



# COMPETITION POLICY AND THE BUSH

Prepared by  
Richard J. Wood  
for

The Queensland Chamber  
of Commerce and Industry  
South-West Regional Council

May 1999

The implementation of an effective national competition policy regime will deliver substantial commercial and economic dividends to all Queenslanders, in terms of stronger economic growth and improved standards of living. However, some Queenslanders, especially those living in regional and rural Queensland, have been experiencing sometimes painful structural change. Yet, in many cases, it would be wrong to attribute these changes to national competition policy.

The overwhelming majority of Queenslanders, whether they live in urban, regional or rural areas, can expect to benefit from the effective implementation of the comprehensive national competition policy (NCP) regime agreed by all Australian governments a few years ago.

The main objectives of an effective NCI? regime are clear and simple: it must expand the nature and breadth of competition, apply extensively across the Australian economy, and tackle head-on unnecessary and unjustifiable barriers to effective and efficient competition.

It must also liberalise the domestic business environment to allow "winners" to self-select and thrive commercially, and ensure greater empowerment of consumers in the market place.

NCP, effectively implemented, will 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.

In quantitative terms, the former Industry Commission has 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 are likely to include higher household incomes (by around \$A1 500 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.

### **REGIONAL/RURAL QUEENSLAND**

Regional and rural Queensland has already benefited from some early reforms which are compatible with, or are expected to flow from implementation of, NCR

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 Queensland.

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.

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 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, NCP does not mandate the termination of the compulsory commodity market arrangements with which many rural producers are familiar.

To some in rural Queensland, NCP is seen as the death warrant for single export desks, with inevitable loss of bargaining power and incomes for rural commodity producers.

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 Queensland 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.

Nevertheless, there is growing concern around regional Queensland 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 NCP, 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 Queensland.

Indeed, to date, NCP has had little, if any, impact on the banking, medical or postal services sectors in regional/rural Queensland, with banking services being more impacted by the financial liberalisation program commenced with bipartisan political support in the mid 1980s.

Similarly, the supply of medical services is being affected by both market forces and government (fiscal) policy, while postal services are likely to be subject to only modest reform under NCP, with past changes reflecting government policy on state-owned enterprises.

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 people may be familiar, but are now increasingly being made available using higher technology mechanisms with which they may be 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 Queensland is not produced by NCI? 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 Queensland under NCP; 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 Queensland, 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.

### **IN CONCLUSION**

Many of the problems attributed to NCP generally have little, if anything, to do with NCP. They are more often than not the result of other government policies or the logical outcome of market forces.

The agreement by the Federal and all State and Territory Governments of both major political persuasions to effective and far-reaching NCP provides a valuable opportunity to tackle 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 NCP regime, such as stronger economic growth, lower inflation, and improved living standards.

**Richard J. Wood - May 1999.**



# COMPETITION POLICY

Prepared by  
Richard J. Wood  
for

The Queensland Chamber  
of Commerce and Industry  
South-West Regional Council

May 1999

## PRINCIPLES OF COMPETITION POLICY

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.

Competition policy must work to optimise commercial and economic efficiency, acting as a powerful stimulus to economic development and growth. Where governments seek to achieve some social equity or other (re)distributional outcomes on the basis of "public interest" or "public benefit", these be pursued through other policy channels, such as taxation and/or public expenditure.

## POLICY OBJECTIVES

*The SWRC's overwhelming policy objectives include:*

- + prompt and effective implementation of the agreed national competition policy regime within Australia at all tiers of government; and,
- \* the adoption under the auspices of the World Trade Organisation of effective and transparent competition policies which reinforce trade and investment liberalisation.

*Specific and near term policy objectives include:*

- \* ensuring consistent application of competitive neutrality rules, including action to identify and/or obviate inappropriate implementation
- \* monitoring the structural reform of government business enterprises, in particular the separation of regulatory, and monopoly and competitive functions
- \* encouraging access to essential facilities in ways which stimulates competition in otherwise restricted markets
- \* promoting legislation/regulation review and reform which delivers a substantial reduction in the burden thereof on commerce and industry, and
- \* monitoring pricing oversight and reform processes to ensure charges and the like by government agencies and business enterprises are based on competition and efficiency criteria.

## THE POLICY FRAMEWORK

An effective national competition policy regime is not a discrete, stand-alone initiative, but an integral part of Australia's essential microeconomic reform imperative.

While sectoral reforms in areas such as aviation, telecommunications, post or electricity are necessary, competition policy embraces a more structural, cross-sectoral approach. Both approaches should be regarded as complementary and reinforcing, rather than as alternatives or mutually exclusive.

Competition policy must expand the nature and breadth of competition, applying extensively across the Australian economy, principally by 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.

## COMPETITIVE NEUTRALITY

Competition policy should open to existing and potential businesses, new commercial opportunities in areas previously dominated by, or reserved for, government operators. It will expand competition in previously restricted markets.

Competitive neutrality means ensuring GBEs have no net advantage over private sector competitors by reason of their government ownership.

Such advantages have traditionally included tax exemptions or concessions, easier/less costly access to finance, or less stringent corporate compliance and financial reporting obligations.

Implementation of competitive neutrality must include the establishment of consistent, effective, objective and transparent complaints mechanisms, to ensure such reforms are not used by governments or their agencies to exploit monopoly or dominant position(s) in a market place, especially in the delivery of essential and/or infrastructure services.

Commerce and industry welcomes efforts by governments to implement appropriate competitive neutrality regimes through the corporatisation of larger GBEs, and the commercialisation of other significant undertakings, both of which create more discrete operating entities with greater transparency in their commercial conduct. Privatisation has also been used, and its wider and deeper application is encouraged.

## GOVERNMENT BUSINESS ENTERPRISES

The nature and operations of government business enterprises (GBEs) have changed markedly over the past decade. Less importance is now being attached to any "public good" roles toward GBEs operating as efficient business organisations, albeit government-owned.

This trend is most evident in the corporatisation of a sizeable number of GBEs, and highlighted in the privatisation of an increasing number of such entities.

Commerce and industry considers it is essential GBEs be fully and equally subject to competition policy requirements, ensuring a level-playing field for rules-based competition between private and public sector enterprises.

GBEs must also be subject to appropriate "structural separation". That is, separating the GBEs' natural monopoly, competitive and regulatory functions.

In the former instance (separating the monopoly from the competitive functions), commerce and industry considers this is essential to ensure there is no unfair advantage arising or cross-dividends flowing from the monopoly to the competition-exposed activities.

In the latter instance (separating out the regulatory from the operational functions), commerce and industry remains firmly of the view it is totally inappropriate for a GBE to be both "player and the referee" in a marketplace.

Such a dual role contains the inherent risk of the GBEs lacking full objectivity in regulatory matters, and conferring upon itself unfair competitive advantage through the regulatory regime it designs and administers.

## INFRASTRUCTURE REFORM / ACCESS TO ESSENTIAL FACILITIES

The importance of infrastructure reform is underlined both by its economic significance and its traditional poor performance. Four government-dominated sectors in Australia---energy, transport, communications and water supply account for as much as 16 per cent (or one dollar in six) of the operating costs of most Australian industries.

These sectors are also major resource users, often in competition with the private sector. They are also important determinants of the efficiency and competitiveness of Australian commerce and industry, in both domestic and international markets.

Similarly, various reports have consistently identified evidence of poor performance, including poor capital and labour productivity, excessive and inefficient use of material inputs, inappropriate pricing practices and poor financial performance.

Competition policy must stimulate infrastructure reform, through the access to essential facilities regime and sectoral reform initiatives in key infrastructure areas, such as communications, electricity, gas, water and all elements of the transport chain.

A consistent, objective and transparent regime dealing with access to essential facilities, which cannot reasonably be duplicated by actual or potential competitors, is an important element of competition policy.

In determining access arrangements, the implementing authorities must be sensitive to the implications of their decisions on access (especially terms of conditions, but also charges) for existing and new investment.

Commerce and industry continues to support the corporatisation of the broadest possible range of government commercial-style activities, and a compelling presumption in favour of privatisation where the activity has a commercial orientation and/or operates in a competitive marketplace.

## LEGISLATION AND REGULATION REVIEW AND REFORM

Legislation and regulation review and reform is a continuing obligation for governments, beyond the liberalisation of competition in the national economy.

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. Occupational and professional licensing arrangements are relevant in this regard.

The onus of proof should fall on those advocating the intervention to justify the need and the efficiency/ effectiveness of the proposed approach over alternatives in objective, rigorous and transparent public inquiry process.

The threshold applying under the existing national competition policy regime -- interventions should 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 -- are sound.

Commerce and industry supports additional work to enhance the transparency and identify the net benefits/costs of legislative and regulatory interventions in the business environment, through the publication by all jurisdictions of exhaustive compendiums of legislation/regulation applying therein. To ensure robustness of these compendiums, those items of legislation/regulation not included shall be taken to have no effect.



## PRICES OVERSIGHT

The pricing of commodities, products and services plays a significant role in the efficient and effective operation of the market. Any policy actions or interventions which distort prices weaken business competitiveness and economic efficiency, and must be held to an absolute minimum.

Commerce and industry believes 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 GBEs operating in non-competitive markets. Such prices oversight arrangements should also be independent from the GBE(s) whose pricing arrangements are being assessed.

The pricing arrangements of GBEs should primarily reflect the efficient allocation of resources and their sustainable, operating competitiveness in the marketplace. Pricing for infrastructure and/or essential services should be based on economic ahead of social considerations.

Where governments impose performance requirements on GBEs (such as rate-of-return objectives), these should not have price-distorting effects. Community service obligations should not be funded by price-based cross-subsidies, but from publicly accountable fiscal allocations.

## PUBLIC BENEFIT/PUBLIC INTEREST

The SWRC believes 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 SWRC 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 SWRC 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 outcomes on the basis of "public interest" or "public benefit", these be pursued through other policy channels, such as taxation and/or public expenditure.

## IMPLEMENTATION OF COMPETITION POLICY

Contrary to the implicit nature of competition policy, implementation of prevailing competition regimes in Australia has traditionally been the monopoly responsibility of a single agency: the Trade Practices Commission.

Commerce and industry welcomes the division of responsibilities in the management of the national competition policy regime -- the creation of a National Competition Council to advise on policy and adjudicative issues; and, the reformation of the Australian Competition and Consumer Commission to deal with administrative and enforcement matters.

The National Competition Council should continue to provide policy advice to Australian governments at all levels on the development and implementation of the agreed national competition policy regime, and on the allocation of the identified competition dividend payments.

While commerce and industry accepts the initial rounds of assessments and competition dividend payments needed to give added weight to political considerations, subsequent performance assessments and the quantum of any payments must be based solely on the delivery of meaningful outcomes, rather than demonstrations of reasonable effort.

To underpin continued business and public confidence in the Council, appointments thereto must be based on merit, being relevant and substantive experience in commerce, law and/or management, rather than political affiliation or representation of a sectional interest.

## COMPETITION POLICY IN AN INTERNATIONAL CONTEXT

The globalisation of commerce and industry, and the liberalisation of trade, investment and capital means competition policy can no longer be regarded as an exclusively domestic policy issue.

The nature and reach of competition per se and of competition policy in different national jurisdictions can have a profound effect on the competitiveness of both Australian exporters, and those using imported inputs in their domestic business activities.

Commerce and industry observes the World Trade Organisation (WTO) and many of its national members, including Australia, have recognised the tight linkages between international trade and domestic competition policy liberalisation.

While the XWO, and its predecessors, have achieved much in liberalising trade and commerce between nations, the same progress has not been achieved in breadth or depth, in liberalising competition within member nations.

Commerce and industry supports the consideration of competition policy issues within the WTO processes, including the expected Millennium Round, both as a discrete issue, and for its linkages with the trade in goods, services and investment.

For further information:

Richard J. Wood

Director, South West Regional Council

Telephone: (019) 61 8829

Facsimile: (07) 4639 3958

Email: [woodasoc@coffecorioline.com.au](mailto:woodasoc@coffecorioline.com.au)