

**SUBMISSION TO:**  
**PRODUCTIVITY COMMISSION**

concerning

**Impacts of Competition Policy on Rural and Regional Australia  
October 1998**

**1 General Comments**

1.1 Northern Queensland has a long history of poor infrastructure, lack of transport and limited service delivery. Cummings reports in 1989 that the "failure (of the north) to capitalise on the tremendous growth in gross values from the region base industries can probably be traced to failure in these fields"; (Cummings: *Development Strategy Report of the Gulf region* ). The situation in 1998 is not dissimilar (Cummings: *Policies for Regional Development in the North*, 1998).

The north is however benefiting from past Government actions: Government philosophies a century ago were to provide infrastructure and services to assist the spread of population and the development of towns. The network of "beef roads" resulted from that approach. These roads now provide the basic infrastructure for the developing live cattle industry and the vital access from the east coast to the north west mineral province. If the philosophy of the 1990's had prevailed then, these roads would not have been built. They would not be built today; extension and finalisation to the Gulf of the "beef road" network, (now so vital for other industries) has taken 25 years.

1.2 Regional and rural centres do not have the population base to be able to compete on the open market in infrastructure development and service delivery. The rural areas of Queensland, particularly the northern and western regions would not have been developed without the assistance of Government. And yet now the resource rich but income and infrastructure poor rural / regional areas are being placed in international, national and state frameworks which expect adoption of "self help" development initiatives with the expectation of minimum Government intervention.

While northern and regional Queensland has been responsible for a high percentage of Australia's growth and is today a major importer of goods manufactured in the south, that contribution to the national economy is not receiving due recognition. The current lack of infrastructure inhibits the development of mining, tourism, pastoral and small business enterprises in regional north Queensland and with the lower population base, the region, on an open competition basis, is unable to provide the direct equity demanded. The fact remains however that the area in terms of primary production is a high earner. Rural areas provide key export income for the nation yet they are the poor cousins of the metropolitan residents.

1.3 Countries with which regional Queensland is trading do not have the impost of competition policies - indeed they have the luxury of protective tariffs and subsidies.

Australian producers are operating at an extreme disadvantage. The government competition policy does more to aid our competition overseas than produce real economies of scale within regional Australia. It is a hindrance to the development of new regional business and products and a threat to existing small business in regional Australia. As a consequence, strategies to enhance employment prospects in regional areas are impeded. It will see the concentration and centralisation of market power in the hands of a few national chains and overseas investors. This will do little to create employment in already depressed rural areas. The voter backlash in regional Queensland at recent State and Federal elections can probably be traced to the genuine concern for loss of income earning potential and decline in quality of life and a feeling of helplessness in the face of centralised government decision making detached from the realities of regional and rural living.

#### **1.4 Possible strategies:**

- rationalisation of competition policy to take into account regional / rural differences in terms of infrastructure, demographics and contribution to the national economy
- reassess the taxation system for rural and remote regions
- tax incentives to business and industry
- establish tax free zones
- free trade zones in more remote areas eg the Gulf

## **2 Loss of services**

2.1 Using Babinda, a small town in a cane producing area south of Cairns, as an example, its population has decreased from 1800 people to 1100 (source Cairns Post). During the past 18 months the Commonwealth Bank has closed and the NAB has reduced its services to half days. Without other Government services in the town, people who need to use these facilities will go to the larger centres where they are likely to do other shopping. This place pressure on the remaining businesses. Babinda already has a 60% vacancy rate in the shopping strip.

2.2 If the viability of small towns is to be protected and maintained, people need to be able to service their basic needs in Government and financial services.

#### **2.3 Possible strategy:**

- Assess multi franchising of these services into one of the larger businesses in a town eg a newsagent, foodstore.

## **3 Reduction of Capital works**

3.1 The maintenance of Horizontal Fiscal Equalisation in Grants Commission formulae gives a disadvantaged ranking to non urban Shires. Federal and State Governments now require a 50%, dollar for dollar, equity as a basis for funding Local Government and community organisations particularly in capital works programs. This severely disadvantages smaller Local Authorities which do not have the rate base or income to meet the required funding equity.

This can lead to a cascading effect in the Shires, reducing Shire staff requirements and lowering the standard of service provision to the area.

3.2 In terms of social justice, the rural and regional areas are suffering a decline in the standards of basic community services which are taken for granted by the more populous east coast regions. As the Shire is often the major employer in a town, this can lead to a gradual depopulation of regional areas. This then impacts on the ability of small business to survive in the regions with smaller and declining population bases.

### 3.3 Possible strategy

- introduce a weighting system based on demographics, Shire area and income generation sources to provide a fairer application of national policies and relief for rural Shires from the impact of competition

## 4 Competition for capital works such as road construction

4.1 Shire work forces are required to compete on the open market and services originally carried out by Shire personnel are awarded externally to contractors. Contracts going to outside contractors harm the local economy and the financial benefits to the Shire are lost.

4.2 While the government may view the provision of funding to support small remote communities as undesirable and an ongoing impost on the tax payer, the alternative is large rural, remote areas of the State being depopulated, with a high percentage of the residents reliant on welfare in larger regional centres and cities.

### 4.3 Possible strategies:

- Examine possibility for greater flexibility in application of competition policy where it can be demonstrated that there is hardship or inability to meet fiscal policy demands eg regional exemptions;
- local government exemptions where the service provided meets basic community needs and infrastructure and is of future economic benefit and an asset to the region;
- develop small business incentives in consultation with regions

## 5 Decline in quality of service

5.1 The consumer is the loser in the drive for economic outcomes with performance measured on the basis of fiscal rather than community and social criteria.

As examples: The contracting out of service provision in the Cairns City Council area has seen a reduction in the quality of basic services such as garbage disposal. Council employees had a concern not only for efficiency but also for the standard of the service provided.

A similar trend can be seen with electricity services - poles are deteriorating and are not

being replaced.

5.2 The perception is that the chief concern is one of economic cost cutting rather than quality of service for the consumer.

5.3 **Possible strategy**

- Exclusion of basic community service delivery which impacts on quality of life from competition policy requirements

6 **Domination of Goods Retailing by national chains**

6.1 Currently the 3 national chains : Woolworths, Coles Myer, Franklins; account for over 80% of packaged grocery sales and 70% of fresh food sales (source: Retail World; A.C Neilson)

6.2 The Hilmer report requires that retail sales be deregulated by the year 2000. Chains would then be able to trade 24 hours a day 7 days a week. In Victoria after 24 hour trading was introduced Coles- Myer were quoted as saying it was equivalent to opening 15 new supermarkets.

6.3 The concentration of market share and trading hours has seen the demise of the small businesses such as butcher, delicatessen and green grocer - look at the local shopping centres - these small businesses do not exist.

6.4 Small business is the engine for national and regional employment growth and it is only through a healthy small business sector that higher levels of employment can be achievable and sustainable. Government employment programs are notoriously short lived in their impact and more often than not designed to suit political rather than community objectives.

6.5 The concentration of market share will in time make it extremely difficult for primary producers to negotiate fairly for the movement of their produce. If Woolworths were to refuse to buy from smaller producers, those producers would be forced to close down.

6.6 The chains are also pushing for the inclusion of pharmacies, newsagents and banks within their premises. From a rural perspective small towns are losing services which forces people to travel to the larger centres and as the major chains can operate 7 days over longer hours with most facilities within their premises this increases the centralisation process and consolidates monopolies to the detriment of the communities ability to make a choice.

6.7 **Possible Strategies:**

- Regulate to ensure against the monopolisation of the market - e.g. limit the percentage share of the total market for the 3 major national chains (similar to media controls)

- The larger chains should not be allowed to include services such as banking and those currently operated by small businesses such as pharmacies, newsagents.
- Pull back Sunday trading and 24 hour trading and look at ways to split the chains into smaller units to provide a higher level of competition.