

National Competition Policy

Linking benefits with communities

Doug McTaggart
National Competition Council

Regional impacts of NCP

- PC Inquiry “Impact of Competition Policy Reforms on Rural and Regional Australia”, October 1999, concluded that in the long-run:
 - only one in 57 regions estimated not to benefit from NCP in terms of output
 - all regions are estimated to benefit in terms of average income per person
 - majority of regions will either increase employment or reduce it by an amount that can be absorbed in one year’s growth

Regional impacts of NCP

- five of 57 regions would require five or more years of (relatively slow) growth to offset NCP job losses
- ten of 57 regions which lost jobs over the 10 years to mid-1990s will lose more jobs as a result of NCP
- reform inevitably creates winners & losers
- these 15 regions comprise 30% of Australia's land area but only 6% of national employment

Benefits from NCP

- In COAG 1995 report, IC estimated pro-competitive reforms would increase GDP by \$23 billion -- 5.5% of GDP
- Some corroborating evidence since then:
 - productivity growth 1% above previous trend for last 6 years consistent with IC projections
 - productivity benefits passed on to consumers in form of lower prices

Benefits from NCP

- prices have fallen in many areas including electricity, gas, rails, ports, telephone, post
- prices have risen in some areas including water
- at this stage beneficiaries have more often been larger metropolitan users
- expected to flow through to all users over time
- mixed results on service quality

Employment effects of NCP

- Early direct effects of job losses
 - concentrated in gas, electricity, rail, Telstra
 - distributed over both urban and regional areas
 - usually the result of reductions in overmanning which had developed while government businesses enjoyed a monopoly
- some job losses offset by increase in private sector jobs

NCP blamed for many problems

- PC reported that NCP is widely perceived to be responsible for
 - withdrawal of government services
 - demise of local businesses
 - closure of country bank branches
 - generally speaking, the major factor behind population decline in parts of country
Australia
 - a variety of social ills

But there are many other external influences

- Downward trend in world prices for agricultural and mineral commodities
- Technological advances
- Changes in consumer attitudes and tastes
- Changes in lifestyle
- Other government policy changes

So why does NCP have such a bad name?

- Too early for long-run results to flow through?
- Early gains not evenly distributed?
- Adjustment issues not well handled?
- Blamed for outcomes of other external unrelated events?
- Is NCP well understood?

What NCP is not!

- Requirement for privatisation and asset sales
- Compulsory competitive tendering
- Contracting out
- Financial market deregulation
- Industrial reforms
- Cutting the public sector
- Reductions in welfare or social services
- Removing CSOs

What NCP is

- Extending competition into areas previously dominated by government monopolies
 - provision of infrastructure
 - legislative restrictions on competition
- Extending competition into areas of private sector previously exempt
 - for example, the professions

NCP Agreements

- Extend TPA to all businesses
 - previously most government and some private sector businesses exempt
- Introduction of competitive neutrality
- Review of all laws that restrict competition
- Reform of all laws that restrict competition **only if** the costs to the community of the restriction outweigh the benefits

NCP Agreements

- Development of a national access regime
- Specific regulatory reforms to the gas, electricity, water and road transport industries
 - begun earlier under auspices of COAG but now included in NCP

Not competition for competition's sake

- There is an assumption that competition provides best outcome
- But competition seen as a means to an end:
 - Community benefit
- Three central reforms
 - competitive neutrality
 - structural reform of public monopolies
 - legislation review and reform

should be determined on a case by case basis using the public benefits test

What is in the public benefit test?

- All relevant factors
- For example:
 - ecologically sustainable development
 - social welfare and equity
 - OHAS, industrial relations, access and equity
 - economic and regional development
 - investment and employment growth
 - costs of change

What is in the public benefit test?

- consumer interests
- competitiveness of Australian business
- efficient allocation of resources
- But, other factors may be relevant
- The above list is not all-inclusive

Example: reviewing a SMA

- Factors likely to be considered:
 - impacts of barriers to competition on farmers' income
 - welfare of Australian consumers
 - value of Australian exports
 - environmental impacts
 - administrative and regulatory costs
 - socio-economic impacts on regional communities

Example: reviewing a SMA

- employment effects
- economies of scale in transporting and marketing
- agricultural productivity
- effects on value-adding industries

- anything else that is relevant
- list is open-ended

Who conducts public benefit test?

- Relevant jurisdiction
 - Commonwealth, State, local government
- Not National Competition Council
- Challenging task for governments
 - making judgements on importance of each factor
 - need for transparent analysis and reasons
 - properly constituted review process

Role of NCC

- Provides policy advisory and national oversight of NCP
- Does not set reform agenda
- Funded by Commonwealth but responsible to all Australian governments
- Four roles:
 - assessment of Governments' progress in implementing **their** agreed reform agenda
 - recommendations as to level of competition payments

Role of NCC

- Advice on design and coverage of National Access regime
- Community education and communication of specific reform implementation matters and NCP generally
- Specific projects as requested by a majority of Australian Governments

National Competition Policy

- A reform package initiated by and overseen by all Australian governments (COAG)
- Competition reforms to be in community's interest, judged by rigorous application of public benefit test
- NCC's role is in assessment of governments' progress against their own agenda

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