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**Productivity Commission Enquiry**

**Impact of Competition Policy Reforms in Rural/Regional Australia**

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What follows is a summary of some of the points that I raised at a meeting with the Productivity Commission which took place in Burnie on Friday 9 October 1998. [It should be remembered that this author has only been in Australia for a year and still has a lot to learn about Australian competition policy].

**Privatisation of Government owned monopolies**

In Australia, the following are nationalised industries or government monopolies (at either the Commonwealth or State level):

- electricity
- gas
- telecommunications
- water
- railways
- shipping

**Issues:**

- 1) Does government have any business running these enterprises given that the free market philosophy is increasingly accepted? Lack of competition (and therefore pressure for investment) in the long run leads to declining quality standards of services provided to both businesses and consumers and this ultimately reduces competitiveness of business.
- 2) Is it feasible to privatise all of these utilities in order to generate national competition (for example, there is a lack of a national electricity grid and each State seems to have different infrastructures)?
- 3) Given that from a purely economic sense it may not be cost effective to provide some services in rural and remote regions of Australia, how could privatised industries be forced to provide services if there is a social need for such services?

- 4) Abuse of monopoly dominance is another concern, and the Commonwealth Government would need to ensure a socially and otherwise acceptable method for regulating price (e.g. Consumer Price Index minus -X%) is introduced, not only to control price, but to force efficiency.

#### The non-trade public sector

There are also issues relating to the non-traded public sector which need to be addressed. Government at all levels needs to become more efficient if competitiveness is to be improved. In particular, there are issues relating to the following:

- contracting out
- competitive tendering
- bench-marking and standards

#### Issues

- 1 There is a strong argument for contracting out, or at least submitting to competitive tender, the provision of many non-social services which are currently provided by government at various levels (e.g. the maintenance of government vehicles).
- 2 Alternatively, if contracting out is politically or economically unacceptable (e.g., there may be a lack of qualified service providers in regional areas), then it would seem to be very important that government identifies best practice and sets (and publishes) service quality standards.

#### Competition Policy

There are still many anti-competitive restrictions enjoyed by certain sectors (in the case of Tasmania, newsagents and alcohol retailers immediately come to mind)

#### Issues

- 1 Generally, these restrictive practices need to be done away with in order to maximise competition (although a careful analysis of market structure in regional Australia should be conducted before change takes place). However, the government would need to ensure that there are adequate mechanisms in place to prevent the abuse of the dominant position that many larger firms may quickly assume if anti-competitive restrictions are lifted.
- 2 Government would need to ensure that small businesses are not adversely affected and it may need to booster short to medium term aid to small regional businesses in order to help them to become more competitive. In addition, consideration should be given to allowing small businesses to engage in some restrictive practices in a limited way such as:
  - small scale exclusive representation contracts
  - small scale cartel agreements
  - non-distorting information exchanges

### The Single Australian Market

In my view, Australia still has some way to go until a truly single Australian market can be said to exist. In particular, the following give cause for concern:

- fiscal barriers
- technical barriers
- regulatory barriers
- State market distorting practices, restrictions
  - ◊ State subsidies
  - ◊ State protected procurement policies

### Issues

- 1 There are still many fiscal barriers to inter-State trade. Each State has different taxes when what is needed is an Australian wide taxation system which is totally transparent.
- 2 Any differences in State laws relating to standards (e.g. environmental, health and safety) need to be removed and Australian wide standards need to be developed.
- 3 Regulatory barriers (eg those regarding vehicle registration and inspection, driving licences, the right to practice a trade, etc.) need to be National rather than local. Bureaucratic barriers adversely affect business in regional areas.
- 4 All market distorting practices and restrictions at the State level (and local government level) need to be removed, especially hidden State subsidies and any State restrictions on public procurement (e.g. hidden preferences for State locally owned firms, etc.)

### Distribution/reallocation of wealth issues

In my view, the Commonwealth government needs to develop a coherent and integrated regional policy (possibly along European Union lines). This is required for a number of reasons, but in the context of this debate, it is needed to counter any adverse affects of deregulation and privatisation that may emerge. In particular, there is a need to establish an Australian Regional Development Fund (along European Union lines) in order to:-

- fund the economic development and structural adjustment of the poorest regions (especially if markets are freed up)
- improve regions seriously affected by industrial decline
- combat long term unemployment
- facilitate the occupational integration of young people
- promote the development of agricultural areas
- counter any adverse affects brought about by market liberalisation/increased competition