



The Impact of Competition Policy on Rural Australia

A presentation by Graeme Samuel
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to
Victorian Farmers Federation,
Melbourne
Tuesday 11 July 2000

President, Ladies and Gentlemen

Good morning and thank you for the opportunity to talk with you.

I would like to start by referring to an article published in BRW magazine a couple of weeks ago. It was titled "Reality Check for Rural Ills" and the opening paragraph stated "there is no turning back, rural Australia has no option but to embrace free trade and competition policy".

The article went on to discuss the pro's and con's and came down squarely in favour of continuing reform.

It was a good article. A great article.

But, somehow, I think it would have had more impact had it been published in 'The Land'.

That is the problem with National competition policy – when preaching to the converted, or the unaffected, or explaining the theory, - the economic consequences of post-cold war globalisation for an export focussed economy, or, the problems of natural monopoly pricing, it is fairly easy to win the argument that Competition reforms are essential and appropriate.

When defending the realities of reform to those adversely affected it is significantly harder.

Of course, this is not a predicament that is unique to competition policy. Most public policy reforms will have winners and losers and need to be implemented and managed very carefully.

Vested interest groups have a habit of being very vocal, very self-righteous, and when they are well funded and well connected they can campaign very successfully against the public interest.

By its very nature, competition removes artificial market protection, and those who have benefited from that protection (at the expense of the greater public interest) stand to lose their privileged position.

Any adverse financial effects are felt immediately by a small group, whilst the benefits usually take longer to flow through and are far more dispersed.

Competition policy is about improving the living standards of Australians - across the board, without fear or favour. It is not about competition for its own sake. Rather it seeks to use competition to achieve better outcomes for the whole community. Better outcomes such as:

- lower prices, for both consumers and businesses;
- improved goods and services and greater choice;
- competitive export businesses, and ultimately; and
- more jobs and a better future for this country and its people.

National Competition Policy is a package of wide ranging reforms, and since its adoption by governments in 1995, some of the early benefits are beginning to emerge.

Recent IMF and OECD reports have linked Australia's recent economic performance - in particular strong growth and declining unemployment - with structural reform policies like competition policy.

It is easy to forget that, despite the purveyors of 'gloom and doom'; Australia's economy has been growing at a strong pace – on average 2.4% over the last six years. This is a rate matched only by Norway among the world's developed nations.

In addition the Productivity Commission believes that competition policy will add 2.5% to economic Australia's growth.

Now if you think I am talking statistics to you – you have missed the point. Ultimately growth means jobs. Jobs in our cities, jobs in our regional centres and jobs in rural Australia.

And not surprisingly it is about rural Australia and competition policy that I want to speak about today.

This is not uncharted territory. There have been innumerable reports, articles, media interviews - you name it - scrutinising competition policy and its impact on rural and regional Australia.

I don't have a problem with this at all. We should closely scrutinise the policies that are shaping our country.

In particular, I might point you in the direction of the Productivity Commission's report on competition policy published last September. Interestingly the report found that most of the conditions currently concerning rural Australia were the result of long term factors such as declining commodity prices, reduced demand for farm labour due to technological innovation and changing consumer preferences.

To cut a long story short, the report also found that, despite some costs, competition policy was bringing overall benefits to rural and regional Australia. Specifically, the Productivity Commission looked at 57 regions across Australia and found that all but one have benefited from competition policy.

So how is competition policy assisting regional and rural Australians?

Anyone who consumes gas, electricity, rail, road transport, telecommunications, water or agricultural marketing, or who relies upon a business which consumes one of these, is benefiting from competition policy.

For example, the national energy markets are already resulting in large savings – in electricity around 30% for Victorian businesses and 15% for households.

Reforms in the rail sector are resulting in greater competition in both intra and inter-state freight. This is bringing real reductions in freight prices while improving transit times and services. For example, freight rates between Melbourne and Perth have fallen by some 40%.

Competition policy is also about reforming the structure of Government businesses to improve efficiency and maximise the value we receive for our taxpayer dollar. Specifically, competition policy is concerned with ensuring competitive neutrality, that is, that government businesses compete with private businesses on an equal footing.

The benefits of such structural reform and the subsequent introduction of competition can perhaps most easily be seen in telecommunications.

Corporatised Telstra now competes against a host of private businesses. The benefits to consumers and businesses have been enormous. During the 90s, retail prices for Telstra's products and services have fallen while the range, accessibility and quality of services has expanded.

Obviously there are ever-increasing demands on telcos for improvements in both service quality and range, particularly in rural Australia. However, there is no doubt that the improvements to date, let alone what is yet to come, would never have occurred under the old Telecom monopoly.

A major area of competition policy is the review of many of our laws. Laws that govern: when shops can open, the practice of professional groups such as architects and lawyers and of course how we regulate our agricultural industries.

Many of these laws have been in existence for decades, and as such the reviews are an excellent chance for governments to determine whether they are still delivering benefits to the industry in question and the community at large.

And, it is at this point, that I would like to wholeheartedly congratulate the dairy industry on the steps they have taken in reforming the market milk farm gate pricing and supply management arrangements.

I accept that this was not any easy decision. There will be difficulties for many producers as they adjust to the new environment and make hard commercial decisions that will fundamentally affect their lives, and that of their families. However, reform will bring about sustainable benefits to the industry thereby securing its long term future.

The industry has shown leadership in embracing common-sense reforms while working with Government to secure an integrated assistance package which recognises the real difficulties that will be experienced. The assistance they have secured is not a 'quick fix' pay off but an effective package of measures that will help those who want to stay in the dairy industry, those who want to get out, as well as assisting the communities that rely on dairying during the transition phase.

However, ultimately the changes will bring about two major benefits.

First, there will be benefits for the dairy industry. You all know that dairy reform, of one form or another, has been underway for decades, the result of which has been significant change.

Dairy productivity has increased steadily over the last 20 years. Before the Kerin Plan there were 23 000 dairy farmers producing 5 billion litres of milk; now 13 000 produce 10 billion litres.

The reality is that domestic demand for liquid milk is relatively static, with little possibility of significant growth and can easily be supplied.

As such, legislated artificially inflated prices for liquid milk have encouraged some producers to focus on drinking milk sales rather than the manufactured milk market where there are real opportunities for production and job growth, particularly through exports.

History has shown us that it is taking fewer people to milk a herd and that herd is producing more milk. If we want growth and jobs then we must look to manufactured products, from powdered milk to cheese – many of which are made in rural and regional areas - providing jobs and futures for their communities.

Second, the decision to take the final step on the reform path will ultimately benefit Australian domestic and business consumers in the form of greater range of price and product choices.

Permit me at this point to issue a word of warning to some who may not be present here today.

Competition policy is not ‘competition for competition sake’. We are not economic theorists disinterested in outcomes of reform. Competition policy is a means to an end and that end is community benefit.

Fundamentally competition policy does not end with the repeal of anti-competitive legislation. This is often just the first step in bringing the community benefits of lower prices, improved quality and choice. I am extremely conscious that unless reform benefits our community, it is at best incomplete. At worst, it is a source of community dissatisfaction that will undermine the future of other reform efforts.

Now it is quite clear that there will be a substantial reduction in the farm gate price for market milk as a result of deregulation.

In my view, if the effect of this reduction, after making allowance for the 11c per litre retail levy, is not passed on to the consumer, then there will need to be a clear explanation why. The NCC will be closely watching, as will the price monitoring and regulatory officers of the ACCC, to ensure that the community as a whole receives the benefits from deregulation commensurate with the contribution being made by the dairy farming community.

It is likely to take some time for the post-deregulation dust to settle. However, if we become aware that the consumer benefit is being creamed off between the farm gate and the shopping basket, expect it to be the subject of further loud comment and appropriate action.

It is worth reminding those involved of the existence of both the market rigging and fair trading provisions of the Trade Practices Act – all of which form part of competition policy.

Another area of competition policy that is affecting rural Australia is of course, grains industry reform. As you would be aware, Governments are reviewing statutory grain marketing arrangements as part of competition policy. But the dramatic changes emerging in the grains business go well beyond the impact of competition policy. This is highlighted by the various strategic alliances emerging between grain marketers as well as between different participants in the value chain from seed merchants to grain marketers and bulk handlers.

In this dynamic environment, and there is little to suggest these trends are slowing, it becomes even more important that we ensure that regulation, if required, is still relevant, effective and does not unduly impede the industry from developing in ways that best meets its future needs.

Taking a particular example, the reforms in barley in Victoria and South Australia are primarily about giving growers' choice as to how, when and to whom they sell their crops. Growers can now take greater control over their businesses and can respond to opportunities as they arise. The reforms also give purchasers choice as to who they buy from, and increasingly, greater choice as to which barley best meets their needs.

Importantly the changing structure of the ABB Ltd is placing it in a stronger and more flexible position to operate more effectively in the new business environment and take full advantage of emerging opportunities.

Anecdotal evidence suggests that to date the changes in barley marketing have lead to greater price competition between marketers as they compete for barely supplies. Prices received by growers are up by an average of \$10 -\$20 per tonne as compared to those achieved pre-competition.

The 1997 Review itself had a number of key conclusions.

The Review found in the case of barley that the ABB's export monopoly did not enable it to either extract price premiums nor did it counter the market power of large overseas buyers.

And secondly, the Review found that the ABB's monopoly power imposed real costs in the form of higher barley prices on other Australian businesses, in particular large feedlot livestock industries.

Consequently, the Review recommended that the public or community interest would be best served if the restrictions on the domestic and export marketing of barley were removed.

Three years after the Review, with the industry having embraced domestic market reform, and with export restrictions due to be lifted by the middle of next year, some talk is emerging of revisiting the barley situation.

As time progresses and conditions change it is always appropriate to reconsider the way we do things.

However, if the industry does want to revisit the review, it is important to be aware that from a competition policy perspective the high jump bar has not moved.

The guiding principle of competition policy is that legislation should not restrict competition unless it can be demonstrated that the benefits of the restriction to the community as a whole outweigh the costs.

When I say the whole community I mean producers and consumers as well as other businesses that are affected. I make no apologies for this. If government is going to have laws which effectively protect an industry from the sort of competition that most in the community are subject to every day, then the restriction on competition has got to be for the good of the whole community not just a narrow interest group.

Further, competition policy also requires consideration of whether the objectives of the legislation can only be achieved by restricting competition.

If we extrapolate this to any review of a statutory agricultural marketing arrangements the two key questions become:

Do the benefits of compulsory marketing arrangements outweigh the costs to the Australian community?

And if yes – are the benefits only able to be achieved by prohibiting competition between marketing authorities or agents.

It is important to remember that even if a review does recommend that compulsory arrangements be removed, farmers may still develop voluntary arrangements for collective marketing. There are no barriers to collective marketing of exports. And while the Trade Practices Act does apply to domestic sales, producers can apply to the ACCC for approval of collective arrangement, for example, as has occurred in the poultry meat industry in South Australia.

The compulsory nature of agricultural marketing is therefore the fundamental consideration of any review.

So how else is competition policy affecting rural and regional Australia.

Well let's explode some myths. Competition policy is often wrongly assumed to require privatisation, blanket deregulation, free markets, welfare cutbacks, contracting out, reduced social services and a focus on money and materialism.

In fact it requires none of these things. For example, it is entirely consistent with competition policy for governments to increase spending on welfare, increase the level of government funded or subsidised services and to retain businesses in public ownership.

It is also appropriate for governments to provide assistance to communities in coping with and adjusting to change – whether caused by economic reform or other factors such as technological or demographic developments or global economic influences.

Social responsibility and compassion together with community values are entirely consistent with, indeed are an integral part of competition policy. This reform program is fundamentally about achieving an appropriate balance and combination of economic accountability with social and community responsibility, all aimed at acting in the interests of the community as a whole.

Competition policy explicitly recognises a need for government intervention in markets. And when considering what is in the community or public interest governments are directed to take into consideration the environment, equity, unemployment, regional issues or the social effects of change. In fact, when considering the public interest, competition policy gives social and environmental values no more or less weight than financial considerations.

For example, although competitive tendering can be used to achieve the efficient delivery of government services, it is not required by competition policy, nor is it the only policy tool available to governments. But where it is used, it should be applied sensibly. In particular, I cite the example of a rural local council in NSW that decided to use competitive tendering for their road building and maintenance. There is nothing wrong with this decision in itself. However, the Council did not provide their own in house team with reasonable time for restructuring or training in order to prepare for the competitive tender. As a result, a Sydney-based business won the contract hands down against the poorly prepared, and probably in shock, in house team.

The result for that community was the loss of several local jobs, several local families, kids at the local schools, and customers at the local shops.

And low and behold when the next road work contract came up, there was no local bid to compete with the Sydney based firm and as result the contract price almost doubled.

This is not competition policy. This is both commercial and social nonsense. In the end, there was less competition, the Council was paying more for its road works, while several jobs were lost to the community along with the families they supported.

I mentioned at the beginning of my speech that competition policy needs to be applied without fear or favour. It was this point that I spent some time talking to a CEDA luncheon last Friday.

Despite the benefits reform brings - in the short, medium and long term – it is important to recognise that change can be difficult.

People can find it tough, there are financial implications, communities do need to change, some people do lose their jobs, others get angry when their protections are challenged, and, Governments do lose power.

Thus while Governments are committed to change that will benefit the community they tend to pursue reform via the path of least resistance.

To my mind, this is a tactic that causes more problems than it solves.

To illustrate this point, I would like to quote from a letter published last week in the Financial Review, from Coorparoo, QLD.

The letter was titled, “Competition Policy is Decidedly Unfair”.

It referred to the National Competition Council’s defences of the Policy and stated that the Council “would be more convincing if the policy were uniformly applied – that consistently, it is politically weak groups that are targeted while well-connected industries and firms escape.”

It went on to illustrate that in 1998 within weeks of the canegrowers losing the sugar tariff, the influential vehicle manufacturers had successfully lobbied for a five-year extension of their own tariff protection.

I can see his point.

Well-funded, well-connected, people, companies and industries wield political power. It is when that political power is used against the overall public interest that we have a problem.

The fact is that no one within the economy who enjoys an unfairly advantaged market position should be protected from reform. There are just as many vocal vested interests in the mansions of Toorak as there are in the paddocks of Bega.

The “yes... but not in my backyard” argument has been heard too often from urban areas.

If Governments are seriously concerned about both the perceived and real rural / urban divide then they should ensure that they implement the principles of competition policy fairly, without fear or favour.

Finally, I should note that the National Competition Council is playing a greater role in communicating the requirements and the aims of competition policy to the broader public.

Not acting as an advocate of competition for competition’s sake but as a disseminator of facts about the Policy, and the potential outcomes, both good and bad of reform.

We have started to do this in a small way – we have produced a number of publications that we are calling “Community Information Papers”. These are short, easy-to-read, brochures that broadly canvas the issues and the status of reform among the States, and to promote a more informed community discussion and understanding.

We produced two papers on water reform, which were sent directly to Local Government. There was nothing new in them whatsoever but we have been quite overwhelmed at the demand for further copies from Shires all over the country.

Obviously they filled a need for clear, concise information about the changes.

I think it illustrates how much of an information deficit there is out there on the ground – not only in rural areas but also in the cities.

Buoyed by the response to our water papers we have now produced the first of a series of papers on agricultural marketing arrangements - a general paper, which discusses the broad issues, as well as specific papers on the barley and sugar industries. They are intended to assist robust debate while clarifying the competition policy objectives. I would encourage you to pick up a copy your way out the door.

I would like to conclude by taking some words from the media.

Every now and then I see, read, or hear something from left field, from the silent majority, and it helps renew my conviction that we are fighting the good fight and that ultimately Australia will benefit from reform.

At the risk of being a bit cheeky, I would like to read to you a Letter to the Editor, that was published in the Hobart Mercury, on 28 June. It relates to an apparent reluctance on the part of the Tasmanian Government to relax restrictions on shop trading hours – a matter which was addressed by the Victorian Government several years ago.

I will let you draw your own conclusions.

Dear Sir,

As a retiree, I congratulate Jim Bacon and Sue Napier on their forward thinking regarding shopping hours. It does not bother me a bit that shops are closed most of the weekend because, no longer working, it is a simple matter to shop in the hours available.

The fact we have to pay a bit more for goods as a result is a small price to pay to keep our praiseworthy unemployment rate down around the 10% mark.

It is heartening to see the deserted streets of Tasmanian towns at weekends. It is this peace and quite which makes Tasmania such an attractive place to retire to. I salute the foresight which is keeping the state from an expanding population and makes the roads so easy to navigate and the cities and towns so simple to shop at during the week.

My wife and I have just returned from the USA. The picture there is truly frightening with people busily shopping at all sorts of ungodly hours. This causes all sorts of problems such as heavy traffic and a surplus of jobs, witnessed by many shops displaying 'help wanted' signs.

Making this place unattractive is preventing any population explosion, deterring those dreadful young people from staying here, thus keeping Tasmania in the backwaters and making it such a nice place for retired people.

Sincerely... .

Thank you for your time this morning.

I am happy to take questions.