



## NCP and Agriculture

A presentation by Dr Wendy Craik  
President, National Competition Council  
to  
the Annual General Meeting of the Western Australian Farmers  
Federation,  
Perth  
17 March 2004 – 9am

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### **Introduction**

Good morning and thank you for inviting me to talk about National Competition Policy.

I hope that when I am finished I will have convinced some of you of the significant benefits that have arisen from NCP.

### **The history of NCP**

There seems to be a general misunderstanding in the community and the media that the National Competition Council is a body that imposes economic reforms on states and territories, reforms that they do not want and to which they have not agreed.

But the history of NCP is the opposite.

As the world economy became increasingly global through the 1980s, Australia had to compete against countries using technological advantages to drive down costs and enter previously sheltered markets.

Prior to the 1980s, gradual but successful changes to economic policy suggested a way to create an environment that fostered responsiveness and benefited consumers – *competition policy*.

In 1995 the Council of Australian Governments which included all Australian governments agreed that economic reform required a national approach.

This is where NCP was born. It was agreed to, set up by and is being implemented by *every single* government in Australia.

Effectively, it was introduced to ensure that Australia would remain globally competitive and to create changes that would benefit the community as a whole.

The Council was set up to assess the progress governments were making against *their own* commitments.

Competition payments are made as a dividend, to ensure governments receive a return from the improved economy.

The NCC did not and never has, placed commitments on governments to which they did not agree. It simply assesses governments' performance against their original undertaking.

## **The complexities of reform**

NCP has never been a reckless pursuit of competition for its own sake, but one grounded in promoting the public good.

I want to stress this because it is at the very core of NCP.

NCP promotes the public interest – not private interests.

It has never singled out specific groups as the beneficiaries of change, although at the same time it is concerned with the impact of change on all groups.

Progress against NCP commitments is assessed within this overarching framework.

Reform is a complex process that brings with it loss and gain and it's all too easy to point a finger at NCP for an apparent loss in one area that may, in fact, generate much greater gains or in some cases a loss that is unconnected to NCP.

## **The public interest test – the heart of the NCP**

Reform is not always in the public interest. In some cases, the benefits of reform are outweighed by associated costs. As well, there are areas where market failure warrants regulation. NCP recognised this at the outset and therefore in its implementation, governments have considered what kind of change was best on a case-by-case basis.

Public interest is an *explicit* part of NCP and governments *must* take it into account in determining their policy approach to change management.

Because of this - reform proposals are assessed with one eye on the environment, employment, social welfare, regional development and on consumer interests; and another eye on business competitiveness and economic efficiency. The focus is on outcomes that benefit the *community*, rather than providing special treatment for certain groups at the expense of consumers generally.

Trade-offs between the interests of different groups need to be made explicit so that governments can consider the case for adjustment assistance to those who bear the costs of reform in the full light of whatever factual information is available.

This is where the objective assessment process used by the NCC has been so valuable. It relies on reports that are explicit and objective.

### **Public interest in legislation review**

A public interest test in NCP allows restrictions in legislation to be retained where they are in the public interest.

Although all Australian consumers have benefited from the flow-on effects of NCP, including farmers, this test ensures that the application of NCP in relation to each specific industry is a considered one.

In the context of the legislation review and reform arm of NCP – which covers agricultural marketing – this means that

anticompetitive restrictions in legislation *can* be retained *if* they are demonstrated by analysis to be in the public interest.

The case needs to be made robustly, but the provision is there.

### **How NCP tackled reform**

A critical element of the economic reform process under NCP was to remove impediments that stopped Australia from reaping the benefits of competition through a multi-pronged approach that included:

- extending anticompetitive conduct provisions of the Trade Practices Act 1974 to cover all businesses, including government-owned;
- removing restrictions on economic activity unless retaining them provided a net benefit to the community;
- introducing competitive neutrality arrangements to government businesses so that they faced the same costs and pressures as their private sector counterparts;
- providing a legal structure for businesses that depend on access to major infrastructure like railways, gas pipelines and electricity grids to obtain access on reasonable terms and conditions;
- encouraging governments to establish arrangements for overseeing the prices charged by government monopolies;
- Establishing reform programs for the electricity, gas and water industries and a program to remove inconsistencies in road transport regulation across the nation.

## **Reform success**

*So have these reforms been successful?*

Very simply, the answer is yes.

Australia's economic performance for most of the 20th century was mediocre. But the introduction of competition reform combined with the move to more market-based mechanisms has underpinned the very strong performance experienced recently.

Let me give you a snapshot of the results of Australia's microeconomic reform program:

- Australia's economy has now been growing for more than 10 years – this is the longest sustained period of growth since the 1960s. Despite numerous global crises in the past decade, Australia's economy has continued to grow.
- Over the past decade, nearly 2 million jobs have been created.
- Since the 1990s, Australia has been characterised by low inflation, low interest rates and sustained economic growth – inflation averaged 2.8 per cent annually over the 1990s, compared with 9 per cent per year over the previous two decades.
- Australia's unemployment rate has dropped from its 10.7 per cent peak in late 1992 to its current rate of 5.9 per cent.
- During 1990–2001, Australia's average annual growth in real GDP per capita (2.5 per cent) exceeded the OECD average of 1.5 per cent and the United States average of 2 per cent.
- Competition has also resulted in cheaper airfares, clothes and shoes and cheaper and more efficient telecommunication services. And while we are all quick to criticise the banks, there

is no doubt that a wider range of financial services is now available.

### **Industry-specific change**

These general improvements in the economy have been beneficial to Australia and there have also been measurable improvements in specific industries:

- Electricity reform – In 2000 ABARE estimated the benefits from introducing competition among generators and retailers was equivalent to a \$1.5 billion rise in Australia’s gross domestic product. Many people in Australia can now choose their supplier. We are also seeing the emergence of new forms of generation, including (green) electricity;
- Gas – There is now national competition in gas driving exploration and investment in the gas industry. As with electricity, many consumers can choose their gas supplier;
- Urban water –when consumption-based pricing was introduced in the ACT, average annual household consumption fell from between 150 – 500kl to between 150 – 300kl;
- Rural water reform – the creation of tradeable water rights allows water to be used where the returns are greatest. The NCP obligations recognise, for the first time, the environment as a legitimate user of water;
- Part IIIA of the *Trade Practices Act* now establishes a legal right for third parties whose activity depends on the use of nationally important infrastructure to share that infrastructure on reasonable terms and conditions. This means that we can have competition without having to duplicate monopoly infrastructure, such as electricity grids, gas pipelines and railway tracks;

- Legislation review – many laws with unjustified restrictions on competition have been repealed or amended. In NSW, when the legal profession's monopoly on conveyancing was removed fees dropped 17 per cent, an annual saving of at least \$86million to consumers.

### **A dual identity – farmer are also consumers**

Now I am fully aware that the aim of benefiting the community through reform, while simple and seemingly all-good in concept, can be tricky in its application.

The main reason is that most consumers have more than one identity.

Thus a farmer might fear being disadvantaged in one area, but might simultaneously be enjoying other advantages like lower inflation, which result from microeconomic reform.

### **NCP and agriculture**

Now I am well aware that the WAFF has not been an outspoken supporter of NCP!

Colin reportedly told the media recently that he believed NCP had no place in agriculture and, moreover, that opening up single desks to competition would not benefit Australian consumers or Western Australian farmers.

### **Single desks**



Single export desks, like any other restriction on competition, have their benefits and costs to the community.

The key benefit usually used to justify export single desks is that they increase returns to producers. This is indeed possible but not, I would caution, as much as some would assume.

Various independent reviews to justify single export desks have found that any increase in returns is usually quite small. For instance, the 2000 NCP review of the Wheat Marketing Act found that it increased export prices by around US\$1 per tonne in the period 1997-1999.

Against any benefit must be offset the additional costs which export single export desks impose on the community.

Domestic consumers, including manufacturers and other producers, can face higher domestic commodity prices, because single export desks tend to pay farmers an averaged 'pool' price, which sometimes include premiums from the successful exercise of market power in uncompetitive export markets, as well as profits from value-added processing and other business activities.

Domestic consumers and commodity traders may also be disadvantaged because, without access to export markets, they have fewer opportunities to spread and manage risk.

Farmers too can be disadvantaged by single export desks, if those managing these businesses are not as successful as fiercely competing marketers at meeting often diverse producer and customer preferences or at controlling supply chain costs.

There have been a number of single desk reviews under NCP. These have been conducted – not by the Council – but by review teams appointed by governments for their objectivity and rigour. These reviews have consulted widely with farmers and other interested sections of the community.

Some reviews have found that the benefits of a single export desk to the community exceed the costs – for example the 1995 review of the NSW rice single desk, and the 1997 review of the Queensland sugar single desk. Other reviews found the evidence for retaining a single export desk unconvincing – for example, the 1997 review of the Victorian and South Australian barley single desk, the 2000 review of the Australian wheat single desk, and the 2003 review of the South Australian barley single desk.

Single desks are a significant restriction on competition and cannot be quarantined from periodic scrutiny. The various reviews we've had of single desks demonstrate that competition policy can capably deal with the issues they raise.

## **Grain**

A good example is grain in WA.

Under the WA Government's new grain export licensing regulation, parties other than the Co-operative Bulk Handling Ltd [CBH] are prohibited from exporting barley, canola or lupins without a licence issued by a new statutory body, the Grain Licensing Authority (GLA). The GLA licenses exports except where it is convinced that a proposed export would affect significantly a price premium earned by the Grain Pool by exercising market power in certain uncompetitive export markets.

Since the GLA was established it has approved barley exports of 433 kilo tonnes.

Export licences held by parties other than the Grain Pool hover around 20 per cent of total WA barley production expected in 2003-04.

The State Government's new licensing arrangements have given grain growers more options for marketing their barley, canola and lupins. It is still early days but clearly some growers welcome more choice.

Under the WA approach, where there are benefits from a single desk in particular markets, a single desk can operate, but where there are benefits allowing alternative sellers to operate that can also be permitted. In some ways the approach adopted here in WA allows you to have your cake and eat it too.

The NCC will assess this year how well the new licensing arrangements have worked. Hopefully the NCC will find that WA has met its NCP obligations related to grain marketing regulation. If so this may help to reduce the pool of outstanding legislation review matters and, therefore, allow the NCC to recommend lifting the suspension of at least some Australian Government competition payments to WA.

## **Water reform**

Another major area of reform relevant to agriculture is water.

Governments set up Australia's water resource policy in 1994. A report that year identified considerable problems and deficiencies - many of which we are still seeing.

As you are aware, water pricing is an important issue. Where the price of water is below the cost of supply, water businesses can't cover their operating costs or make adequate financial provision for asset refurbishment.

Impediments to trade in irrigation water result in water not being used where it provides the greatest returns.

There are also substantial problems with the wider natural resource base, including extensive natural resource degradation. This has a significant impact on all Australians but particularly those in agriculture.

Australia's water resource problems are exacerbated by drought conditions. The recent drought brought home to many urban people the importance of properly managing Australia's water industry.

The water resource policy is mainly aimed at addressing these issues.

The program focuses on pricing water appropriately, creating systems of tradeable water entitlements, recognising the environment as a legitimate user of water (while recognising the rights of existing users) and introducing measures to safeguard water quality.

For example, governments can build new dams, but must be able to show that the dam will be economically viable and ecologically sustainable.

Another important aspect of water reform is providing education and consultation to ensure better information and opportunities for community participation in decisions on water issues.

Governments are implementing the policy at different rates and in different ways.

There is a great diversity of administrative and legislative environments across the states and territories, differences in the health of river systems and differences in the interests of water industry stakeholders.

Reform is taking longer than was envisaged in 1994 and there is still some way to go.

Nevertheless, progress has been significant.

All governments recently recommitted to water reform and decided to develop a new agreement during 2004 that clarifies and enhances the reform program.

## **Conclusion**

The agricultural sector has been through a difficult period and in some regions those difficult times may not be at an end.

However to suggest that NCP is a root cause of hard times in agriculture ignores issues such as world market conditions, changes

in tastes and technology, population drift and other factors, all of which have had significant effects.

As 'general consumers', farmers now enjoy all the benefits of lower inflation, higher productivity, more choice and better prices and these gains have to be taken into account when assessing the value of NCP to them.

At the same time, even when examined in a specifically agricultural context, NCP is beneficial.

In Australian agricultural sectors while there have been some significant departures from some industries and some international markets have depressed prices in recent years, many farmers have benefited from deregulated marketing arrangements.

And while there is no doubt that water reform is a complex issue, tackling it is becoming generally recognised, even by those outside the agricultural area, as one of Australia's most important priorities.

NCP has been one important and effective arm of an enormous reform program.

And that, I believe, is a good thing.