

Agency Snapshot: The Productivity Commission

April 2013

The Productivity Commission is one of Australia’s most highly respected research and advisory bodies, and is regarded as the Federal Government’s principal advisory body on all aspects of microeconomic reform. Established under the [Productivity Commission Act 1998 \(Cth\)](#), the Productivity Commission came into effect in April 1998 following the amalgamation of the Industry Commission, Bureau of Industry Economics and the Economic Planning Advisory Commission. The Productivity Commission is an independent statutory authority within the Treasury portfolio, with the current ten commissioners appointed on five-year terms.

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Background

The origins of the Productivity Commission date as far back as the federal Tariff Board in 1929. The decision to amalgamate a range of economic commissions and advisory boards in 1996 led Prime Minister John Howard to establish an economic advisory and policy commission under a new name. From the outset, the Australian Labor Party promised to replace the Commission should they be elected, opting to replace it with a ‘National Development Authority’. However, since the time of its inception, the Commission has become a staple of domestic economic policy discussion, advising the Federal Government across a wide range of issues.

In the second reading speech, Parliamentary Secretary to Prime Minister Howard Mr Chris Miles said that the Productivity Commission Bill would allow the Productivity Commission to “play a key role in promoting policies at both the government and business level to improve the competitiveness and dynamism of the Australian industry”. Since its inception in 1998, the Productivity Commission has published over two hundred inquiries and studies on a wide range of economic topics and issues.

Productivity Commission Act 1998

The establishment, functions and powers of the Productivity Commission are set out in the *Productivity Commission Act 1998*. The Act states that the Productivity Commission will have a broad range of functions, including but not limited to:

- the holding and reporting of inquiries referred to it by the Treasurer concerning matters relating to industry, industry development and productivity;
- the provision of secretariat or research services to government bodies as directed by the Treasurer;
- as requested by the Treasurer, the provision of advice concerning matters relating to industry, industry development and productivity;
- the undertaking, on its own initiative, research concerning matters relating to industry, industry development and productivity; and
- the promotion of public understanding of matters relating to industry, industry development and productivity.

In addition, the Act establishes that the Treasurer has additional powers to compel the Productivity Commission to undertake further activities during individual inquiries, including:

- the holding of hearings in order to complete the inquiry;
- the release of a draft report to the public during the inquiry; and
- the formulation of recommendations on the basis of its inquiry and consequential report.

Members of the Productivity Commission

The structure of the Productivity Commission is defined by the Act, with the appointment of a Chairperson and a maximum of eleven commissioners allowable for five-year terms. Following the resignation of former Chairperson Mr Gary Banks in December 2012, Mr Peter Harris was appointed Chairman of the Productivity Commission. Mr Harris has previously served as Secretary of the Commonwealth Department of Broadband, Communications and the Digital Economy, and the Victorian Government agencies responsible for Sustainability and the Environment; Primary Industries; and Public Transport. He will serve as Chairperson until 10 March 2018.

The current commissioners are:

- Mr Peter Harris - *Chairman* (Melbourne);
- Mr Mike Woods - *Deputy Chairman* (Canberra);
- Jonathan Coppel (Melbourne);
- Ms Wendy Craik AM (Canberra);
- Mr Robert Fitzgerald (Canberra);
- Ms Angela MacRae (Melbourne);
- Ms Alison McClelland (Melbourne);
- Ms Siobhan McKenna (Melbourne);
- Mr Warren Mundy (Canberra);
- Ms Patricia Scott (Canberra); and
- Mr Philip Weickhardt (Melbourne).

Influence on Policy-Making

The Productivity Commission has played an important role in the development of modern policy. For example, the Commission's 2011 report *Carbon Emissions in Key Economies* was key to securing Independent MP Tony Windsor's support for the Federal Government's Clean Energy Future legislation. The Commission's report into disability services in Australia, titled *Disability Care and Support*, formed the basis for the Gillard Government's National Disability Insurance Scheme policy, to be launched from 1 July 2013.

More recently, the Productivity Commission has reported on economic relations between Australia and New Zealand, default superannuation funds and adaptation to climate change.

A full list of the Productivity Commission current and former inquiries can be found [here](#).

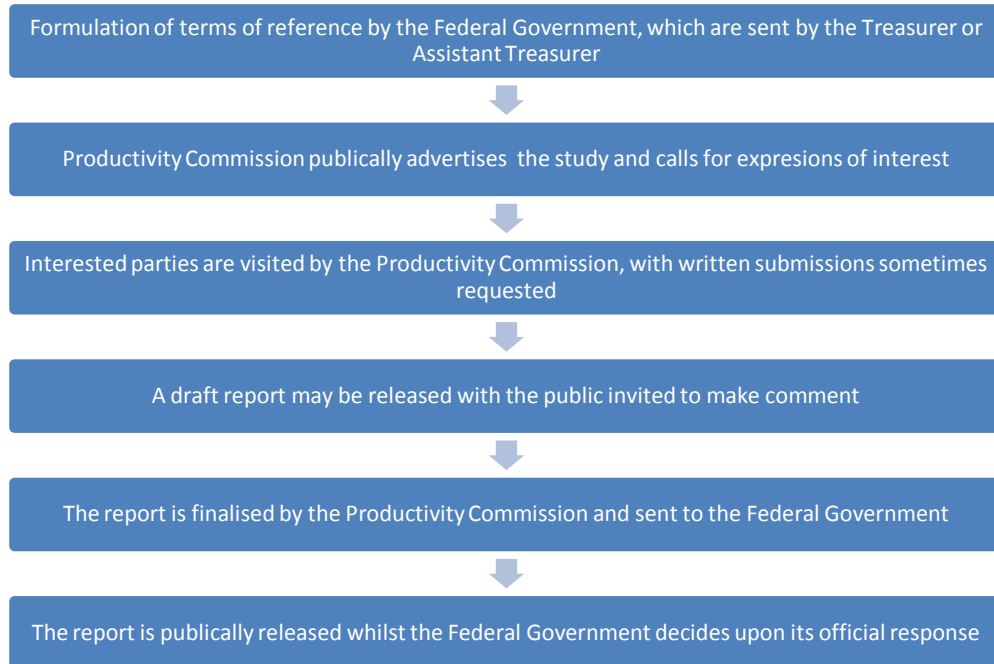
The Process

An inquiry is initiated following the production of terms of reference by the Treasurer or Assistant Treasurer. At the time of outlining the terms of reference, the Government will specify a time frame within which the report must be completed, with 9 to 12 months usually specified. Such a request for an inquiry may follow as a result of coverage of a particular issue in the media, or a decision by the Government to reform that particular area. As per the terms of the *Productivity Commission Act 1998*, the terms of reference must fit within the broader framework of industry, industry development and productivity.

Upon receipt of the reference, the Productivity Commission will first publically advertise the study and call upon parties, interest groups and industry stakeholders to register their interest. After this period, the Productivity Commission will then visit these parties, distribute issues papers or research briefs, and possibly accept written submissions to further inform the inquiry.

Following from investigation of interested parties and stakeholders, the Productivity Commission will produce its own research and commence drafting accordingly. Following the completion of a 'draft' report, the Productivity Commission may publically publish a draft and invite comment on the same, with the reference in some cases requiring the release of a draft report. This allows for wider public discussion to occur, and may provide the Government with an opportunity to formulate a more timely response.

Upon completion of the report, the report will be sent by the Productivity Commission to the Treasurer or Assistant Treasurer. Following this, the report will be made publically available whilst the Federal Government decides upon its official response.



Inquiries reported in the 43rd Parliament

Default Superannuation Funds in Modern Awards

On 6 February 2012, then Assistant Treasurer former Senator Mark Arbib requested the Productivity Commission to examine default superannuation funds in modern awards to establish a transparent set of criteria that such funds could be assessed against. The Productivity Commission was also asked to design a process for the selection and ongoing assessment of super funds for nomination as a default fund in a modern award. The Productivity Commission developed transparent and objective criteria to ensure that funds wishing to be on the default list could be assessed accordingly.

In response, the Hon. Bill Shorten MP, Minister for Employment and Workplace Relations and Minister for Financial Services and Superannuation, announced that the Federal Government would accept the criteria proposed by the Productivity Commission, and would establish an Expert Panel within the Fair Work Commission to assess funds based on the Productivity Commission's recommendations. These changes have since been approved within the *Fair Work Amendment Act 2012*.

Australia's Export Credit Arrangements

On 18 September 2011, Minister Shorten requested the Productivity Commission undertake a review of the Export Finance and Insurance Corporation (EFIC), the government provider of export credits, insurance, reinsurance and other financial services that support Australian exports and overseas investments.

The Productivity Commission was asked to review the need for government intervention in this area, and if needed, how the EFIC can operate more effectively. The Productivity Commission made 22 recommendations, with the Federal Government agreeing fully or partially to 15. These changes include measures to clarify EFIC's operations, tighten the definition of 'Australian export trade' and introduce a

new market failure test to ascertain whether assistance of exporters by EFIC is required. The Federal Government introduced the *Export Finance and Insurance Corporation Amendment (Finance) Bill 2013* on 13 February 2013 to enact these changes.

Economic Structure and Performance of the Australian Retail Industry

On 3 February 2011, Minister Shorten requested the Productivity Commission conduct an inquiry into the structure, performance and efficiency of the retail sector. The Federal Government responded to a range of the report's recommendations by establishing a Low Value Parcel Processing Taskforce to investigate how the processing of parcels, particularly those from overseas could be deal with in a more effective and efficient manner; and by committing to work with the states and territories through the Council of Australian Government's to lessen regulatory burdens upon retailers.

Economic Regulation of Airport Services

On 15 December 2010, Minister Shorten requested the Productivity Commission examine the effectiveness of current economic regulation of airports in facilitating ongoing investment in infrastructure and preventing potential abuses of market power. The Productivity Commission was also asked to make recommendations in relation to the requirement for future regulation and monitoring of services, and the scope and appropriate mechanism for the provision of greater transparency and accountability in airport infrastructure and services.

The Federal Government accepted some, although not all of the Productivity Commission's findings, largely strengthening the powers of the Australian Competition and Consumer Commission to investigate airport pricing through a newly formed 'show cause' process. No supporting legislation has been presented to Parliament for these changes as it is unlikely that legislation will be required to enact the same.

Australia's Urban Water Sector

On 22 July 2010, then Assistant Treasurer former Senator Nick Sherry requested the Productivity Commission analyse and inquiry into the need for micro-economic reform in the domestic urban water sector. At present, the Federal Government is yet to announce an official response beyond committing to continued to working with the states and territories on water reform.

Caring for Older Australians

On 21 April 2010, Senator Sherry referred the aged care system for inquiry by the Productivity Commission. In April 2012, the Federal Government announced its full or partial acceptance of a majority of the report's findings with the launch of the 'Living Longer. Living Better. Aged Care Reform Package'. Along with \$3.7 billion in new funding, the package includes initiatives to allow 100,000 older Australians to receive home care, provide more choice payment options for aged care, and new regulations to ensure there are immediate improvements to the aged care system.

A full analysis of this package by Hawker Britton can be found [here](#).

Disability Care and Support



On 17 February 2010, Senator Sherry asked the Productivity Commission to propose a long-term care and support scheme for disabled Australians. Following the release of the report, the Federal Government announced that it would adopt the proposal authored by the Productivity Commission, and implement a plan to establish the National Disability Insurance Scheme. The Federal Government also announced the formation of an Advisory Group to guide the implementation of the program, which will take up to seven years. Trial sites will commence on 1 July 2013 in New South Wales, Victoria, South Australia, the Australian Capital Territory, and Tasmania.

A full analysis of this package by Hawker Britton can be found [here](#).

Rural Research and Development Corporations

On 15 February 2010, Senator Sherry requested the Productivity Commission hold an inquiry into rural research and development corporations (RDCs) in Australia. These RDCs are funded by a co-investment model reliant on industry levies and matching funding by the Federal Government.

The final report by the Productivity Commission recommended that the Government reduce its matching contributions from 0.5 per cent to 0.25 per cent of an industry's gross value of production. However, the Federal Government rejected this change, along with the suggestion to establish a new RDC titled Rural Research Australia. The Federal Government did commit to an outline of what is expected of RDCs in order to gain funding.