



22 January 1999

Mr Herb Plunkett
Assistant Commissioner
Productivity Commission
PO Box 80
Belconnen ACT 2616

Dear Mr Plunkett

The Australian Chamber of Commerce and Industry (ACCI) welcomes the opportunity provided by the Productivity Commission's Inquiry into "The Impact of Competition Policy Reforms on Rural and Regional Australia" to reiterate its support for a strong and effective national competition policy regime.

Taken as a whole, commerce and industry expects the overwhelmingly majority of Australians, whether they live in urban, regional or rural areas, to benefit from the effective implementation of national competition policy.

Importantly, the national competition policy framework allows those seeking to introduce or preserve an existing barrier to competition the opportunity to justify the need and efficiency/effectiveness of the proposed approach over the alternatives in an objective, rigorous and transparent public inquiry process. The threshold test requires such interventions not restrict competition unless the benefits of doing so to the community as a whole outweigh the costs, and the objectives of the intervention can only be achieved by restricting competition.

The ACCI regards this analytical and transparent approach to addressing barriers to competition as preferable to one where claims are based on emotion and polemic, and decisions are taken on the basis of political expediency or opportunism.

At the same time, structural change is an inevitable characteristic of dynamic, modern, market economies. As experience around the world has repeatedly shown, those countries/economies which seek to impede or deny structural change tend to suffer weaker commercial bases, slower economic growth and lower standards of living.

The Chamber does not deny that some members of our community may feel aggrieved by the nature, direction and pace of structural change underway in recent years. However, commerce and industry regards many of the problems which some complainants attribute to national competition policy as generally having little, if anything, to do with national competition policy. They are more often than not the result of other government policies or the logical outcome of market forces.

Attached for your consideration is a substantive submission by the Chamber on a range of issues before your Inquiry. Should the Commission require any additional information on any of the matters raised, or on any issues before the Inquiry not covered, in our submission, please do not hesitate to contact Brent Davis of our national office who has primary policy carriage of national competition policy issues.

Yours sincerely



Mark Paterson
Chief Executive

INQUIRY INTO THE IMPACT
OF COMPETITION POLICY REFORMS
IN RURAL AND REGIONAL AUSTRALIA

*ACCI SUBMISSION
TO THE
PRODUCTIVITY COMMISSION*

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Executive Summary

Competition is the underlying dynamic which drives the market-based commercial and economic system which best serves to create wealth and enhance living standards for the benefit of all.

Inversely, impediments to competition reduce the pace and the dividends of economic development and growth, at a cost to all. Interventions which impede competition in pursuit of political or social objectives often impose greater costs than benefits upon economies, and often disadvantage those they are purported to help.

Taken as a whole, commerce and industry expects the overwhelmingly majority of Australians, whether they live in urban, regional or rural areas to benefit from the effective implementation of national competition policy. Those likely to be disadvantaged by its implementation will be those who have derived advantage from previous or existing barriers to competition.

The national competition policy framework: allows those seeking to introduce or preserve an existing barrier to competition the opportunity to justify the need and efficiency/effectiveness of the proposed approach over the alternatives in an objective, rigorous and transparent public inquiry process; with the threshold test requiring such interventions not restrict competition unless the benefits of doing so to the community as a whole outweigh the costs, and the objectives of the intervention can only be achieved by restricting competition.

The ACCI regards this analytical and transparent approach to addressing barriers to competition as preferable to one where claims are based on emotion and polemic, and decisions are taken on the basis of political expediency or opportunism.

At the same time, structural change is an inevitable characteristic of dynamic, modern, market economies. As experience around the world has repeatedly shown, those countries/economies which seek to impede or deny structural change tend to suffer weaker commercial bases, slower economic growth and lower standards of living.

Commerce and industry considers the appropriate benchmark for the adequacy of the breadth, direction and pace of structural change to be that which underpins sustained improvements in our international competitiveness.

Core Principles of National Competition Policy

National competition policy is the broad term given to a package of initiatives accepted by all Federal, State and Territory Governments, of both major political persuasions, in the mid 1990s to extend the breadth, depth and pace of competition within the Australian economy.

The core objective of the national competition policy processes are to lower business costs, reduce unnecessary barriers to competition and lift our international competitiveness, from which will come higher and more sustainable real economic, employment and investment growth.

Other worthwhile dividends, according to econometric modelling undertaken by the then Industry Commission, include lower inflation and better net export outcomes.

In quantitative terms, the then Industry Commission calculated far-reaching competition policy reforms would deliver a dividend to national output of some \$A23 billion annually, with around 80 per cent of this figure coming from reforms at the State and Territory level, with the remaining 20 per cent coming from reforms by the Federal Government.

Other worthwhile dividends included higher household incomes (by around \$A1500 annually), with sustainable wage increases of 3 per cent higher than otherwise, and boost to employment of around 30,000 extra jobs.

All economic sectors were expected to gain, with the largest benefits flowing to mining (output rising by 18.6 per cent), followed by manufacturing (up 5.4 per cent), agriculture (up 4.4 per cent) and services (up 3.4 per cent). Taken as a whole, these figures point to useful returns for just tackling distortions and inefficiencies.

An effective national competition policy regime is not a discrete, stand-alone initiative, but an integral part of Australia's microeconomic reform imperative. The cross sectoral liberalisation promised by effective national competition policy must be complemented by far-reaching sectoral reforms in areas such as telecommunications, posts, aviation and utilities supply.

COMPETITION POLICY REFORM AND RURAL AND REGIONAL AUSTRALIA

Commerce and industry believes competition policy must expand the nature and breadth of competition, apply extensively across the Australian economy, with the clear objective of tackling head-on unnecessary and unjustifiable barriers to effective and efficient competition.

Competition policy must focus on liberalising the domestic business environment to allow 'winners' to self-select and thrive commercially, and ensure greater empowerment of consumers in the market place.

The existing national competition policy framework is structured to implement reforms under a number of clearly defined, but not necessarily mutually exclusive, sub-headings:

competitive neutrality: requires government business enterprises have no net advantage over private sector competitors by reason of their government ownership. Such advantages have traditionally included tax exemptions or concessions, and/or easier or less costly access to finance.

While Federal, State and Territory Governments have moved progressively to eliminate or neutralise these advantages, governments in all jurisdictions should more fully embrace the corporatisation of larger government business enterprises and the commercialisation of other significant undertakings. The wider and deeper use of privatisation is also encouraged;

structural separation of government business enterprises: commerce and industry considers it essential that government business enterprises (GBEs) must be fully and equally subject to the requirements of national competition policy, which means ensuring a level playing field for rules-based competition between private and public sector enterprises.

An important element of this approach are structural reforms which focus on the separation of the natural monopoly, competitive and regulatory functions. Separating the monopoly from the competitive functions of GBEs is necessary to ensure there are no unfair advantages arising or cross-dividends flowing from the monopoly to the competition-exposed activities of the GBE.

Furthermore, separating the regulatory from the operational functions is essential to prevent the GBE from conferring unfair advantage upon itself by acting as both 'player and referee' in the marketplace. Where the GBE performs such a dual role the GBE may lack full objectivity in regulatory matters, and confer upon itself unfair competitive advantage through the regulatory regime it designs and administers;

access to essential infrastructure facilities: competition policy must stimulate infrastructure reform and facilitate more liberal access to essential infrastructure facilities – being those assets which cannot be reasonably duplicated by actual or potential competitors.

Such an access regime must be consistent, objective and transparent in its application, although in determining access arrangements the implementing authorities must be sensitive to the implications of their decisions for existing and new investment;

. legislation and regulation review and reform:
legislation and regulation review and reform are continuing obligations for government, beyond their undertakings within the national competition agreements.

Such reviews should examine, inter alia, barriers to competition such as restrictions on who is able to enter a market, and how those already in a market are able to conduct themselves. They could also usefully examine the nature and causes of impediments to competition, especially those of a policy-induced nature, and potential alternative approaches to regulatory intervention.

Commerce and industry endorses the threshold applying under the national competition policy regime, namely interventions should not restrict competition unless the benefit of doing so to the community as a whole outweighs the costs, and the objectives of the intervention can only be achieved by restricting competition.

At the same time, the onus of proof should fall on those advocating the legislative/regulatory intervention to justify the need, and the efficiency/effectiveness of the proposed approach over the alternatives in an objective, rigorous and transparent public inquiry process; and,

prices oversight: policy actions or interventions which distort prices serve to weaken business competitiveness and undermine economic efficiency, and must be held to a minimum. To our mind, the competitive market place is the most efficient and effective form of prices oversight.

Where governments seek to apply formal prices oversight arrangements, this should be done consistently and transparently, in particular to government business enterprises operating in non-competitive markets, with such oversight mechanisms being independent from the government business enterprises whose pricing arrangements are being assessed.

Public Benefit/Interest

As the ACCI has sought to make clear, the primary objective of competition policy is to maximise effective and efficient competition across the Australian economy, commerce and industry, in order to promote economic efficiency and growth, and underlying international competitiveness.

However, in pursuing these goals, the Chamber acknowledges the guiding competition principles recognise restraints on competition can lead to net public benefit, although these first must be subject to examination in open, transparent, rigorous, public inquiry processes.

The ACCI believes the 'public interest' and 'public benefit' tests under the national competition framework are best applied in ways which maximise effective and efficient competition across the Australian economy. In this regard, the primary considerations are international competitiveness, and economic efficiency and growth.

However, the Chamber notes other considerations identified in the Competition Principles Agreement include: sustainable development; social welfare and equity; industrial relations; regional development; and, the interests of consumers.

The ACCI further believes the 'public interest' or public benefit' should be examined over a long term, not a short term, time horizon, given the tendency for costs to emerge before benefits in most reform processes.

Commerce and industry expects a high degree of consistency in the application of 'public interest' and 'public benefit' tests between jurisdictions, industries and sectors, failure to deliver which can produce uncertainty and distort commercial decision-making.

However, any exceptions or cases for special treatment should be allowed only after an open, transparent, rigorous, public inquiry process, with clear reasons being made public for the decision taken, including an evaluation of alternative means for achieving the preferred outcome.

Where governments seek to achieve some social equity or other (re)distributional outcome on the basis of 'public interest' or 'public benefit', these objectives be pursued through other policy channels, such as taxation and/or public expenditure.

National Competition Policy and Regional/Rural Australia

Regional and rural Australia has already benefited from some early reforms which are compatible with, or are expected to flow from implementation of, national competition policy.

As the former Industry Commission estimated, effective delivery of the national competition policy framework was expected to provide a stimulus to agricultural output of more than 4.4 per cent annually, without taking into account the spillover benefits from higher returns to mining, manufacturing and services.

More particularly, deregulation and expanded competition have already produced or hold out the potential to deliver meaningful dividends to key sectors closely identified with regional and rural Australia.

In the rail transport sector, for example, freight rates for the movement of grain in Western Australia have fallen by more than 20 per cent in real terms since competition was introduced in the early 1990s, while freight rates between Melbourne and Perth have fallen by 40 per cent since the mid 1990s (and transit times and service quality have improved) following the introduction of competition on that route.

Deregulation of the Western Australian gas sector in the mid 1990s has resulted in price reductions of as much as 50 per cent for some industrial users, while gas access charges are projected to fall by about 60 per cent by 2000 under commitments given by market players.

Contrary to some misconceptions, national competition policy does not mandate the termination of the compulsory commodity market arrangements with which many rural producers are familiar. To some in rural Australia, national competition policy is seen as the death warrant for single export desks, with inevitable loss of bargaining power and incomes for rural commodity producers.

The more accurate representation of the implications of national competition policy is that it will apply transparency and analytical rigour to ensure those arrangements which are anti-competitive can be justified.

Under national competition policy, if it can be proven that a particular commodity marketing arrangement delivers a net public benefit, and the arrangements are the only feasible way of securing that benefit, then the compulsory marketing arrangements may be retained. The onus of proof falls on those seeking to justify the retention of the barrier to competition (in this case, the compulsory marketing arrangement).

A number of substantial inquiries into compulsory marketing arrangements have already been completed, recommending the retention of the single export desks where such mechanisms result in better outcomes for Australian producers. The NSW rice and Queensland sugar reviews are cases in point.

However, other reviews have come to different conclusions, with an examination of the operations of the Australian Barley Board finding the compulsory marketing arrangements had greater costs than benefits, and thus were in need of reform.

Further, market forces and producer initiatives have shown primary producers are not dependent upon the centralised and regulated commodity marketing board model for commercial success.

The canola industry in Victoria has emerged as a dynamic sector with a strong export focus, in a commercial environment with little or no regulatory intervention. There are reportedly few, if any, signs of producers wishing to move toward the traditional compulsory marketing arrangements.

Similarly, NSW and Queensland cotton producers have secured better prices and broader selling options in a market more reliant upon private marketing companies.

However, commerce and industry recognises there is growing concern around regional Australia at the decline in quantity and quality of services available to those living outside of the capital cities and major coastal/inland cities and towns. Amongst the more frequently cited services declining/lost in smaller regional areas are banking, medical and postal services.

While some, for whatever reason, consider these outcomes to be the result of the introduction in 1995 of national competition policy, the causes are more complex, deep-rooted and earlier in origin. A number of these outcomes can be more directly attributed to changes in the economic platforms and demographic bases of regional Australia than national competition policy.

Indeed, to date, national competition policy has had little, if any, impact on the banking, medical or postal services sectors with: banking services being more impacted by the financial liberalisation program commenced with bipartisan political support in the mid 1980s; the supply of medical services being affected by both market forces and government fiscal policy; while postal services are likely to be subject to only modest reform from national competition, with past changes reflecting government policy.

Indeed, it should be noted in some cases the supply of services per se is not diminishing; only the nature and form by which they are delivered is being affected. For example, financial services are no longer available through the traditional personal service model with which some older persons may be familiar, but are now increasingly being made available using higher technology mechanisms with which they are less comfortable. Alternative face-to-face models are also being developed.

A recent initiative to establish 500 locally-operated Rural Transaction Centres in small country towns across Australia is not precluded by national competition policy and, provided there is transparency and competitive neutrality in the delivery and pricing arrangements, it is not necessarily incompatible with the policy. In short, it is open to governments to deliver subsidised services to regional/rural Australia under national competition policy; that they may choose not to do so is a separate issue for political resolution.

Market forces are also leading the private and public sectors to respond to the perceived decline in some services to regional and rural Australia, with reports a number of local government authorities, networks of pharmacists and some large retailers are all separately examining opportunities to provide traditional face-to-face services in rural areas, albeit more in small kiosk rather than full shop-front format.

Structural Change and Regional/Rural Australia

Just as an earlier report by the former Industry Commission found different sectors of the Australian economy would secure different rates of return from implementation of national competition policy, so a recent report¹ by the Federal Government's Productivity Commission² has identified differential effects and rates of structural change across Australia.

These differential rates of change exist between metropolitan and non-metropolitan (hererafter regional) Australia, as well as between different areas within regional Australia. There was also considerable diversity of experiences amongst those regional areas encountering high rates of structural change, and those experiencing low rates of structural change.

In short, structural change has not impacted uniformly across regional Australia, and as such it would be an error of judgement and policy to pursue simplistic 'one size fits all' policy responses.

¹ "Aspects of Structural Change in Australia", December 1998

² The Industry Commission's successor

The Productivity Commission report measured structural change on the basis of shifts in employment between industries between 1981 and 1996, across Australia's eight capital cities and 105 non-metropolitan areas.

The Commission developed an index of structural change which measured the proportion of a region's workforce in 1996 which would have had to be relocated to different industries to re-establish employment shares existing in 1981; in effect, a 'turn-back time' model.

Taken as a whole, capital cities had an average structural change index value of 14.3 per cent, while regional Australia had an average index value of 18.9 per cent, suggesting the rate of structural change has been only slightly greater in regional areas than capital cities.

However, it should be noted there was considerable diversity in the pace of structural change in regional Australia, with areas like Lower Murrumbidgee in NSW scoring indices of 10 (below the average for capital cities) while at the other end of the scale Lyell in western Tasmania scored a peak of 37.

The main drivers of structural change in the capital cities were the relative decline of manufacturing industry and expansion in the services sector, in particular the finance/business, community, and recreational/personal services groups.

By contrast, the main sources of structural change in regional Australia were the decline in employment in the agriculture sector, followed by the restructuring amongst the mineral industries (especially those related to coal and metallic minerals). Regionally-based manufacturing appears to have experienced relatively little structural change, using the Productivity Commission measure.

Contrary to the misconception promoted from some quarters, structural change is not necessarily 'bad' or likely to cause 'damage' to those most exposed. Commerce and industry considers structural change to be an inevitable part of a modern, dynamic and competitive economy, which offers opportunities to those prepared to embrace the challenges which it offers.

The Productivity Commission observed some regions which had experienced relatively high rates of structural change also enjoyed strong employment growth, above average population growth and relatively higher household incomes (eg the Dale and Vasse regions of Western Australia, and the Far North of Queensland).

Conversely, amongst those regional areas which experienced slower rates of structural change, those with a services orientation (such as the Gold Coast in Queensland and Queanbeyan in NSW) experienced strong employment growth, while those more closely linked to the agriculture sector (such as Hotham - Lakes in Western Australia, North Central Plain in NSW, and North Wimmera in Victoria) experienced employment declines.

Taken as a whole, the core message of the Productivity Commission study is that high rates of structural change do not necessarily mean low or negative rates of employment, with the impact of structural change being more closely related to the economic base of the region rather than the pace of change per se. In simple terms, those regions most allied with agriculture found structural change to be more painful, while those allied with the services sector found it to be beneficial.

Summary and Conclusion

Commercial and economic change is an inevitable part of a modern, dynamic and competitive economy, which offers opportunities to those prepared to embrace the challenges which it offers.

Attempts to deter or withstand structural changes are likely to no more than delay the necessary adjustments, at higher costs than had the reforms being implemented earlier. The implementation of effective national competition policy is an integral part of this structural reform program.

Commerce and industry regards many of the problems which some complainants attribute to national competition policy as generally having little, if anything, to do with national competition policy. They are more often than not the result of other government policies or the logical outcome of market forces.

COMPETITION POLICY REFORM AND RURAL AND REGIONAL AUSTRALIA

The agreement by the Federal, and all State and Territory Governments, of both major political persuasions, offers the opportunity to deal in an analytical and transparent way with the barriers to competition which undermine our commercial and economic efficiency, and through this our sustained international competitiveness.

Commerce and industry, governments and others must not resile from meeting the challenges which will present themselves, but remain committed to realising the benefits of implementing an effective national competition policy regime.