



NATIONAL COMPETITION POLICY - A FIVE YEAR STOCKTAKE -

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Ladies and Gentlemen,

There is probably a National Competition Policy reform that is personally relevant to everyone in the room today.

Whether you are a doctor or a lawyer, whether you own shares in a power company, own a bottle shop, work on a wheat farm, ever catch taxis, like to shop on weekends, have gas heating in your home, have sugar in your tea, have milk on your cereal, own a mobile phone, post letters, have a flutter at the Casino, water your front lawn, or drive a car.

These are just a few of the areas where National Competition Policy reforms are impacting on the day to day lives of every Australian.

Today, I would like to talk to you about National Competition Policy generally and the National Competition Council's goals for the future of the policy.

Afterwards, I am happy to take questions on specific reforms.

In general terms, this is a 'stocktake'. In five years what have we done and where are we going?

The problem with National Competition Policy – is that when preaching to the converted, or the unaffected, or explaining the theory, - the economic consequences of post-cold war globalisation for an export focussed economy, or, the problems of natural monopoly pricing, it is fairly easy to win the argument that Competition reforms are essential and appropriate.

When defending the realities of reform to those adversely affected it is significantly harder.

Of course, this not a predicament that is unique to competition policy. Most public policy reforms will have winners and losers and need to be implemented and managed very carefully.

Vested interest groups have a habit of being very vocal, very self-righteous, and when they are well funded and well connected they can campaign very successfully against the public interest.

By its very nature, competition removes artificial market protection, and those who have benefited from that protection (at the expense of the greater public interest) stand to lose their privileged position.

Any adverse financial effects are felt immediately by a small group, whilst the benefits usually take longer to flow through and are far more dispersed.

It is very hard for the general public and policy makers to hear both sides of the story.

For example, there is a lot of debate at the moment over dairy deregulation.

Whilst you may get fifty dairy farmers opposed to deregulation waving placards in front of Parliament House in Queensland the public don't see the farmers of other products, like grapes, pork or beef who have all survived despite never having had the luxury of having a fixed price for their product set by law.

Nor do the public see those 89% of Victorian dairy farmers (or 67% of NSW farmers) who voted in favour of an industry promoted dairy deregulation and restructure package just a few months ago.

This is one of the inherent problems of Competition Policy – the millions of people who stand to benefit from the reforms won't march in the streets but the minority who stand to lose, often time honoured privileges, will.

A vocal demonstration of less than a hundred in front of Parliament House can be enough to put the frighteners on a Government contemplating reform.

But these issues are inherent in Competition Policy and have been there from the start and are something we just need to deal with.

However, the whole implementation agenda becomes much more interesting when you have a look at the Australian political scene and how vastly it has changed since Hilmer presented his report to COAG in 1993 – only seven years ago.

The members of COAG at that time were Prime Minister Paul Keating, NSW Premier John Fahey, Victorian Premier Jeff Kennett, Queensland Premier Wayne Goss, South Australian Premier Lynn Arnold, Tasmanian Premier Ray Groom, Western Australian Premier Richard Court, ACT Chief Minister Rosemary Follett and NT Chief Minister Marshall Perron.

Today only one of them is still in office and only three out of the nine Governments have the same Party in power. Of those three, Queensland, has of course, changed and changed back again.

The signing of the Competition Policy Agreements in 1995 must be the greatest bipartisan, multi-jurisdictional agreement we have managed to achieve since Federation.

But, incredibly, we did get agreement on National Competition Policy and it was not the baby of any particular Party or political persuasion.

However, as with any policy, the ownership and advocacy does tend to lie with whichever Party in Government signed up to it.

So we have an interesting situation.

Clearly, the economic fundamentals and market realities that drove the development of the policy in the first place have not gone away – in fact, they are even more prevalent. All Governments recognise this.

The Asian crisis demonstrated pretty obviously the need for a flexible, efficient, and modern economy.

BUT, five years ago, when everyone signed up, reform was theoretical.

The need for reform was explained very well and it was hard to argue against it.

Reform is now reality.

Some people are finding it tough, it does have some financial implications, some communities do need to change, some people do lose their jobs, and most people do get very angry when you challenge their unfair privileges.

Last but not least, Governments can and do lose office.

The end result is that whilst Governments are pressing on and implementing reform, they tend to pursue it via the path of least resistance.

To my mind, this is a tactic that causes more problems than it solves.

To illustrate this point, I would like to quote from another article, this was a Letter published last week in the Financial Review, from Coorparoo, Queensland.

The Letter was titled, “Competition Policy is Decidedly Unfair”.

It referred to the National Competition Council’s defences of the Policy and stated that it “would be more convincing if the policy were uniformly applied – that consistently, it is politically weak groups that are targeted while well-connected industries and firms escape.”

It went on to illustrate that in 1998 within weeks of the canegrowers losing the sugar tariff, the influential vehicle manufacturers had successfully lobbied for a five-year extension of their own tariff protection.

I can see his point.

Well-funded, well connected, people, companies and industries wield political power. It is when that political power is used against the overall public interest that we have a problem.

The fact is, that no-one within the economy who enjoys an unfairly advantaged market position should be protected from reform.

There are just as many vocal vested interests in the mansions of Toorak as there are in the paddocks of Bega.

The “yes... but not in my backyard” argument has been heard too often from the advantaged urban areas.

If Governments are seriously concerned about the growing rural / urban divide then they should ensure that they implement the principles of Competition Policy fairly without fear or favour.

But having focussed a little on some of the complexities associated with the implementation of NCP let me outline a just a few of the actual tangible benefits that we are all are beginning to receive.

Electricity bills have fallen by 23-30% on average, and up to 60% in Victoria and New South Wales. In Western Australia the price of gas has fallen by 50% since 1995. Rail freight rates for the Perth-Melbourne route have fallen by 40% since 1995. In Victoria retail employment has increased by more than 24,000 since shop trading hours were deregulated in late 1996.

Most significantly however, was the firewall that Australia's structural economic reforms gave us during the Asian crisis.

We proved most expert economic commentators wrong during that period and 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.

So, what is the future for National Competition Policy?

Broadly, the Council has four areas that we would like to pursue over the next couple of years.

Firstly, we will be playing a greater role in communicating the requirements and the aims of Competition Policy to the broader public.

Not acting as an advocate of competition for competition's sake but as a disseminator of facts about the Policy, and the potential outcomes, both good and bad of reform.

We have started to do this in a small way – we have produced a number of publications that we are calling “Community Information Papers”. These are short, easy-to-read, glossy brochures that broadly canvas the issues and the status of reform among the States.

Thus far, we have produced papers on three issues, each designed to promote a more informed community discussion and understanding.

We produced two papers on water reform which were sent directly to Local Government. There was nothing new in them whatsoever but we have been quite overwhelmed at the demand for further copies from Shires all over the country.

Obviously they filled a need for clear, concise information about the changes that was free of snake oil or short term political opportunism.

I think it illustrates how much of an information deficit there is out there on the ground – both in rural areas but also in the cities.

So that will be a big task, to provide as much frank, informative material as we can.

Secondly, I mentioned “the path of least resistance” earlier.

Many of the reforms that have been completed thus far, like the introduction of competitive neutrality, and the national electricity market have been complex issues but politically fairly easy because they are predominantly removed from the average man on the street.

More politically or financially sensitive reforms tend to have been put in the ‘too hard basket’ by Governments.

Our second goal will be to empty that ‘too-hard basket’.

We can see very few reasons for the lack of reform where reviews have shown no public benefit exists.

Two classic examples are the issues of taxi licensing and the deregulation of shop trading hours.

It is pretty hard to prove that restricting the number of taxi licences works in the public interest. But, because the restrictions have created a market for the licences, to move to deregulate means States must deal with the tricky issue of whether and how to compensate existing owners.

In all States licences are worth between \$250,000 and \$300,000 and in Melbourne alone it would cost taxpayers around \$1 billion to buy all the existing licences outright at market value.

It is pretty obvious why Governments are loathe to address the issue.

But, the reality is that past practice has dug a great big hole that has created all sorts of problems and actively works against the overall public benefit. At some stage, we need to stop digging deeper and devise some way to start filling in the hole.

It doesn't need to happen overnight but, fairly obviously, it needs to happen at some stage. The context of the Competition Policy reviews should be as good a time as any to start to come up with some solution.

Shop Trading Hours is another interesting issue. In South Australia, Tasmania, and Queensland opening hours are still highly regulated. In most other States they are fairly well deregulated.

In Adelaide two weeks ago three shops in one of their prime tourist areas were ordered to close on Sundays because their floor space exceeded the prescribed space allowed for the product they were selling on a Sunday. They each faced the prospect of a \$10,000 fine.

The responsible Minister stepped in and agreed to consider the possibility of legislating special trading exemptions for designated tourism shopping precincts. He did however, indicate that it would be complex as he would have to define what exactly a tourism precinct was, how its boundaries would be defined and how any Act amendment could ensure that stores genuinely catered to the broader tourist trade.

Our response is that surely it will be more complex to justify the need to make these decisions at all?

How will he justify the public interest in allowing some retailers to trade whilst prohibiting others?

Why it is a good thing to ban a shop owner from trading when they have staff willing to work and customers willing to buy?

Also, how will he explain to the South Australian community why those who live in tourist precincts are allowed to shop on Sundays but those who don't, are not.

Because we are now several years into the Competition program, on occasion, we have the luxury of looking at the reform experience of other States when assessing potential impact in States that have yet to reform.

In Victoria in the twelve months following full deregulation of shop trading hours, retail employment increased by 6,900. This trend has continued and as at February 2000, employment in the industry had risen by nearly 25,000 over what it had been pre-deregulation.

The Productivity Commission also found that there was overwhelming consumer acceptance for extended hours and that overall trade had significantly increased in those States and Territories that have unrestricted shop trading hours.

If any Government sincerely believes that the consumer acceptance and increases in employment and overall trade that have occurred in the other States would not occur in their State then really they should be required to release their reasoning to the community – and let them decide.

So those are a couple of areas where we definitely want to see movement.

We also want to see rigorous reviews of more of the professions. Specifically, the health and legal oriented professions spring to mind.

As with any Competition Policy reviews, the objective should be to ensure public safety and confidence yet also allow consumers to receive a quality service at the lowest possible price

The regulation should have clear objectives, be the minimum necessary and restrict competition as little as possible.

Where professions are co-regulated or self-regulated, transparency and accountability are particularly important.

They must serve as a counterweight to the temptation of the profession to use its control over regulatory standards in its own interests, rather than those of its customers.

An example of this would be enforcing unnecessary practices, regulations or requirements that have the effect of arbitrarily restricting entry to the profession.

To illustrate, given that one in seven anaesthetist positions is permanently vacant and the average anaesthetist earns more than \$250,000, one wonders in whose benefit are the extremely rigorous requirements that the Australia New Zealand College of Anaesthetists sets for hospitals wishing to train anaesthetists.

Vacant positions for anaesthetists obviously contributes to hospital waiting lists.

It is hard to believe that there are not enough people putting up their hands to be trained, that there are not enough bright young Australians who would like to earn a quarter of a million dollars a year.

It is also hard to believe that we can't find enough appropriately trained anaesthetists from overseas to fill those vacancies.

So, those are some of the sorts of things we will be looking at. But we are well aware that our objectives can only be achieved through constructive engagement with governments.

We need to reach agreement on remaining reform priorities, including those which raise questions about NCP compliance. We need to work together to develop practical approaches to implementing reform. And we need to work with all relevant stakeholders to ensure they are part of, rather than just subjected to, the reform process.

The Council's third goal for the next few years is that we would like to see COAG expand the program to include rail reform.

The Australian Rail system is traditionally used as the classic example States not co-operating. Obviously things have improved since the days of mismatching gauges but it is still an issue that urgently requires national, co-ordinated reform. Australia is paying the price of continued delays in reform in this area.

Of course, National Competition Policy already includes a number of other reform areas that go beyond general competition reform principles, these include rural and urban water reforms, the national electricity market, the national gas market and the national road reforms. Rail was the one important area that was omitted.

To outline our fourth and final goal I refer back to the list that I recited at the beginning of this address, the list that cited just a few of the ways that National Competition Policy influences the lives and living standards of all Australians.

The fact is that there is no point in having reform for the sake of reform or competition for the sake of competition. You implement reform in order to make a difference and benefit people and the economy. The NCP reforms could be broadly described as working for lower prices, higher quality and greater choice for consumers, protecting the environment and in particular managing our water resources for future generations, making our roads safer, our lives easier, our economic future secure.

The term 'National Competition Policy' can sometimes be thrown around like a dirty word.

So our ultimate goal must be that, after another five years of reform, Australians did recognise, every time they needed to visit a doctor or a lawyer, or bought from a bottle shop, or caught a taxi, or went weekend shopping, or turned on their gas heater, or had sugar and milk in their tea, made some phone calls, posted some letters, drove their car, ... that National Competition Policy has improved things for them and has been a worthwhile exercise.

Finally, I would like to conclude, by once again taking some words from the media.

Every now and then I see, read, or hear something from left field, from the silent majority, and it helps renew my conviction that we are fighting the good fight and that ultimately Australia will benefit from reform.

At the risk of being a bit cheeky, I would like to read to you a Letter to the Editor, that was published in the Hobart Mercury, on 28 June.

I will let you draw your own conclusions.

Dear Sir,

As a retiree, I congratulate Jim Bacon and Sue Napier on their forward thinking regarding shopping hours. It does not bother me a bit that shops are closed most of the weekend because, no longer working, it is a simple matter to shop in the hours available.

The fact we have to pay a bit more for goods as a result is a small price to pay to keep our praiseworthy unemployment rate down around the 10% mark.

It is heartening to see the deserted streets of Tasmanian towns at weekends. It is this peace and quiet which makes Tasmania such an attractive place to retire to. I salute the foresight which is keeping the state from an expanding population and makes the roads so easy to navigate and the cities and towns so simple to shop at during the week.

My wife and I have just returned from the USA. The picture there is truly frightening with people busily shopping at all sorts of ungodly hours. This causes all sorts of problems such as heavy traffic and a surplus of jobs, witnessed by many shops displaying 'help wanted' signs.

Making this place unattractive is preventing any population explosion, deterring those dreadful young people from staying here, thus keeping Tasmania in the backwaters and making it such a nice place for retired people.

Sincerely... .

I am happy to take questions.

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