



## Understanding National Competition Policy

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**Thank you. It is a pleasure to be here today.**

**As mentioned, I am a Communications Officer with the National Competition Council.**

**The Council is a Federal Government Statutory Agency.**

**We are funded as an agency of Treasury but we are responsible to all Australian Governments as a group, through the Council of Australian Governments- CoAG.**

**What I am here to talk to you about today - National Competition Policy - is arguably Australia's most significant industry policy and micro-economic reform agenda.**

**The scale and impact of the reforms are massive and have an often unnoticed affect on the day to day lives of most if not all Australians.**

**If you have gas heating in your home, have sugar in your tea, have milk on your cereal, own a mobile phone, post letters, water your front lawn, drive a car, use electricity, or like to shop on weekends – then you are benefiting from competition policy reform.**

**The National Competition Council's mission is**

**“To help raise the living standards of the Australian community by ensuring that the conditions for competition prevail throughout the economy that promote growth, innovation and productivity.”**

**So at the foundation of National Competition Policy is the notion that by encouraging competition within our economy we will bring benefits for Australia and Australians.**

**There is an assumption within National Competition Policy that competition can lead to lower prices, improved goods and services, greater choice, efficiency and innovation. And that this in turn leads to a more competitive domestic economy and an improved ability to compete in exports markets bringing benefits for Australian consumers, Australian businesses and Australian workers.**

**This theory underpins nearly all of the reforms that are part of National Competition Policy.**

**However Competition Policy, as per our Mission Statement, is not about competition for its own sake or as an end in itself. It is about using competition as a method to deliver benefits for the Australian community.**

**Accordingly National Competition Policy has a public interest test which includes the many factors that governments must weigh up when considering whether greater competition and therefore reform are in the public interest.**

**These factors include;**

**Ecologically sustainable development, social welfare and equity, occupational health and safety, industrial relations, access and equity, economic and regional development, including employment and investment growth.**

**However this list is open-ended, meaning that Governments must also take into account any other matter relevant in determining the merits of the reform being considered.**

**To really understand National Competition Policy it is helpful to consider the economic situation that Australia was faced with in the late 1980's and early 1990's.**

**In 1960 Australia was the third richest OECD nation (behind the United States and Switzerland) and our per capita income level was more than 50% higher than that of the European OECD average.**

**By 1992 - as a result of persistently low economic growth Australia fell to fifteenth place - surpassed by most industrialised countries in Europe.**

Our heavily export focussed economy was in decline partly because our regulatory regimes had failed to keep pace with the requirements of increasing globalisation and changes in world markets.

Change was needed on a number of fronts – the financial markets were deregulated and the dollar was floated in the mid 1980's and tariffs on imported manufactured goods began to be phased out.

Then, in 1992, Professor Fred Hilmer was commissioned by the Council of Australian Governments- COAG to conduct a review into the merits of a national approach to competition policy.

Hilmer's recommendations were packaged into National Competition Policy and were agreed to by CoAG in 1995.

Before I move onto the detail of the reforms you might ask why should I teach or discuss National Competition Policy in the classroom?

For several reasons.

Because National Competition Policy has had, and is continuing to have – a major impact on not only the way business operates but also the everyday lives on most Australians.

The Productivity Commission estimates that as a result of Competition Policy Australia's gross domestic product is 2.5% higher than it would otherwise have been, bringing with it business growth, job growth and better living standards for Australians. While the OECD believes that structural reforms like Competition policy have helped "shield" Australia's economy from the Asian economic crisis and it will hopefully assist Australia deal with the effects of the imminent recessions in America and Japan.

Also, from time to time National Competition Policy is "blamed" for things, that are really out of the reach of any policy or even government. A sound understanding of National Competition Policy will therefore assist students in forming their own opinions on a policy which is shaping Australia's economy and our future.

National Competition Policy is in fact a broad umbrella national reforms.

The first reform was the expansion of the existing Trade Practices Act to all businesses.

The Act was originally introduced in 1974, as a consumer protection mechanism, to prohibit companies from indulging in anti-competitive activities such as the abuse of market power and market-fixing.

It had been reasonably effective but only for large, national, privately owned companies.

Prior to its extension most government owned businesses such as electricity generators, gas and water suppliers, ports, passenger and freight transport operators, education providers as well as many private businesses such as law firms and medical practices which operated within a single state were exempt.

So the Act was extended so that every business was covered.

The second reform and a major area of National Competition Policy is legislation review.

Governments use a range of laws, policies, rules and regulations to influence how businesses and markets behave.

Competition Policy requires that governments review (via an independent, rigorous, transparent process) and reform all laws that restrict competition *unless*;

- ❑ the benefits of the restriction to the community as a whole outweigh the costs and;
- ❑ the restrictions are needed to attain the benefits.

If the anti-competitive restrictions cannot be demonstrated as being in the public interest then governments, under competition policy are obligated to change their legislation to enable competition.

Australia – wide there are 1700 anti-competitive pieces of State, Territory and Commonwealth legislation that have been identified for review.

These laws include things like the regulation of the professions, statutory marketing arrangements for agricultural commodities such as the Australian Wheat Board, the regulation of shop trading hours, liquor and taxi licensing.

It also includes laws like the Protection of Movable Cultural Heritage Act, the Homing Pigeons Protection Act, the Hairdressers Registration Act, and the Bread Act.

This article relates to the debate over shop trading hours in Tasmania.

Some states have laws which prohibit shops from trading at certain times for a raft of reasons from religious or cultural traditions, to protection of

specific businesses or the encouragement of tourist or specific shopping precincts.

In Tasmania, South Australia and Western Australia this issue is highly contentious.

However in Victoria, NSW and the ACT State Government reviews have demonstrated that the public interest would be better served by fewer restrictions on trade and as a result regulatory changes have been made.

And the result? Well while each State may vary in Victoria the removal of government restrictions on shopping hours coincided with increased retail activity, employment growth while giving consumers greater choice.

However there are many areas where the need for governments to restrict competition is totally clear cut and therefore less contentious.

This is an advertisement from the Australian Radiation Protection and Nuclear Safety Agency calling for submissions for their National Competition Policy review of the Radiation Protection Legislation.

It is a good example of the sorts of legislation that must be reviewed and it is an easy one to think of some public interest reasons for anti-competitive rules.

The third reform under National Competition was the introduction of the National Access Regime.

This regime allows competing businesses to get access to 'nationally significant' infrastructure such as airports, electricity cables, gas pipelines and railway lines. This infrastructure is often but not always owned by government businesses.

The National Access Regime recognises that whilst this sort of infrastructure is incredibly expensive to build it is relatively cheap to run once in place.

As such while it is not necessarily efficient to have two competing railway lines running side by side from Adelaide to Perth it is still possible to have competition by allowing different companies to run their trains on the same track.

Under the National Access Regime the National Competition Council considers the infrastructure in question and asks is regulation needed to ensure that people have access to it on fair and reasonable terms and conditions or will access and thus competition happen on its own accord.

The Council only recommends regulation where a competitive market would not otherwise occur.

So why is this important and what are the impacts of this?

A nationally consistent approach to regulation encourages investment in interstate infrastructure as well as greater competition as operators gain access to new markets driving costs down and allowing greater consumer choice.

As a result there are now numerous freight operators both private and public running trains across the Nullaboor reducing freight costs and providing competition to existing rail and road based freight operators. In fact as a result of this nationally consistent approach to access rail freight rates fell by 16% between 1991 and 1997 across Australia.

Similarly the real price of gas fell by 22% from 1994 – 1998 while we are currently seeing unprecedented levels of gas exploration, production and pipeline activity. This is substantially the result of a nationally consistent approach to pipeline access and thus National Competition Policy.

The fourth element of National Competition Policy relates to government businesses. National Competition Policy introduced 'competitive neutrality' to ensure government-owned businesses compete on an equal footing and do not have an unfair advantage over privately owned businesses.

Competitive neutrality means that government businesses must be subject to the same financial obligations and costs as privately owned businesses – this includes paying tax and paying rent.

National Competition Policy does not mean however that governments must stop subsidising community services – it simply means that subsidies must be transparent.

What competitive neutrality has meant is that governments including local governments and taxpayers know where their money is being spent and can make more informed decisions about future expenditure.

Telstra is an excellent example of where the introduction of competition has brought far greater choice, innovation, savings and improved service. However it is also clear that Telstra must compete on an equal footing with Optus and the other private operators if this competitive market is to continue. Under National Competition Policy the Government can retain as much ownership of Telstra as it wishes however it does require that it competes fairly with private carriers and that any subsidy (such as a universal service obligation for services in remote Australia) is clear and transparent.

There is another group of reforms, all very significant in themselves, that for efficiency's sake were bundled into National Competition Policy but are not specifically related to competition.

These four reform areas had been the subject of previous national implementation agreements.

These reforms are;

**Roads** – the introduction of consistent national road rules for heavy and light vehicles.

**Electricity** – various reforms including the introduction of a National Electricity Market.

**Gas** - regulation to encourage new pipeline investment, the development of a national grid and intra and inter basin competition, and

The introduction of environmentally and economically sustainable water management. These reforms recognise the huge cost of past water practices which it is estimated is costing Australia at least \$2 billion annually or half the value of our yearly wheat production. The water reforms recognise that water is scarce and therefore is valuable and that the environment has a right to and need for water which must be addressed if environmental problems such as salinity, algal blooms, loss of native flora and fauna as well as the loss productive land is to be rectified.

Water reform should not be considered as “only” a green issue. It is a major challenge to current and future Australian governments which has huge ramifications for Australia's primary and tourism industries and thus regional and rural Australia.

Finally, as a part of National Competition Policy two new bodies were established to oversee the implementation and ongoing management of the reforms.

The Australian Competition and Consumer Commission (ACCC) was established as a merger between the former Trade Practices Commission and the Prices Surveillance Authority.

The ACCC acts as a policeman and enforces the new and improved Trade Practices Act. In addition it also is the access regulator for the gas, electricity and telecommunication industries.

The second body is the National Competition Council which is the body that I represent.

The Council is a policy advisory body which conducts the formal assessments of each State and Territories reform progress.

The two are 'sister bodies'. The ACCC works on anti-competitive activities that break the existing law. The NCC assists governments in identifying and reforming anti-competitive activities which are legal but do not necessarily serve the public interest

So, those are the actual reforms. However given National Competition Policy is so broad and somewhat complex it might also be useful to briefly indicate what National Competition Policy isn't.

National Competition Policy does not require...

privatisation, blanket deregulation, welfare cutbacks, contracting out, reduced social services or a focus simply on markets, money and materialism.

It is entirely consistent for governments to increase spending on welfare, to increase the level of government funded or subsidised social services and to retain government businesses in public ownership.

And when determining where the public interest lies National Competition Policy gives social and environmental values no intrinsically more or less weight than financial considerations.

It is also important to stress that the National Competition Council is an independent government body and as such is apolitical. Since its inception National Competition Policy has received ongoing support from all Australian Governments regardless of their political persuasion.

However, National Competition Policy often requires change and as we are all aware, change is seldom easy.

While these changes only occur because they are in the Australian community's interest often the benefits are spread over a broad population and felt over an extended time frame – while any adverse consequences may be felt immediately by a small but easily identifiable group.

Thus implementing reform for the greater good while looking after those enduring hardship remains an ongoing challenge for successive Australia's Governments who are charged with this responsibility.

So in conclusion I would like to highlight some of the benefits that National Competition Policy has already delivered.

- falls in the average price of electricity by 16% between 1991 –98.



- falls in the real price of gas by 22% from 1994 –98 as well as substantial industry growth
- cheaper freight costs due to falling road, rail and port charges
- and ultimately a 2.5% increase in GDP resulting in business and job growth and better living standards for Australians.

And what of the future? Well the process of reviewing legislation is scheduled to finish in June of 2002 however the National Competition Council will continue in its Annual Assessment of the reform progress of National Competition Policy until 2005.

Well that brings me to the end of my formal presentation. The websites on this slide may be of use to you and anyone who needs any further information is welcome to contact me at the numbers and email listed here.

Does anyone have any questions?