RIVERINA EASTERN REGIONAL ORGANISATION OF COUNCILS

Response to the Productivity Commission Inquiry into the Impact of Competition Policy Reforms on Rural and Regional Australia

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RESPONSE TO THE PRODUCTIVITY COMMISSION INQUIRY INTO THE IMPACT OF COMPETITION POLICY REFORMS ON RURAL AND REGIONAL AUSTRALIA

The Riverina Eastern Regional Organisation of Councils (REROC) represents the12 local government areas of Bland, Coolamon, Cootamundra, Temora, Junee, Gundagai, Tumbarumba, Tumut, Holbrook, Wagga Wagga, Lockhart and Urana, a population of 120,000 people covering some 41,000 sq. km.

REROC membership represents a broad cross-section of rural and regional communities. It includes a number of small rural communities, mid-sized rural service centres as well as the largest inland city in NSW, Wagga Wagga. Across all these varied communities, the very strong feeling is that National Competition Policy has not contributed in a positive way to the lives of the people.

REROC is concerned that the underlying assumptions for the introduction of National Competition Policy (NCP) were flawed. The Productivity Commission assumed that when a regulated environment was deregulated the inevitable outcome would be increased competition and lower prices. It was also assumed that a regulated environment acts as an impediment to competition. The outcome, however, has not been in keeping with the theory. The "competitive environment" NCP sought to create has not necessarily resulted in greater choice, more efficiency or lower prices for the consumer. In fact, for the vast majority of rural and regional Australians NCP has provided few of these benefits.

When NCP was introduced, there was already a precedent in existence that showed that the concept was flawed - the Australian banking industry. When the sector was deregulated it was on the assumption that overseas banks would enter the market offering consumers a plethora of banking choices. It just didn't happen. Those that did enter the market entered at the high yield end, usually in major metropolitan areas. The low yield, retail end of banking attracted few players and those that did enter only dealt with large sums of money e.g. in the case of Citibank deposits and transfers of $10,000 or more.

Today, fifteen years after deregulation the Australian population has fewer banking choices than it did prior to deregulation. Australians are left with a choice of only four nationwide banks as well as some very small regional non-bank alternatives. Rural and regional Australians are experiencing a contraction of services as banks make a business decision that servicing small populations is no longer comparatively economically viable.

Australia as a whole, is not a large enough marketplace to have justified the wholesale application of National Competition Policy. The small population we have is too sparsely spread to provide the impetus for greater competition, in fact our population spread fosters the contraction of marketplace options.

REROC is concerned about the level of market concentration in rural and regional Australia and feels that NCP only strengthens the level of concentration in these markets while not, in fact, leading to increased competition, improved prices or better service.

Australia is a country that currently has:

- 2 national supermarket chains
- 2 national retail chains
- 4 national banks
- 4 national petroleum suppliers,
- 2 national telecommunications carriers (one losing money at an alarming rate)
- 2 pay television stations (both losing money) and
- 3 national commercial television networks (only one of which is providing a good return to investors).

These major players dominate the Australian commercial landscape. Their blanket coverage of the continent effectively extinguishes any opportunities for new smaller players to enter in competition. The NCP fails to recognise the dominance in the Australian market of these oligopolies. It works on the premise of an "even playing field" when such a field simply does not exist.

New competitors that do enter the Australian market always choose the high yield end. As a result metropolitan consumers (Sydney/Newcastle/Wollongong and Melbourne) and big business (normally located in Sydney/Newcastle/ Wollongong and Melbourne) will always be the big winners.

As a result, rural and regional Australia has not, and is unlikely to, benefit in any significant, sustainable way from NCP. The essential characteristics of our population are that it is small and sparsely spread - this is not an environment that fosters competition. Delivering services and goods to rural and regional Australia costs more than it does to deliver the same goods and services to large metropolitan centres - the return on the investment is just not sufficient to warrant entering the market.

Gains that have been made to date by rural and regional Australia have been at the expense of service, maintenance, community service or regional development.

In preparing our response REROC has considered the impact of NCP on rural industries (dairy), infrastructure (electricity and gas), government monopolies (Telstra) and competitive neutrality in local government.

- ***Rural Industries***

The dairy industry in NSW was deregulated on July 1. In Wagga Wagga the local milk processor Murrumbidgee Dairy Products (MDP) employs 113 people, the factory is supplied by 30 farms who employ 30 staff as well as additional contract staff during busy times. As a result of deregulation those jobs and the viability of our farmers are now in question.

Deregulation has resulted in a reduction in the farm gate price from 53 cents to 50 cents, resulting in a collective loss to our farmers of $472,000. In Victoria farmers now receive an average of 25 cents a litre, the resultant loss of income is in the millions. Lower farm incomes result in lower consumption levels by farming families and this in turn, has a negative impact on the business sector in rural and regional communities.

Following deregulation, Woolworths supermarkets contracted Pura Milk to supply all their milk supplies for NSW. Consequently, MDP no longer supplies the supermarkets in this region – there are three Woolworths supermarkets in Wagga Wagga alone. As a result, consumers now have fewer choices in dairy products than ever before. Those that are determined to purchase the locally produced product must shop at corner stores or independent supermarkets to obtain it.

With the loss of the Woolworths contract, our local processor lost 25% of their market. Woolworths are only located in towns with large populations (in excess of 5,000), consequently milk supply to towns with small populations may now be in jeopardy. Where once our local supplier could offset the cost of supplying milk to low volume markets (populations of less than 1,000), with the supply to the high volume ones, that option has now been removed. The questions which now arise as a result are; how much longer can Murrumbidgee Dairy Products continue to transport milk to low volume markets and could small towns now be forced to go without regular fresh milk supplies?

Deregulation of the dairy industry has not therefore, improved the level of service to the consumer nor has it resulted in lower prices to the consumer. NCP has allowed supermarkets to become the price setters for milk while milk producers and milk processors have been forced to become price takers. Milk in NSW has risen by 3 cents a litre since deregulation, evidence indicates that the $60million profit from that price increase will be completely absorbed by the supermarkets *(see attached press article).*

The only real benefit of deregulation of the dairy industry has gone to the shareholders of the major supermarket chains. Consumers are not enjoying greater choice of product nor lower prices. Producers are not large enough to have any impact on the price set for their product at the farm gate. In fact, they are so small that they have no control at all over the price of their product.

Producers could, in theory, choose to withhold the product until a fair price is offered, however, there is not a producer in this region that is large enough to afford that option. Consumers of course, could protest against the price increase by simply refusing to buy milk for their children!

There are insufficient protections within the NCP to save consumers and rural producers from the excesses of the oligopolies that dominate the Australian marketplace. NCP encourages them to become the price setters, consumers and producers to become the price takers. Deregulation of the dairy industry has demonstrated this exceptionally well.

- *Infrastructure*

Electricity

The corporatisation of electricity in NSW has taken place. This has resulted in certain sectors of the community being able to competitively tender out their retail electricity needs. To date, only those enterprises using at least 160Mwh of electricity per year, ***at a single metered site***, are able to do so – this equates to approximately $20,000 worth of electricity per year, per site.

This means that only big enterprises have received any advantage from this initiative. REROC recently let a tender for electricity within this region for our member councils, of our twelve member councils only six actually had a site that was large enough to be included in the tender.

As a result of corporatisation, all the small County Councils which were previously responsible for electricity provision were amalgamated into larger regional authorities. This has resulted in the loss of approximately 210 jobs across the region.

The electricity service, for the vast majority of consumers is neither cheaper, nor more efficient as a result of corporatisation. Evidence (from councils, electricians and consumers) suggests that maintenance is not being carried out at the same level as pre-corporatisation. In fact, we are so concerned about the supply of electricity in southern NSW that REROC, RivROC, the Murray Regional Development Board and the Riverina Regional Development Board have recently agreed to form an Electricity Taskforce to deal with the issue.

The impetus for this development has come as a result of electricity supply breakdowns within the region. These breakdowns which are both short term and long term (some lasting up to 6 hours) are having a negative impact on business and services in the country. Electricity is an essential service. Responsibility for that service has historically rested with local governments (county councils) who had a vested interest in providing a quality service for the communities in which they lived. For County Councils service and cost minimisation, rather than profit were the paramount considerations. The effective delivery of that service is now under threat because of falling maintenance levels.

Lower maintenance levels could be attributed to the fact that funds that were earmarked for capital works by county councils, were as a result of the corporatisation acquired (as a dividend) by State Government. In the Southern Region of NSW this amounted to approximately $100 million. Maintenance funds that were accumulated through local consumer tariffs and local consumer contributions to infrastructure were completely lost from the industry.

Corporatisation has also had a negative impact on new industry start-ups. The full cost of new infrastructure must now be borne by the start-up industry, previously that cost was subsidised by the electricity provider. The provider recognised that new industry had a long-term benefit not only to their business but also to the community. Accordingly, the provider chose to offset the cost of new infrastructure against future retail electricity earnings. This is no longer the case and in remote rural areas the cost to even a small industry (transmitter, poles, lines, meters etc.) of establishing on a greenfield site can be substantial. The cost is acting as an impediment to development, especially in rural locations.

Corporatisation of electricity, therefore, has resulted in over 200 job loses, the relocation of those people who have lost their jobs to other areas, a down-grading of maintenance activities and has substantially increased the cost of establishing a new industry in rural and regional Australia.

In return, big businesses in the region have been able to competitively tender for their electricity saving between 10% and 30% and six of our member councils have also been able to benefit from competitive tendering. However, some of those councils are now facing increased costs for running street lighting as a result of IPART's determination that the charges levied for use of street lighting must cover the cost of maintenance and ongoing servicing of the lights.

Finally, NCP has not resulted in a realignment of prices between different classes of customers. The main beneficiary, in fact the only beneficiary to date, has been big business. Small business, the predominant type of business in rural and regional Australia has received no benefits.

Although it is anticipated that competition will be open to the entire market by 2001, it appears that real savings are unlikely to be forthcoming. The cost of installing remote metering equipment which enables billing by companies other than the infrastructure supplier, is currently around $1,000 per site. This cost will far outweigh any savings that may be obtained through lower retail pricing.

Gas

The introduction of NCP brought about the unplanned disposal of Wagga City Gas by Wagga Wagga City Council.

Wagga Wagga City Council enjoyed a monopoly supply of gas to Wagga Wagga and its environs for almost a century. As result, Wagga Wagga consumers, compared to the rest of NSW, enjoyed very low cost gas prices, perhaps the lowest in the State. The introduction of NCP changed that situation forever.

The prinicples of NCP, of opening up infrastructure to all providers, resulted in a reassessment by Wagga Wagga City Council of its gas business. It became apparent to council and its management that it would not be able to compete against national suppliers if they chose to enter the Wagga Wagga market. Entry to the market by those suppliers was deemed to be inevitable. Wagga Wagga is the largest inland city in NSW and as a result of aggressive marketing and low cost pricing strategies implemented by the Council over many years, the City has very high levels of gas connection.

Private suppliers keen to take advantage of the market that Council had developed were also in a position to carry losses that may have been incurred in a gas price war. Council was not in the same position, its reserves would not allow it to carry losses. Unable to compete on an even playing field with private industry, the decision to sell the Gas Business to a competitor was the only choice left open to Council.

As a result of this decision, 18 jobs were lost in Wagga Wagga. Previously the City had enjoyed a very real competitive advantage when it came to attracting new industry to the town. The Council could provide low rates to high energy users, making the location attractive to large manufacturing industries like Customwood Laminex.

Those opportunities no longer exist for the City, in fact it is anticipated that gas prices will soon rise as a result of IPART's recent decision on contributions to infrastructure.

Again, the country and consumers have suffered as a result of NCP. They will be paying more for the product, jobs have been lost as well as the spending power of those employees, there is no greater choice and no better service than was provided by the previous supplier.

Reform of Government Monopolies:

Telstra

Telstra's partial privatisation has had a negative impact on the provision of services to rural and regional Australia.

This region has recently completed a study of our telecommunications infrastructure and the results for our small communities have been very disturbing. Not only do they not have access to quality internet services, some are experiencing on-going difficulties sending and receiving simple facsimile messages.

These difficulties are a direct outcome of the quality of the infrastructure in place. We have been advised that Telstra has no plans to upgrade that infrastructure and unless substantial changes are made to the Universal Service Obligation (USO), that will force Telstra to provide quality, reliable data services this will remain the case. At present the USO only requires Telstra to provide voice telephony services.

Telstra's privatisation has not led to any cheaper services in this region nor has it improved maintenance and installation times.

REROC recently had occasion to request the installation of a new business line within its office, which is located in the middle of the main street of Wagga Wagga, we were advised that the waiting time for a technician to visit would be four weeks. Anecdotal information from residents indicates that this time has extended to three months for residential connection.

Mobile phone telephony in the rural areas of REROC is unsatisfactory, the phasing out of the analogue phone system will ensure that this service gets much worse. Again, none of the major providers, Telstra, Optus or Vodaphone have expressed any interest in improving services because the financial returns are simply not there for their shareholders.

Large industries have indicated that they too have received unsatisfactory service from Telstra, particularly with regard to the installation of new infrastructure. As a result, some are now researching the installation of their own micro-wave link communications systems

Such problems also impact negatively on our opportunities to attract new industry or expand industry that is already located within the region. Quality telecommunication services are integral to business, if we are unable to offer these services we will be unable to sustain business within the region.

As part of our telecommunications study the Working Party called for Expressions of Interest from companies wishing to install telecommunications infrastructure or provide telecommunications solutions for the Riverina region. The response we received was appalling, while there were a number of initial phone enquiries, no-one actually submitted a written EOI of any significance. Our belief is that the potential Return on Investment could not support the investment in the required infrastructure.

It is becoming increasingly apparent that Local Government may be required to step-in, to attempt to organise mini-networks with the aim of improving services for their constituents. This is a task that should not fall to Local Government at all.

In addition, job losses throughout the region have been extensive. A regional Telstra office, which was located in Wagga Wagga, has closed. Technicians and administrative staff have also been made redundant across the region.

Again, competition policy has not resulted in a cheaper or more efficient service for our residents and many are very concerned that their services will continue to falling behind their city cousins until they are truly second rate.

Competitive Neutrality and Local Government

While many of the REROC councils are willing to recognise that the process of identifying true costs has been worthwhile, they question whether the time and effort involved in the process will result in any long term benefits.

What has resulted is a reshuffling of costings internally, where one council department ceases to subsidise the functions of another department. It has not, however resulted in improved services for council's consumers nor to additional competition for council services.

Local government does not make money on the services it provides to its ratepayers. Local government is about the provision of services, not about turning a profit, as a result there are very few opportunities for the private sector to step in and make money. The only way that the entry of the private sector into local government could be achieved is if the price of the services provided were raised for the sole purpose of generating a profit. This is not an outcome that is supported by any of our members or their ratepayers.

Where there is a notional subsidy arrived at by competitive pricing regimes that the Commission deems that to be anti-competitive. In doing so, the Commission does not recognise the community service obligations of all levels of government. Artificially creating competition for the provision of what are essentially community services ultimately serves no one.

There also appears to be an underlying assumption with the concept of competitive neutrality that councils operate inefficiently and must be forced via legislation to seek out the cheapest options. In NSW, where rate pegging has been a reality for fifteen years, councils are constantly challenged to balance budgets while not decreasing services - if there is a more efficient and cheaper way of delivering a service in NSW, then councils would be doing it.

This is particularly so for rural councils who have smaller and often decreasing rate bases, frequently operating on budgets of less than $10 million. Those councils are still expected to deliver the same range of services as their larger counterparts. The growth of Regional Organisations of Councils with their resource sharing goals is further evidence of the practical ways in which all councils have pro-actively attacked the issue of cost minimisation.

Conclusion:

The Hilmer report, which was the philosophical basis upon which the NCP was developed was principally concerned with being able to quantify the level of cross subsidisation which occurred in markets. To know this is laudable, but the question is what is to be done once that knowledge is obtained? The answer lies in the political process, the process of weighing up the cost of the subsidy against the ultimate benefits received by the public - the public good. As NCP currently operates, it completely lacks any assessment or consideration of the public good.

Government is not a business - it is a service. Simply because taxpayers pay to receive a service (electricity, gas, water, telecommunications and sewage) does not make the service is a business. The prevailing point of view appears to be that if the government receives money for a service it provides then that service should be provided by private enterprise. Why is there a constant assumption that private enterprise will deliver the service better, when their motivation is not service but profit?

Profit and service do not go hand-in-hand especially when monopolies and oligopolies come into play. If governments do not provide quality services they are answerable to their voters, when business does not provide a quality service who do they answer to? Shareholders will not question service as long as dividends continue to be provided. In fact, shareholders will support bad service if profits can be maintained.

Consumers cannot run to another provider if they are backed into long term contracts or if the "competitive" market as a whole acts in an oligopolistic manner. In rural and regional Australia the door is now open for monopolies to rule. The big end of town is more than capable of driving out small operators who do not have the cash reserves to sustain a price war. Wagga Wagga City Council recognised this when it made the decision to sell its gas business.

Governments are not elected to run a business but to govern a country, for the betterment of all. The central focus of government should be service and not profit. Governments are not remembered because they turned a surplus, they are remembered for what they do for their people.

National Competition Policy has not improved life for the people of rural and regional Australia. Consumers here will not receive more efficient services, cheaper products or benefit from greater choice.

We are however, waiting longer for service and maintenance, experiencing job losses across a number of sectors and have lost support for regional development and community service initiatives. The costs have been great, the benefits small and as time goes on they will continue to diminish as monopoly enterprises develop strangleholds on our marketplaces.

Rural and regional Australia is not a large enough marketplace support multiple competitors. Any proposal that deregulates the commercial environment must be done with an eye on the positive or negative impact on communities with populations of less than 80,000. These are the markets that are not high yield, they do not readily attract new competitors and in fact, many of them are working hard just to retain the businesses they have.

It is imperative that the Federal Government recognise that rural and regional Australia are fighting a never-ending battle to retain businesses, services and consequently population. The introduction of the National Competition Policy has not made their fight any easier.

Milk prices rise

THE PRICE of milk has risen by up to three cents a litre since deregulation came into effect on July 1.

Minister for Agriculture Richard Amery said the price rise became evident following the release of a first quarterly survey conducted by the New South Wales Dairy Corporation.

"This just goes to show that the National Competition Policy and deregulation in this case has been an absolute failure," he said.

Deregulation of the post-farm gate price of dairy was agreed to by the former Coalition Government in 1992 and came into effect three months ago.

"As a direct result of that decision to deregulate, the farm-gate price for farmers has been collectively forced down from 53.35 cents a litre to 50.038 cents a litre, vendors have had their margins cut from 11.5 cents a litre to six cents a litre and processors have also faced some reductions in their margins," Mr Amery said.

"The results are perfectly clear. The dairy farmers have lost out, the vendors have lost out, the processors have lost out and the consumers have lost out.

"The only winners are the supermarkets who have not only refused to bring down the price of milk but have actually put the prices up.

The Daily Advertiser, October 7th, 1998