

SOME BENEFITS OF NATIONAL COMPETITION POLICY

- Recent IMF and OECD reports have linked the recent strength and resilience of the Australian economy – including several years of sustained economic growth and declining unemployment – with structural reform policies like NCP. Over the last six years Australia's annual productivity growth averaged 2.4%, a rate matched only by Norway among the world's developed nations.
- The Productivity Commission suggests that in the long term NCP will add 2.5% to Australia's economic growth.
- Deregulation of shop trading hours in Victoria and ACT has provided shoppers with greater flexibility and, in Victoria, contributed to the creation of over 5000 jobs.
- Electricity bills have fallen about 23-30% on average, and up to 60% in some instances, for those NSW and Victorian businesses covered by the national competitive market, while wholesale prices in Queensland have fallen by around 23% since its internal competitive electricity market commenced.
- In WA the price of gas has fallen by 50% since 1995, providing major industrial users with some of the cheapest gas in the world outside the Middle East and Venezuela.
- In NSW major savings to more than 400 industrial and commercial gas users have been anticipated, with average costs of delivered gas expected to fall on average by around 20-25%.
- Rail freight rates for the Perth-Melbourne route fell by 40% and service quality and transit times improved following the introduction of competition in 1995.
- Coal freight charges in the Hunter Valley have fallen by 25% between 1995 and 1998 and there have been further cost reductions since then.



Photo: S. S. / Courtesy of The Age

THE FUTURE....

The Australian Governments knew that implementation would not be simple when they embarked on the NCP program.

While capable of lifting the economy's overall performance, the program challenges the entrenched monopolistic status of several groups. Further, the costs of change are often concentrated in a particular group or area and felt immediately, whereas the benefits are longer-term and spread more widely amongst the community.

But, the economic pressures that drove the development of the NCP program have not gone away. The recent Asian financial crisis has re-emphasised the importance of having a flexible, internationally competitive economy.

By working to ensure that conditions for competition prevail Governments will promote growth, innovation and productivity helping to raise the living standards of the whole Australian community.

For more information please contact the
National Competition Council
 Level 12 2 Lonsdale Street
 Melbourne
 Vic 3000
 P: [03] 9285 7474
 F: [03] 9285 7477
 E: info@ncc.gov.au
 W: http://www.ncc.gov.au

"to help raise the living standards of the Australian community by ensuring that conditions for competition prevail throughout the economy which promote growth, innovation and productivity".

National Competition Council
 mission statement



NATIONAL COMPETITION POLICY

National Competition Council
 2000



WHY DO WE NEED COMPETITION?

Between 1960 and 1992 Australia went from being the third richest developed nation to being only the fifteenth.

The declining performance of our economy was largely due to the protection from competition of large sectors of the economy. Protected businesses had little incentive to reduce costs and prices, produce new, innovative products and use resources as efficiently as possible.

Australian Governments began to focus on the domestic and international performance of our economy around the mid 1980's. By the early 1990's it had become clear that to stimulate growth and job creation a co-ordinated approach to market and economic reform was required.

WHAT IS COMPETITION?

Competition is about choice; the freedom of customers to choose between products and choose between suppliers. When customers can choose between businesses offering similar products, prices tend to fall and quality improves.

National Competition Policy considers the environment, equity, unemployment, regional issues, or the social aspects of change

WHAT IS NATIONAL COMPETITION POLICY?

In 1992, the Council of Australian Governments (which comprises all nine State, Territory and Federal Governments) commissioned Professor Fred Hilmer to Chair an "Independent Committee of Inquiry into National Competition Policy".

In 1995, acting on the Report's recommendations, a number of reforms were drawn together to form a package, agreed upon by all Australian Governments, called National Competition Policy (NCP).

NCP reforms designed to enable and encourage competition. They also address other areas that are critical to the long term prosperity of Australian industries.

Essentially, the reforms can be outlined as follows:

- The extension of 'Trade Practices' laws prohibiting anti-competitive activities (such as the abuse of market power and market-fixing) to all businesses – previously most government and some private businesses were exempt.
- The introduction of 'competitive neutrality' so that privately-owned businesses can compete with those owned by Government on an equal footing.
- The review and reform of all laws that restrict competition unless the benefits of the restriction to the community as a whole outweigh the costs.
- The development of a "National Access Regime" to enable businesses to use 'nationally significant' infrastructure (like airports, electricity cables, gas pipelines and railway lines) which are owned by government and other businesses.
- Various specific reforms, including increases in competition in specific parts of the economy on which businesses rely – such as the gas, electricity, water and road transport sectors.
- The extension of price monitoring to all government businesses which have a market monopoly.



DO GOVERNMENTS HAVE TO REMOVE ALL LAWS THAT RESTRICT COMPETITION?

National Competition Policy only requires that Governments identify and change their laws when the restrictions on competition are not appropriate. It explicitly recognises that there are circumstances where restrictions can be justified.

Therefore, each law must be assessed against a number of criteria including public interest considerations [see side bar].

Governments must also examine other ways of achieving the objectives of the laws without hindering businesses and, whether the benefits of the laws outweigh the costs.

Each Australian Government has compiled a list of laws to be reviewed and a rough timeframe. Altogether, about 1700 pieces of legislation will eventually be reviewed. In cases where there are good arguments for the laws, the reviews may recommend that they be retained unchanged.

THE PUBLIC INTEREST TEST

When Governments are reviewing laws that restrict competition the NCP requires them to consider a number of factors to determine what is in the public interest. These include;

- Laws and policies relating to the environment.
- Social welfare and equity.
- Laws and policies relating to matters such as occupational health and safety, industrial relations, access and equity.
- Economic and regional development, including employment and investment growth.
- The interests of consumers generally or of a class of consumers.
- The competitiveness of Australian businesses.
- The efficient allocation of resources.

The list is open-ended, meaning that Governments must also take into account any other matter relevant to determining the merits of the reform being examined.

Competition is not as an end in itself, but a mechanism for improving Australia's well being



WHAT DOES THE NATIONAL COMPETITION COUNCIL DO?

In 1995 when the Council of Australian Governments agreed to implement the National Competition Policy (NCP) they established the National Competition Council to assist them with the complex and ongoing implementation process.

The Council is a policy advisory body and provides national oversight of NCP. It does not set reform agendas or implement reforms itself, this is the responsibility of the various governments.

Although funded by the Commonwealth, the Council is a national body, with responsibilities to all Australian governments. As a statutory body, the Council is also independent of the executive (political) arm of any government.

The Council comprises five part-time councillors drawn from different industry sectors and parts of Australia. It is supported by a secretariat of twenty staff located in Melbourne.

WHAT IS COMPETITIVE NEUTRALITY?

Competitive neutrality involves removing any unfair competitive advantage or disadvantage that Government businesses may experience, simply as a result of government ownership. Competitive neutrality allows privately-owned businesses to compete with Government owned businesses on an equal footing.

Exposing Government businesses to competition from the private sector encourages them to improve their business practices and value for money, minimising the need for the use of taxpayer's resources.

The Council has four main roles;

- Assessment of Governments' progress in implementing the reforms and recommendations as to the level of 'competition payments'.
- To share the benefits of competition, the Commonwealth makes substantial financial payments to the States and Territories provided they make satisfactory progress in reform implementation.
- Advice on the design and coverage of access rules under the National Access Regime for infrastructure like airports, electricity cables, pipelines and railway lines.
- Other projects as requested by a majority of Australian governments. (These can include reviews and advice relating to restrictive or anti-competitive legislation, the structural reform of public monopolies, prices oversight, and competitive neutrality).
- Community education and communication of both specific reform implementation matters and National Competition Policy generally.

WHERE DOES THE AUSTRALIAN COMPETITION AND CONSUMER COMMISSION (ACCC) FIT WITHIN THE NCP REFORMS?

The Australian Competition and Consumer Commission (ACCC) administers the Trade Practices Act and the Prices Surveillance Act.

As part of the the National Competition Policy reforms the Trade Practices Act was extended and now covers all businesses (previously most government owned and some private businesses were exempt). The Act prohibits companies which are big enough to strongly influence a market from using their position to damage other businesses. It prevents a number of firms from banding together to control a market and

raise prices and, regulates business mergers which would reduce competition.

The Prices Surveillance Act, enables the ACCC to make assessments as to whether proposed price increases are reasonable or not, when a Government business has a monopoly or a very high degree of market power.

The ACCC is also the national regulator of the National Access Regime. This role involves enforcing access rules in relation to infrastructure covered under the Regime.

