National Competition Policy: the benefits of reform

A presentation by Graeme Samuel
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Introduction

Thank you for the opportunity to address you about National Competition Policy. Your invitation noted that the Property Council of Australia is a strong supporter of deregulated markets and open competition.

National Competition Policy (NCP) is a comprehensive package delivering competition reform, deregulating closed shops and opening up restricted markets, for the benefit of consumers, retailers and producers. NCP is delivering long term gains for the whole community, rural, regional, urban, business and consumer. It is forcing groups and individuals who are privileged, in that they are protected from normal disciplines of competition, to justify laws entrenching their privileged protections. It is doing this on a case by case basis, assessing the public's interest in the anti-competitive laws that shield those individuals or groups from economic and other accountability. It will go a long way to ensure that unless the community as a whole is best served by restrictions on competition, the restrictions are removed. NCP is improving access to scarce resources in an economic sense. It is delivering cheaper prices and better services in a practical sense.

If you listen to some commentators and politicians, NCP is ruining rural Australia, the National Competition Council doesn't care and wants competition at all costs and we are unelected ideological zealots standing over government. The debate at times becomes irrational and acrimonious rather than considered and facilitative.

So today, I want to revisit the principles of NCP, demonstrate the benefits reform is bringing, expose some of the myths and ask for your help, as a strong supporter, in finishing the job.

National Competition Policy

Australia's governments, including the Queensland government, accepted the need for a broad-based program of competition reform back in April 1995 when they all signed on to the National Competition Policy (NCP) reform package.

The NCP package contains several 'generic' reforms which apply to all sectors of the economy.

- First, NCP extends Part IV of the *Trade Practices Act 1974*, that deals with market rigging, to cover all businesses. Some businesses were previously exempt.

- Second, under NCP, reviews are being conducted of all anti-competitive regulation.

- NCP also involves a number of generic reforms to government-owned businesses so that they are on an equal footing with private enterprise.

- And there is also a national 'access' regime to give businesses a legal avenue to get use of other businesses' infrastructure that they need to supply their products. So, for example, a transport company may be able to get access to track to run its own trains in competition with an existing train operator. The regime also seeks to ensure that access is available of reasonable terms and conditions, such as a fair price.

To characterise these generic reforms, for the most part they are directed towards ensuring that every business or industry in the Australian economy that is currently sheltered from competition is opened to it, *except for those businesses or industries for which it can be demonstrated that there is a net community benefit in restricting competition*.

The qualification is important, although it is one that is often overlooked in public debate. Many public commentators and political figures seem to have misunderstood this point. So let me make it clear up front. NCP is not, and never has been, about competition everywhere, nor competition for its own sake. Rather, NCP comprises a raft of reforms that seek to harness competition, *where competition is appropriate*, to boost economic performance throughout the economy.

To help guard against competition being implemented where it is not appropriate, the NCP agreements contain a public interest test. That test requires that governments, when reviewing various NCP reform options, objectively weigh up all the pros and cons of competition — including its effects on matters such as employment, equity and social welfare, regional development and consumer interests and well as business competitiveness and economic efficiency.

The NCP agreements also allow governments to provide *genuine* community service obligations to people in regional areas, or anywhere else for that matter.

That said, the focus on the generic NCP is on injecting competition into previously sheltered parts of the economy.

As well as the 'generic' competition reforms I have been discussing, there are also specific packages for four key infrastructure sectors tied to the NCP reform agenda. These reform

packages are for electricity, gas, water and road transport. The packages pre-date the NCP agreements, by up to four years in the case of electricity, but were brought within its ambit in April 1995. The packages involve different things. For example, the water reforms focus on pricing, management of resources, water rights and water quality to secure the economic viability and ecological sustainability of the water industry. The road transport reforms are driving consistency across the country in regulations affecting vehicle and driver safety and operations. The electricity and gas reforms focus on breaking down state barriers to trade and on introducing competition into the generation and retail sides of the market, although the reform packages also recognise that pipelines and electricity transmission grids are natural monopolies and so not amenable to competition.

So, the overall NCP package is a wide-ranging reform but balanced reform agenda which recognises that, while competition can do much to enhance economic performance, it is not an end in itself.

In addition to the benefits that will flow from NCP, the Federal Government has agreed to make payments to States and Territories that implement the package. The payments in part recognise that the Commonwealth will benefit from increased revenues through increased productivity. They are economic dividends paid in return for the investment in reform. This financial year the payments were worth over $600 million.

The National Competition Council is a policy advisory body. We are appointed by, and report to, both the Commonwealth Treasurer and the Council of Australian Governments (COAG). We are five persons drawn from principally from private sector backgrounds and from different parts of Australia, supported by a small secretariat that provides us with economic, legal and public policy advice. Our role, in general terms, is to promote the reform program; to facilitate reform; and to monitor progress by governments in implementing the reform program.

We don't undertake the reviews of anti-competitive laws ourselves, unless specifically asked to do so by COAG. That has only happened twice, in reviewing Australia Post and exemptions from competition provisions of the Trade Practices Act. The job of reviewing legislation and determining where the public interest lies is with the States and Territories. The NCC's role with these reviews is to ensure that they are undertaken by governments independently, rigorously and transparently and that the interests of the community as a whole are the paramount consideration – rather than usually powerful, loud and politically concentrated vested interests.

We do make recommendations to the Treasurer as to the competition payment dividends that should be made to States and Territories based on their reform progress.

Reform and its benefits

The task of reviewing competition restrictions in legislation is enormous, covering over 2000 laws, including laws relating to taxis, professions, trading hours, liquor licensing, gambling and statutory marketing arrangements for agricultural industries. The process will in some way touch the life of every Australian. I would like to demonstrate the need for reform, and some of the outcomes of the reform process, by discussing some issues relating to professions, retail

trading hours, liquor licensing and local government.

Let me emphasise that the NCC's views on these issues are not binding on governments. Rather, governments should seek and act upon the advice of independent and properly competent reviewers who, when conducting reviews should take account of the criteria agreed to by governments in the Competition Principles Agreement and the guidelines as to the conduct of reviews issued by the NCC.

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 encouraging jurisdictions to facilitate coordination of the review process with the aim of scheduling a greater number of national reviews.

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.

Trading hours

Legislation controlling the trading hours of shops was common place across Australia ten years ago. Prohibitions on Sunday trading date back to pre-Norman England and the first restrictions on trading hours in Victoria were introduced in 1885. These restrictions were intended to achieve a number of objectives, including observance of the Sabbath, protection of shop employees and to minimise the risk of market dominance by larger retailers. The legislation normally allowed for exemptions for a range of premises based on size, location and product sold – mainly small local shops selling newspapers, milk and tobacco. The impact of such legislation was clearly anti-competitive, with significant adverse effects on consumer convenience and choice.

The position across the different jurisdictions now differs widely. A generally deregulated environment is already established in New South Wales, Victoria, ACT and Northern Territory. Significant restrictions are still in place in Queensland, Western Australia, South Australia and Tasmania.

As you are no doubt aware, the review of trading hours regulation in Victoria led to the deregulation of shopping hours around three years ago. The ACT also removed its restrictions a couple of years ago and there have been partial moves towards deregulation in some other states, although significant regulation remains in some cases. Current South Australian regulations are quite restrictive and something of a hotch-potch. Similarly, Queensland trading hours vary through-out the state, discriminate between stores according to size, ownership structures and location, and provide a complex array of effects.

Deregulation in Victoria 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. As well, many large supermarkets now remain open late at night or for 24 hours. 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.

These events suggest that many consumers, once having experienced deregulated shopping hours, are likely to warm to them.

Moves towards longer and less regulated shopping hours are part and parcel of the structural change in retail markets that 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 price of the same items in late night supermarkets.

This illustrates some of the adverse consequences for consumers from unjustified restrictions on competition. It is interesting to note that an evaluation of the impact of deregulated shopping hours in Victoria indicated that longer trading hours increases consumer welfare. The work found a net benefit to consumers, in terms of increased convenience nationally, valued at $1.2 billion or $65 per capita in 1995-96 prices (Brooker and King 1997).

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 the data does show is an increase in the number of medium retail businesses — which, I surmise, may hide some formerly small business that have taken on more staff and thus moved into the medium business category — and in the Victorian example, an increase in retail business employment of about 11,000.

Nevertheless, it must be recognised that deregulation will pose commercial risks or difficulties 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 or travelling in on the weekend. Indeed, a study prepared on behalf of the Brisbane City Heart Business Association suggested that extending Sunday trading to the suburbs could cost city retailers some $63 million in turnover. 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 that 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 significant form of 'market failure' associated with the existence of a particular size or location of business, 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 that are most able to provide the value-for-money, product range, location, convenience, service, friendliness and other attributes consumers are seeking will generally 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. 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.

While not necessarily disagreeing with this principle, some groups have argued for restrictions on trading hours on various grounds, including that:

- the retail market does not accord with the notion of a 'perfectly competitive market';
- there is only limited consumer demand to shop outside 'normal' retail hours;
- small businesses generate more employment per dollar of turn-over than big businesses; and
- without restrictions on trading hours, big retail businesses, particularly in the grocery sector, would use their market power to force out small retailers.

On the first point, the case for allowing full competition does not rely on the notion that markets are 'perfect'. It simply requires that they be less imperfect than the alternative. And even then, I know of no economic policy commentator who advocates a completely 'free' market. All markets need at least some basic government-provided ground-rules to operate efficiently. Whether, and if so to what extent, this extends to a need for trading hour restrictions is the issue reviews must consider.

On the second point, where consumer demand is insufficient to make it profitable for businesses to remain open for extended shopping hours, it is unclear why legislative restrictions would be needed to encourage stores to close. Of itself, this point does not constitute a form of market failure, nor a valid reason for government intervention.

On the third point, arguments about employment in industries subject to reform, while pertinent, often overlook the effects of employment in related industries. For example, the lower prices that larger retailers charge mean that their consumers are able to buy more goods and services with each dollar they spend (or save more money for re-investment elsewhere). In turn, this implies greater employment in the industries that supply the retail sector. This would reduce any net reduction in employment which might be associated with the displacement of small retailers by larger retailers.

More generally, however, the relevant policy question is whether retaining current restrictions would benefit the community as a whole by, for example, contributing to an environment which provides for *sustainable* improvements in overall economic and employment growth. In other words, the question for reviews is not simply one of how retaining current restrictions would affect employment in the retail sector.

The fourth point raises the issue of market power and, where it exists, the best way of dealing with it. While the scope for systematic anti-competitive behaviour by large retailers generally appears limited, it is theoretically plausible that it could occur in some contexts.[1] Were reviews to find evidence that such behaviour occurs to a significant extent, they would need to consider the appropriateness of mechanisms for dealing with this problem. While restricting trading hours could be one approach, it would be an extremely 'blunt' instrument for dealing with anti-competitive practices. Before recommending restrictions on retail trading hours on this basis, reviews would thus need to be satisfied that any competitive benefits of such action would exceed the costs, and that the outcome could not be achieved in other, more targeted, ways.

There are of course other issues which may need to be considered in assessing the case for reducing trading hour restrictions. For example, in the South Australian context, 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 reviews to examine.

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[1] As the National Association of Retail Grocers has noted, Australia's two largest retailers account for around 30 percent of all non-auto retail sales. However, this is unlikely to be sufficient to allow strategic anti-competitive behaviour against smaller businesses competing in most parts of the retail market. There is greater industry concentration in the retail grocery sector, and the top three chains have increased their aggregate market share in recent years to around 70 percent. The current shares may well exceed ACCC thresholds for examining market structure were two of these entities to consider merging. However, the shares do not indicate that the market is currently uncompetitive. Indeed, robust competition has been observed within markets with only two dominating players. Further, recent changes in market share do not necessarily indicate anti-competitive behaviour by the larger retailers. They may simply reflect improvements in the those retailers' competitiveness in conjunction with consumer demand for their goods and services. That said, there may be more scope for strategic behaviour in specific markets: for example, in country towns with one main supermarket and one or two competing retail grocers. Of course, were such an approach to be pursued, it could occur through sharper price competition within normal trading hours instead of, or as well as, through non-price competition such as trading extended hours.

Liquor licensing

The primary objective of liquor laws, across jurisdictions, is the minimisation of harm associated with the abuse of alcohol, and the consequential provision of adequate controls over its sale and consumption. Some jurisdictions' laws also have the objectives of promoting proper development of the liquor industry and diversity in response to consumer needs. These objectives are said to be in recognition of consumers' expectations about the availability of liquor and the commercial expectations of the various participants in the liquor retailing industry.

As a result, licensing laws in most States contain 'public interest' requirements that restrict competition among businesses in the supply of liquor. This covers both supplies for consumption 'on-site', as in a hotel or restaurant, and 'off-site' as from a bottle-shop. The restrictions may include, for example, the requirement to be licensed, controls on the type of premises which can supply liquor, limitations on trading hours and a need for the licence holder to demonstrate that they are a suitable person. There are also a range of site controls, including the segregation of liquor sales from other activities and prohibition on access by minors.

It will be observed that many of the current regulations discriminate between different types of outlets and thereby limit competition.

Traditionally, the consumption of liquor has been based around hotels, both for on-site consumption and, as in some jurisdictions, for off-licence sales. The past ten years have seen a general movement to a more liberal, deregulated marketplace, in line with the growth in the number and range of venues for eating and gaming. For example, in Victoria, the number of premises licensed for consumption of liquor on the premises (mainly restaurants) rose from 731 in 1987-88 to 2 340 in 1995-96.

For off-licence sales of packaged liquor, the main restriction is on the type of businesses that can be licensed. Victoria, Queensland, South Australia and Tasmania all prohibit the sale of liquor by convenience stores. In New South Wales, Western Australia and the Northern Territory, licence applications for convenience stores are at the discretion of licensing agencies, but are rarely permitted. The ACT allows the sale of packaged liquor by convenience stores, except where such stores also sell petrol.

This prohibition on the sale of liquor from petrol stations is also in place in Victoria, Queensland, South Australia and Tasmania. Only the Northern Territory allows petrol stations to sell packaged liquor, most commonly from combined road-house/ restaurant/petrol stations in remote areas. Licensing of petrol stations in New South Wales and Western Australia is at the discretion of licensing agencies, although approval appears to be rarely granted.

In Victoria, there is an additional restriction that a single person or corporation may not hold more than 8 per cent of the total number of packaged liquor (off-premises) licences (the 8 per cent limit).

In NSW, restaurant and café owners must obtain a license and meet various conditions before they can to serve alcoholic drinks on their premises. One condition is that they can

only serve patrons who are already consuming a meal. Another condition relates to the ratio of bar-stools to table seats in these venues.

Some more extreme examples of restrictions on selling alcohol include Tasmania's *nine litre* law which prohibits shops other than hotel bottle shops from selling less than nine litres of alcohol, except for Tasmanian wine. In Queensland, packaged alcohol can only be sold at hotels and hotel bottleshops. Neither of these laws are consumer-friendly; they do not appear to advance the objective of harm minimisation; the laws can only be explained by reference to their principal beneficiaries, hoteliers.

These licenses and conditions add to costs and limit the extent to which cafes and restaurants can compete against pubs and clubs, which don't have to meet the same conditions. Indeed, in arguing that "sophisticated Sydneysiders should be allowed to enjoy a cognac at a café", one scribe suggested that NSW's liquor laws "have been cobbled together over many years as some sort of legislative protection racket for the pubs and clubs industry." While I do not know the exact historical developments behind the laws in that State, they clearly do provide some special protections for the hotel industry, at the expense of other entertainment venues and, perhaps more importantly, at the expense of consumers who might simply wish to have a drink in a non-pub atmosphere.

Further, it is not clear that regulating the outlets at which liquor can be sold is a particularly effective way of dealing with problems associated with its inappropriate consumption. This is not only the case in relation to served drinks at hotels *vis a vis* restaurants and cafes. It is particularly so in the case of packaged liquor, such as slabs of beer.

Deregulation of licensing laws can bring substantial gains to consumers. Economic modeling indicates that prices may decrease by about 5%. Consumers may well be able to purchase wine in cafes without ordering a meal as they can in a hotel; this has to some extent happened in New South Wales. They should be able to buy a take-out bottle of beer at places other than a pub, as they can in Victoria. States have shown that these competitive gains can be attained without increasing the risk of alcohol abuse.

In addition, almost everyone except the hoteliers want change. Retailers want change so as to better service their customers. Consumers also want change: 60,000 Queenslanders signed a petition this year organised by members of the Retail Association of Queensland supporting a relaxation of restrictions on the nature of the type of retail outlets that are permitted to sell liquor; convenience store consumer surveys indicated a majority of customers wanted the option of buying alcohol from these stores.

Among other things, reviews will need to identify exactly what the social policy objectives in this area are, whether controls on outlets in fact help achieve these objectives, and can they be achieved by alternative less anti-competitive means. In particular, reviews will need to establish what justification there is for discrimination between different outlets.

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.

The Property 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.

Some other benefits from NCP

For business, there is a catalogue of other benefits being delivered to business by pro-competition reforms. For example:

- electricity tariffs have fallen by about half since the 1980s. Early evidence is also indicating an decrease in downtime, with blackouts in Victoria falling 50 per cent since 1990;
- gas transmission charges in New South Wales have fallen by up to 60 percent in four years;
- rail freight charges in Queensland have fallen by 13 per cent since 1991-1992, and by 40 per cent on the Perth to Melbourne route. Evidence is also at hand to show an improvement in both service quality and transit times;
- prices for port services, telecommunications and air traffic services have all fallen by more than 20 per cent in the five years to 1997;
- commercial water bills have fallen from the most expensive of fifteen major Western countries to the third cheapest, while water quality has improved, investment in water treatment has increased and service interruptions have decreased.

NCP, myths and rural Australia

In order to progress reform, there is a need to understand the nature of criticisms being leveled at NCP. A big part of my job is, unfortunately, debunking the misconceived and sometimes deliberately misleading attacks on competition policy in general and the Council in particular.

The Productivity Commission, in its draft report *Impact of Competition Policy Reforms on Rural and Regional Australia* has catalogued the perceptions of some rural Australians about NCP. These include that NCP is responsible for the withdrawal of government services, the demise of local businesses, the closure of banks, the decline in rural population, higher rates of crime, drug abuse and suicide. It has been likened to a giant vacuum cleaner sucking people out of the bush, a threat to the businesses, livelihood and overall economic bases of rural communities and economic rationalism that is destructive of community welfare.

But an important finding of the draft report was that urban **and** country Australians will be net beneficiaries from competition reform. The benefits will be more varied in rural areas, and the report has suggested that they will not be as great. Many factors, both older and more influential than NCP are having a profound effect on rural Australia. These include world prices for agriculture and mineral commodities, technological advances and lifestyle decisions of young Australians. Opportunists have found a convenient whipping-boy in NCP to explain away adverse effects of these and other changes on country communities.

While examining the myths surrounding NCP, there is the misperception that it is about the privatisation of public utilities, yet this is not required or even encouraged. Another is that NCP forces local governments to contract out services; it does not. The same applies to local council amalgamations, financial market deregulation, industrial relations reforms, cuts to the size of the public sector and so on.

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.

Finishing the Job

In finishing off the NCP job, the Council has identified what I call *hotspots* which require a significant will to reform on particularly complex issues. The hotspots include the task of reforming retail trading hours, liquor licensing and professions. They also include businesses such as taxis, gambling and insurance. These are areas with small but powerful opponents to change, and a community that is widely painted as being weary of reform, although I do not agree with this analysis.

To finish reform in these areas will include not just sound reviews, a robust consideration of the public interest, as opposed to private interests, and collaboration between the Council and Governments. It requires substantial political will and strong proponents of sound, pro-competition outcomes. It requires a sensitive appraisal of and the provision of fair adjustment assistance to affected communities, groups and individuals. It will need a public that is fully informed of the reasons for change, so that myths propagated by monopolists and privileged groups can be exposed for what they are. It will also need appropriate consultation with the same public, and particularly with stakeholders. And stakeholders include more than just the licencee, registrant or business. It means particularly the consumer, who must be served by both the restrictions from and advantages of competition.

The Council is placing itself to play a lead role in this process. Governments are also well equipped to effectively finish off the job. But of seminal importance is groups such as yourselves, who are consumers of many goods and professional services, and frequently the victim of anti-competitive practices.

Because if you agree that you are better off from the NCP reform process, then who better than you to tell your business associates, your government, your customers and your communities.

Conclusion

I noted at the beginning that NCP is going about the business of removing anti-competitive restrictions in a considered, case-by-case manner. By closely scrutinising rules, laws and practices, sound reasons for restrictions are often found. Dentists should be registered. Access to pokie machines may need to be regulated. Fifteen year old consumers should not be able to buy cigarettes. The public interest in these restrictions is clear.

By the same token, some rules are exposed for what they are: bastions of privilege. The *nine litre* law, for example, does not serve consumers. It does not serve the majority of business. It does serve the interests of hoteliers, and probably hoteliers alone. Restrictions on the ownership of optometrical practices must primarily serve the interests of optometrists. And consumers are not well served by illogical and incoherent and restrictions to business trading hours.

NCP is delivering real benefits to Australia. Real reductions in prices. Real increases in levels and types of service. Real improvements to business and consumers generally. A more productive, innovative and efficient economy is being built.

The challenge remains to complete the program. In that, both strong support and vigorous activity are required, not only by the Council, but by the community generally and a well-informed business community in particular.