



National Competition Council

National Competition Policy:
why you can't afford to ignore it!

A presentation by Graeme Samuel,
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to the Queensland 400 Summit Conference,
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Thank you for inviting me to participate at this Queensland 400 conference.

The role of business people in our society is not always given due recognition. Often, our sporting heroes and performing artists get the most attention. Our business leaders, on the other hand, are less able to capture the public's imagination.

As someone involved in the administration of both football and opera, I probably should say that that is entirely appropriate.

Nevertheless, business arguably plays a more important role in the health of our society and the wellbeing of its people.

Of course, this conference is about more than recognising the largest 400 private businesses in Queensland. It is also an opportunity to exchange ideas and information, and to learn from the experiences of other business people. It is also an opportunity to gain information on developments in the broader economic environment which may have implications for the strategy you take in the period ahead.

INTRODUCING NATIONAL COMPETITION POLICY

Three years ago, the Commonwealth and all State and Territory governments agreed to implement the most broad-ranging program of micro-economic reform ever attempted in Australia. The National Competition Policy (NCP) program stretches beyond the year 2000, and entails a raft of reforms which seek to extend the productivity-enhancing effects of competition to virtually all sectors of the economy. The aim is to lower business costs, enhance competitiveness and provide the conditions for more sustainable economic and employment growth.

The reform program has the potential to affect every Australian in some way or other. It has implications for big infrastructure sectors like energy and transport, as well as agricultural industries such as barley and dairy, and professions like lawyers and medical specialists. It could affect the location of petrol stations, the availability of taxis, and the nature and utilisation of retail outlets. It may also affect the way universities and hospitals are run or financed, the price of rail freight services, how food safety is regulated, and where and when liquor may be purchased and consumed.

When adopting the NCP package, governments also established the National Competition Council to assist with this process. We administer some aspects of the reforms, assess governments' progress in implementing the reforms, advise Governments on implementation of the policy and where more work is needed, and provide public information on the NCP process generally.

Our role of assessing the progress of governments in meeting their NCP reforms commitments is particularly important, because there is significant funding riding on those assessments. Specifically, as part of the 1995 agreements, the Commonwealth

agreed to pay the States and Territories some \$16 billion over the period to 2005, provided they make satisfactory progress on implementing NCP reform.

BACKGROUND TO THE REFORMS

Before discussing the specifics of the reforms themselves, let me set out the background to the development of the NCP program.

The NCP program can be seen as a response to several broad developments.

One is the increasingly difficult economic circumstances facing Australia in recent decades. In the post-war years, full employment, low inflation and 4 percent annual growth were the norm for the lucky country. But since the mid 1970s, we've been beset by various economic problems and shocks in one form or another. The most recent problem is the Asian crisis which is putting pressure on our trade performance and exchange rate. And from once having the highest material living standards in the world, by 1996 we had slipped down to 19th position according to the World Bank's (imperfect) index. As our economic performance has waned, so pressure has mounted on governments to act to reinvigorate the economy.

But we have also found that the 'macro-economic' levers that seemed to work in the past are no longer sufficient. Fixing the economy is no longer simply a matter of increasing government spending, or adjusting wages, or changing interest rates.

Policy-makers have thus increasingly turned their attention to addressing problems at the 'micro-economic' level — that is, at the level of individual markets and individual industries. In an increasingly global market place, improving our business competitiveness at the micro-economic level is seen by many as vital to our long term economic success and stability.

Governments started addressing these matters from around the mid-1980s, but early efforts were not always well balanced or coordinated among the three levels of government, and failed to address the full range of anti-competitive restrictions which existed throughout the economy.

It was against this background that, in 1992, Professor Fred Hilmer was asked to examine the need and scope for a more comprehensive, national approach to competition reform matters. This put in train a process which led to the 1995 agreements, supported by all governments in Australia, to implement the NCP reforms.

DETAILS OF THE NCP REFORM PROGRAM

The NCP reforms involve some one-off changes to the Trade Practices Act to reduce the scope for market rigging, plus ongoing reforms to address three broad areas:

- the merits of anti-competitive legislation and regulation;
- the competitiveness of government businesses; and
- the efficiency of infrastructure use and provision.

Implementation of the NCP reform program is now gathering pace. Competition reform has already had significant impacts in several sectors and its impact will increase over the next three or four years.

Anti-competitive legislation

Legislation can limit competition by restricting who is able to enter and compete in a market, or by limiting the ways in which people already in the market can operate.

The Hilmer Review found that anti-competitive legislation was widespread, but in many cases of questionable merit.

Under the NCP legislation review program, each Australian government has agreed to review all laws which restrict competition. Unless such laws are found to confer a net community benefit, they are to be reformed by the year 2000.

It is important to note here that the review program is not about competition for competition's sake, nor deregulation for deregulation's sake. The NCP agreements list a range of considerations that may help justify retention of restrictions on competition in some instances. However, in the first instance, the NCP presumes competition will generally be in the public interest, and places the onus of proof on those wishing to retain restrictions to demonstrate that those restrictions provide a net benefit to the community as a whole, rather than just the sheltered group.

The program is ambitious, with some 2000 pieces of legislation scheduled for review. These cover matters as diverse as statutory marketing arrangements for primary produce, financial sector regulation, occupational licensing, import restrictions, business registration requirements, product safety standards and consumer protection legislation. [Box 1 contains a selection of the various legislation that is scheduled to be reviewed].

The legislation review program has important implications for industry, not the least of which will be the removal of unnecessary red tape imposing significant costs and delays on business. For example, in NSW, an examination of 250 business licenses led to the nomination of 34 for repeal and the amalgamation of 44 categories into just 3 — fencing, general maintenance and cleaning.

Further, where restrictions on competition are removed, businesses will be able to enter previously sheltered markets, bringing scope for new innovation and leaner, sharper provision of services, to the benefit of consumers. We have seen this already in telecommunications where, although full legislative restrictions on competition have only recently been removed, earlier reforms have led to an expansion in the range of services and greater customer-focus, as well as lower prices.

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

Box 1: Selected legislation from jurisdictions' schedules

<i>Jurisdiction</i>	<i>Name of legislation</i>	<i>Review date</i>
Cmwlth	Insurance (Agents and Brokers) Act 1984	1997-98
Cmwlth	Navigation Act 1912 (Part IV)	1998-99
Cmwlth	Financial Corporations Act 1974	1998-99
NSW	Murray Valley Citrus Marketing Act 1989	1996-97
NSW	Business Licenses Act 1990	1997-98
NSW	Innkeepers Act 1968	1997-98
Vic	Workers' Compensation Act 1958	1996-97
Vic	Fisheries (Commercial) Regulations 1992	1998-99
Vic	Transport (Taxi-Cab) Regulations 1994	1998-99
Qld	Business Names Act 1962	1998-99
Qld	Tow Truck Act 1983	1997-98
Qld	Financial Intermediaries Act 1996	1998-99
WA	Casino (Burswood Island) Agreement Act 1985	1998
WA	Health (Liquid Waste) Regulations 1993	1999
WA	Employment Agents Act 1976	2000
SA	Legal Practitioners Act 1981	1997
SA	Environment Protection Act 1993	1999
SA	Landlord and Tenant Act 1936	1999
Tas	Mining Act 1929	1997
Tas	Metropolitan Transport Act 1954	1998
Tas	Land Use Planning and Approvals Act 1993	1999
ACT	Business Franchise ("X" Videos) Act 1990	1997
ACT	Fair Trading Act 1992	1997
NT	Business Franchise Act	1998
NT	Pay-Roll Tax Act	1998

¹ This is a small sample of the 2000 odd pieces of legislation in jurisdictions' schedules (as at June 1996). The Council's April 1997 Legislation Review Compendium contains a full listing.

Government businesses

The efficiency of government businesses became a major issue for all Australian governments during the 1980s. Many studies provided widespread evidence of poor performance, including poor capital and labour productivity, overstaffing and excessive use of material inputs, inappropriate management practices, poor quality goods and services, inappropriate pricing practices and poor financial performance.

In the face of this evidence, and the realisation that government businesses have a significant impact on Australia's economy, all governments have been addressing the nature of their involvement in the businesses they own.

One response to this has been to seek to expose government businesses to the same or similar commercial pressures that private businesses face. For example, under the NCP "competitive neutrality" reforms, governments are removing net competitive advantages enjoyed by public sector businesses over the private sector. Some of these advantages include exemptions from taxes, planning laws and rate of return requirements. By removing these advantages (and any disadvantages), government businesses will be forced to compete on an equal footing with private businesses.

In conjunction with related competition reforms, competitive neutrality provides opportunities for private businesses to move into a wide range of areas previously dominated by government suppliers — for example, accounting services, car parking, cleaning, engineering services, legal work, printing, real estate and property management. The scope for new competition in these markets should drive down prices, benefiting the wide range of businesses and consumers which use these services.

The competitive neutrality and related competition-type reforms are also improving the performance of government businesses themselves [see Box 2].

Box 2: Recent performance of Government Trading Enterprises

The May 1997 report of the Standing Committee on National Performance Monitoring found that competitive neutrality and related reforms — many of which predated the NCP agreements — are showing some positive results. The outcomes have varied between the enterprises studied. However, over the four years to 1995-96, overall there have been:

- improvements in labour productivity,
- a doubling of total payments by trading enterprises to governments,
- average price reductions of around 15 percent, and
- some limited improvement in service quality.

While some factors such as technological change may also help explain these improvements, this evidence does suggest that the reforms are paying dividends.

Infrastructure

Infrastructure services such as energy provision, transportation, communications and water supply play a vital role in the Australian economy. They are major business inputs, representing between 7 and 16 percent of production costs for most industries. They are also essential services for consumers. And the industries which supply these services are major resource users in their own right. For example, the electricity supply industry alone has \$55 billion in assets, a workforce of 42 000 people, 8 million customers and over \$12.3 billion in annual revenue.

Consequently, the efficiency and competitiveness of these sectors is important not only for their direct customers but also for the broader business environment and the performance of the economy generally.

The NCP agenda includes reform packages to improve the efficiency of four industries which are major providers of infrastructure services to Australian businesses and consumers: electricity, gas, water and road transport. These reforms will promote more efficient supply arrangements, with the likelihood of better service and/or, in most cases, cheaper costs to industry.

In addition, under the NCP 'access' reforms, businesses will be more able to get access to essential infrastructure services which they need to compete effectively with established players. For example, transport companies may be able to get access to rail networks to run their own trains, in competition with the existing train operator.

While there have been some hick-ups, particularly in relation to the timely provision of access, recent measures to inject competition into the big infrastructure sectors are showing some significant benefits [See Box 3].

Box 3: Recent price changes for infrastructure services

Recent benefits from competition in infrastructure sectors include:

- a recent study by Delloite Touche Tohmatsu found that electricity bills have fallen by around 30 percent on average for those businesses able to select their own supplier under the National Competitive Market;
- average airfares are around 20 percent below their pre-deregulation levels (and total domestic air travel has increased by more than 80 percent);
- rail freight rates between Melbourne and Perth fell by 40 percent following the introduction of competition on that route in 1995; and
- under the recently approved AGL undertaking, gas access tariffs in NSW will fall to about 60 percent below their 1995 levels by the year 2000.

IMPLICATIONS FOR BUSINESS COMPETITIVENESS

The NCP reforms will thus have many benefits for business and bring many new opportunities for businesses to move into new markets. Lower prices for inputs, fewer restrictions on business conduct, greater consumer spending power resulting from lower prices generally and a more flexible economy less susceptible to external shocks — these things will all benefit the broad business environment.

But it is important to realise that NCP is not all benefits and no costs for business.

In those markets directly affected by reform, there will be both winners and losers. To give just one example, where anti-competitive regulations are removed, new businesses may be able to enter into markets by competing with incumbent producers. Where new businesses succeed, they will obviously be better off. So will consumers. But incumbent businesses may need to lift their game or risk losing market share.

To improve their competitiveness, existing businesses may need to develop or rethink business plans, examine staff training needs and managerial skills, look for opportunities to expand their product range, improve service quality or find ways of reducing costs.

That said, in many cases, incumbent businesses will be well placed to fend off new competition. Often they will understand their market well and know their customers' needs. They may have had time to build up a loyal clientele and, as mature businesses, they are likely to have more settled and stable financial positions than new businesses.

For new businesses, the removal of anti-competitive legislation brings with it normal commercial risks involved in starting a new business. To make inroads into the market, such business people will generally need to be able to offer a more attractive product — whether it be lower priced, higher in quality, or better suited to customer needs — than the products offered by incumbents.

The NCP processes do not seek to favour any one kind of business over another. Rather, the aim is to allow competition to occur such that businesses compete on their merits. In other words, while the NCP is designed to enhance the performance and competitiveness 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.

RATIONALE FOR IMPLEMENTATION

Why are governments doing all this?

Firstly, there is an economic imperative, one heightened by recent events in Asia and brought home this week by the fall in our currency. In an increasingly competitive world, the efficiency and competitiveness of our own businesses is vital. As I have just alluded to, the reforms have the potential to significantly improve the robustness and performance of our economy. I have already pointed to some of the early benefits now flowing from implementation of the NCP program. Overall, the Productivity Commission has estimated that full implementation could boost GDP by more than 5 percent per annum, and increase household spending power by \$1500 per year. Such estimates can never be precise, but they do give an indication of the magnitude of the effects of the reform program.

Secondly, as mentioned earlier, there are \$16 billion in competition payments from the Commonwealth to the States and Territories riding on successful implementation of the reforms.

Thirdly, there is a fundamental equity question here. Whilst many sectors of the economy are exposed on a daily basis to the true rigors of the competitive marketplace, some groups are not subject to the same disciplines. But their privileges are not free — they generally come at the expense of the rest of us. 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 all special interest groups to the extent that those incomes and conditions derive from unwarranted restrictions on competition.

Competition reform, like justice, must 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 privileged groups throughout the economy be subject to scrutiny and, where appropriate, genuine reform.

CONCLUDING REMARKS

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

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

The Queensland 400 conference recognises the achievements of some of this State's largest private businesses. You all know that reward rarely comes without risk, innovation or sheer hard work. You also know that we are living in an increasingly competitive and increasingly global market place.

The NCP program does not run away from these issues. Rather, it confronts them head on by providing an environment in which those businesses that are most able to contribute to our economic growth and stability are the ones that prevail.