

Appendix 1: 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.

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National Competition Policy: Some Impacts on Society and the Economy

1 Community consultation is vital

The Council supports governments in explaining to the community the important connections between competition reform, other government policies, and community objectives such as full employment, equity and environmental goals.

The Council sees its communications role as crucial, given that many of the reforms are complex and involve change – which can create conditions of uncertainty in the community. Three recent Parliamentary inquiries into the Council and the NCP program have emphasised the importance of community consultation and communication (*pages 27-28*).

2 The central contribution of NCP

The central contribution of NCP is to help reduce prices to Australian households and costs to businesses, fuelling rising living standards, and making our industries more cost competitive. These changes create conditions for higher economic growth and sustainable job creation. They also help provide growth in the revenue base of governments, creating funds for important programs such as community services, welfare and protection of the environment (*pages 5-6, 8*).

3 NCP has checks and balances to serve the community

The Commonwealth, State and Territory Governments agreed to implement the NCP package in 1995 because they could see that it would enhance Australia's living standards by improving productivity, lowering prices and improving standards of service.

It was also understood that some of the reforms could bring a complex mix of costs and benefits – which might sometimes be spread unevenly across geographical regions, industries and individuals. For this reason, several key reforms were tied to a public interest hurdle to ensure that change is in the community's interest. The public interest test is broadly based, with monetary values given no more weight than social and environmental considerations (*pages 3-6, 48-50, 96-98*).

For example, if a particular reform is likely to damage commerce in a country town, this *could* be a valid reason to shelve the idea. Alternatively, reform may still be warranted if it is likely to bring other benefits, such as cheaper prices in rural communities – but

governments should look at whether the affected community needs assistance to adjust to the change (*pages 53-56, 74-75, 77-79, 87*).

4 Equity and CSO issues

The importance of equity and community service obligations (CSOs) are recognised in the NCP public interest test. For example, governments are free to transparently subsidise important community services for well-targeted groups – such as aged pensioners – under the NCP reforms.

Some reforms expose previously sheltered areas of the economy to competition – creating the risk of lower incomes, business failure or unemployment for some of the people concerned. But without reform, anti-competitive arrangements enable some people to maintain high incomes at the expense of others in the community.

There are other ways in which NCP can improve equity. For example:

- NCP is promoting cheaper prices for essential services such as electricity – which will help relieve a significant burden for low-income families.
- Reforms like competitive neutrality improve government finances, helping to safeguard important CSOs which may otherwise be threatened by budgetary constraints.

Often, the best approach will be to reap the benefits of reform, and consider ways of addressing any adverse effects on previously sheltered groups – eg, through well-targeted CSOs, social security policies and labour market programs (*pages 60-67*).

5 NCP and the bush

Some groups have raised concerns that the NCP reforms are skewed against rural Australia, in favour of urban communities. But the reforms can benefit rural Australia in a number of ways. In fact, the reforms can help mitigate some of the pressures in rural areas caused by dwindling populations and declining business opportunities, that stem from a long-term decline in commodity prices and better farm productivity (*pages 73-75*).

- Local government reform can help cut the cost of rural services and bring relief for ratepayers. But reform should be considered on a case-by-case basis to ensure that the benefits outweigh any associated costs – eg possible damage to regional commerce or employment – and should be designed in ways to minimise these costs (*pages 75-80*).
- Recent reviews into statutory marketing arrangements for products such as rice, barley and sugar have been tailoring their recommendations to the circumstances of each

industry, and proposing changes which benefit both rural communities and consumers generally (*pages 81-85*).

- Some rural communities have been losing services such as banking and petrol stations due to declining business opportunities in the bush (see above). NCP reforms sometimes have the potential to aggravate this process. For example, reforms to petrol supply arrangements may contribute to the closure of some petrol stations in outlying communities, with supply becoming more centralised in larger regional centres. This is likely to bring cheaper prices for services due to greater economies of scale. At the same time, it may cause the loss of a valued shop which provides commerce and a focal point for a small community.

If socio-economic costs of this kind outweigh the benefits of reform – such as cheaper services – there may be a case not to go ahead with the reform. On the other hand, the reforms can bring important price relief to rural communities, and there may be better ways to address any associated costs – eg, through community service obligations to ensure that necessary services are provided, and rural development policies to develop new value-adding industries in affected communities.

There is also evidence that regulatory reform of areas such as legal services and optometry, can *improve* access in rural areas – for example, by removing overly rigid regulatory barriers to supply (*pages 86-89*).

- Concerns have been raised that the water reforms will raise the price of water – especially for irrigation – imposing pain on farming communities.

But the water reforms are averting much higher costs for rural communities. Higher prices for bulk water are needed to promote better use of scarce water resources and halt the degradation of rivers, rising salinity in groundwater and soils in farming areas, and depletion of fish stocks.

The water reforms also offer new benefits targeted at rural Australia. For example, the water trading arrangements will allow farmers to boost their incomes by trading water entitlements. At the same time, governments should look at ways of helping farmers adjust to higher costs for bulk water. NSW has already announced a \$33 million scheme of this kind (*pages 90-92, 33-35, 54-55, 68-9*).

- NCP and related reforms are bringing cheaper costs for freight, imported farm equipment, vehicles, and fertilisers (*page 93*).

6 NCP is improving gas, water and electricity services

Although the NCP infrastructure reforms are at a relatively early stage, they are targeting issues such as security and quality of supply, as well as price.

- The NCP gas and electricity reforms are starting to deliver cheaper energy prices, and service standards are being improved or maintained (*page 31-32*).
- The NCP gas reforms were critical to the construction of the new NSW-Victoria 'interlink' gas pipeline in 1998. The new pipeline satisfied emergency gas needs, and averted a long-term collapse of the Victorian gas network following the Longford disaster last year (*page 32, 51*).
- The NCP water reforms include measures to improve the quality of drinking water, better monitoring standards and improved catchment policies. The importance of these reforms was highlighted by the crises over drinking water quality in NSW and South Australia last year. NSW announced a package of reforms late last year – including structural reform of Sydney Water – consistent with the NCP framework, to address these issues (*pages 50-51*).

7 NCP is environmentally aware

The environment is given explicit consideration in the NCP public interest test, and ecological concerns are a driving force behind the NCP water reform program.

- The NCP public interest test gives the environmental impacts of reform as much consideration as matters such as prices and business competitiveness. For example, a 1995 review of the South Australian Water Resources Act found that anti-competitive restrictions in the Act were justified because they mitigate the risk of environmental degradation (*page 71*).
- The NCP water reforms are largely a response to the need to halt the degradation of Australia's rivers and water supplies. Pricing reforms are designed to make people think about the way they use water and promote 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. Under another key reform, the construction of new dams in future can only be undertaken following appraisal of economic viability and ecological sustainability (*pages 68-69, 90-92, 33-35, 54-55*).

The Australian Conservation Foundation recently described the water reform package as "ground-breaking" (*Habitat Australia*, August 1998).

- The NCP energy reforms are also likely to have environmental benefits, including the promotion of 'green energy' trade; an expansion in natural gas consumption relative to coal and petroleum products; and by discouraging unnecessary investment in infrastructure such as power stations (*pages 70-71*).

8 Effects on employment

NCP will affect employment in a range of ways – both positive and negative. While quantitative analysis is difficult, the impacts of NCP on Australia's cost competitiveness, international trade and economic growth should provide scope for net gains in employment.

There are also signs that NCP and related reforms are helping to improve the productivity and flexibility of Australia's economy, reducing our vulnerability to external shocks such as those currently affecting Asia. To the extent that NCP can help fire-proof us from external shocks, it may be helping to cushion the impact of overseas recessions on the domestic jobs market.

Even so, employment gains from NCP are likely to flow unevenly, with expanded job opportunities in many sectors and regions occurring alongside contractions in some others. It is important that NCP be implemented in conjunction with policies to deal with these impacts – eg education and training programs to enhance the vocational skills of unemployed workers and young people about to enter the labour force (*pages 57-60*).

9 NCP is not a 'stand alone' policy

The comments on employment reflect a wider principle acknowledged throughout the paper. Some reforms, while bringing important benefits – 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 tandem 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 (*pages 2, 53-56, 60, 64, 74, 78-80, 87-89, 91*).