986) delivered a finding of no evidence of an uneven playing field between interstate road and rail freight services because of the subsidies paid to railways. The ISC subsequently recommended a change in road charges for road freight carriers in an attempt to relate the charges more closely

to use and thereby costs (Inter-State Commission (1990)). The charging system recommended was national in scope and encompassed road funding mechanisms. Both of these factors have meant that the reform process has been somewhat slow.

Road construction is largely a preserve of the states although the Commonwealth collects the bulk of revenue from road users via fuel taxes. The states have been naturally wary about losing control of revenue-raising which in turn may lead to loss of control over priorities for road construction. The Commonwealth too has shown similar tendencies itself in the context of reform of Commonwealth/ State financial and functional responsibilities. Although better matching of road construction responsibilities and revenue-raising is under discussion, there appears to be some hesitancy from both sides to resolve the issue in a manner which would promote structural reform.

The national approach assumes all states and the Commonwealth have similar aims for reform of road user charges, and similar levels of costs. This is clearly not the case. The "western" states have generally lower road user charges than the eastern states but maintain that they achieve full or reasonable levels of cost recovery from heavy vehicles. The eastern states, particularly NSW, consider that recovery of costs from heavy vehicles is inadequate despite existing road user charges which are higher than those in the western states.

An innovative aspect of the ISC recommendations was the inclusion of a charge for the environmental damage (noise and air pollution) caused by road use. In times of concern over the contribution of transport to global warming and debates about "polluter pays", such a charge could have been expected to have popular appeal. It also has the potential to contribute to improving efficiency by internalising some of the externalities of road use. It was proposed to collect the charge using fuel tax making it global in nature. As environmental damage is generally location specific, the charge has not been well received by the road transport industry. Most heavy vehicle kilometres occur in non-urban areas while the effects of noise and air pollution are most pronounced in urban areas.

The reform process in the roads sector has concentrated almost exclusively on the road haulage industry, which is patently efficient. The road construction and maintenance industry has, by comparison, received scant attention. Whether the road construction industry achieves productive efficiency has never been so closely addressed. Increasing road use charges to cover inefficient cost levels is not necessarily the best way to improve the efficiency of the road transport industry.

### **Urban public transport**

Urban public transport has traditionally been a sector which is heavily affected by economic regulation and dominated by large Government owned operators. Those States with suburban railway systems have protected these against competition by other modes. Public bus (and tram) operators have had their traditional areas protected from private sector operators. In those cities where a significant private sector exists, the private operators generally enjoy an exclusive franchise based on grandfathered rights, with little contestability.

Victoria attempted to introduce contestability for private bus route contracts but met vigorous opposition; the private bus industry was not persuaded of the Government's bona fides in seeking productive efficiency gains in private bus areas, while leaving entirely protected the areas served by Government bus and train which have less efficient cost structures than the private industry.

New South Wales has seen the commercialisation of the State Transit Authority and, at the time of writing, corporatisation is being mooted and other opportunities for structural reform are being considered. In South Australia, the Fielding Report (Fielding (1988)) recommended a more contestable environment in which a central transit authority would produce services from competing suppliers. This has yet to be implemented.

Meanwhile, cost recovery on publicly-owned urban public transport services remains between about 20 percent to 40 percent in most cities, low by world standards. The average fare paid per passenger in Australia for 12 km of urban travel is about the same as hiring a trolley at an FAC airport, or buying a can of coke. The taxpayer therefore pays a very heavy price for service largely provided by government owned enterprises of questionable productive efficiency, protected as regional monopolies by the governments which own them.

Quota restrictions also apply to the taxi industry in all States with the incumbent operators exerting various levels of control over the determination of quotas. Existing taxi owners have naturally been concerned with the threat to taxi profitability from relaxation of entry controls. They have tended to equate industry viability, in which there is a legitimate public interest, with the viability of the particular operators now in the industry. There have also been concerns that quality of service would fall with freer entry although this concern could be met if relaxation of quantitative controls were counterbalanced by strengthening of quality controls. In New South Wales the Government and industry have recognised the inadequacy of previous quality controls and have acted, both independently and cooperatively, to improve standards.

## **Conclusion**

In this paper it has been possible to touch only briefly on the many ideas implicit in structural reform and to highlight only some main features of the reform process in each sector. The pace and nature of change in each sector differ and some real gains have been made. Nevertheless progress has generally been fitful, and in many cases is more impressive in its rhetoric than in its substance. Where there has been change it has been embraced reluctantly. Structural reform is generally "sold" as being an unpleasant medicine, not as a tonic which will make us better off as a nation.

Based on experience so far, an impartial observer might conclude that as a nation we are suspicious of the private sector, of the price mechanism, and of market processes as ways of allocating resources in the transport sector; also that we are afraid of cutting the political umbilical cord between governments and government business enterprises; finally that we feel we need a high degree of

protection and regulation in order for our world to operate satisfactorily. However, due allowance needs to be made for the impediments to rapid change imposed by our federal system and the concerted efforts which are needed to dislodge special interest groups who, by the habit of decades, are entrenched in the policy making process. These efforts will need to be maintained for some time to come.

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