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Why the Telstra agreement will haunt the National Party

Lessons from the Democrats' GST Deal

Andrew Macintosh

Debra Wilkinson

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Summary

The deal agreed by the National Party in return for its support for the sale of Telstra is remarkably similar in structure to the deal made between the Australian Democrats and the Howard Government over the Goods and Services Tax (GST). Under the GST deal the Howard Government made a commitment to invest a large amount of money in a collection of initiatives that formed part of the Measures for a Better Environment package (MBE). These spending initiatives were intended to offset some of the adverse environmental consequences of the new tax system.

Similarly, under the Telstra agreement, the Government has promised to provide over $3 billion to guarantee ‘parity of service [and] parity of price’ in the provision of telecommunications services to rural and regional areas. Like the Democrats, the Nationals made the Telstra deal despite widespread opposition from many of their core constituencies.

The Government has reneged on many of the commitments made to the Democrats to secure their support for the GST. An analysis of the GST/MBE deal reveals the following.

- Only a small fraction of the promised funds has been spent in accordance with the terms of the deal.
- Where funds have been spent, they have generally been poorly targeted and have led to few significant environmental benefits.
- The GST/MBE deal may have contributed to the stagnation in greenhouse policy development by providing the Howard Government with an excuse for failing to implement more effective and efficient policy mechanisms.
- The MBE deal failed to shield the Democrats from the adverse electoral consequences of supporting the GST.

Similar failings are likely to hinder the effectiveness of the Nationals’ Telstra agreement. The parallels between the political and policy contexts of both deals suggest that just as the GST was a catalyst for a series of events that damaged the political fortunes of the Democrats, the Telstra agreement is likely to have adverse political consequences for the Nationals. Whether an equivalent degree of political misfortune transpires will depend on the extent to which opposition to the sale of Telstra is sustained in future years. This will in turn depend on whether the deal manages to satisfy the telecommunications demands of rural and regional voters.

The Nationals’ Telstra agreement has two parts: spending commitments and regulatory commitments. The spending commitments involve the establishment of a $2 billion Communications Fund and a $1.1 billion four-year initiative called the Connect Australia package. Both the Communications Fund and the Connect Australia package are focused primarily on ensuring the adequacy of telecommunication services in rural and regional areas.

The regulatory commitments concern a number of aspects of the regulatory framework governing Australia’s telecommunications market. Amongst other things, this

framework is intended to ensure there is an appropriate level of competition in the telecommunications market and guarantee that all Australians have access, on an equitable basis, to telecommunication services.

The regulatory framework has been widely criticised, suggesting the efficacy of the Telstra agreement is likely to rest on its spending component. Indeed, the Nationals' insistence on the spending commitments indicates the party has little faith in the capacity of the regulatory framework to guarantee appropriate competition and equity outcomes.

Yet the spending component of the Telstra agreement is unlikely to be able to guarantee the ongoing provision of metropolitan-equivalent telecommunications services to rural and regional areas. The main weaknesses in the spending component of the Telstra agreement include the following.

- Both the Communications Fund and the Connect Australia package are vulnerable to abolition or modification by future governments, particularly if the Nationals' representation in Parliament declines or the Coalition loses government.

- The spending component of the agreement appears to have been poorly planned and does not currently have appropriate governance structures so that there is potential for funds to be misapplied and deliberately misused.

- The administration of the programs is likely to be dependent on information supplied by the telecommunications providers leading to the provision of subsidies in circumstances where there is little or no public benefit.

- The programs could distort market outcomes and lead to an inefficient allocation of resources.

- When the spending component is eventually terminated, there is a significant risk that any public good outcomes that have been achieved will not be sustained. Of greatest concern is that telecommunications providers may cease to supply metropolitan-equivalent services to certain rural and regional areas.

In all, the experience of the Democrats' GST/MBE deal suggests that the Nationals' Telstra agreement is likely to fail to protect the interests of rural and regional Australians and disappoint those in the National Party who believe it could protect them from an electoral backlash. As the Democrats have learned, there are no iron-clad deals in politics.

1. Introduction

After the Telstra legislation was passed on 14 September 2005,[1] Senator Barnaby Joyce declared that the deal the National Party had made over the sale was 'the best possible deal we could get, and I'm proud of what the Nationals have achieved' (Koutsoukis 2005). Despite the assurances of Senator Joyce and the Nationals, both logic and history suggest that the Telstra agreement will not be able to guarantee that all Australians have access to affordable and effective telecommunication services. The money that has been promised as part of the agreement is also unlikely to shield the Nationals from the political costs associated with the privatisation of Telstra.

The Nationals' Telstra agreement is made up of two parts: regulatory commitments and spending commitments. The regulatory commitments concern a number of aspects of the regulatory framework governing Australia's telecommunications market (AAP 2005a). Amongst other things, this regulatory framework is intended to ensure there is an appropriate level of competition in the telecommunications market and guarantee that all Australians have access, on an equitable basis, to telecommunication services.[2]

The capacity of the regulatory regime to realise its competition and equity objectives has been questioned. For example, the *Sydney Morning Herald* reported that:

> … the Communications Minister, Helen Coonan, conceded on Wednesday there was no legislated parity guarantee for broadband prices, although she indicated these would be subsidised through the $1.1 billion set aside from taxpayers to boost broadband roll-out and mobile phone networks in the bush (Humphries 2005).

Similarly, the chairman of the Australian Competition and Consumer Commission (ACCC) is reported to have warned that it will be difficult to regulate Telstra appropriately after it has been privatised. The *Australian* reported that:

> [t]he historic passage of the legislation accompanied a warning from the competition watchdog that it would be difficult to control a Telstra monopoly. The Australian Consumer and Competition Commission [sic] said its pleas for extra safeguards had been ignored. … In a letter to Communications Minister Helen Coonan, ACCC chairman Graeme Samuel warned of a serious flaw in the plan to make Telstra separate its retail and wholesale operations (Uren and Shanahan 2005).

Given the apparent weaknesses in the regulatory framework governing the telecommunications market, it appears the efficacy of the Nationals' Telstra agreement is destined to rest on its spending component. However, there are a number of flaws in the spending component that are likely to prevent it from achieving its

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[1] The Telstra legislation consists of the *Telstra (Transition to Full Private Ownership) Bill 2005*; *Telecommunications Legislation Amendment (Competition and Consumer Issues) Bill 2005*; *Telecommunications Legislation Amendment (Future Proofing and Other Measures) Bill 2005*; *Telecommunications (Carrier Licence Charges) Amendment (Industry Plans and Consumer Codes) Bill 2005*; and the *Appropriation (Regional Telecommunications Services Bill 2005-2006*.

[2] See *Telecommunications (Consumer Protection and Service Standards) Act 1999* (Cwlth), s. 3 and *Telecommunications Act 1997* (Cwlth), s. 3.

political and policy objectives. Many of the same weaknesses were evident in the deal made between the Howard Government and the Australian Democrats in relation to the Goods and Services Tax (GST). The history of this earlier deal suggests there are good grounds for being sceptical about the future of the Nationals and the Telstra agreement.

The purpose of this paper is to outline why the spending component of the Nationals' Telstra agreement is likely to be a political and policy failure. Section 2 provides a brief overview of the regulatory and spending components of the agreement. Section 3 analyses the political and policy weaknesses associated with the spending component. Section 4 provides details of the Democrats' GST deal and examines the outcomes of its environment component. Section 5 discusses the similarities between the Telstra agreement and the GST deal and suggests some lessons for the Nationals. Section 6 draws conclusions.

2. The Telstra agreement

As discussed, the Nationals' Telstra agreement can be divided into regulatory commitments and spending commitments. The details of these components of the agreement are outlined below.

2.1 Regulatory commitments

It is difficult to determine which (if any) of the regulatory changes in the Telstra legislation are attributable to the Nationals' Telstra agreement. However, arguably the most important regulatory changes in the legislation are:

- the requirement for Telstra to introduce operational separation between the wholesale and retail parts of its business;

- the introduction of an obligation on telecommunications carriers to facilitate interconnection of the networks of competing carriers;

- the introduction of new duties and powers for the ACCC and Australian Communications and Media Authority (ACMA); and

- the establishment of the Regional Telecommunications Independent Review Committee and requirement for it to undertake regular reviews of the adequacy of telecommunication services in regional, rural and remote parts of Australia.[3]

The capacity of the new regulatory framework to ensure adequate competition in the telecommunications market and continued equity of access to telecommunications services has been challenged by a number of individuals and organisations, including the ACCC (Humphries 2005; Uren and Shanahan 2005; South Australian Farmers' Federation 2005).[4] Specific concerns that have been identified with the regulatory changes include that:

- the ACCC is not required to approve Telstra's operational separation plans;

- compliance with the operational separation plans is not a condition of Telstra's licence; and

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[3] The establishment of the Regional Telecommunications Independent Review Committee appears to have been strongly influenced by the Nationals' concerns and the 'five pillars plan' advocated by Senator Joyce and the Queensland Nationals (Seccombe 2005). Yet, there is no way of establishing what role the Nationals played in the inclusion of this or other major regulatory changes.

[4] Similar concerns were raised in relation to the regulatory regime prior to the enactment of the Telstra legislation. For example, in March 2005, the Senate Environment, Communications, Information Technology and the Arts Reference Committee (SECITARC) stated that it 'believes that in the current telecommunications self-regulatory landscape the competition model has demonstrated that it cannot alone deliver on … regional equity (accessibility and affordability of advanced services); community equity of basic services within a region; … (or) national competitiveness in advanced infrastructure deployment' (SECITARC 2005a, p. 56). Similarly, in 2004, the same Senate Committee concluded that 'the current regime has failed to meet expectations in many important respects' (SECITARC 2004a, p. 140). See also SECITARC 2005b; and SECITARC 2004b.

- the requirement for the ACCC to 'have regard' to the operational separation could undermine the ACCC's powers (Uren 2005b).[5]

The 'five pillars plan' advocated by Senator Joyce and the Queensland Nationals in relation to the sale of Telstra demanded the 'establishment of a trust from a substantial part of the sale proceeds, to guarantee funds for future upgrades in rural and regional areas' (Seccombe 2005). This trust fund is supposed to guarantee 'parity of service, parity of price into the future' in the provision of telecommunications services to rural and regional areas (ABC 2005a; Channel Nine 2005). The Nationals' desire to establish this fund appears to be an acknowledgment of their lack of faith in the capacity of the regulatory system to ensure appropriate competition and equity outcomes. Consequently, the Nationals appear to have placed considerable faith in the spending commitments in the Telstra agreement to protect their political interests and realise their policy objectives.

2.2 Spending commitments

There are two main spending commitments in the Nationals' Telstra agreement:

- the establishment of the $2 billion Communications Fund under the *Telecommunications Legislation Amendment (Future Proofing and Other Measures) Bill 2005*; and

- the creation of the $1.1 billion Connect Australia package.

Details of the Communications Fund and Connect Australia package are outlined below.

What is the Communications Fund?

The *Telecommunications Legislation Amendment (Future Proofing and Other Measures) Bill 2005* states that the purposes of the Communications Fund are:

(a) to provide funding for the Commonwealth to implement its responses to recommendations made by the newly established Regional Telecommunications Independent Review Committee;

(b) purposes that are incidental or ancillary to the purpose in (a); and

(c) to make grants of financial assistance for either of the purposes in (a) and (b).[6]

A number of media reports have described the Communications Fund as a 'trust fund', suggesting it may have a legal identity that is separate from the Government (AAP 2005a; Hudson 2005). If this were correct, it might provide the fund with some protection from abolition by a future government. However, the Communications Fund is merely a government account that is administered by the Department of

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[5] The reports on the ACCC's position on the Telstra legislation are in stark contrast to comments made by the Federal Minister for Communications, Senator the Hon Helen Coonan, in August 2005 that the proposal was 'developed in close consultation with Telstra and ACCC over many months' (Shanahan and Sainsbury 2005).

[6] *Telecommunications Legislation Amendment (Future Proofing and Other Measures) Bill 2005*, Schedule 1, Item 1, page 6, lines 9-18.

Finance and Administration. More specifically, it is a Special Account under the *Financial Management and Accountability Act 1997* (Cwlth), meaning amounts paid into and from the Fund are accounted for separately rather than as part of the Consolidated Revenue Fund. Although the fund's status as a Special Account means that it can easily be monitored by the Nationals, it does not provide protection against abolition or modification.

What is Connect Australia?

Connect Australia is a $1.1 billion four-year funding package that is supposed to 'address well known gaps in the provision of mobile and broadband services' (Coonan 2005a). The Minister for Agriculture, Fisheries and Forestry, the Hon Peter McGauran MP (who represents the Minister for Communications in the House of Representatives), described the package as:

> … the biggest regional telecommunications assistance program in Australia's history. It is a targeted package aimed at providing all Australians access to first-class telecommunications now and in to the future … (McGauran 2005).

The Minister for Communications, Senator the Hon Helen Coonan, has described the package as being comprised of four components (Coonan 2005a).

- Broadband Connect – an $878 million program that will 'give all Australians access to affordable broadband and build on the success of the Higher Bandwidth Incentive Scheme (HiBIS)' (Coonan 2005a). According to the Minister for Communications:

  > The funding will be delivered on a competitively and technologically neutral basis. All broadband service providers will have access to the subsidies. This program will also be used to support the rollout of new wireless, satellite, fibre and high speed copper broadband infrastructure (Coonan 2005a).

- Clever Networks – a $113 million broadband infrastructure investment program. Apparently, funding under the program will be 'supplemented by at least matching funding from other governments or private investment' (Coonan 2005a).

- Mobile Connect – a $30 million program that is intended to 'expand the satellite phone handset subsidies scheme, and for terrestrial mobile coverage where operating costs can be recovered and investment is commercially viable' (McGauran 2005).

- Backing Indigenous Ability – a $90 million program that is supposed to 'deliver Community Phones, Internet and videoconferencing in remote Indigenous communities and to improve Indigenous radio and television services' (McGauran 2005).

Like the Communications Fund, the Connect Australia package is not a trust fund and it does not have a separate legal identity from the Government. The available information suggests that the money for the package will be appropriated from the Consolidated Revenue Fund.[7]

[7] *Telecommunications Legislation Amendment (Future Proofing and Other Measures) Bill 2005*, Schedule 1, Item 2, p. 10, lines 16-24.

3. The flaws in the spending component of the Telstra agreement

3.1 Policy flaws

The main flaws in the spending component of the Telstra agreement from a policy perspective are set out below.

Security

As discussed, both the Communications Fund and the Connect Australia package are vulnerable to abolition or modification by any future government, particularly if the Nationals' representation in Parliament declines or the Coalition loses government.

Poor planning and non-existent governance structures

Given the size and significance of the Communications Fund and the Connect Australia package, it might be expected that the Nationals and the Liberal Party would have invested a considerable amount of time and energy in establishing appropriate structures and procedures to ensure that the programs achieve their intended objectives. In particular, one might have hoped that the Nationals would have guaranteed that some mechanisms were put in place to ensure money flowed to the areas in greatest need.

However, no details of the governance structures for either the Communications Fund or the Connect Australia package have been provided. A statement released by the Minister for Communications merely states in relation to the Communications Fund that:

> … details of the structure, governance and operation of the Communications Fund will be developed throughout the rest of 2005 (Coonan 2005b, p. 5).

Given the lack of planning and governance structures, both the Communications Fund and the Connect Australia package are vulnerable to being used for inappropriate purposes and in a way that is not necessarily consistent with the interests of the Nationals.

Of particular concern is the capacity for these programs to be used for pork-barrelling. Access to telecommunication services is an emotive political issue, especially in rural and regional electorates (Shanahan and Sainsbury 2005; AAP 2005b; ABC 2005b; Richardson 2005; South Australian Farmers' Federation 2005). The size of the programs and the absence of governance structures suggest they are susceptible to being used for political purposes. This may produce benefits for the Coalition (or the government of the day), but it is unlikely to ensure that taxpayers' resources are used in an efficient and effective manner.

Asymmetries of information and gaming

The main purpose of the Communications Fund and the Connect Australia package appears to be to provide money to telecommunications providers to supply metropolitan-equivalent services (i.e. parity of price and parity of service) to areas that would not have otherwise have received them.

The difficulty with schemes of this nature is that the telecommunications providers have information that is not available to the Government; that is, there are information asymmetries. As a result of these asymmetries, the Government is unlikely to be able to determine accurately when metropolitan-equivalent services would already have been provided to an area. By presenting biased information, telecommunications providers will be able to extract money from the fund to provide metropolitan-equivalent services to areas they would already have serviced. This will lower telecommunications providers' costs and artificially inflate their profits at the expense of taxpayers.

Broad-based subsidy programs like the Communications Fund and the Connect Australia package can also create a disincentive for telecommunications providers to invest in rural and regional telecommunications infrastructure. Many telecommunications providers will simply say: why invest in infrastructure if the Government will pay for or subsidise it? This could result in gaming on the part of telecommunications providers, whereby they postpone new investment in the hope of extracting subsidies from the government.

Subsidies with no public benefit

Poor program design and administration (which could be a result of factors like asymmetries of information, gaming by telecommunications providers, politics or human error) could result in the Communications Fund and Connect Australia package providing subsidies to telecommunications providers in instances where there is little or no public benefit. In this case, the most obvious problem is where subsidies are provided to telecommunications providers to supply metropolitan-equivalent services to areas that would already have received them.

An evaluation recently carried out on the likely impacts of the Commonwealth's Higher Bandwidth Incentive Scheme (HiBIS) in Victoria has identified this issue as a potential problem (ACIL Tasman 2005).[8] The report found that over half (53000 out of 97000) of the households and businesses in the eligible areas that are likely to have access to metropolitan-equivalent non-satellite broadband services by the end of the three-year HiBIS program would have been covered anyway (ACIL Tasman 2005). That is, even if the HiBIS subsidy were not available, the majority of households and businesses in the eligible areas would have had access to metropolitan-equivalent non-satellite broadband services by the end of the three years. The only possible advantage of the scheme in these areas would be to speed up telecommunications investment and reduce the time customers have to wait before they have access to the relevant services. As the ACIL Tasman report states:

> HiBIS will have had the impact of speeding up the deployment of metropolitan equivalent broadband to regional and rural areas of Victoria, but it is likely to be largely to areas that would have ultimately received the service anyway (ACIL Tasman 2005, p. 34).

[8] HiBIS is an existing Commonwealth Government telecommunications program that provides subsidies to telecommunications providers with the aim of ensuring people in regional, rural and remote areas have access to metropolitan-equivalent higher bandwidth telecommunication services (Parliament of Australia Parliamentary Library 2005). The program is scheduled to end in December 2005 and will be replaced by Broadband Connect (DCITA 2005).

Importantly, the ACIL Tasman report did not consider what proportion of households and businesses in the eligible areas were likely to have access to metropolitan-equivalent non-satellite broadband services over a longer timeframe in the absence of government subsidies. As technology improves and the demand for broadband and similar services increases, the profitability of providing equivalent telecommunication services to many rural and regional areas is likely to increase, thereby decreasing the need for government subsidies.

Unless considerable care is taken in the design and administration of the Communications Fund and Connect Australia package, there is a significant risk that a large proportion of the funds expended under these programs will provide little or no public benefit and serve only to increase the profits of private telecommunication companies.

Market distortion

As with any subsidy program, the Communications Fund and Connect Australia package may distort market outcomes and lead to an inefficient allocation of resources. For example, the design of the programs may preference investment in certain technologies, despite the fact that other competing technologies are more economically viable in the long-term. The ACIL Tasman report identifies this issue as a problem associated with HiBIS when it states:

> … HiBIS may have the unintended effect of promoting satellite at the expense of other, perhaps more efficient longer term solutions. By subsidising satellite in an area where a non-satellite solution is unavailable, some demand that would otherwise attract a non-satellite solution would be lost, and the likelihood of the non-satellite solution being provided will be less (ACIL Tasman 2005, p. 31).

The Communications Fund and Connect Australia package may have a similar impact in relation to other parts of the telecommunications market.

These programs could also cause distortions in the participation and market share of telecommunications providers. For example, were Telstra to receive the majority of funding under the programs, it could work against the regulatory objective of promoting competition in the telecommunications market. As the Victorian Minister for Information and Communication Technology, the Hon Marsha Thomson MLC, has stated in relation to HiBIS:

> [w]e have already seen more than 60 percent of the HiBIS subsidy going to Telstra, suggesting that retrospective payments favour Telstra and put smaller competitors at a disadvantage (Thomson 2005).

Sustainability

If administered appropriately, the Communications Fund and Connect Australia package may result in metropolitan-equivalent telecommunication services being provided to areas that would not otherwise have had access to them. However, it is highly unlikely that the fund will contain sufficient money to continue to provide telecommunications subsidies in perpetuity. As a result, the question is what happens when the fund is expended and the subsidies are no longer provided? There is a significant risk that telecommunications providers may cease to supply metropolitan-equivalent services to certain areas.

A second potential outcome when subsidies are no longer available is that investment in the relevant markets will stagnate until such time as the costs of supply decrease or demand increases to a sufficient level to sustain further commercial investment. Where this occurs, the only advantage of the programs will have been to speed up investment rather than promote service delivery to areas that would not have otherwise received it.

Inequitable outcomes

There is a significant risk that the Communications Fund and Connect Australia package will result in an inequitable distribution of funding and access to telecommunication services. This is because both programs appear to be focused on 'regional, rural and remote areas' (Coonan 2005a) and the Government has not suggested that any of the programs will be means tested. One outcome may be that wealthy households in rural and regional areas will receive subsidised broadband and mobile services while poorer households in certain outer metropolitan areas may be unable to access the same or equivalent services, either because they cannot afford the services or because the subsidy programs are not available where they live.

3.2 Political flaws

Irrespective of the policy outcomes, the Nationals' Telstra deal is likely to create significant political problems for the party at the next election and possibly for a considerably longer period of time.

Newspoll data suggests that around 70 per cent of Australians oppose the sale of Telstra, with only 16 per cent in support (Shanahan and Sainsbury 2005). Amongst Coalition voters, the levels of support are higher, but they are still only at 25 per cent (Shanahan and Sainsbury 2005). Further, the available evidence suggests the levels of opposition to the sale of Telstra may be higher in rural and regional areas and amongst farmers (AAP 2005b; ABC 2005b; Richardson 2005; South Australian Farmers' Federation 2005).

Given the level of opposition to the sale of Telstra, particularly amongst Coalition voters and in rural and regional areas, there is a significant risk that the Nationals' Telstra deal will adversely affect the party's political fortunes. As Ross Fitzgerald stated bluntly:

> Barnaby Joyce's decision, in concert with the Queensland Nationals, to support the sale of Telstra now appears to have been the wrong one. Having raised the hopes of country voters, yesterday he rolled over and voted for full privatisation. The Nats' vote in support of the sale of Telstra does not bode well for a party that, according to maverick Liberal Alby Schultz, could lose up to one-third of its seats at the next federal election. … The anger, especially in regional Australia, is palpable and the punishment may well be severe (Fitzgerald 2005).

Whether these dire predictions are realised remains to be seen, but the history of the Democrats and the GST deal suggests the Nationals have reason to be concerned. It is to this piece of political history that we now turn.

4. The GST/MBE deal

4.1 Background on the GST/MBE deal

In 1999, the Prime Minister brokered a deal with the then leader of the Australian Democrats, Senator Meg Lees, to ensure the passage of legislation concerning the GST through the Federal Parliament. In return for her party's support for the bills, Senator Lees extracted a range of commitments from the Government, the most significant and widely known being the removal of GST from certain food products (Howard 1999c). Like the Nationals, Senator Lees and her Democrat colleagues also secured a large fund of money, approximately $900 million, with a promise that it would be spent on a range of environment initiatives under the Measures for a Better Environment (MBE) package (Howard 1999a; 1999b; 1999c).[9]

The MBE package was intended to offset some of the adverse environmental consequences of the new tax system (for example, the increased use of diesel and associated air pollution and greenhouse effects (Hamilton and Turton 1999)) and result in the acquisition of public good environmental outcomes (Howard 1999a). Under the terms of the GST/MBE agreement, the $900 million was to be used to fund seven four-year expenditure programs – see Table 1.[10]

Table 1 Funding commitments made by the Howard Government concerning MBE expenditure initiatives ($million)

Program	2000-01	2001-02	2002-03	2003-04	Total
Greenhouse Gas Abatement Program	100	100	100	100	400
Renewable Remote Power Generation Program	66	66	66	66	264
Photovoltaic Rebate Program	4	6	9	12	31
Alternative Fuels Conversion Program	15	20	20	20	75
Renewable Energy Development and Commercialisation Program	4	5	7	10	26
Product Stewardship Arrangements for Waste Oil (transitional assistance)	15	15	15	15	60
Diesel National Environment Protection Measure	10	10	10	10	40
Total	**214**	**222**	**227**	**233**	**896**

Source: Howard 1999b; Hill 2000.

[9] See also *Appropriation (Supplementary Measures) Act (No. 2) 1999* (Cwlth), s. 3.

[10] The MBE package included several revenue-reducing initiatives including the Rail Excise Credit Scheme and the Diesel and Alternative Fuels Credit Scheme (Howard 1999c). The fiscal impact of these revenue-reducing initiatives is not considered in this paper.

With the exception of the Diesel National Environment Protection Measure,[11] all of the MBE expenditure programs are grants-based.

The Greenhouse Gas Abatement Program (GGAP) is intended to provide grants for projects 'that are likely to result in substantial emission reductions or substantial sink enhancement, particularly in the first commitment period under the Kyoto Protocol (2008-2012)' (AGO 2005).

The Renewable Remote Power Generation Program (RRPGP) 'provides Special Purpose Payments to participating States and Territories for the provision of rebates to install renewable energy technologies to reduce the use of diesel fuel for electricity generation' (AGO 2004a, p. 36).

The Photovoltaic Rebate Program (PRP) provides rebates for the installation of grid-connected or stand-alone photovoltaic systems by householders and owners of community use buildings. The aims of the PRP are to increase the use of renewable energy in Australia, reduce greenhouse gas emissions, assist in the development of the photovoltaic industry and increase public awareness of renewable energy (AGO 2004a).

The Alternative Fuels Conversion program (AFCP) 'aims to reduce greenhouse emissions and improve urban air quality through supporting the use of natural gas or liquefied petroleum gas fuels for commercial road vehicles and buses over 3.5 tonnes through purchase of gas vehicles or converting or upgrading fuel systems' (AGO 2004a, p. 43).

The Renewable Energy Development and Commercialisation Program aims to 'boost the commercialisation of renewable energy' (Howard 1999c). In 2002/03, the Renewable Energy Development and Commercialisation Program was incorporated into another subsidy program, the Renewable Energy Commercialisation Program (RECP). The RECP has been described by the Government as a 'competitive grants program that provides support for strategically important renewable energy technology initiatives that have strong commercial potential' (AGO 2003, p. viii).

The Product Stewardship Arrangements for Waste Oil program (transitional assistance component) provides funding for 'projects that remove structural barriers to oil recycling, such as lack of adequate infrastructure or technology' (DEH 2004).[12]

Other major initiatives agreed as part of the MBE package included:

- consultation with the states on the addition of a greenhouse trigger to the *Environment Protection Biodiversity Conservation Act 1999* (Cwlth);

[11] The Diesel National Environment Protection Measure was intended to facilitate compliance with in-service diesel emission standards and ensure that in-service diesel vehicles are appropriately maintained. See *National Environment Protection (Diesel Vehicle Emissions) Measure 2001* and Environment and Heritage Protection Council (2005).

[12] The Product Stewardship Arrangements for Waste Oil program has three components: a levy on oils; product stewardship benefits; and transitional assistance. Only the transitional assistance component of the program appears to have been part of the Democrats' GST/MBE deal (Howard 1999a; 1999b; 1999c; Hill 2000).

- the introduction of new fuel and vehicle emission standards;
- the introduction of a diesel and alternative fuels grants scheme to 'maintain the current price relativities between Diesel and CNG and other alternative transport fuels' (Howard 1999c); and
- the introduction of an energy credit scheme on 1 July 2002 to 'provide price incentives and funding for conversion from the dirtiest fuels to the most appropriate and cleanest fuels' (Howard 1999c).

4.2 The outcomes of the GST/MBE deal

Broken spending promises

The Government's spending commitments in relation to the GST/MBE deal have been comprehensively broken (Pollard 2003; ANAO 2004; Allison 2004). At the end of the four-year commitment period a total of approximately $630 million had not been spent as promised in relation to the MBE expenditure programs – see Table 2.

Table 2 Estimated actual spending on the MBE expenditure programs over their four-year life span (2000/01-2003/04) ($million)

Program	Total	Variance from original promises
Greenhouse Gas Abatement Program	62.1*	-337.9
Renewable Remote Power Generation Program	52.4*	-211.6
Photovoltaic Rebate Program	34.6*	+3.6
Alternative Fuels Conversion Program	27.8*	-47.2
Renewable Energy Development and Commercialisation Program	14.6**	-11.4
Product stewardship arrangements for waste oil	34.2***	-25.8
Diesel National Environment Protection Measure	N/A	N/A****
Total	**225.7**	**-630.3**

Source: ANAO (2004); Kemp (2002; 2003; 2004).

* These figures have been calculated using the actual expenditure up to 30 June 2003 from the Commonwealth Auditor-General (which includes the cost of administration) (ANAO 2004) and the estimated actual expenditure for 2003/04 from Kemp (2004). Some data is available in AGO (2004a); however, these figures are not complete and they do not appear to include administration costs.
** As noted, funding for the Renewable Energy Development and Commercialisation Program (REDCP) was rolled into the Renewable Energy Commercialisation Program (RECP) in 2002/03 (Kemp 2002). Further, the Commonwealth Auditor-General has treated the REDCP as an extension of the RECP (ANAO 2004). As a result, this figure has been calculated by subtracting the $29.6 million originally allocated to the RECP for the five-year program in 1997 from the combined RECP/REDCP figure of $35.1 million provided by the Commonwealth Auditor-General (ANAO 2004) on expenditure to 30 June 2003, and then adding the remainder to the estimated actual expenditure for 2003/04 for the RECP from Kemp (2004).
*** This figure was calculated using the estimated actual expenditure for the Department of the Environment and Heritage transitional component of this program found in Hill (2001) and Kemp (2002; 2003; 2004). However, this figure may be inaccurate given that the Department of the Environment and Heritage's 2003/04 annual report suggests that total expenditure for the program will be $34.5 million to 2006/07 (DEH 2004).

**** The Government has provided few details of spending in relation to the Diesel National Environment Protection Measure. As a result, we have excluded this program from the calculations in relation to the spending on the MBE package.

Although the Government has extended the life of the MBE expenditure programs beyond 2003-04, budget papers indicate that spending on the programs will still fall short of the promised amounts by approximately $364.4 million by the end of 2008-09 – see Table 3.[13] This number would be considerably larger if the amount were converted into inflation-adjusted dollars in the years during which the money was promised to be spent.

Table 3 Spending on the MBE expenditure programs projected in 2005/06 federal budget (2004/05-2008/09) ($million)

Program	2004-05	2005-06	2006-07	2007-08	2008-09	Total	Variance from original promises
Greenhouse Gas Abatement Program	14.8	15.7	21.6	20.4	12.8	85.3	-252.6
Renewable Remote Power Generation Program	22.6	25.3	24.5	23.7	24.5	120.6	-91
Photovoltaic Rebate Program	5.4	6.2	5.7	0.0	0.0	17.3	+20.9
Alternative Fuels Conversion Program	3.3	3.5	2.2	1.1	0.0	10.1	-37.1
Renewable Energy Commercialisation Program	3.0	3.1	0.7	0.0	0.0	6.8	-4.6
Product Stewardship Arrangements for Waste Oil						34.5	N/A*
Total							**-364.4**

Source: DEH 2005a.

* As the $25.5 million that was not spent on the Product Stewardship Arrangements for Waste Oil (transitional assistance) initiative was redirected with the agreement of the Democrats, it has not been included in the calculation of the variance from the original promises.

Poor planning and program design (which has resulted in a lower than expected take-up of grants) are two reasons for the Government's failure to spend the promised amounts (ANAO 2004). Other reasons include the fact that part of the MBE budget has been used to fund other government activities. For example, as of the end of April

[13] The extension of the MBE expenditure programs was done without the agreement of the Democrats, except in relation to the reallocation of some funding from the Product Stewardship Arrangements for Waste Oil program and the Diesel National Environment Protection Measure in 2003. Part of the original allocation for these programs was re-directed towards environment protection measures and urban environment initiatives (Kemp 2003).

2004, the Government had diverted approximately $52.8 million of the $400 million allocated for the GGAP program to other activities and initiatives.[14]

Failure to achieve environmental objectives

While the MBE package has led to some environmental improvements, the balance of evidence suggests that it has fallen well short of expectations. A summary of some of the achievements and failures of the package are outlined below.

- The Product Stewardship Arrangements for Waste Oil program appears to have contributed to an increase in the amount of waste oil recycled in Australia (DEH 2004; 2005a). The 2005 budget papers state:

  > … the scheme has increased oil recycling by more than 40 per cent. In addition, the Government has funded the installation of over 700 used oil collection facilities across Australia (DEH 2005a, p. 22).

  However, the Department of the Environment and Heritage's 2003/04 annual report is more qualified, indicating that although the volume of oil on which benefits were paid has increased,

  > [s]everal more years of data are required to establish reliable trends in recycling levels (DEH 2004, p. 635).

  It is also unclear what proportion of any increase that may have occurred is attributable to the GST/MBE component of the program (i.e. the transitional assistance). At the very least, this component appears to have resulted in the establishment of new facilities that may have contributed to an increase in the amount of oil being recycled.

- A diesel fuel quality standard came into force on 1 January 2002.[15] Other fuel quality standards have been introduced for petrol, biodiesel and Autogas (DEH 2005b). Similarly, as required under the GST/MBE deal, Euro 2, Euro 3 and Euro 4 vehicle emission standards have been introduced (DOTARS 2005). However, it appears that most (if not all) of these fuel and vehicle standards would have been introduced without the Democrats' GST/MBE deal. As Hamilton and Turton (1999, p. 11) conclude:

  > [t]he revised ANTS package promises to make Australian vehicle emission and fuel standards close to those emerging in Europe by around the middle of the next decade. This is highly desirable. However, these tighter standards were due to be introduced over the same timeframe anyway and

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[14] These activities were described as Domestic Greenhouse Policy Development, Greenhouse International Policy and Reporting and Greenhouse Sinks, National Carbon Accounting System, Cool Communities, a Biofuels Market Barrier Study and the 2003-04 Bridging Strategy to continue Safeguarding the Future programs for one year (Macdonald 2004a).

[15] The standard included a requirement that road transport fuel meet a 500 ppm sulphur limit. As specified in the GST/MBE agreement (Howard 1999c), this requirement came into force on 31 December 2002 (DEH 2005b). Similarly, as agreed, a mandatory 50 ppm diesel fuel standard will commence from 1 January 2006 (DEH 2005b).

> cannot be attributed to the ANTS package or negotiations … (Hamilton and Turton 1999, p. 2).

- An excise differential designed to encourage diesel with less than 50 ppm came into effect on 1 July 2003 (albeit six months later than originally promised) and is scheduled to end on 31 December 2005 (Costello and Kemp 2003; Webb 2003). Yet, the Government has provided grants under the Energy Grants (Credits) Scheme to offset the effect of the excise differential on the agricultural sector (Costello and Kemp 2003; Webb 2003; Parliament of Australia Parliamentary Library 2003). As explained by the Treasurer and the Minister for the Environment and Heritage:

  > … off-road grant rates under the Energy (Grants) Credits Scheme will be increased for the agricultural sector to compensate for the additional excise (and customs) duty levied on high sulphur diesel from 1 July 2003 to 31 December 2005 (Costello and Kemp 2003).

  The provision of these grants works against the objectives of the Democrats' GST/MBE deal. Webb (2003, p. 10) states:

  > … to offset the effect of the increased excise on regular diesel on the agricultural sector, the grant paid under the EGCS for the off-road use of diesel in agriculture will be increased. The proposal is, in effect, a subsidy to agriculture. It will have the effect of encouraging agriculture to continue to use regular diesel. This seems to run contrary to the intent of the proposals under the *Measures for a Better Environment*.

- The PRP has been very successful in promoting the uptake of photovoltaic systems with demand for the initiative outstripping the availability of the grant. By the end of June 2004, 'more than 5300 photovoltaic systems' had been installed with assistance from the PRP (AGO 2004, p. 36). According to the Government, '[a]s of 30 June 2003, approximately 3,000 tonnes per annum of greenhouse gas emissions were abated as a result of the Photovoltaic Rebate Program' (Macdonald 2004b). The abatement value of the PRP has been calculated as $150 per tonne (based on the projected 20 year lifespan of each photovoltaic system), indicating it is an inefficient means of abating greenhouse emissions (Macdonald 2004b). However, the program has an industry development component that needs to be considered when evaluating its merits.

- The Government has not progressed the introduction of a greenhouse trigger in the *Environment Protection and Biodiversity Conservation Act 1999* (Cwlth).

- GGAP will not achieve its purpose of realising 'substantial emission reductions or substantial sink enhancement, particularly in the first commitment period under the Kyoto Protocol' (AGO 2005). In 2002, it was estimated that GGAP would lead to an abatement of 10.8 million tonnes of carbon dioxide equivalents per year over the first Kyoto commitment period (i.e. between 2008-2012) (Kemp 2002). This was subsequently revised to 10.3 million tonnes (Macdonald 2004c), and later to 6.3 million tonnes of carbon dioxide equivalents per year over the commitment period (AGO 2004b).

According to the AGO (2004b, p. 9), the reason for the reduction is 'due to the reallocation of GGAP funding to other greenhouse measures'. Although GGAP is unlikely to lead to substantial emission reductions, it is arguable that the abatement it has achieved has been relatively cost-effective. Based on projects approved under rounds one and two of the program, the estimated average abatement value of the program is $5.50 per tonne of carbon dioxide equivalents abated in 2008 to 2012 (Macdonald 2004d). This abatement value is substantially better than many other MBE programs, yet it is still above the estimated abatement cost associated with other greenhouse measures, such as reducing broad-scale land clearing (Pollard 2003).[16]

- While the AFCP has increased the number of alternative fuel vehicles in use, it appears to have fallen well short of the program's original objective of converting '800 buses and up to 4000 commercial vehicles a year over the first four years' (Howard 1999c). According to the Australian Greenhouse Office, as of 30 June 2004 a total of 729 vehicles had been purchased, converted or upgraded with funding assistance from the program (AGO 2004a). The reasons for the failure of the AFCP to achieve its targets are explained in the Australian Greenhouse Office's 2003-04 annual report.

> [The] targets were developed following industry advice that appropriate technology was commercially available. In 2001, after 15 months of operation of the programme, the rate of uptake was far below these targets. The Australian Greenhouse Office immediately commissioned a comprehensive review of the programme. This review … indicated that the original uptake targets were optimistic and unrealistic (AGO 2005, p. 44).

Despite changes to the program, questions remain about its utility given the disputed greenhouse benefits of CNG and liquid petroleum gas (LPG) relative to improved diesel fuels (Pollard 2003). According to Pollard (2003, p. 10) the program 'offers only minor greenhouse benefits and is therefore highly unlikely to be cost effective'. The 2003 projections suggest that the program will only abate 0.5 million tonnes of carbon dioxide equivalents in 2010 (AGO 2004a).

Although the program may offer few greenhouse benefits, it is arguable that it is justifiable on urban air quality grounds given the air quality benefits associated with these fuels. However, statistics on fuel use compiled by the Australian Bureau of Statistics indicate that neither the AFCP nor the Energy Credits Scheme (see below) have resulted in a significant increase in the use of CNG, LPG or dual fuel by buses or freight vehicles (excluding light commercial vehicles) since 1999 – see Figures 1 and 2.[17]

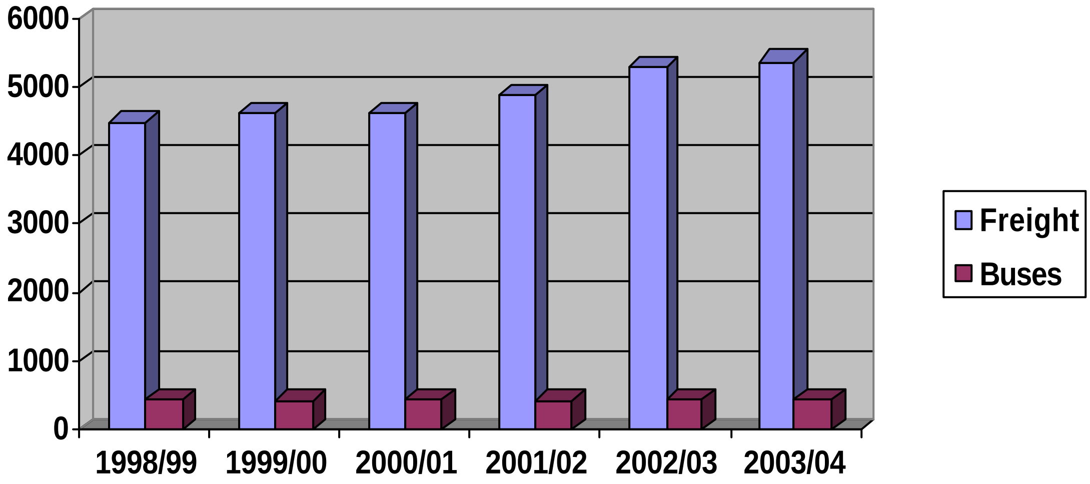
Since the MBE package was announced in 1999, CNG, LPG and dual fuel use by buses has marginally increased (although there was a noticeable decline in

[16] The Queensland and New South Wales Governments have recently announced measures that could substantially reduce land clearing in these states.

[17] Freight vehicles are generally defined as including rigid trucks, articulated trucks and commercial light vehicles (ABS 2005). However, as the AFCP only applies to vehicles over 3.5 tonnes, commercial light vehicles (vehicles that are equal to or less than 3.5 tonnes) have been excluded.

use between 2002/03 and 2003/04), but diesel consumption by buses has also increased. In the case of freight vehicles, diesel consumption has gradually increased since 1999, while CNG, LPG and dual fuel use has actually declined.

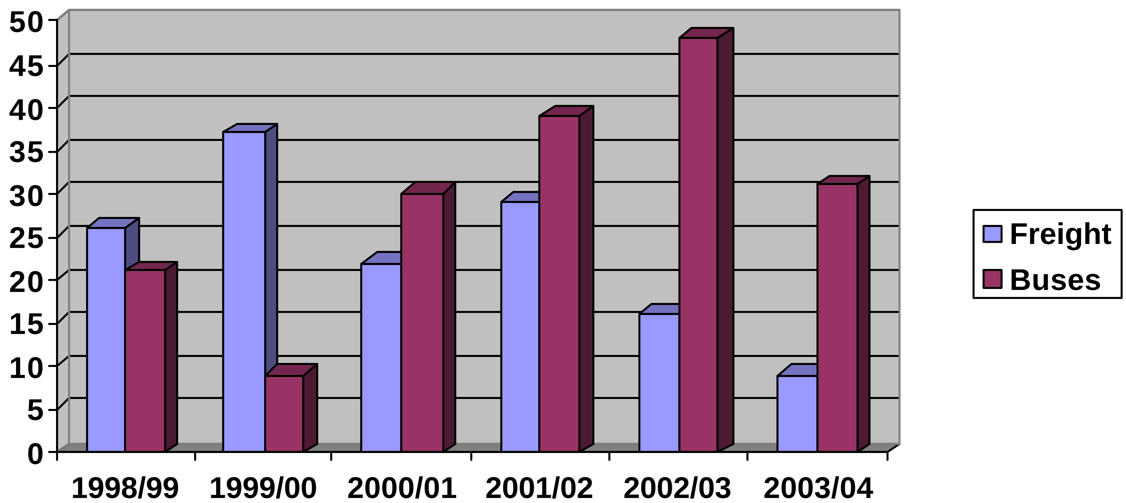
Figure 1 Total diesel consumption by buses and freight vehicles (excluding light commercial vehicles) 1998/99-2003/04 (million litres)



Source: ABS 2000; 2001; 2003a; 2003b; 2004; 2005.

Note: For the years 2000-2004, the reporting period was 1 November to 31 October. For 1999, the reporting period was 1 August to 31 July.

Figure 2 Total CNG/LPG/Dual fuel consumption by buses and freight vehicles (excluding light commercial vehicles) 1998/99-2003/04 (million litres)



Source: ABS 2000; 2001; 2003a; 2003b; 2004; 2005.

Note: For the years 2000-2004, the reporting period was 1 November to 31 October. For 1999, the reporting period was 1 August to 31 July.

- The RRPGP is an overly large, poorly-targeted and inefficient greenhouse policy measure. According to Pollard (2003, p. 10):

> the program is remarkable for its size given the smallness of the problem it addresses and the size of other greenhouse spending. It is the second largest program after GGAP … [y]et it addresses an extremely small component of total power generation in Australia.

For the $35.7 million spent by the end of June 2003 (ANAO 2004), the estimated abatement of the approved projects was approximately 97000 tonnes of carbon dioxide equivalents per year (Macdonald 2004e).[18] However, this figure includes an estimated 67500 tonnes of carbon dioxide equivalents per year for the Derby Tidal project which, at 11 August 2004, had not yet commenced (Macdonald 2004e). The Government has indicated that the abatement value of the projects approved prior to 30 June 2003 was approximately $50 per tonne of carbon dioxide equivalents abated (based on a projected 20 year lifespan for the funded renewable energy systems) (Macdonald 2004e).

- The Energy Credits Scheme was intended to 'provide price incentives and funding for conversion from the dirtiest fuels to the most appropriate and cleanest fuels' (Howard 1999c). However, this objective has not been fully realised (Allison 2003). In 1999, the Diesel and Alternative Fuels Grants Scheme was established to provide 'grants for diesel and [reduce] the cost of alternative fuels such as ethanol, compressed natural gas and liquefied petroleum gas to maintain previous price relativities with diesel' (Parliament of Australia Parliamentary Library 2003, p. 3).[19] Later, the Government essentially merged the Diesel and Alternative Fuels Grants Scheme with the Diesel Fuel Rebate Scheme (which provided a rebate on the excise of diesel and similar fuels used in eligible off-road activities) and renamed the new initiative the 'Energy Grants (Credits) Scheme' (Costello and Kemp 2003; Parliament of Australia Parliamentary Library 2003).[20] The Energy Grants (Credits) Scheme retained the mechanisms to ensure 'previous price

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[18] The abatement potential of the project was reduced in 2002 when the Government extended the Diesel Fuel Rebate Scheme to small retail and hospitality businesses. The AGO advised that 'the extension … could reduce the potential target market for the Commonwealth Renewable Remote Power Generation Program by up to 21 million litres or about 4% of total diesel fuel consumed' (Senate Economics Legislation Committee 2002, p. 6).

[19] The Government had originally intended to provide a '"diesel fuel credit" for the on-road use of diesel' (Parliament of Australia Parliamentary Library 2003, p. 2) to help offset the effects of the new tax system. Under the Democrats GST/MBE deal, this was extended to include alternative fuels (Parliament of Australia Parliamentary Library 2003).

[20] The Government has also promised to 'increase excise (and customs) duty on petrol for a period of two years by the amount required to fund grant payments for the production or import of premium unleaded petrol with less than 50 parts per million (ppm) sulphur' from 1 January 2006 (Costello and Kemp 2003). This initiative was presumably intended to assist producers and importers to meet the mandatory standard for premium unleaded petrol scheduled to take effect on 1 January 2008. On 20 September 2005, the Government announced it no longer intended to increase the excise rate on petrol to fund the initiative, and that the subsidy would instead be funded from general revenue (Campbell and Costello 2005). The elimination of the proposed excise increase will reduce the incentive for consumers to shift to alternative fuels. In 2003, the Government also indicated it would introduce similar excise and grant arrangements for diesel from 1 January 2007 to assist producers and importers to meet the mandatory sulphur diesel standard (10 ppm sulphur) scheduled to be introduced on 1 January 2009 (Costello and Kemp 2003). At the time of writing, the Government had not provided a clear indication of whether or not it intends to proceed with the diesel initiative (Campbell and Costello 2005).

relativities' were maintained, but it did not contain any substantial new incentives to prompt the uptake of alternative fuels.[21] As the Parliament of Australia Parliamentary Library (2003, p. 10) notes:

> … the EG(C)S Bill does not contain any new measures to adopt cleaner fuels. This seems to contradict the undertaking to introduce measures additional to those under the DAFGS (Diesel and Alternative Fuels Grants) Act.

The scheme now 'helps cut fuel costs for businesses, particularly in regional and rural Australia, by providing a grant for fuel used for specified purposes' (ATO 2004). In doing so, it works against the greenhouse and pollution objectives of the GST/MBE deal and distorts market outcomes (Webb 2003).

Setbacks in policy development

The introduction of the MBE package has arguably led to setbacks in the development of more efficient and effective policy responses. Prior to the MBE package, the AGO released a discussion paper on the introduction of an emissions trading system which is widely considered to be a more efficient and effective means of achieving reductions in greenhouse gas emissions than subsidy programs (AGO 1999; Pollard 2003). While it cannot be said that, in the absence of the spending programs, an emissions trading scheme would have necessarily been pursued, it nonetheless remains the case that the introduction of the spending programs has provided the Government with an excuse not to develop new and more effective policy programs. As Pollard (2003, p. 1) noted, '[i]n dealing with claims that it is not doing enough to reduce greenhouse gas emissions or meet the Kyoto target, the Government relies heavily on [its] expenditure commitment of "nearly one billion dollars"'. This is despite the fact that the evidence suggests that the Howard Government has not met its greenhouse spending commitments and that the MBE programs have not achieved their greenhouse abatement objectives.

Summary

In summary, the GST/MBE deal has failed to realise the majority of its policy objectives and proven to be an inefficient and ineffective means of achieving public good environmental outcomes. The main points to be drawn from the GST/MBE deal are as follows.

- The environment programs that were agreed under the deal were poorly planned and designed, which was at least partially attributable to the circumstances in which they were devised.

- Due to the flaws in the design of the programs, the Howard Government's willingness to renege on its commitments and the low priority given to greenhouse issues, only a small fraction of the promised funds have been spent in accordance with the terms of the deal. Underspending on six of the seven

[21] Although the focus of the scheme has remained on maintaining previous price relativities, it has been expanded to include other alternative fuels such as Liquefied Natural Gas (LNG) and biodiesel (except biodiesel/diesel blends) (Costello and Kemp 2003).

expenditure programs totalled approximately $630 million over the original four-year life span of the agreement. Most of the expenditure programs have subsequently been extended, but the budget papers indicate that spending will still fall short of the promised amounts by $364.4 million by the end of 2008-09, before accounting for the effects of inflation.

- Where funds have been spent under the GST/MBE deal, they have generally been poorly targeted and have led to few significant environmental benefits. Two of the more successful initiatives are GGAP (which is projected to abate 6.3 million tonnes of carbon dioxide equivalents per year over the Kyoto commitment period, down from earlier projections of 10.8 and 10.3 million tonnes) and the PRP (which has promoted the uptake of photovoltaic systems, even though this will lead only to minor reductions in greenhouse emissions). However, overall the GST/MBE programs have proven to be an inefficient and ineffective means of realising air pollution and greenhouse objectives.

- It is arguable that the GST/MBE deal has contributed to the stagnation in greenhouse policy development by providing the Howard Government with an excuse for failing to implement more effective and efficient policy mechanisms.

5. The GST/MBE deal and the Telstra agreement

5.1 Comparing the deals

The Nationals' Telstra agreement has all the hallmarks of the Democrats' GST/MBE deal. At the heart of the GST/MBE deal was a commitment from the Howard Government to invest a large amount of money in a collection of initiatives that were intended to offset some of the adverse environmental consequences of the new tax system and provide the Democrats with political capital. Similarly, the spending component of the Nationals' Telstra agreement is a promise to provide over $3 billion to guarantee 'parity of service, parity of price into the future' in the provision of telecommunications services to rural and regional areas (ABC 2005a; Channel Nine 2005). This commitment is intended to guard against the adverse consequences of the privatisation of Telstra and shield the Nationals from a political backlash.

In addition, the Nationals' core constituency appears to oppose the Telstra agreement (Shanahan and Sainsbury 2005; AAP 2005b; ABC 2005b; Richardson 2005; South Australian Farmers' Federation 2005; Humphries 2005), just as a large number of Democrat members and supporters opposed the GST deal (Gauja 2005; Denniss 2005). Similarly, both the GST deal and the Telstra agreement appear to have been drawn up with little planning, inadequate consultation and only cursory Parliamentary scrutiny (ANAO 2004; Humphries 2005).

Table 4 lists the main policy and political weaknesses in the spending component of the Nationals' Telstra agreement and assesses whether the same weaknesses were evident in the Democrats' GST/MBE deal.

Table 4 Nationals' Telstra agreement vs. Democrats' GST/MBE deal

	Telstra agreement	GST/MBE deal	Comments
Rushed through Parliament with little or no Parliamentary scrutiny	Yes	Yes	**GST/MBE deal** The majority of the GST legislation was arguably subject to adequate Parliamentary debate and scrutiny, but the Democrats' GST/MBE deal was not. Much of the legislation concerning the MBE deal was not debated in the Senate until after the GST legislation had been passed by Parliament. The first and second readings of the legislation dealing with the diesel schemes occurred on the same day that most of the GST legislation was passed (28 June 1999) (Campbell 1999). However, there was no substantive debate in the Senate until the following day. The debate was guillotined after five hours and the Bills were then passed by the Senate (O'Brien 1999). The legislation dealing with the MBE expenditure programs was not introduced into the House of Representatives until 26 August 1999. **Telstra agreement** The Telstra legislation and relevant details of the agreement were rushed through Parliament with only cursory Parliamentary scrutiny (Humphries 2005). A one-day Senate committee inquiry was held and the

	Telstra agreement	GST/MBE deal	Comments
			Senate was given three days to debate the legislation. Humphries (2005) remarked that '[t]he devil is always in the detail and the detail was withheld from public examination until the last. Until the legislation was revealed last week, no one outside the Government's inner sanctum was in any position to know what was proposed. The blanket kept in the dark the very parliamentarians who would be required to make such a rushed assessment of the legislation'. Similarly, AgForce president Peter Kenny said 'the legislation itself was extremely complex and the timeframe to consider it has been inadequate' (AgForce Queensland 2005).
Poorly planned and thought through	Yes	Yes	**GST/MBE deal** According to the Auditor-General, '[t]he 1999 package was developed within a short timeframe with little input from the AGO prior to the announcement of the program' (ANAO 2004). Much of the detail was left to be worked out after the GST legislation had gone through Parliament. For example, in relation to the $400 million GGAP, the agreement states that '[p]rogramme details will be announced in due course' (Howard 1999c). **Telstra agreement** Few details have been released about the spending component of the Telstra agreement other than how much money has been allocated to the relevant initiatives.
Consists mainly of a large fund of money for relevant purposes	Yes	Yes	**GST/MBE deal** The MBE package was originally intended to be worth around $900 million over four years. **Telstra agreement** The Telstra agreement is supposed to be worth approximately $3.1 billion. Approximately $1.1 billion of this amount is intended to be spent over four years.
Lacks appropriate governance structures	Yes	Yes	**GST/MBE deal** The Commonwealth Auditor-General identified a number of governance problems associated with the MBE programs (ANAO 2004). **Telstra agreement** The Minister for Communications has stated that 'details of the structure, governance and operation of the Communications Fund will be developed throughout the rest of 2005' (Coonan 2005b, p. 5).
Vulnerable to pork-barrelling	Yes	Yes	**GST/MBE deal** The Commonwealth Auditor-General identified a number of cases where MBE grants have been provided in questionable circumstances (ANAO 2004).

	Telstra agreement	GST/MBE deal	Comments
			Telstra agreement The lack of appropriate governance structures and the nature of telecommunications policy (particularly the fact that it is an emotive political issue in rural and regional areas) make the expenditure component of the Telstra agreement vulnerable to pork-barrelling.
Lacks security – vulnerable to being abolished or altered	Yes	Yes	**GST/MBE deal** There has been significant underspending in MBE programs and a number of the programs have been altered (ANAO 2004; Allison 2004). **Telstra agreement** The spending component of theTelstra agreement is vulnerable to being abolished or modified by future governments, particularly if the Nationals' representation in Parliament declines or the Coalition loses government.
Vulnerable due to information asymmetries and gaming	Yes	Yes	**GST/ MBE deal** According to Pollard, '[p]rograms such as GGAP, which pay firms to cease certain customary conduct, contain a fundamental weakness in that they rely on the firms' own statement about 'business-as-usual' plans. This is an inherently unreliable and possibly biased foundation for analysing potential emissions' (Pollard 2003, p. 7). **Telstra agreement** The spending initiatives outlined in the Telstra agreement will encounter the same information problems that have undermined the efficiency and effectiveness of the GST/MBE programs.
Significant risk of providing subsidies with little or no public benefit	Yes	Yes	**GST/MBE deal** Analysis of the MBE programs has identified that they are vulnerable to, and have resulted in, the payment of subsidies in circumstances where there is likely to be little or no public benefit (Pollard 2003; ANAO 2004). **Telstra agreement** It is highly likely (if not inevitable) that the spending component of the Telstra agreement will result in the payment of subsidies to telecommunications providers in circumstances where there is likely to be little or no public benefit.
Likely to distort market outcomes	Yes	Yes	**GST/MBE deal** One of the major weaknesses in a number of the GST/MBE programs is that they are dependent on the government 'picking winners' rather than putting in place appropriate regulatory and market incentives and allowing the market to select the best way to reduce emissions (Pollard 2003). This is likely to result in an inefficient allocation of resources. For example, the government may preference clean-coal solutions over renewable energy, notwithstanding the fact that

	Telstra agreement	GST/MBE deal	Comments
			renewable energy may be a more cost-effective long-term solution (or *vice versa*). **Telstra agreement** As has been predicted in the case of the HiBIS program (ACIL Tasman 2005), the spending component of the Telstra agreement is likely to distort market outcomes by giving preference to certain technologies and telecommunications providers.
Significant risk that outcomes are not sustainable	Yes	Yes	**GST/MBE deal** A number of the MBE programs may not generate sustainable public benefits. For example, there is little point in funding abatement programs if the relevant companies simply shift back to high-polluting practices when the MBE programs end. **Telstra agreement** The spending component of the Telstra agreement cannot provide subsidies indefinitely. Consequently, there is a significant risk that any public good outcomes it does achieve will not be sustainable. Most importantly, there is a risk that once the spending initiatives are complete, telecommunications providers will cease providing metropolitan-equivalent services to many rural, regional and remote areas.
Risk of producing inequitable outcomes	Yes	Yes	**GST/MBE deal** The new tax system lowered the price of diesel which was expected to lead to an increase in air pollution, greenhouse gas emissions, pollution-related mortality and morbidity, and traffic accidents (Turton and Hamilton 1998). The MBE package was supposed to offset some of the negative environmental effects of the new tax system. However, given the underspending, administration problems, and the failure to deliver on promised initiatives, it is unlikely to achieve this objective. The MBE programs are also likely to result in significant subsidies to large corporations in circumstances where there is little or no public benefit. Further, the GST places a disproportionate burden on the poor (i.e. it is regressive) (Richardson 1999). **Telstra agreement** The spending component of the Telstra agreement is likely to result in: • the payment of subsidies to large corporations in circumstances where there is little or no public benefit; • the provision of subsidised telecommunication services to wealthy households whilst possibly neglecting poorer households in metropolitan areas. There is also a significant risk that the privatisation of

	Telstra agreement	GST/MBE deal	Comments
			Telstra could lead to a decline in the accessibility of appropriate telecommunication services in outer metropolitan, rural and regional areas. If the Howard Government sells its remaining share of Telstra some time late in 2006, as it has suggested it will (Brooks 2005), the return on taxpayers' investment in the company is likely to be considerably less than it should be and may even 'represent a loss to taxpayers in both the short and the long term' (Uren 2005a).

5.2 Lessons for the Nationals

The similarities between the two agreements suggest that the Telstra agreement is likely to confront many of the problems that have plagued the GST/MBE deal. Some of the likely outcomes of the Nationals' Telstra agreement are set out below.

- The promised $3.1 billion under the Communications Fund and Connect Australia package will either not be spent or, if it is, it will not be spent over the time span envisaged by the Nationals. A major problem for the Nationals is that, if their electoral popularity declines or the Australian Labor Party wins government, it will become increasingly difficult for them to ensure that the terms of the agreement are observed.

- The money will not be invested in a cost-effective manner. The major risks here are that:

  (a) the programs will be used for pork-barrelling;

  (b) the programs will be used to provide subsidies to telecommunications providers in circumstances where there is little or no public benefit;

  (c) any public benefits associated with the programs will not be sustainable; and

  (d) there will be insufficient investment in telecommunications infrastructure and service provision in outer metropolitan, rural and regional areas.

- The programs will distort market outcomes. For example, the Government may subsidise investment in technology with a limited life span; this would have repercussions for the sustainability of the outcomes of the programs.

- The programs may impede the development and implementation of efficient and effective policy mechanisms. The main threat here is that the existence of the Communications Fund and Connect Australia package may lessen the willingness of the Commonwealth to pursue more stringent regulatory options towards the provision of basic telecommunication services.

- The Nationals may be blamed for any negative impacts that are associated with the full privatisation of Telstra. For example, if the Government is unable or unwilling to regulate the telecommunications market to ensure accessibility and appropriate levels of competition, many people may blame the Nationals, particularly in rural and regional areas.

- The Nationals' core constituency may view the Telstra agreement as a betrayal and be unwilling to forgive the party for the transgression.

6. Conclusions

The spending component of the Nationals' Telstra agreement has a number of policy weaknesses that are likely to undermine its capacity to guarantee the 'parity of service, parity of price, into the future' for rural and regional areas that the National Party assured voters it would provide (ABC 2005a; Channel Nine 2005). It may also have a profound impact on the popularity and electoral fortunes of the National Party.

The Democrats' GST/MBE deal is very similar to the Nationals' Telstra deal. It was made in the face of considerable electoral opposition, particularly from the Democrats' core constituency. Further, the cornerstone of the GST/MBE deal was a large fund of money that was intended to be used to acquire public good environmental outcomes. However, the outcomes of the GST/MBE have fallen well short of expectations. While some gains have been made, for the most part the GST/MBE package has been an inefficient and ineffectual means of addressing the environmental problems targeted by the agreement.

The GST deal has also arguably played a major role in the declining political fortunes of the Democrats (Warhurst 2002; Rogers 2004; Denniss 2005; Gauja 2005). Indeed, some analysts view the GST deal as one of the reasons for the tensions that led to the dismissal of Senator Meg Lees (Warhurst 2002; Rogers 2004). For example, Warhurst (2002, p. 154) comments that the decision to replace Senator Lees with Senator Natasha Stott Despoja 'was one consequence of the Democrats' controversial role in negotiating a compromise over the GST'.

The outcomes of the GST/MBE deal provide some insights into how the spending component of the Nationals' Telstra agreement could affect both the telecommunications market and the political success of the Nationals. The history of the GST/MBE deal suggests the spending component of the Telstra agreement is unlikely to guarantee the ongoing provision of appropriate telecommunication services in rural, regional and outer metropolitan areas. Importantly, the way in which the GST/MBE deal has been administered suggests there is a risk that funds will be used to provide subsidies to the telecommunications providers in circumstances where there is little or no public benefit. There is also a risk that any public good benefits realised through the Communications Fund and Connect Australia package will not be sustainable.

From a political perspective, the Telstra agreement could trigger a decline in the Nationals' electoral support (Fitzgerald 2005). The Nationals' core constituency in rural and regional areas may view the Telstra agreement as a betrayal and be unwilling to forgive the party for the transgression. Arguably the Democrats have borne a disproportionate share of the blame for the introduction of the GST, and the Nationals face a similar danger in that they could be held responsible for any negative impacts that are associated with the full privatisation of Telstra.

The Nationals will have to work hard over the coming years to minimise the political ramifications of the Telstra agreement. One of the major hurdles the party will face is that it will not necessarily have the power or resources to ensure that the Communications Fund and Connect Australia package are administered appropriately.

Time will tell whether the Nationals' fortunes track those of the Democrats, but the similarities between the two deals bode ill for the future of the party.

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