



National Competition Council

National Competition Policy:
Some Impacts on
Society and the Economy

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Foreword

While the process of change can sometimes be difficult, the National Competition Policy (NCP) reforms will bring — and are already bringing — important benefits for Australians. This discussion paper considers the effects of NCP reform on a range of social and economic issues, including employment, equity and community services, environmental issues and impacts on rural communities.

The National Competition Council has developed this paper in the context of its role in promoting community understanding and informed debate on NCP. The paper seeks to address some of the recent concerns which have been raised with regard to NCP implementation and clarify some misconceptions. The material in the paper was originally developed in response to two major inquiries launched in 1998 into NCP — the Productivity Commission inquiry into the impacts of NCP on rural Australia; and the Australian Senate inquiry into the socio-economic consequences of NCP reform. The Council believes it is important to promote informed debate on these issues and is therefore releasing the paper for public discussion.

Section 1 of the paper outlines the NCP package and progress to date in implementation.

Section 2 discusses some of the impacts of NCP on social and economic factors, including employment, equity, the provision of community service obligations, and the environment. The Council aims to show that while reform is likely to bring both benefits and costs, the NCP framework takes explicit account of these issues and is designed to introduce reforms which can help society use its resources in more efficient and sustainable ways, creating the conditions to support better living standards, sustainable economic growth and job creation.

Section 3 considers some of the likely impacts of NCP on rural and regional communities. It discusses the implications of local government reform, regulatory reviews into anti-competitive legislation – including legislation governing statutory marketing authorities, water reform and other NCP reforms.

Section 4 of the paper focuses on the public interest safeguards built into the NCP process, and how these safeguards aim to ensure that reform is only applied where it serves the community.

The Council acknowledges throughout the paper that some reforms, while bringing important benefits to the community – such as lower prices and better quality services – may impose costs on particular groups directly exposed to reform. The Council argues that to get the maximum benefit, NCP should be implemented in conjunction with policies designed to manage these distributional effects – for example, education and training programs, tax and social security policies, policies addressing the level of community services, and regional development policies. In this way, the potential benefits of competition reform can be fully reaped, shared equitably and put to the best use.

Executive Summary

The Rationale for Reform

In 1995, Australia's nine governments jointly agreed to implement the National Competition Policy (NCP) reform program.

The package represents a new and important step in pro-competition reform, and builds on a process that was launched with the Trade Practices Act in 1974. The Act established rules to limit the abuse of market power by businesses, promote fair trading and efficient industry practices and to protect consumers.

While the contribution of Trade Practices legislation was significant, governments realised in the mid-1980s that further work was needed. They subsequently gave significant attention to the performance of the Australian economy at the microeconomic level, undertaking numerous reforms:

- some of these introduced greater competition into sectors of the economy, as in the case of domestic airline deregulation;
- others involved more centrally coordinated changes to the structure and operations of particular sectors, as in the case of reforms to higher education; and
- many, such as tariff reductions and the abolition of import quotas, sought to reduce inefficiencies in the traded goods sector.

By the late 1980s and early 1990s, it had become clear that a more balanced and co-ordinated approach to reform across the three spheres of government was required. After a series of inquiries, the Council of Australian Governments (COAG) agreed in April 1995 to implement the National Competition Policy package.

In short, the reforms are to:

- extend the reach of the anti-competitive conduct laws in Part IV of the Trade Practices Act (TPA) to virtually all private and public sector businesses;
- improve the performance of essential infrastructure through implementing reform packages in the electricity, gas, water and road transport industries; and establishing third party “access” arrangements for the services of nationally significant monopoly infrastructure;
- review and, where appropriate, reform all laws which restrict competition, and ensure that any new restrictions provide a net community benefit; and
- improve the performance of government businesses through structural reform, introducing competitive neutrality so that government businesses do not enjoy unfair advantages or disadvantages when competing with private businesses; and considering the use of prices oversight.

Governments also agreed to apply these reforms to local governments in their jurisdiction.

The NCP package puts a national umbrella over a number of reforms which governments were already in the process of developing or implementing. The adoption of a co-ordinated approach to reform on a national basis recognises the growing reality of Australia as a single market, rather than a series of markets delineated by State borders. A national framework also seeks to overcome the inconsistencies that can arise from a more piecemeal approach. In the past, for example, a state-by-state approach in rail led to not only different gauges but also different technical standards and different safety standards. Finally, a national approach allows each State to capitalise on what the others are doing, and obviates the need for each State to individually ‘reinvent the wheel.’

While governments decided to adopt a national focus for competition policy, most of the implementation is happening on an individual government level, with each government in control of how the policies are implemented in their jurisdiction. By agreeing to National Competition Policy they have put a framework around the development of their policies to support keeping the national issues in mind.

While NCP builds on some elements of earlier reforms, it is also different in a number of important ways. In particular, governments turned their attention to a number of sheltered areas of the economy which, for various reasons, had not yet been considered for reform – often by virtue of regulatory or legislative protection or due to the complexity of the task. In addition, many of the NCP reforms touch on complex areas of social and economic regulation.

For these reasons, NCP incorporates a public interest test (see Box A) to assess whether a particular reform is in the interests of the community as a whole – taking account of the interests of each affected group – to assess in an open and objective way whether a particular reform should proceed.

The public interest test covers a wide range of factors, including the environment, employment, social welfare and consumer interests as well as business competitiveness and economic efficiency. The assessment of these factors gives equal weight to economic and social considerations. In this sense, the NCP package seeks to balance economic accountability with social responsibility.

In essence, most NCP reforms are measures designed to reap the benefits that competition, properly harnessed, can bring. The objective is not to pursue competition as an end in itself, but, where appropriate, to inject competition into previously sheltered areas of the economy to boost economic performance and provide benefits to Australian consumers and households.

The strength of competition policy lies in its capacity to improve productivity and economic efficiency. In simple terms, the idea of competition is that two or more producers competing for the same customers are more likely to think of ways to improve efficiency and offer consumers better products, cheaper prices, or both. This may occur, for example, through more efficient work and management practices, greater attention to consumers' demands and more innovation.

By lowering prices, competition can raise the real incomes of consumers. This directly improves people's material living standards and can provide an impetus for economic growth and sustainable job creation. And by lowering input costs for producers, competition can improve the viability of our export and import-competing industries, with important benefits to the nation's external stability.

Box A The NCP Public Interest Test

Under clause 1(3) of the Competition Principles Agreement, governments take into account the following factors when assessing the merits of reforms in relation to competitive neutrality, anti-competitive legislation and the structure of public monopolies:

- government legislation and policies relating to ecologically sustainable development;
- social welfare and equity considerations, including community service obligations;
- government legislation and policies relating to matters such as occupational health and safety, industrial relations and access and equity;
- economic and regional development, including employment and investment growth;
- the interests of consumers generally or of a class of consumers;
- the competitiveness of Australian businesses; and
- the efficient allocation of resources.

The list is open-ended, meaning that any other relevant matter should also be considered when assessing the case for a competition reform.

Effects of Reform on Society and the Economy

There has been much discussion of the effects of National Competition Policy over the last few months. Claims have been made that competition policy is contributing to a range of social and economic concerns – including unemployment, environmental damage and cutbacks in government services.

The recent debate reflects both resistance by some groups to the removal of anti-competitive protections and privileges, as well as genuine concerns in the wider community. The changes that have taken place in the Australian economy over recent decades have caused much social dislocation. Much of this is due to things Australian governments have no control over – for example, technological change and falling world commodity prices. But government policies – such as the closure of rural rail lines – have also contributed to the changes, and governments have not always dealt adequately with the social effects of change.

That said, many concerns commonly ‘blamed’ on NCP – such as privatisation, compulsory competitive tendering and cuts in public services – are misguided. In fact, NCP contains no requirement for privatisation or compulsory competitive tendering, and does not seek to mandate the level of provision of community services.

Instead, the focus of NCP is to promote the best value for money in delivering goods and services which the community values. But NCP does not mandate which products should be delivered. Nor does it seek to judge whether particular products are best delivered by the private or public sector.

However, NCP will *affect* many socio-economic issues, including employment, the environment and the provision of government services. While community perceptions appear to be that these effects are usually negative, section 2 of this paper argues that the reality is more complex.

In fact, the NCP framework was designed to ensure that, while there may be a mixture of costs and benefits, the overall social and economic effects of any particular reform will be positive. Under NCP competition is not a 'holy grail' to be introduced for its own sake. Governments agreed to implement NCP with the express purpose of serving the public interest. A central contribution that NCP can offer is to help reduce costs to Australian households and businesses (see Box B), fuelling rising living standards, and making our industries more competitive, with scope for higher economic growth and sustainable job creation. These benefits can also help expand the revenue base of governments, providing the finance needed for important programs such as community services, welfare and protection of the environment.

For example, the water reforms – perhaps the most far reaching in the NCP framework – embody a comprehensive package of measures aimed at reaping benefits from economic, social and environmental perspectives. The reforms aim to promote more efficient use of water through pricing reform and the introduction of tradeable allocations, allowing water to be used in ways that the community places highest value on. At the same time, reforms to pricing and investment guidelines will encourage better conservation and greater accountability in environmentally-sensitive matters such as dam construction. The establishment of appropriate drinking water quality standards, water quality monitoring and catchment management policies are other important elements of the package. The recent crises over water quality in Sydney and Adelaide have highlighted the importance of these issues.

Similarly, the recent Victorian gas crisis illustrated some of the socio-economic benefits of the NCP gas reform program. The suspension of Victorian gas supplies following the Longford disaster in September 1998 would have left Victoria without gas for emergency services in the absence of NCP reform. But implementation of the National Gas Pipelines Access Code, a centrepiece of NCP gas reform, was a critical factor underpinning the construction of a \$50 million 'interlink' pipeline between New South Wales and Victoria, which allowed emergency supplies of gas to flow into Victoria from interstate throughout the crisis. Although interstate trade in gas is still at an early stage, the interlink pipeline is indicative of the kind of benefits which lie ahead.

Box B Some early outcomes from competition reform¹

- Following the introduction of competition, electricity bills fell by about 23 to 30 percent on average, for those NSW and Victorian businesses covered by the national competitive market; while wholesale prices in Queensland fell by around 23 percent after its internal competitive electricity market commenced.
- Gas prices for major industrial users fell 50 percent after deregulation of the Pilbara market in 1995, while gas distribution tariffs are set to fall 60 percent by the year 2000 in NSW.
- Rail freight rates in Western Australia have fallen by 42 percent in real terms since 1991-92, while rail freight rates for the Perth-Melbourne route fell 40 percent, and service quality and transit times improved, following the introduction of competition in 1995.
- Conveyancing fees in NSW fell 17 percent between 1994 and 1996, after the abolition of the legal profession's monopoly and the removal of price scheduling and advertising restrictions, leading to an annual saving to consumers of at least \$86 million.
- Prices for the outputs of government trading enterprises fell substantially between 1991-92 and 1995-96, and payments to governments doubled, due partly to competition reforms. More recent evidence shows that these trends are continuing. In the five years to 1996-97, the sharpest price reductions occurred in electricity (24 percent), port services (23 percent), telecommunications (23 percent) and air traffic services (40 percent).
- In Queensland, ten of the seventeen largest local councils have implemented two part tariffs for water, resulting in an average saving in water usage of 20 percent in the first year.
- Following a review of business licensing in NSW that found significant duplication and overlap, some 72 licenses have been repealed and more are being scrutinised. Among other changes, 44 categories have been collapsed into just three.

¹ Adapted from the Council's 1997-98 Annual Report. The source material for this information is provided in the Annual Report.

While all of the NCP reforms were designed to deliver social and economic benefits, many specific reforms are also subject to case-by-case public interest assessments to determine whether a net community benefit exists. These assessments take account of a wide range of social, environmental and economic perspectives (see Box A). The Council believes that this framework enables governments to achieve policy outcomes that balance economic, social and environmental considerations.

But while the NCP framework seeks to balance economic accountability with social responsibility, it cannot ensure that *every* person will be better off from reform. This is because most barriers to competition benefit particular groups or individuals by sheltering them from the market place. What governments must assess in applying the public interest test is whether the benefits of anti-competitive restrictions to particular individuals or groups can justify imposing costs on the rest of the community – through, for example, higher prices or higher taxes necessary to fund inefficient service provision.

Given that reform can impose costs on some groups, it is important that the application of the NCP public interest test be rigorous, independent, and incorporate the interests of the community at large.

In some cases, a rigorous assessment will find that the costs imposed on the community are justified – for example, a barrier to competition may be judged as necessary to sustain regional economic development, employment and social cohesion in a remote community.

In other cases, the benefits conferred on a particular group may be outweighed by the costs imposed by barriers to competition on the community at large – pointing to reform as the best option to serve the public interest.

But sometimes when this occurs, the information disseminated in the community about reform may still focus on the costs, giving the impression that the community is worse off. There are two reasons for this.

Firstly, those groups who become exposed to competition after previously being sheltered are often very vocal about explaining – and in some cases exaggerating – the potential costs to them about the loss of anti-competitive privileges.

Second, some of the costs of reform occur relatively quickly, and tend to be concentrated among particular groups, industries or geographical areas newly exposed to competition. These costs can involve hardship for the people affected, and often become the subject of media attention.

At the same time, the benefits of competition reform tend to flow more gradually and evenly across the economy, through lower costs and prices and the expansion of industry arising from these changes. Sometimes these benefits take time to flow through, and the link to competition reforms introduced months or years earlier is not always easy to see.

It should also be borne in mind that failure to introduce reform can impose its own costs on the community. For example, prior to introducing national reforms in electricity, the industry was characterised by overcapitalisation in power stations, poor efficiency and high energy charges which damaged the international competitiveness of Australian industry. Similarly, uncompetitive structures in the water industry have contributed to inefficient approaches to infrastructure, poor conservation and degradation of the nation's rivers. Finally, in gas, the potential risks of monopoly structures in the upstream gas sector were graphically illustrated by Victoria's Longford gas crisis in September 1998.

Section 2 of this paper also considers the likely effects of reform on a range of specific socio-economic outcomes.

Employment

The NCP reforms will affect employment in a range of ways – both positive and negative.

Jobs will be lost in some of the industries directly exposed to reform – in the short term at least – as firms experience greater pressures to lift productivity and reduce costs. This has been observed, for example, in regard to some electricity and telecommunications businesses.

However, there are likely to be employment gains, particularly in other industries. As indicated in Box B, competition brings lower prices for many products. This increases household spending power, encouraging firms to increase production and employ more workers. Lower prices also improve the cost competitiveness of thousands of Australian businesses which rely on services like electricity and legal advice. Once again, this creates an incentive for higher levels of production and employment.

The diffuse and ‘flow-on’ nature of the effects of reform on employment makes reliable quantitative analysis a difficult task. In the longer term, however, the impacts of NCP on Australia’s cost competitiveness, international trade and economic growth should provide scope for net gains in employment. Even so, the gains may flow unevenly, with expanded job opportunities in many sectors and regions occurring alongside contractions in some others.

To get the maximum benefit in terms of jobs, NCP should be implemented in conjunction with policies designed to manage these distributional effects – for example, education and training programs to enhance the vocational skills base of unemployed workers and young people about to enter the labour force (section 2.3).

Equity Issues

While NCP is not specifically aimed at promoting equity, its implementation has a range of effects on this issue. For example, NCP exposes previously sheltered areas of the economy to competition, creating the risk of lower incomes, business failure or unemployment for some of the people directly exposed to reform.

On the other hand, NCP reform often involves removing anti-competitive arrangements that traditionally conferred unfair privileges on sheltered groups – often high income earners – which the rest of the community do not enjoy.

In addition, many NCP measures will encourage cheaper prices of affected services, helping to reduce the gap between rich and poor households. For example, the

energy reforms will cut consumers' power bills. As low-income households spend a larger proportion of their incomes on energy than households on high incomes, these reforms should improve equity (section 2.4).

Community Service Obligations

NCP recognises the importance placed by society on providing community service obligations (CSOs). At the same time, it recognises the need to improve mechanisms for defining, funding and delivering CSOs. This is consistent with the emphasis all governments place on improving the efficient and effective delivery of CSOs, including improved reporting and monitoring procedures.

But governments are free to subsidise important community services for well-defined target groups – such as aged pensioners – under the NCP reforms. In fact, competition reform can help governments deliver services more cost-effectively, leaving them with more money to provide important CSOs (section 2.5).

The Environment

The NCP framework requires governments to take account of environmental impacts of reform as part of the public interest assessment process.

Environmental considerations also play a role in specific reforms. For example, a key aim of the *water* reforms is for people and businesses to pay according to how much water they use – to encourage better conservation. The water reforms also recognise the environment as a user of water, with a right to a share of water allocations, in the same way as consumers and industry. There are also measures to maintain healthy river systems and groundwater basins in the future, and new rules for the construction of dams to take better account of environmental impacts.

The energy reforms also have significant implications for the environment. For example, the creation of a national *electricity* market allows suppliers to sell 'green energy' into the market and makes it easier for consumers to buy energy from renewable sources (section 2.6).

Adjustment Assistance

A public interest assessment sometimes finds that a particular reform should proceed because it delivers important community benefits – even though it may impose costs on people in particular regions, industries or communities directly exposed to reform. The Council argues in section 2.2 of this paper that these costs should be addressed by governments. While various measures, such as social security payments and subsidised training schemes, already exist for people who lose their jobs as part of normal economic activity, governments may need to consider whether *additional* assistance should be offered to those directly affected by particular reforms such as NCP.

In the longer term, governments may need to give weight to these issues in their approach to policies such as social security, education and training and labour market programs. In the short to medium term, they may also need to consider targeted adjustment assistance.

One form of assistance adopted for most of the NCP reforms – such as the energy, water and legislation review programs – is to *phase* in reform. On the other hand, *specifically targeted assistance* may be warranted if the people affected have few alternative choices available – for example, if reform causes significant unemployment in a remote area.

The issue of pro-active adjustment assistance has been acknowledged in relation to a number of NCP reforms, including the legislation review program. For example, the Industry Commission's review of the *Customs Tariff Act 1995 – Textiles Clothing and Footwear Arrangements* made several recommendations on

adjustment assistance, including changed eligibility criteria for employment assistance services and additional funding for these activities.

The water reforms are another area of the NCP package which specifically recognise adjustment issues. For example, the NSW Government recently announced a \$33 million structural adjustment package to assist irrigation farmers to adjust to the new water management arrangements. The package targets farm business planning, irrigation skills training, financial assistance for water-efficient techniques and technologies, and re-establishment assistance, where required.

Some States have also implemented pro-active adjustment assistance in conjunction with commercialisation reforms. For example, both Queensland and Victoria have made policy decisions for wider use of competitive tendering in local government service provision. But prior to putting some of their functions to tender, some public bodies in Queensland and Victoria have offered training for their staff who previously undertook the relevant functions. This provided 'in house' staff with a better opportunity to compete successfully in the tendering process.

Impacts on Urban and Rural and Regional Communities

There is little evidence to date on the relative effects of NCP reform on urban and rural and regional Australia. Monitoring these relative impacts is particularly difficult at present, given that NCP implementation is still in its early stages. The Productivity Commission is currently investigating this issue, and their review into the *Impact of Competition Policy Reforms on Rural and Regional Australia* is expected to provide important evidence on this matter.

The issue of competition policy and its effects on rural and regional communities has been the subject of considerable anxiety in the community. The concerns include fears that competition policy will cause a loss of services to the bush, that farmers will not be able to market their produce through co-operatives, that the prices of farm inputs like water will rise, that job opportunities will dry up and that any benefits from competition will go mainly to city people and big business.

Some of these concerns do reflect uncertainty as to the potential impact of NCP in such areas as the reform of statutory marketing arrangements and water reform. But other concerns, such as the erosion of rural services, are more closely linked to changes in the Australian economy which have been taking place over recent decades, causing much social dislocation. Much of this hardship stems from declining business opportunities in rural communities caused by falling world prices for agricultural commodities, improvements in farm productivity, and a population drift towards larger regional centres and the cities. Closures of banks, for instance, are commercial decisions which reflect dwindling commerce in many rural and remote areas, and have little or nothing to do with NCP.

But clearly, a number of areas of NCP are likely to have particular impacts on rural and regional communities. Many of the reforms offer substantial benefits to these communities – for example, the new water trading arrangements and the impacts of reform on reducing rail freight charges, energy costs and prices of imported farm equipment and fertilisers.

Sometimes, however, due to differences in scale between business activities in rural and urban areas, the benefits of reform may weigh more strongly in favour of urban communities with access to markets with vigorous competition. And in some cases, particular regions or industries in rural areas may be directly exposed to the reform process, creating the potential for a considerable burden of costs.

At the same time, the reform framework is designed to take account of these costs. The NCP public interest safeguards allow the costs and benefits of reform – including the impacts on individuals, regions and particular industries – to be weighed openly and rigorously to ensure that reform is in the interests of the community as a whole. This can sometimes require a delicate balancing of interests, but the reform

framework is designed to ensure that the interests of all parties are considered, with any trade-offs made explicit. Where reform is found to be justified, but the distribution of costs and benefits weighs unfairly on a particular region or community, there is a case for governments to consider compensatory measures – for example, through policies on regional development and the provision of well-targeted community service obligations.

Section 3 of this paper examines five key interfaces between NCP and rural and regional communities. While reform can bring about certain costs for rural and regional communities, there are also significant potential benefits.

Local Government Reform

Concerns have been raised that applying competitive neutrality to significant *local government* businesses may impact negatively on the skills base and employment opportunities in rural and remote areas – especially where the reforms are linked to competitive tendering. But as noted in section 3.2, the public interest test allows these potential costs to be carefully considered against the potential benefits of reform. Properly applied, competitive neutrality reform offers scope for cost savings in service delivery, rates relief and a greater pool of funds for investment and other local priorities. This can assist local government in reconciling the community's expectations of improvements in welfare, recreation and community services in times of constrained revenue raising capacity.

Reviewing Statutory Marketing Arrangements

The review of Commonwealth, State and Territory legislation and regulation governing *statutory marketing arrangements* (SMAs) has raised concerns that

reform offers benefits to urban dwellers – through cheaper farmgoods – while imposing significant costs on the rural farming communities exposed to reform. But as section 3.3 notes, the reviews to date have proposed a range of approaches to reform, targeted to the circumstances of each industry, with benefits to both rural communities and consumers generally.

Reviewing other Anti-Competitive Legislation

Section 3.4 acknowledges concerns that reforming legislation governing the supply of services such as petrol can sometimes promote an expansion of services in larger regional centres at the expense of small businesses in outlying rural and remote communities – with adverse implications for social cohesion in these communities.

These are legitimate concerns that should be taken into account in cost-benefit assessments of whether reform is in the public interest. But as section 3.4 argues, NCP is likely to offer countervailing benefits – for example, while the provision of services like petrol may become more centralised in regional centres, there is also the likelihood that rural communities will benefit from cheaper prices for these services. In addition, there is evidence that regulatory reform of such areas as legal services and optometry has the potential to improve access in rural areas – for example, by removing overly rigid regulatory barriers to the supply of these services.

Water Reform

Concerns have been raised that the water reforms will raise the price of water – especially for irrigation – imposing pain on farming communities. While acknowledging these adjustment costs, section 3.5 argues that failure to implement

the water reforms would involve much higher costs for rural communities – continued degradation of our rivers coupled with a deterioration in water quality to the point where the demand for water cannot be met, rising salinity in groundwater and soils in farming areas, depletion of fish stocks and so on.

The reform measures aim to safeguard the sustainability of water resources, provide for proper maintenance of water infrastructure, and through water trading, encourage higher value-added cropping and sustainable wealth generation in rural communities. At the same time, governments should consider the need for adjustment assistance to help irrigation farmers adjust to the changes.

Other NCP Reforms

Section 3.6 notes other NCP reforms which are delivering, or will deliver cheaper prices in energy, rail freight, imported farm equipment, vehicles, and fertilisers to rural and regional communities.

The Public Interest Test

Public interest issues arise in a number of contexts under NCP reform, as set out in section 4 of this paper. In particular, the merits of applying three key reforms – competitive neutrality, the structural reform of public monopolies, and the reform of anti-competitive legislation – should be determined on a case by case basis by applying a public interest test.

The public interest test was written into the NCP framework to allow *all* relevant factors to be considered when deciding whether restrictions on competition are

warranted. The test requires consideration of an array of public interest matters, including the environment, employment, social welfare and consumer interests as well as business competitiveness and economic efficiency (see Box A).

The NCP agreements give social and environmental values no more or less weight than financial considerations in determining where the public interest lies. In other words, the presumption is that all public interest considerations intrinsically carry equal weight.

For example, a review into the merits of a statutory marketing arrangement should consider such matters as the impacts of barriers to competition on the level and stability of farmers' incomes, the welfare of Australian consumers, implications for the value of Australian exports, environmental impacts, administrative and regulatory costs, effects on regional development and employment, economies of scale in transport and marketing, agricultural productivity and implications for value-adding industries.

A challenge for review bodies and for governments is to focus on outcomes that benefit the *community as a whole*, rather than providing special treatment for certain groups at the expense of others. Most anti-competitive restrictions benefit someone. But where this imposes costs on others (such as forcing consumers to pay higher prices than would otherwise be necessary), it is important that each side of the argument be weighed in an objective and transparent manner.

At the same time, it is important that the impacts of reform on the individuals, regions and industries directly exposed to reform are taken into account. It is also important that any trade-offs between the interests of different groups are made explicit so that governments can objectively consider whether compensatory measures are warranted.

For these reasons, the Council has consistently stressed the importance of independent, transparent and rigorous *processes* by governments in considering public interest matters. This is essential to maintain community confidence that public interest considerations have been objectively examined.

Once public interest considerations have been rigorously assessed in an independent and transparent forum, the best course of action – whether to implement reform or not to do so – will be apparent, and the public interest would be best served by governments adopting the recommendations accordingly.

A number of State and Territory reviews have recommended that restrictions on competition be retained in the community interest. Where these reviews use transparent, independent and objective processes, the Council has accepted these outcomes as satisfying the intent of the NCP agreements.

The degree of rigour required in a public interest assessment depends to some extent on the circumstances. For example, the Council does not seek to promote excessively bureaucratic processes for relatively minor matters.

Conversely, it would not be appropriate to *exempt* an area from reform without first conducting a rigorous cost-benefit analysis – to do so would invite claims that reform has been suppressed to satisfy vested interests. Similarly, where the net public benefit is unclear, or where there are claims that reform is against the public interest, decisions should be based on an objective assessment of the facts.

In general, the process followed should reflect the significance and complexity of the particular reform or issue (taking into account such matters as the range of affected stakeholders and community sensitivity). As a minimum, however, interested parties should be given the opportunity to participate and should have confidence that their views will be taken into account and given due consideration.

The process for *measuring* costs and benefits requires judgement. The House of Representatives Standing Committee on Financial Institutions and Public Administration (Hawker Committee) cited a range of approaches currently in use, in its 1997 Report, *Cultivating Competition*. The Committee accepted the use of both quantitative and qualitative assessments where appropriate. It also noted the need for greater guidance to local governments in the practicalities of conducting public benefit assessments. The Council notes that this problem is now being addressed in Queensland with comprehensive training programs, and encourages the wider use of this approach.

In considering community benefits and costs, it is important that both short-term and longer-term factors are taken into account. It is often the case that the costs of reform – such as employment losses in firms directly exposed to reform – are short-term, upfront and concentrated, whereas benefits – such as cheaper prices to consumers and flow-on benefits of new jobs elsewhere in the economy – are often longer term and widely dispersed throughout the community. For this reason, a “first glance” consideration may only provide part of the overall picture.