



National Competition Council

**Laying the foundations for a more
productive business environment:
some issues in competition reform**

A presentation by Graeme Samuel,
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to the Property Council of Australia in Adelaide
21 April 1998

SETTING THE SCENE

The National Competition Policy (NCP) program is now formally into its third year. The reform program is massive, stretching well beyond the year 2000, and seeks to extend the productivity-enhancing effects of competition to virtually all sectors of the economy. It entails a raft of reforms which aim to lower business costs, enhance competitiveness and provide the conditions for more sustainable economic and employment growth.

The potential benefits are big — estimated to be worth an ongoing increase of more than 5 percent of GDP and up to \$1500 per household per year. As well, there are \$16 billion in competition payments for State and Territory governments up to 2005 riding on the successful implementation of the reform program. So much is at stake.

The reform package has the potential to affect the property industry in a myriad of ways. It may affect building design standards and development approval processes. It will affect the professional standards and licensing regimes under which some members of the industry, or people who supply services to the industry, work. It will affect the opportunities for the private sector to supply property-related services to government. It could also affect the uses to which different types of property can be put and thus their market value. And through its broad-based effects on the competitiveness of the economy, it will affect the cost of the property industry's inputs, and the level of demand for its outputs.

Competition reform is not the only thing happening at present. Asia is in crisis and we are already feeling some of the adverse effects, there is war on the waterfront, and a range of other reform agendas are currently being pushed — privatisation, industry policy and tax reform, for example. Closer to home and on a smaller but still significant scale, there is the current debate about trading hours in this State. Of course, some of these matters are related to competition reform or, as in the case of the Asian crisis, highlight our need to get on with it.

Against this background, today I will:

- start by addressing the place and need for competition reform, drawing on some lessons from what has happened in Asia;
- move on to what the NCP program is and its implications for the business environment; and
- finish with a discussion of some key reform issues, including some with direct implications for your sector.

THE ASIAN CRISIS AND THE COMPETITION REFORM IMPERATIVE

Some implications of the Asian crisis

The current Asian crisis adds to the already compelling case for ongoing and broad-ranging economic reform in this country.

It shows us that, in our modern, complex, highly competitive and interdependent world, no country can afford to become complacent about its economy, or to let inefficiencies and market distortions become prevalent. Only a year ago the Tigers were bounding ahead and Asians had a right to feel confident that they would continue to enjoy increases in their material living standards. The current crisis has wounded their confidence and may have long-term effects on their growth and their people's wellbeing. Just as we now know that it can happen to Asia, we know from history that it can happen to us. We become complacent at our own peril.

Indeed, the downturn in Asia is and will continue to directly affect our own economic performance. We are tied more closely to Asia than we once were, and our economic fortunes are partly dependent on Asia's. The competitive devaluations by several Tigers, combined with the slump in domestic confidence and demand in their economies, will make it harder for us to export to those countries (at least unless their devaluations boost their exports significantly and they source many of their material inputs from Australia). We may also find Asian products becoming more competitively priced on world markets. To the extent that our exporters compete with them, this will cause us some difficulties. We are also likely to find imports from Asia becoming more keenly priced. This will offer benefits for our consumers and businesses which use Asian sourced inputs, and also implies a lower inflation rate than there would otherwise be. But it will also pose challenges for domestic businesses supplying the domestic market. All this means that we will need to continue to improve our own competitiveness, or risk losing sales to Asia.

The need for broad-based reform

The Asian crisis thus highlights the need to continue improving our competitiveness and to ensure that our economy has the flexibility to adapt quickly to external shocks that affect us. Economic change is a fact of life in the modern world, not an option, and will happen with or without reform. We can tackle it, or let it tackle us. The proactive approach, while entailing short-term adjustment costs, offers us the most secure and sustainable future and gives us more control over how and when our economy adjusts. It also offers higher living standards over the longer term.

Following on from this, there is a need to re-emphasise the importance of broad-based economic reform in Australia. Recent debate has focussed on tax reform, industry policy and privatisation. But while there are gains to be had from reform in some of

these areas, there is also a risk that these reforms will simply become an exercise in re-arranging the deck-chairs on the Titanic. Privatisation and tax reform can yield benefits if properly designed and implemented, but to turn the ship around we need to engage in ongoing, fundamental economic reform across the entire economy. Current efforts to improve ship turn-around times are one part of this (although breaking the MUA's monopoly does not guarantee that savings will be passed on to consumers and exporters — robust competition amongst stevedoring companies is also necessary). But it is important that we do not become complacent and think that action on a couple of high profile issues excuses reform inaction elsewhere. We must pursue reform across a range of fronts. We must also ensure that most effort is devoted to reforms which will actually deliver ongoing improvements in competitiveness and substantive economic benefits.

Competitive markets and the role of government

Competitive markets are a key driver of economic growth and international competitiveness. Indeed, one of the elements underlying the previous success of many of Asia's economies was that, after these economies initially 'took off', rapid growth was sustained for several years by vigorous competition in domestic or international markets. The other side of the same coin is that one of the broad lessons suggested by the more recent troubles in Asia is the importance of allowing competition in the marketplace to allocate resources without undue government interference.

'Without undue government interference' does not mean no government intervention. In any primarily market-based economy, there is a need for governments to:

- provide the basic legal ground rules for commercial dealings (and human dealings generally);
- to address inequities such as the maldistribution of income between the rich and the poor; and
- to correct 'market failures', such as a lack of information about products on sale in the marketplace. Robust financial disclosure rules are one element of this.

However, the recent problems in many of the Asian economies have largely been caused or exacerbated by bad investment and poor resource allocation decisions, a result of the wrong type or degree of government interference in markets:

- some directive industry policies have resulted in low return investments — South East Asia now has excess capacity in cars, steel, chemicals and computer chips;
- crony capitalism, as it has become known, has been allowed to flourish in some of the nations, sheltering entrepreneurs from normal market checks and balances. Government contracts have been let on non-commercial criteria, and patronage and corruption are rife;
- in some nations there has also been an emphasis on big ticket grand vision projects, designed to impress to populace rather than to make a decent return; and

- at the same time, financial system regulation and supervision have in some instances been lax, sheltering effectively insolvent firms from closure, thereby dulling normal market forces.

While it is unlikely that the problems associated with crony capitalism could ever arise on a major scale in Australia given our democratic parliamentary processes and checks and balances on government dealings, the more general problems of governments intervening inappropriately in markets can and do arise here. We sometimes see politicians, for example, backing ‘visionary’ investments with public money. The other side of that coin is that companies often lobby for special protections from competition in return for making particular investments.

To limit the scope for projects which, while perhaps capturing the public’s imagination, also empty their bank balances, we should subject all ‘big vision’ investments in infrastructure — whether it were to be transcontinental railways, irrigating the lands to the north of Goyder’s Line, or building something taller than the Petronus Towers — to rigorous community benefit-cost analysis before ploughing public funds into the projects or, its effective equivalent, granting them tax breaks. Indeed, this principle should apply to all matters involving public expenditures or tax breaks, or the diminution of public utility.

Equally important, where business people seek special protections from the normal market discipline of competition, we should also subject those arrangements to a community benefit-cost analysis to ensure that they are in the public interest, rather than just the private interests of the sponsoring business.

More generally, a key pointer for Australia is that we should grant competitive markets the main role in allocating resources, thereby delegating the benefit-cost decisions to the people who own the investment moneys and their agents, while ensuring that governments fulfil their important facilitating role efficiently and transparently, with the minimum practicable distortion to market processes.

NATIONAL COMPETITION POLICY AND THE BUSINESS ENVIRONMENT

All my comments thus far have pointed to the compelling need for competition reform as the central plank in a comprehensive program of economic reform. Competition reform will improve economic performance by reducing impediments to business activity and by keeping costs structures competitive.

Australia's governments accepted the need for broad-based competition reform when they all signed the NCP reform agreements in 1995. The NCP reforms cover three broad areas:

- reforms to legislation and regulation which affects the level of competition in the economy;
- a raft of reforms to government businesses — to make them more efficient and to allow private businesses to compete; and
- reforms to improve the efficiency of infrastructure use and provision.

Implementation of the NCP reform program is now gathering pace. Competition reform has already had significant impacts in several sectors and, over the next four or five years, the NCP program will touch upon each and every Australian in an ever increasing pace of evolution, which for some of those affected will seem more like revolution.

The opportunities for business

Each plank in the NCP reform program will provide various opportunities and benefits for business.

Legislation review

First, for example, under the legislation review program, each Australian government has agreed to review all laws which restrict competition. Unless such laws are found to confer a net community benefit, they are to be reformed by the year 2000. Some 2000 pieces of legislation are scheduled for review, covering such areas as postal services (which have just been reviewed), the legal profession, business licensing, and planning and environmental legislation.

The legislation review program has important implications for industry, not the least of which will be the removal of unnecessary red tape imposing significant costs and delays on business. I understand that the Property Council is concerned, for example, with unnecessary building regulation and delays in construction and development approvals processes primarily administered by local governments. These should be addressed by reviews in most jurisdictions. Further, where restrictions on competition are removed, businesses will be able to enter previously sheltered markets, bringing scope for new innovation and leaner, sharper provision of services.

There are also benefits for governments: for example, being able to save money where legislation necessitates government expenditures which are excessive or no longer warranted, and by providing an opportunity to rethink approaches to achieving the social, environmental and economic goals which underlie certain laws and regulations. Where governments achieve their objectives more efficiently or at less cost, there are flow-on benefits for the economy generally.

Competitive neutrality

Secondly, under the “competitive neutrality” reforms, governments are removing net competitive advantages enjoyed by public sector businesses over the private sector. Some of these advantages include exemptions from taxes, planning laws and rate of return requirements. By removing these advantages, government businesses will be forced to compete on an equal footing with private businesses.

From an industry perspective, competitive neutrality, in conjunction with related competition reforms, provides opportunities for business to move into a wide range of areas previously dominated by government suppliers — for example, accounting services, car parking, cleaning, engineering services, legal work, printing, real estate and property management. The scope for new competition in these markets should drive down prices, benefiting the wide range of business and consumers which use these services. The NCP reforms should also make it easier for private operators to win contracts against government-owned competitors in competitive tenders.

The Property Council has raised a concern with the National Competition Council (NCC) about differences in the building and development processes faced by public and private sector entities. In principle, the rigorous application of competitive neutrality principles should eliminate any such regulatory advantages available to public sector bodies.

Infrastructure reforms

Thirdly, under the National access reforms, businesses will be more able to get access to essential infrastructure services which they need to compete effectively with established players. For example, ACTO — a medium sized company involved in the freight handling market — successfully applied to have certain facilities on airport tarmacs declared for access. This will allow it to better compete against Ansett, Qantas and other companies providing container terminal services.

Fourth, beyond the cross-sectoral reforms, the NCP agenda includes reform packages to improve the efficiency of four industries which are major providers of infrastructure services to Australian businesses and consumers: electricity, gas, water and road transport. These reforms will promote more efficient supply of energy, water and transport services, with the likelihood of better service and cheaper costs to industry.

Indeed, recent measures to inject competition into the big infrastructure sectors are showing some benefits:

- electricity prices fell by around 10 percent in the first year of the interim competitive market in Victoria and NSW, and significant spot discounting has since been prevalent. Further benefits are likely as the competitive market is extended to more electricity consumers and other jurisdictions;
- average airfares are 22 percent below their pre-deregulation levels (and total domestic air travel has increased by more than 80 percent);

- early reports suggest that telecommunications prices have also fallen substantially since the full opening of that market;
- rail freight rates between Melbourne and Perth fell by 40 percent following the introduction of competition on that route in 1995; and
- under the recently approved AGL undertaking, gas access tariffs in NSW will fall to about 60 percent below their 1995 levels by the year 2000.

Risks for business

While the NCP reforms will bring many new opportunities for business, it is important to realise that NCP is not all benefits and no costs for businesses.

In those markets directly affected by reform, there will be both winners and losers. For example:

- Where anti-competitive regulations are removed, new businesses which enter the industry will be better off. So will customers. But some existing business will be forced to contract unless they can improve lift their performance.
- While the competitive neutrality and related reforms will help private businesses, they may hurt some government businesses. (That said, if government businesses which are corporatised under these reforms improve their performance and customer focus, there is the chance that they may win work off their private sector competitors in some instances).
- While access will help new firms which want to use infrastructure, and downstream users of the services, infrastructure owners may see any monopolistic profits they are currently earning trimmed.

The overall impact on the business environment

The reason that there will be both winners and losers is that, while the NCP is designed to enhance the performance of the Australian economy overall, it is not designed to improve the profitability or viability of specific businesses or industries themselves. Rather, it is intended to foster conditions in which the businesses and industries that most benefit the community prevail.

Under the NCP reforms, three main things should happen.

First, in each market subject to greater competition, the most efficient and competitive firms should be able to outcompete the less efficient. Among other things, this should see improved productivity and lower prices in those markets. As I mentioned earlier, there is already some evidence of this in areas such as airlines, rail, gas and electricity.

Second, businesses in downstream markets should become more competitive as they get the benefits of lower prices and better services. Further, with lower prices, consumers will also have more money to save, thereby boosting national savings. Or they will be able to spend more on other goods and services, thereby boosting demand.

Third, as overall productivity lifts, so should the level of economic growth that our economy can sustain in the longer-term. One of the prospective benefits of the NCP reforms is that, by lifting productivity, the limits to growth we have experienced in recent years are also likely to lift. In other words, governments should be able to expand the economy at a faster rate without the adverse “over-heating” problems with have constrained government macro-policy in the recent past.

Bringing all this together, the aim of the NCP reforms is to provide the framework within which the businesses and industries that most benefit the community prevail, and to thereby provide the environment for sustainable improvements in our economic performance and business environment.

SOME SPECIFIC COMPETITION REFORM ISSUES

Let me turn now to some specific reform issues of interest to your Council. Some of these have been raised in meetings between the Council and NCC Secretariat. For example, I am aware of your Council’s interest in building and development approvals processes and in regulation of the professions and occupations, including in relation to the use of mutual recognition. These are areas where all jurisdictions have scheduled a number of pieces of legislation for review. I am also aware of your Council’s concerns about the implementation of reform at the local government level, where much land-use planning and building approval work occurs. And some specific reform issues such as retail trading hours are likely to be of interest to your membership.

Occupational licensing and professions regulation

A range of regulations governing various professions and occupations are listed for review in the period to the year 2000. Some of these have been nominated for national review, although getting national reviews in place has proven to be more difficult than originally envisaged. Some of the professions and occupations where reviews of regulation, including licensing arrangements, are proposed are: architects, licensed surveyors, electrical contractors, plumbers and gasfitters, building practitioners and certifiers, employment agents, travel agents, auctioneers and real estate agents and legal practitioners.

Traditionally, many professions have been shielded from normal competitive pressures through specific legislative or self regulatory arrangements, combined with an effective exemption from Part IV of the Trade Practices Act. Typical elements of the regulatory

landscape have included a professional association, guild and/or registration board with the power to admit members to the profession, to regulate their standards and conduct, often through a code of ethics, and to set schedules of fees. There have also been controls on ownership structures, and the reservation of certain work to members of the profession alone. In some cases, there have also been internal functional distinctions made as, for example, in the split between barristers and solicitors.

While some forms of professions regulation, such as accreditation standards and reservation of professional title, may well be justifiable in some cases, many traditional approaches to professions regulation appear less so. For example, prescribed fee scales for professional services appear to serve no real purpose other than to restrict competition. Likewise, accreditation standards are sometimes set at very high levels and have the potential to unduly exclude entrants from the market.

There has been some reform to some professions in recent years, but there remains a significant body of anti-competitive legislation relating to specific professions. Without pre-judging the outcome of detailed reviews of these matters, there are many aspects of professions regulation which on first glance appear ripe for reform. In particular, controls on advertising and ownership structures, price scheduling, and licensing schemes which restrict the number of practitioners rather than just setting acceptable minimum entry standards, are all strong candidates for reform.

Some professional associations have expressed reservations about aspects of possible reform, but the NCC is encouraged by its discussions with professional groups that progress can be made. We will continue this dialogue and continue to pursue sensible review processes and balanced reform outcomes.

One issue that arises in this context is the need for national reviews. There are many similarities in the way professions are regulated from one jurisdiction to the next, and indeed it is not clear that there is any reason for taking different approaches to professions regulation in different States. Further, it is inefficient for several reviews to consider essentially the same set of issues, and costly for professional associations to have to respond to several different reviews. The NCC is therefore working with jurisdictions to facilitate coordination of the review process with the aim of scheduling a greater number of national reviews.

Another issue is the role of mutual recognition. The Commonwealth's *Mutual Recognition Act 1992* is designed to assist the creation of national markets in Australia. Mutual recognition does not require uniform regulations throughout Australia, but rather that jurisdictions accept the standards and regulatory decisions made by other jurisdictions. The Act is currently being reviewed through a national process. I think many members of relevant occupations would recognise the benefits which mutual recognition has brought in terms of allowing more mobility and competition among members of the one industry. But at the same time, some associations have expressed a concern about its potential effects on future reforms to occupational regulation. Specifically, they are concerned that that, if any one jurisdiction were to take an overly radical approach to occupational regulation (for example, by substantially reducing entry requirements into a profession), this could undermine more stringent regimes in

other jurisdictions. Of course, one of the goals of mutual recognition is to move away from the ‘maximum visible regulation’ approach of the past towards ‘minimum effective regulation’. Nevertheless, there are risks in the process. In the NCC’s view, this simply adds support to the case for national reviews and a national approach to regulation of professions.

But while the NCC will work constructively with professional associations, and governments, to achieve sensible reform processes and balanced outcomes, I strongly emphasise that professions must not be immune from competition reform.

This is not just a matter of combating the problems consumers face due to current practices, such as high prices, lack of customer focus, and long waiting lists and queues for some professional services. Nor is it purely a matter of unleashing the full productive potential of the professions themselves.

Rather, there is also a fundamental question of equity here. Whilst many other sectors of the economy are exposed on a daily basis to the true rigours of the competitive marketplace, with industry pay and conditions to match, it is not clear that all professionals are subject to the same disciplines. That is not to say that, in a fully competitive market, professionals’ incomes and conditions would not be better than the norm. They probably would. However, just as many people rightly question the monopolistic wages and conditions attained by waterside workers, people have a right to question the incomes and conditions enjoyed by professionals *to the extent that those incomes and conditions derive from unwarranted restrictions on competition*.

If competition reform is to be supported by the broader community, it must, like justice, be seen to be blind when it comes to matters of class, career and collar colour. Hence, equity, as well as economic efficiency, demands that the professions be subject to scrutiny and, where appropriate, genuine reform.

Reform at the local government level

All States have scheduled reviews of legislation governing the responsibilities of their local government sector, including legislation that confers specific powers on local governments to the extent that the legislation restricts competition. Local government regulations and by-laws are to be reviewed as part of this process.

The other NCP commitment relevant to local government is the application of competitive neutrality principles to significant local government businesses.

The Property Council has raised a number of local government regulation and competitive neutrality matters in discussions with the NCC Secretariat. Many of these indicate that your organisation is concerned with the current performance of local government, and particularly with building and approvals regulation. While we have not yet examined the detail of all the matters raised, your Council’s experiences are clearly relevant to our consideration of the progress achieved against NCP obligations. Your

Council has also made other suggestions designed to encourage reform by local governments, including:

- benchmarking local councils against nationally agreed performance indicators; and
- giving local councils across Australia a financial incentive for participation in the NCP reform process, by linking part of the competition payments to performance.

The NCC well recognises that some building regulations and the way they are applied may be unnecessarily stringent, reduce the competitiveness of industry and serve no safety or public interest objective. We have noted the estimates of significant costs of over-regulation for both residential and non-residential buildings, including the Industry Commission's 1995 work showing a potential gain from more cost effective building regulations of \$350 million a year. We have also noted the Industry Commission estimates of the costs of unwarranted delays in obtaining approvals to proceed with site preparation and building and of delays after building and construction commences - in total some \$750 million might be saved each year. And of course, apart from the Industry Commission work, there is a lot of anecdotal evidence about inflated costs due to over regulation and unwarranted delays.

Your Council's suggestion that a component of the competition payments be distributed to local government is something which local government itself has raised as a desirable approach. This is really a matter for each state government. Under the NCP agreements, state governments are responsible for applying reforms at local government level, although in consultation with local governments. The Commonwealth provides money to the states where the NCC is satisfied that reform progress meets NCP obligations.

Queensland, which has the largest local government sector of all jurisdictions, has set aside monies for local governments with demonstrated achievement of reforms. Although other states have not offered financial incentives, all have devoted some effort to outlining the potential benefits from competition reform. These benefits are beginning to be recognised by some local councils.

To summarise then, the NCC's view is that local government is an integral contributor to competitiveness in some areas of the economy, and as a result must play a central role in the NCP reform process. In our first assessments of reform progress provided to the Commonwealth Treasurer in July last year, we indicated a need to have another look at the local government reforms actually in place prior to recommending that States had met their NCP obligations in this area. The States will be reporting to us on their progress in bring about competition reform at the local government level. We will release our assessment by July.

Trading hours

Trading hours have already been reviewed and reformed in some jurisdictions, and are scheduled for review in others.

As you would be aware, there is currently a review being conducted in South Australia on this matter. It is not surprising that this review has generated a fair degree of media coverage, and that several groups have lined up either to support or to argue against reform. Nor is it surprising that some of the arguments being tendered appear to align more closely with the interests of those tendering them than with the broader public interest. There also appears to be limited understanding of the role that unrestricted competition between businesses in the market place for the consumer dollar might play in promoting outcomes that are in the public interest.

The recent reviews in trading hours regulation in Victoria and the ACT lead to the removal of trading restrictions in both those jurisdictions. The experience to date suggests that consumers, once having experienced deregulated shopping hours, are likely to warm to them.

In Victoria, deregulation has introduced greater flexibility in trading hours. It has not of course resulted in all stores remaining open 24 hours a day, seven days a week. Rather, some stores have chosen to open on Sundays but to close during slow periods on weekdays. While ABS data does not indicate any significant change in the number of retail businesses operating in Victoria during 1996-97 — the year in which full deregulation occurred, the data indicates that net retail employment has grown more than 10 percent. This presumably reflects the effects of Sunday trading in particular. A referendum was recently held in Bendigo on the matter of Sunday trading. It got a big turn-out, with over 75 percent of voters indicating that they wanted Sunday trading retained.

In the ACT, after a period of liberal trading arrangements, the government reintroduced restrictions on trading hours in larger shopping centres in 1996, essentially to protect retailers in small suburban shopping centres from competition from big supermarkets. Subsequent consumer surveys found that the costs of re-regulation clearly outweighed the benefits, and the decision was reversed.

Moves towards longer and less regulated shopping hours are part and parcel of the structural change in retail markets which has been occurring for many decades. In the grocery retail market, for example, the advent of better transport options and changing lifestyle patterns has resulted in a shift towards larger retail outlets which provide wider product choice, longer opening hours and generally lower prices. It is pertinent to note that a recent *Choice* survey found that prices for items at late night convenience stores are on average around 43 percent higher, and in some cases almost double, than the prices of the same items in late night supermarkets.

Of course, the other side of this coin is that deregulation of shopping hours may pose risks for some small retailers. For example, a study by the Victorian Retail Confectioners and Mixed Business Association indicated that the failure rate among its members' businesses jumped sharply in the six months immediately following deregulation and remains around twice the pre-deregulation level. That said, ABS data does not show any *aggregate* reduction in the number of small retailers. What it does

show is an increase in the number of medium retail businesses — which, I surmise, may hide some formerly small businesses¹ — and an increase in small retail business employment of about 5000 jobs. Nevertheless, it is likely that deregulation will pose risks for at least some existing small retailers.

It is also possible that deregulation could pose commercial risks for retail businesses (and the owners of the properties that those businesses trade from) located in particular areas if, following deregulation, consumers were to choose to shop elsewhere. For example, some consumers might choose to shop late at night or on Sundays in suburban shopping centres near where they live, rather than pick up their shopping in the city during the working week. Hence, while providing extra opportunities for retailers in some areas, deregulation could entail commercial risks for retail outlets and property owners in others.

Given that deregulation could pose risks for some retailers and commercial property owners, the question which arises is:

Should consumers be forced to:

- *pay higher prices; and/or*
- *forgo the convenience of extended shopping hours; and/or*
- *forgo the convenience of shopping where they want;*

to reduce the commercial risks that these retailers and commercial property owners face?

It appears difficult to establish a convincing case that they should. Business exists to serve the needs of consumers — consumers are not there to serve the needs of business. Further, while the small business sector is an important component of the economy and a large employer in aggregate, ensuring the viability of any particular small business should not be an aim of government policy. Rather, just like the case of big businesses, whether any particular small business adds value to our economy depends on whether the benefits which flow to its owners, employees and the consumers which use it exceed the costs of maintaining the business. Likewise, whether a retail outlet in a particular area adds value to our economy depends on whether the benefits which flow from it exceed the costs of maintaining it.

How well a business does when subject to full competition in the market place is generally the best way of ascertaining whether this is the case. In the absence of some

1 In Victoria, the number of small retail businesses remained constant during 1996-97, but the number of medium sized retailers, which have between 20 and 49 employees, grew by around 400. It is possible that this reflects classification changes for particular businesses. That is, where small businesses have put on extra employees to cope with extended hours and Sunday trading, they may have moved into the medium size business category. If so, this in turn means that an equivalent number of new small business have come into being during the period.

significant form of ‘market failure’ associated with the existence of a particular size or location of business (and it is not easy to conceive of what one might be), unfettered competition between businesses — big or small, old or new, city-based or suburban — will be the best way of determining which businesses should survive and prosper. Under the competitive approach, those businesses which are most able to provide the value-for-money, product range, location, convenience, service, friendliness and other attributes consumers are seeking will prevail in the market place. In some instances, this will be a small business. In others, it will be a large business. In some it will be a city-based business. In others, it will be a suburban business. As I mentioned earlier, competition policy does not seek protect the viability of particular businesses. Rather, it aims to establish the environment in which those businesses most able to benefit society can prevail.

There are of course other issues which may need to be considered in assessing the case for reducing trading hour restrictions. For example, it has been argued that current restrictions adversely affect the level of tourist expenditure in Adelaide. There are also concerns that moves to deregulation could affect the patronage of some public institutions located in the city centre. Other issues include whether, if deregulation is generally appropriate, there should be designated core retail hours, and whether there is a need for phasing arrangements to assist in the transition to the new environment. That said, it needs to be realised that many of these issues also have a ‘market’ solution.

Under the NCP agreements, the onus of proof is on those groups who want to retain legislative restrictions on competition to prove that they should be retained. That is, once a legislative restriction is identified, it goes — *unless* it can be robustly demonstrated that the benefits of the restriction outweigh the costs and that the objective of the restriction cannot be achieved in other ways. This will be an important matter for the current review to examine.

As with other important reviews, the NCC will be monitoring this review with the aim of ensuring that a robust review is conducted and that, if appropriate, genuine reform is implemented — in line with the NCP agreements.

CONCLUDING REMARKS

The NCP reform program is ambitious, with the potential to affect virtually every Australian and, in particular, to substantially alter the way we approach doing business.

The ultimate goal of competition reform is a more productive, efficient, innovative and dynamic economy — one more able to cope with external shocks rather than immediately plummeting into recession; one better able to sustain or enhance the material living standards of its people, or to achieve its social, cultural and environmental goals, without simply adding to national debt; and one in which resources are used, or conserved, in the most valuable way.

Recent events in Asia have added to our need to push ahead with competition reform.

Australia's governments accepted that need when they all signed the NCP agreements. The task now is to implement genuine 'on the ground' reform.

This is not easy. The reform program is wide-ranging and competition entails risks as well as opportunities for businesses. Inevitably, political tensions will arise as the beneficiaries of current restrictions on competition press to retain their privileged positions.

However, just as there is a compelling economic efficiency case for competition reform, so too equity demands that those currently sheltering behind undue anti-competitive arrangements face the same competitive disciplines as all of us.

