Submission to the Productivity Commission Inquiry into the effects of National Competition Policy on Regional and Rural Areas
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Part One

By its very nature, the national competition policy is driven by a single imperative and has a single objective – the achievement of a completely deregulated market. The advocates and apologists for the policy assume as an unquestionably valid premise that such a market provides not just a superior (and thus more efficient) economy but, in fact, the best (and, therefore, the most efficient) economy.

The national competition policy both in theory and in practice takes no account of the horrendous social and micro-economic effects – the destabilising blows against social cohesion in regional and rural areas, the dismantlement of integrated communities due to the ripple effect of the withdrawal of essential services and the devastation of well-established regional economies.

It is nothing short of a national disgrace that a policy which ignores or dismisses any concept of the traditional Australian "fair go" and which doesn't consider social justice, social impact, social dislocation, community service obligations and personal grief, has not just assumed the status of holy writ but has come to dictate and dominate policy direction at all levels of Government.

The implementation of the national competition policy has caused severe social disruption in regional and rural Australia, widened the divide between the city and country (and, virtually by definition the divide between the "haves" and the "have-nots"), exacerbated unemployment (especially youth unemployment) in regional/rural areas with all of its distressing effects including rising drug abuse and crimes of violence and a permanent loss of young people, all of which have contributed to a profound sense of utter hopelessness.

The policy and its effects (actual, predicted and/or perceived) have had such an effect on the collective psyche of regional and rural Australians that there is a widespread belief that any investment in local economies would be, at best, of limited value and, most probably, a very high loss-making venture. There is a marked reluctance to invest in small business ventures of all types and thus create local employment because of the belief that small business will ultimately be crushed by deregulation, the domination of major chains, the continuing population drift, the absence of necessary support services (especially banks) and the all-pervading and morale-sapping assumption that the present deplorable situation will not only get worse, it will get worse by design.

The recent deplorably insensitive statement by the CEO of the Commonwealth Bank that it should be thanked for its "efficiencies" such as closing branches didn't cause as much outrage in regional and rural Australia as it caused a far greater sense of hurt and resignation.

At a time when combined annual profits from the four major banks and St George are predicted to rise by some seven per cent to more than $6 billion, these continuing closures underline the effects of national competition policy. It starkly, bluntly and unashamedly reveals the ugly, harsh face of rampant capitalism which takes account of nothing except the financial bottomline. "Survival of the Fittest" is not a formula for social cohesion, private enterprise or an optimistic outlook for our youth.

Presumably, the most "efficient" bank would be one with no branches at all with all services conducted by electronic transfer and, certainly, the "efficiency" has been reached in small regional and rural communities.

It is entirely appropriate that the Productivity Commission, in considering this matter, determine whether or not it is in the national interest to have viable, functioning communities beyond the major centres.

If it is in the national interest (and I would argue strongly that it is), then the question needs to be addressed: how do such communities function and, indeed, survive?

Demonstrably, the economic rationalist "Survival of the Fittest" view which denies any community service obligation and which demands the "user-pay" principle, is not appropriate in this circumstance.

In fact, given the disproportionate value of the contribution to the national economy by regional and rural Australia via commodity exports, it can be argued (and is argued by this author) that these areas more than pay their way. From the macro economic perspective, such areas (and their output) could be seen to be supporting large urban areas and **not** the reverse.

Production efficiencies by primary producers have meant increased output with a declining workforce. Thus, regional and rural areas have been seen to be making adjustments to meet economic/market realities.

But, in making these adjustments to ultimately contribute more to the national economy (and the national interest), it is grossly unfair to impose a policy direction which means the quality of life of rural/regional people suffers. Such a policy imposes a cruel penalty which can only be seen as punitive.

To maintain a decent quality of life requires a firm commitment to protect and defend local essential services – local shops, local hotels, local pharmacists, local service stations and the like.

The big retail chains (like the big banks) will not provide integrated services in small communities. Their objective is to regionalise (ie centralise in a single regional centre) all of the services provided by these independent/specialist providers.

The progressive closure of bank branches illustrates the domino effect of the national economic policy.

When customers are obliged to travel considerable distances to transact bank business, they are more likely to take their other business to that centre. The steady erosion of a small town develops its own rapid momentum downhill. As small business fails, Governments respond to the decline in population by, for example, withdrawing school teachers, downgrading a whole range of services including police, health and transport and generally consigning such communities effectively to the scrap heap of history. Of course, the chances of such communities attracting alternative industries (including tourism) diminish progressively as local services are withdrawn.

The National Competition Council seems not to have taken the slightest regard to the effects of its policies. In fact, there seems to be little (if any) indication on its part to even explain, let alone justify, the policy outcomes.

Some months ago, the Council announced it would visit regional and rural areas to inform and explain the national competition policy. At that time, I wrote to the Council inviting the chairperson to visit my electorate. At the time of writing, I have received no response or even acknowledgment and the publicly floated idea by the Council to launch these visits seems to have quietly died.

This insensitive (in fact, high-handed) view contributes further to the perception in regional and rural areas that the Council is arrogant, self-serving and answerable to none. There is a solid belief that the Council and its policy represent an assault on democracy.

The former Premier of Queensland, Mr Rob Borbidge, recalls receiving an insulting letter from the NCC effectively lambasting him and his Government for announcing a water conservation programme. In essence, the NCC frankly questioned the right and responsibility of the sovereign state of Queensland and its democratically elected Government to implement such a programme as it did not fully take account of competition policy guidelines.

There have been other instances of this unwarranted intrusion into the legitimate role of Government to provide services and nuture its citizens. The NSW Government earlier this year was sent a similar threatening letter by the NCC when that Government sought to protect the livelihoods of rice farmers.

I understand that the Productivity Commission will be considering detailed submissions from various industry and professional organisations explaining from their perspectives the impact of the national economic policy in regional and rural areas so my submission in this part is based on my observations and experiences as a regionally-based MP who travels extensively throughout small communities. It would be a very useful exercise for the Productivity Commission to select such a community to consider in depth the consequences of the policy.

The attached Part Two gives a broad overview of some small business/primary industry impacts.

Part Two

A. Small business in regional and rural areas

There are an estimated 670,000 small businesses in Australia employing more than 14% of the total workforce. In 1995-96, they generated a net 137,000 jobs or 65% of all new jobs created.

In regional and rural areas, the critical importance of small businesses cannot be over-stated. These businesses cover the full range from retail stores, hotels, pharmacists, service stations, professional services etc.

These small businesses, apart from providing services ranging from the critical to the recreational, contribute far more to their local communities than larger chains. They offer local employment at a higher level than large chain stores, personalised service, a diversity of products and services, often essential lines of credit to the farming community in times of need and a real sense of "community", and revenue and profits go back into the local community .

Specialised small businesses in regional and rural areas (eg pharmacists) carry a far greater range of products including specialist products which would not be carried locally by a major retail chain. Others – for example service stations – offer emergency assistance often in difficult circumstances and this community support (frequently in life-threatening circumstances) would disappear if the major chains "creamed-off" the lucrative retail sale of fuel and allied products.

The national competition policy requires, among other things, a deregulation of trading hours. In regional and rural areas, the effects of this policy are:

A. A reduction in the diversity of retail outlets and services;
B. A domination by major retailers of market share;
C. A reduction in employment opportunities with full-time employment sacrificed for part-time work;
D. A reduction in the exposure to the local market by local producers, wholesalers and service providers as the major chains tend to purchase from national suppliers;
E. A transfer away from the local community of profits, investment and jobs;
F. A decline in the development and construction of small business premises.

In fact, it can be argued that a deregulation of trading hours leads to less competition, less retail/service delivery diversity and, therefore, less competition. Ultimately the whole local community suffers collectively and local consumers suffer individually.

The loss of a business and/or professional service in a regional or rural area inevitably means a permanent loss even if the local community is unhappy with the inadequate substitute. The normal laws of supply and demand don't operate with any natural efficiency when prospects are bleak and economies of scale don't exist.

To nurture small businesses (and, by extension, the very quality of life) in regional and rural areas, the following are essential:

1. no deregulation of trading hours;
2. guaranteed safeguards of specialist providers (pharmacists, service stations, hotels etc).

In terms of the productivity returns provided by a regulated small business sector, the following emerges:

1. lower unemployment;
2. increased taxation return to the Government via PAYE employees and a higher wholesale sales tax revenue as independent retailers have this tax not only added at a later stage in the distribution system but on top of warehousing costs and freight. It has been estimated that for every shift of 1 per cent in market share from independent grocers to the retail chains, there is a loss of some $6 million in wholesale sales tax revenue.

The Report by the Independent Inquiry into National Competition Policy (August, 1993) stated:

> *There should be no regulatory restrictions on competition unless it is clearly demonstrated to be in the public interest. Governments which choose terms and conditions should demonstrate why this is necessary in the public interest.*

It is the author's belief that this "public interest" consideration has been diluted to such an extent by a slavish adherence to national competition policy, that it now scarcely exists.

Certainly, in regional and rural areas, this "public interest" argument should be given first priority if communities in these areas are to survive. The dictates of the National Competition Council show no acceptance or even acknowledgment of this principle and Government at all levels appear not to have mounted a sufficiently strong argument in its defence.

B. Primary Industry

Attached is a speech I gave to the House of Representatives on 24 February, 1997, on the sugar industry and one aspect of the national competition policy. It shows that the progressive deregulation of this industry – all done in the name of "efficiency" and "consumer benefit" – has not resulted in any consumer benefit at all.

The deregulation of the dairy industry also exposes the myths and fallacies of the national competition policy as a "consumer-friendly" policy.

In June this year, NSW dairyfarmers were told the farm gate price for their milk would be cut by 3.3 cents a litre from 1 July. This followed the fierce competition from Victorian milk processors and was estimated to cost NSW dairyfarmers at least $10,000 to $20,000 a year in lost revenue.

This farm gate price reduction has not led to any consumer benefit with the major supermarkets in that State controlling an estimated 80% of market share.

It should be noted that Queensland is scheduled to deregulate its milk industry on 1 January, 1999, and no clear consumer benefit has been identified. On the other hand, a significant disruption of the Queensland dairy industry is likely.

Attached is a copy of the submission to the Queensland Dairy Legislative Review Committee from the Queensland Dairyfarmers' Organisation Central District Council. It raises in detail the concerns of that industry and the perceived impacts of deregulation. To put it mildly, the anticipated scenario is most distressing.

It should also be remembered that the National Competition Council sought (fortunately without any success) to dismantle the single desk selling power of the Queensland Sugar Corporation.

This proposal was rightly greeted with outrage by the sugar industry as it would have thrown the existing highly successful selling arrangements into complete disarray and imposed an intolerable burden on sugar producers, the industry generally and the communities which rely wholly or significantly upon it.

Only the most determined action at the political level (an action taken by the author and parliamentary colleagues) saw this recommendation scrapped and the single desk selling power entrenched.

Extract from the

WEEKLY HOUSE HANSARD

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GRIEVANCE DEBATE
Sugar Industry

Query: **Speaker = kelly*d***

Article: **12** of **34**

Date: 24 February 1997 Page: 1103

Speech in the context of a Grievance debate

Speaker: Kelly Mrs D.M.	Electorate:	DAWSON
	Party:	NP
	Government:	YES

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GRIEVANCE DEBATE
Sugar Industry

Mrs DE-ANNE KELLY (Dawson)(5.46 p.m.)--I wish to speak about the sugar industry review, whose recommendations were brought down last December. This was a panel made up of representatives of cane growers, millers, industry users and government and its findings were unanimous. There were numerous recommendations, but two are of particular interest. The first is that all of the regulatory arrangements pertaining to the sugar industry acquisition and single desk selling remain for the domestic and international markets. The second recommendation is that the tariff be removed from 1 July 1997.

I would like to refer to an article appearing in today's *Australian Financial Review* and to a comment by Mr Gentile, the chief executive of the Australasian Soft Drink Association. Mr Gentile, who was on the industry review panel, said yesterday that the government had to accept the review's findings as a package. He said it would be better to completely deregulate the industry than 'tinker at the edges' of the review's recommendations. Acceptance of the whole package or total deregulation are the only options, according to Mr Gentile.

May I say, firstly, that many committees, panels and so on make recommendations to government. Government can pick up all, part or none of these recommendations. Mr Gentile seems to imagine himself to be one of the legislators. May I tell you, Mr Deputy Speaker, some of the things that Mr Gentile does not mention in that article? For instance, he does not reassure consumers that all of the cost benefits that are supposedly going to flow from the application of national competition policy to the sugar industry via the soft drink makers and other industrial users of sugar will in fact benefit consumers.

Under national competition policy guidelines, the import parity price is to be removed. In other words, raw sugar made into refined sugar will not have tariff and freight added to it, a saving, presumably, from Queensland of the order of $23 million and, under competition policy, to be passed to the consumer. I notice that Mr Gentile does not give the consumers of Australia a guarantee that they will benefit from these changes. Of course, he cannot, because I would like to draw on historical evidence to show that this has never happened in the past.

I refer to Australian Bureau of Statistics figures on the average price of chocolate across six states from 1989 to the present day. During this time, there were many changes to the regulatory arrangements within the sugar industry. The embargo was lifted in 1989. In 1991 the tariff was reduced to $76 per tonne and in 1992 the tariff was reduced to $55 per tonne--all actions of the previous Labor government. All of these reductions in tariff were initiatives of the previous Labor government and during that time one would have expected benefits for consumers. In fact, over that time the price of chocolate increased by 52 per cent. There was not one year in which the price of chocolate declined.

I put this question to Mr Gentile during the verbal submissions to the industry review and his response was that there were other factors at work. Other factors indeed! I have for the same period of time--again from the Australian Bureau of Statistics--the published indices that represent soft drinks and cordials. I would like to particularly mention those for 1991, when the tariff was first reduced. In March, the annual price movement was 7.7 per cent upwards. In June, it was 8.2 per cent upwards. In September, it was 8.3 per cent upwards and in December, six per cent.

In 1992, when the tariff was reduced again, the prices were similar. The price went up by 7.5 per cent in March, by 4.6 per cent in June, by 5.4 per cent in September and by 4.8 per cent in December. Over the entire period from the March quarter of 1989 to the December quarter of 1996, the prices of soft drinks and cordials rose 34.7 per cent while the increase in the consumer price index was 29.5 per cent. If there are benefits to be gained from deregulation of the sugar industry, they are not going to go to consumers. One can only assume that somebody has benefited from those tens of millions of dollars, and the natural reaction is to assume that the commercial users of sugar have pocketed that benefit. If they have done it in the past, there is every reason to believe that they will do it again.

One of the other things that Mr Gentile does not tell us about in the article that he submitted to the *Financial Review* is the state of the sugar industry. It is the most consistent producer of exports. Consumers in Australia enjoy the lowest priced sugar in the OECD. When you put some sugar in your cup of tea in the morning, it is of the best quality and the lowest price in the OECD. But Mr Gentile did not tell us about the comparison between our tariff and those operating in other countries. In Australia the $55 per tonne equates to a 13 per cent equivalent tariff. The equivalent tariff operating in Thailand is 104 per cent, in the United States it is 100 per cent and in the European Union it is 170 per cent. That is quite a substantial difference from the situation in Australia. As a result of the review, it is quite plain that many of the industry organisations are in support of the removal of the tariff. However, a new question has arisen. What will happen in the car industry and the textile, clothing and footwear industry?

I would like to compare rates for tariffs and sugar with the other industries. In 1993-94 the textile industry had a 37 per cent tariff, to drop by the year 2000 to 17 per cent. In 1993-94 the clothing and footwear industry had a 65 per cent tariff, to drop by the year 2000 to 34 per cent. Yet the sugar industry had a zero tariff in 1996. We were told in the recent Industry Commission report that in 1996-97 car tariffs were to be 22.5 per cent, dropping to 15 per cent in the year 2000. Yet we have an example of the sugar industry being singled out for a total reduction in tariffs.

There must be equity between our industries, particularly those industries in northern Queensland that predominantly export. Ninety-five per cent of Australia's sugar is exported. It is totally inequitable to see other industries given a special case consideration when, plainly, the sugar industry is to be singled out to have its tariff reduced to zero. I believe that there should be accommodation for the sugar industry and that there should be a compensatory mechanism to ensure an equitable outcome for the sugar industry in comparison with our other industries. That is certainly something that I intend to take up.

Mr DEPUTY SPEAKER (Mr Mossfield) --Order! I put the question:

That grievances be noted.

Question resolved in the affirmative.