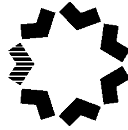

National Competition Council

Australian Society of Certified Practising Accountants

Western Australia

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National Competition Policy – Issues and Progress

A presentation by Stuart Hohnen
Council Member, National Competition Council

INTRODUCTION

The National Competition Policy package, agreed to by all nine Australian Governments in April 1995, contains a range of reforms designed to reap the benefits which competition in the marketplace can bring. The package includes some one-off changes to the Trade Practices Act, as well as several "work in progress" ongoing reforms stretching well into the next decade (see attachment).

As a national program, all the States and Territories were involved in negotiating the reform package. Similarly, it is the States and Territories which now need to implement the bulk of the reforms and which need to manage the politics of change to achieve the benefits on offer.

When adopting the package, governments also established the National Competition Council to assist with this process. The Council administers some aspects of the reforms, assesses governments' progress in implementing the reforms, advises on areas where more work is needed, and provides public information on the NCP process generally.

The NCP package is far-reaching, with the potential to affect virtually every Australian in some way or other. In addition, it has implications for the delivery of services by all three levels of government. The elements of the NCP package which will be of most interest for today are the legislation review program and the competitive neutrality reforms. The legislation review element will affect the way governments regulate the private sector. The competitive neutrality reforms will affect the way government businesses supply goods and services in competition, or potential competition, with the private sector.

So, what are the NCP reforms? What is the role of the National Competition Council? What are the incentives to implement NCP?

After describing the legislation review and competitive neutrality reform programs, I will look at progress to date. I will finish by describing some key elements of the NCP program relevant to today's audience.

THE NCP REFORMS

First some background.

The NCP reforms involve several elements set out in formal agreements between Commonwealth, State and Territory governments. Broadly, these elements oblige governments to:

- extend protections against anti-competitive conduct under the Trade Practices Act[1] to those sectors not covered by the Act - particularly State and Territory Government businesses and unincorporated businesses;
- implement major reforms to:

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[1] While the National Competition Council has responsibilities under the Trade Practices Act concerning access to infrastructure under Part IIIA, the Act's competitive conduct provisions are administered by the Australian Competition and Consumer Commission (ACCC).

  - create national energy markets;
  - introduce incentives for the efficient and sustainable use of water; and
  - rationalise road transport regulations across Australia;
- reform government business enterprises to:
  - achieve greater efficiency;
  - ensure that competing private sector businesses are not disadvantaged; and
  - monitor prices where government businesses retain monopoly power.
- make it easier for firms to get access to monopoly infrastructure services; and
- reform anti-competitive legislation where appropriate. This will involve the review of almost 2000 pieces of Commonwealth, State and Territory legislation.

To say that NCP is one of the most comprehensive and far reaching economic reform programs conceived in this country would not be overstating its magnitude or importance. Its significance within the national policy agenda should not be underestimated. For example, it has implications for big infrastructure sectors like gas, electricity and water supply, as well as agricultural industries such as wheat and sugar, and professions like lawyers and medical specialists. It could also affect the location of petrol stations, the availability of taxis, and the nature and viability of the local corner store. Further, it may affect the way universities and hospitals are run or financed, the provision of services by local governments, the price of rail freight services, who can own a pharmacy, how food safety is regulated, and where and when liquor may be purchased and consumed.

Overall, NCP is directed at promoting a competitive environment conducive to appropriate business investment and sustainable economic growth.

THE ROLE OF THE NATIONAL COMPETITION COUNCIL

The Council has several roles in relation to the NCP program: These include:

- providing views and advice on NCP review processes to assist jurisdictions with their review programs;
- undertaking reviews ourselves — our recent review of Australia Post, for example;
- increasing the understanding of the NCP process and providing advice generally. Discussions such as today's are an important part of this task. The Council has also released a number of publications and has its own internet site[2]; and
- assessing each jurisdiction's performance in meeting its NCP commitments and reporting its assessment to the Commonwealth Treasurer.

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[2] http://www.ncc.gov.au

The Council's first assessment was provided to the Treasurer in July last year. The second and third assessments are due in 1999 and 2001, respectively. Associated with this function, we advise the Treasurer on whether the States and Territories have achieved enough to receive their share of Commonwealth competition payments.

Under the program, $16 billion is available from the Commonwealth over the nine financial years from 1997-98 for States and Territories which achieve satisfactory NCP reform progress. In addition to the benefits that States and Territories will gain from a more competitive economy, $16 billion is a compelling reason for States and Territories to be serious about implementing NCP.

NCP LEGISLATION REVIEW: PROGRESS TO DATE

Each jurisdiction is required to develop its own review program, and report its progress through publicly available annual reports. The objective is for governments to complete their processes of review, and where appropriate, reform restrictive legislation by the end of the year 2000. The Council is involved on two bases. First, we can act as a review body when requested (eg our review of Australia Post). Second, our assessment role means that we also examine progress, including on a more ad hoc level (eg where external parties raise issues with us).

So far, all jurisdictions have:

- developed their review schedules;
- established mechanisms to vet new or amended legislation to ensure that it does not unduly restrict competition;
- commenced their review programs; and
- implemented the first reforms.

Most of the early work of governments focussed on compiling the schedules — identifying all legislation, seeing which elements restricted competition, and determining the timing and arrangements for the reviews. This itself was an extensive task, the outcome of which was published by each government and consolidated in a Council document entitled *Legislation Review Compendium.*

The NCP program presumes in favour of competition. However, it allows a restriction on competition if it can be **rigorously demonstrated** that the overall benefits of retaining the restriction outweigh the overall costs. Thus, the guiding principles are that legislation should not restrict competition unless it can be demonstrated that:

- the benefits of competition restriction to the community as a whole outweigh the costs; and
- the objectives of the legislation can only be achieved by restricting competition.

In March last year, jurisdictions provided their first NCP progress reports to the Council. While only about 100 reviews had been completed and, in many instances,

governments were still considering the recommendations, there were some positive early outcomes. For example:

- an examination of business licences in NSW revealed significant overlap and unnecessary regulation. Some 34 licences are expected to be abolished outright and a further 44 licence categories collapsed into just three;
- in the ACT, restrictive and discriminatory trading hours legislation has been repealed after a preliminary examination suggested that the costs to the community clearly exceeded the benefits. Victorian trading hour restrictions have also been lifted;
- in simply compiling their review schedules, jurisdictions found numerous pieces of legislation that are completely redundant. These are being abolished; and
- at the same time, some reviews recommended retaining anti-competitive provisions for genuine public interest reasons — the review of the South Australian Water Resources Act, for instance.

Governments are continuing to progress their review schedules; we have some evidence of this. The Council has consistently emphasised that completion of the review and reform program on time is a key performance assessment criterion.

There are also processes in place for evaluating the effect of new legislation which restricts competition. The Council places importance on the efficacy of these processes in its performance assessment criterion.

Given the scale and scope of the legislation review program, the early achievements are modest. However, the generally positive beginnings point to governments' acceptance of the need to tackle both simple and contentious reform issues.

Nevertheless, there have been some deficiencies in review processes to date. The Council identified several omissions from the review schedules in its first tranche assessment. For example, the Western Australian Government did not list for review its 'agreement Acts', which deal mainly with agreements between the WA Government and private resource developers. Following discussions with the Council the WA Government has addressed this matter consistent with its obligations under the first tranche assessment.

In addition, there have been problems with the conduct and robustness of certain reviews and some recommended reforms have not been implemented by the responsible governments, despite being shown to be in the public interest.

The Council sees it as essential that review processes are independent - including review panels where established - and considers that governments must avoid capture of review processes by the bodies under review.

Liquor licensing and retail trading are areas where vested interests have a lot to say. For example, liquor licensing has received considerable attention in WA, with a key stakeholder lobbying to limit a major (competing) liquor retailer's state market share.

In considering such requests, governments need to ask, among other things, whether arrangements like this are intended to protect the customer base of existing operators, or whether there is some overarching public policy rationale supporting the introduction or maintenance of such arrangements. Undoubtedly, there are some important social concerns associated with the consumption of liquor. However, it is not clear that limiting the number of liquor outlets owned by any one party is the most effective way of dealing with problems associated with inappropriate liquor consumption.

We think the best chance of achieving independence in reviews occurs where the regulated body is not represented on the review panel. Clearly, however, the parties which are directly interested must have a means of participating. Providing a submission or other information to the review panel, or through discussions with the review panel, are transparent and effective ways of gaining involvement in review processes. Public participation is also important. Governments can encourage this by ensuring the community is aware of any legislative reviews it establishes, through for example, the publication of terms of reference and explanatory documentation.

The Council does not view itself as a 'rubber stamp' organisation and, as I have noted, we have raised matters of concern regarding legislation reviews with the relevant jurisdictions. We will be taking their responses into account when undertaking future assessments of jurisdictions' performance in implementing the reform timetable. This will have a bearing on the extent to which jurisdictions receive their share of the $16 billion of competition payments.

That said, it is the aim of the Council that all jurisdictions receive all NCP payments, as this will demonstrate that objectives set out in the NCP agreements are achieved and the reform program is fully implemented. This is the fundamental outcome we are seeking.

However, the Council will not look favourably on jurisdictions that fail to meet their objectives, particularly as they apply to major areas of reform. We will not shy from recommending the withholding of competition payments where there is clear justification for doing so.

COMPETITIVE NEUTRALITY

Another part of the NCP program is competitive neutrality policy reform.

Competitive neutrality is aimed at ensuring that significant government-owned businesses have no advantages or disadvantages over their private sector competitors merely because they are government owned. The objective is to ensure that Australia's resources are used in the areas that they are most valued, and are not artificially attracted to particular areas or businesses because these businesses operate under favoured conditions.

Governments are approaching competitive neutrality implementation through corporatisation of their larger business enterprises and 'commercialisation' of other significant business activities. An essential factor is price setting such that prices of the goods and services provided by the government businesses reflect full costs of

production. Of relevance to today's audience is the need for government enterprises to have in place appropriate cost allocation and accounting arrangements, particularly where vertically or horizontally integrated entities are competing with private companies. Factors such as equivalence of taxation liabilities and taking account of advantages in financing because of (explicit or implicit) government backing are also relevant to competitive neutrality.

Some governments are also privatising particular government enterprises. Privatisation is a means by which governments can address their competitive neutrality obligations. Clearly, any advantages associated with government ownership will disappear with privatisation. However, NCP is 'ownership neutral' and privatisation is not a requirement for governments. As I mentioned earlier, NCP is not about dogmatically implementing particular approaches to reform. It is about outcomes.

Governments have also established formal processes for handling complaints where their significant businesses are not complying with competitive neutrality principles appropriately. All governments now have a mechanism which is able to examine such complaints. These mechanisms have the power to recommend solutions to competitive neutrality problems to governments.

Competitive neutrality provides opportunities for businesses to move into a wide range of areas previously dominated by government suppliers. In this sense, it will provide clear 'front-end' benefits to business. Some other benefits of NCP will become more evident in the medium to long term.

The opportunities from competitive neutrality should be readily apparent. For example, the types of services you provide, such as accounting, auditing and other financial services, will not be locked into internal and current external government providers where competitive neutrality is being exercised.

The Commonwealth Government's recent decisions to open the public sector superannuation and workers-compensation claims markets to competition are other examples. Worth billions of dollars, these markets will be open to the private sector by the year 2000. Legal services, property management, car parking and leasing, cleaning, engineering services and printing are other areas where new opportunities for businesses will arise as a result of competitive neutrality and NCP.

The scope for new competition in these markets should drive down costs for government enterprises, while making it easier for private operators to win contracts against government-owned competitors in competitive tenders. This competitive activity will bring advantages to businesses and consumers which use the services of government enterprises and to the private operators that service them. Thus the benefits of competitive neutrality will be ongoing.

I now turn to the regulation of professional services, which is a significant element of the legislation review process.

OCCUPATIONAL AND PROFESSIONAL REGULATION

Governments' review programs also include reviews of many professions and occupations[3] to ascertain whether the raft of legislation, regulations and codes governing professional services are justified under NCP.

Traditionally, many professions have been shielded from normal competitive pressures through specific legislative and/or self regulatory arrangements, combined with an effective exemption from Part IV of the Trade Practices Act. Typical elements of the regulatory landscape have included a professional association, guild and/or registration board with the power to admit members to the profession, to regulate their standards and conduct, often through a code of ethics, and to set schedules of fees. There are also controls on ownership structures, and the reservation of certain work to members of the profession alone. In some cases, there also internal functional distinctions made as, for example, in the split between barristers and solicitors.

Under the NCP process, these restrictions need to be examined to determine whether they provide a benefit to the community as a whole, and whether the objectives of these provisions can be achieved without restricting competition.

Self-regulation and voluntary Codes of Conduct are useful alternatives to such arrangements. For example, accountants use the title CPA after they have completed an approved university degree and subsequently completed a 'Practicing Certificate' through the Society of Certified Practising Accountants' distance learning program. This ensures that consumers can expect that a person using the title has attained the prescribed qualifications. The approach taken by the accounting profession provides a useful model for other professions. Other alternatives for consideration include:

- reliance on general competition law;
- enhancing the information available to consumers about professional services and service providers;
- certification schemes which require practitioners to inform a central authority of certain details including educational qualifications and industry experience without specifying a minimum standard; and
- negative licensing where practitioners are prohibited only where shortcomings are identified.

Governments will also need to give attention to anti-competitive outcomes which may arise from laws and regulations governing professional standards and conduct, and rules of conduct imposed by professional bodies. Arrangements likely to undergo specific scrutiny include those relating to:

- fees;
- advertising;

[3] Including, for example, lawyers, migration agents, financial/securities advisers, customs agents, motor car dealers, travel agents, valuers, chiropractors and osteopaths, dental technicians, dentists, nurses, optometrists, physiotherapists, podiatrists, chiropodists, psychologists, surveyors, private inquiry agents, architects, driving instructors, veterinary surgeons, real estate agents, and pharmacists.

- licensing;
- functional arrangements; and
- ownership arrangements.

Fees

Often where professions establish a scale of maximum fees, this maximum can become a de facto minimum. This will result in consumers paying more for the service in question than they would under a competitive model, to the detriment of consumers.

The advertising of fee scales to provide consumers with information about the fees charged by practitioners is consistent with NCP. However, mandatory fee scales which are justified by a profession as being necessary to ensure a reasonable return for practitioners or are based on average costs across a profession, require close examination. It is the task of governments undertaking reviews to consider the rationale for fee restrictions, and who such restrictions actually serve.

Advertising

The Trade Practices Act and State fair trading legislation prohibit misleading and deceptive conduct, including advertising which has the effect of misleading or deceiving the public.

However, additional limitations imposed on advertising by service providers or practitioners may serve only to protect the customer base of existing operators by limiting market entry, again to the detriment of consumers. This type of advertising should be closely scrutinised under NCP review processes. In particular, governments will need to examine restrictions on advertising that limit the availability of information on service range or price.

Licensing

Occupational licensing is based on the premise that market arrangements may not work efficiently in certain cases, and that it is better to exclude incompetent or dishonest practitioners rather than deal with the consequences of their actions. Occupational licensing therefore provides some guarantee that services will be of reasonable quality, reduces the likelihood of fraud by unscrupulous practitioners and provides consumers with additional confidence, particularly where they have little information about the quality of services provided.

However, occupational licensing also has some costs. These include:

- restrictions on entry which reduce the number of potential providers and weaken competition;
- restrictions on services provided, such as restrictions on advertising and partnership controls, which operate against the interests of efficient providers;

- requirements for minimum levels of expertise which restrict the supply of services and raise their price - for example in Queensland, unlike in other States and Territories, regulations require that conveyancing be provided only by lawyers; and

- administrative costs to government involved in establishing and operating licensing schemes, or to consumers if licensing fees are passed on as higher prices.

Licensing controls should be restricted to dealing with information failure. That is, where consumers have a fundamental inability to obtain information sufficient to enable them to make an informed decision about whether a professional is able to provide the relevant service. An objective assessment of the extent of true information failure is an essential pre-condition to imposing any restriction on the provision of particular services. As noted earlier, removal of unjustified restrictions on advertising will diminish the prospect of information failure.

Regarding price effects, licensing schemes which restrict the number of practitioners usually result in the service price being set at a higher level than it would in a market where there is relative freedom of entry. Similarly, licensing schemes which impose unjustifiably high entry standards potentially raise the cost of entry - and ultimately costs to government, service providers or consumers - above what it should be.

A key question for governments reviewing licensing arrangements is whether or not entry standards are set at the right level. If entry standards are set at a level higher than necessary to provide the level of quality needed by consumers, then we have 'gold-plating' of services and consequently an inefficient system. The example of conveyancing illustrates this point. In most jurisdictions it is now recognised that it is not necessary for a provider of conveyancing services to possess a legal qualification. The result has been that conveyancing services can be provided competently by non-lawyers and at a lower cost.

Functional arrangements

Arrangements which restrict particular occupations from competing with each other should also come under scrutiny.

For example, it is possible that in some areas of legal practice, non-lawyers could not only deliver lower priced services but that the competitive effect of their operations would increase the pressure for efficiency in the legal services market causing lawyers to reduce prices and offer more client oriented services.

A question generally is whether less restrictive arrangements might benefit both the consumer and the service provider. For example, in NSW, solicitors' professional conduct and practice rules prevent solicitors forming multi-disciplinary partnerships with other professionals. This restricts the way solicitors structure their businesses, and is likely to be to the detriment of both users of legal and other professional services and service providers.

Considering the recent trend towards mergers between major suppliers of accounting and legal services, and the forces of globalisation and customer demand driving this

trend, it is apparent that functional arrangements based on outdated work practices have little place in a modern market economy.

Ownership restrictions

Ownership restrictions are common across the professions. Some of these restrictions include:

- persons with formal qualifications restricted in the number of outlets they can own;
- persons who do not hold formal qualifications prevented from owning businesses; and
- persons who do not hold formal qualifications prevented from employing qualified staff to provide professional services; For example, a person without formal qualifications in pharmacy cannot own or operate a pharmacy business and qualified pharmacists are limited to owning no more than three outlets. People without formal optometry qualifications are also prevented from owning optometry businesses in some States.

One outcome of such restrictions is an increase in the cost of service provision. People with entrepreneurial and specialist managerial skills are prevented from becoming involved in and improving the provision of professional services, and the cost of supplying services is potentially raised because opportunities for economies of scale and scope are limited. The Council is yet to be convinced that such arrangements are justifiable where they provide only equivocal benefits to consumers, while weakening competition.

Reform outcomes in occupational and professional regulation

Turning to the positive side of the NCP ledger, there have clearly been some significant reform outcomes in the provision of professional services in recent years which are worth noting. For example:

- restrictions on the advertising of legal services have been lifted in most jurisdictions, and conveyancing is now (mostly) open to non-lawyers;
- mutual recognition of entry standards has also reduced some previous State-based barriers to competition within professions;
- the implementation of the Conduct Code Agreement has extended the reach of Part IV of the Trade Practices Act to professional partnerships and individual practitioners; and
- some professional associations, such as the Institution of Engineers Australia and the Royal Australian Institute of Architects, have revamped or are revamping their accreditation schemes.

But, as I have outlined, there remains a significant body of anti-competitive legislation relating to specific professions. Nonetheless, it is acknowledged by the Council that for some services the normal commercial discipline provided by many consumers

'shopping around' is insufficient to ensure that competitively priced services of appropriate quality and integrity are provided. In this environment, it is often in the public interest to regulate to ensure a minimum standard of professional services to ensure an adequate level of consumer protection.

That said, the rules of conduct imposed by professional bodies and the laws restricting professional standards are less defensible when they serve only the occupation in question. In this category are laws which unjustifiably restrict market entry, information dissemination, service differentiation and price competition. Put simply, regulation should not be imposed under the cloak of maintaining professional standards or the guise of guarding traditional professional ethics when, in reality, it is really a means of restricting competition in the market for the provision of the service in question.

The Council has been discussing these matters with professional associations and governments. Some professional associations have expressed reservations about aspects of possible reform, but the Council is encouraged by its discussions with professional groups that progress can be made. We will continue this dialogue and continue to pursue sensible review processes and balanced reform outcomes.

One issue that arises in this context is the need for national reviews. There are many similarities in the way professions are regulated from one jurisdiction to the next, and indeed it is not clear that there is any reason for taking different approaches to the regulation of professions in different States. Further, it is inefficient for several reviews to consider essentially the same set of issues, and costly for professional associations to have to respond to several different reviews. The Council is working with jurisdictions to facilitate coordination of the review process with the aim of scheduling a greater number of national reviews.

Another issue is the role of mutual recognition. Many professionals would recognise the benefits which mutual recognition has brought in terms of allowing more mobility and competition among members of the one profession. But at the same time, some associations have expressed a concern about its potential effects on future reforms to the regulation of professions. Specifically, they are concerned that, if any one jurisdiction were to take an overly radical approach to professions regulation (for example, by substantially reducing entry requirements into a profession), this could undermine more stringent regimes in other jurisdictions. Of course, one of the goals of mutual recognition is to move away from the 'maximum visible regulation' approach of the past towards 'minimum effective regulation'. Nevertheless, there are risks in the process. In the Council's view, this simply adds support to the case for national reviews and a national approach to regulation of professions.

Moving on from the regulation of professional services I will now discuss some other key NCP reforms.

SOME OTHER REFORM AREAS

Other elements of governments' regulatory review programs are likely to be of interest to today's audience. One major area, for example, is the review of the regulatory

framework of the financial sector - the Wallis Inquiry - which reported late last year. Another is the review of postal services completed by the Council earlier this year.

Wallis was one of the first of the major NCP reviews. Broadly speaking, the inquiry recommended harmonisation of the regulatory arrangements covering all components of the finance industry, including banks and other financial institutions, insurance intermediaries and security advisers. Wallis sought an environment which would accommodate new market developments, including the trend towards financial conglomeration - where groups of companies provide a range of financial services (such as banking and insurance) under one corporate banner. Recent mega-mergers of US banks illustrate the new financial market environment anticipated by Wallis.

The key elements of the reforms proposed as a result of this inquiry are a new organisational framework for the regulation of the financial system and a number of measures to improve efficiency and contestability in financial markets and the payments system.

Consistent with NCP, the Wallis Inquiry concluded that prudential regulation should maintain safety while being sufficiently flexible to respond to financial system developments. Further, prudential arrangements should also minimise adverse effects on competition, competitive neutrality and efficiency. The Commonwealth Government has accepted this approach and has stated it will put in place arrangements to encourage new entry and effective competition in financial services markets while ensuring that standards of financial safety are not diminished.

On Australia Post, after a comprehensive review, the Council has recommended some significant changes, including allowing competition for the delivery of all business and international mail. Like Wallis, this was another major NCP review which considered how to improve a key sector of the Australian economy. Like financial services, postal services are used by almost every business in Australia. Therefore, the cost of postal services is not only important from the perspective of the postal industry, but also its impact on all industries in Australia. Lower prices for this essential service would flow through into lower costs across the whole economy.

In summary, the Council's reform package includes recommendations for

- Australia Post to continue to be required to provide a universal postal service;
- funding for the loss making parts of the universal service to be a mixture of cross subsidy and direct funding or cross subsidy and industry levy;
- household letters to remain reserved to Australia Post, with Australia Post free to discount against a mandated uniform rate of postage;
- open competition in business letter services, with a maximum rate set at the same level as the uniform rate (currently 45 cents); and
- open competition in all international mail services.

That's a very brief snapshot of our package. The important issue is, however, what do we expect it to do?

The reform package will affect businesses which are users of postal services and businesses which are suppliers of postal services. It will put pressure on all providers to meet customer needs. The Council's recommendation to increase competition for business mail will allow customers greater choice of both product and supplier, increased flexibility, lower prices and the ability to negotiate terms and conditions and even special products and services. Reform will allow competitors to offer a wider range of services than at present. While some of these services and products may bear a resemblance to Australia Post products, there will be scope for niche products, particularly at the local level, and products tailored to customers' needs.

Small business will have a choice of using the 45 cent letter service, an alternative postal provider, or a discounted service through Australia Post. At present, a number of postal services users, including small businesses, do not generate sufficient mail to take advantage of Australia Post's bulk mail discounts and these will benefit from the more competitive regime. With competition there are strong incentives for Australia Post to attract the maximum business it can. Therefore, it is likely that greater discounts will be available to small business. The Council expects that regional and niche service providers will emerge. These are likely to focus on small business.

The Council presented its Post report to the Commonwealth Government in March this year. It is now being considered by the Government. While timing for the Government's decision on the Council's proposals is not known, statements by the Treasurer and Minister for Communications about our proposals have been positive.

CONCLUSIONS

While an extensive task lies ahead both for governments and the Council, the gains from NCP are now beginning to emerge.

For example, micro-economic reform is delivering benefits in the form of good economic growth, sustained low inflation and nominal interest rates (which appeared out of reach a decade ago), improved export performance, significant jobs growth and historically high productivity growth. These are the economic fundamentals which will underpin our future prosperity.

We are now also beginning to witness the benefits from reform at the micro level. These are the benefits that will flow through more directly to businesses and consumers. For example, in the provision of energy services:

- electricity prices fell by around 10 percent in the first year of the interim competitive market in Victoria and NSW, and significant spot discounting has since been prevalent. Further benefits are likely as the competitive market is extended to more electricity consumers and other jurisdictions; 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.

In the provision of transport services:

- average airfares are 22 percent below their pre-deregulation levels (and total domestic air travel has increased by more than 80 percent); and

- rail freight rates between Melbourne and Perth fell by 40 percent following the introduction of competition on that route in 1995.

There are also signs that telecommunications prices have fallen since that market was completely opened to competition last year.

Further, and as discussed previously, implementation of competitive neutrality principles, addressing anti-competitive practices and the freeing up of monopoly markets will provide new opportunities for businesses. The outcome of this is likely to be more competitive and dynamic markets, capable of delivering benefits for businesses, consumers, governments and taxpayers alike. That is, in each market subject to greater competition, the most efficient and competitive firms should be able to 'out-compete' the less efficient. Among other things, this should see improved productivity and lower prices in those markets. Businesses in downstream markets should also become more competitive as they derive the benefits of lower prices and better services. Further, with lower prices, consumers and governments will also have more money to save, thereby boosting national savings. Or, they will be able to spend more on other goods and services, thereby boosting demand. Moreover, as overall productivity lifts, so should the level of economic growth that our economy can sustain in the longer term.

In those markets directly affected by reform, it is acknowledged that there will be both winners and losers. That is, while the competition policy is designed to enhance the performance of the Australian economy overall, it is not designed to improve the profitability or viability of specific businesses or industries themselves. Rather, it is intended to foster conditions in which the businesses and industries that most benefit the community prevail.

Take unemployment, which is a major economic policy concern in our community today. It is readily apparent that we will not benefit in this area by jettisoning the measures which have delivered good economic outcomes to date. The best way forward is to take on the causes of unemployment directly through education and training, ameliorate its implications through appropriate social policy while addressing the economic fundamentals that will deliver sustainable employment growth into the future. In a competitive market, the more productive jobs will expand, while the less productive ones will contract. On this matter, it has been reassuring for the Council to know that sectors where microeconomic reform proceeded strongly over the first half of this decade (finance, communications, construction, transport and property and business services) delivered the best job growth in those years.

Clearly we are getting early runs on the board from the reform process. It is the Council's task to help improve the run rate. With this goal in mind, the Council will over the next three years facilitate:

- rigorous principles of competitive neutrality being applied with the aim of ensuring that significant Government-owned businesses have no advantages or

disadvantages over their private sector competitors because of their Government ownership;

- ongoing scrutiny and reform of legislation, regulations and codes governing professional services against the principles of NCP;
- adherence to a commitment by governments to implement reforms in key areas such as energy, transport and water; and
- general awareness of NCP and its benefits.

The Council will be working closely with governments to ensure NCP reforms are implemented in a timely manner and to ensure benefits are not delayed. At the same time, we will be consulting with non-government stakeholders on all aspects of the reform process where clarification of NCP is required. It is the Council's aim to be in a position to readily inform the community about NCP and the benefits which will flow from it. It is also a goal of the Council that the community not be mislead about NCP by groups with vested interests or who misunderstand the outcomes it seeks to achieve.

The task ahead for the Council is not straight-forward and nor is it politically easy for governments. Strong leadership, political will and above all, the ability to listen to and communicate rational arguments, are essential prerequisites. Undoubtedly, bringing NCP to its end point will be a test of the mettle of governments and indeed that of the Council. There are some hard yards ahead, however the Council is confident that working as a team with governments and other groups, together we can deliver fully on the aspirations of this reform program.

The National Competition Policy reforms

The NCP reform package involves:

- *closing gaps in laws dealing with anti-competitive business practices:* Part IV of the *Trade Practices Act* was amended and it was agreed to apply it to all business activities. Previously, certain types of businesses were exempt — some State government businesses for example.
- *vetting anti-competitive laws:* the package provides for the review and, if appropriate, reform anti-competitive legislation and regulation. Examples of anti-competitive laws include those which sanction government monopolies, and those which establish occupational licensing schemes. Each Australian government has developed its own schedule and timetable for the reviews. Anti-competitive laws are to be retained only if they confer a net benefit to the community and if their objectives cannot be achieved in a less restrictive way.
- *restructuring government monopolies:* the package involves processes where competition is introduced into markets traditionally supplied by government monopolies, or where government monopolies are privatised. The package indicates that, before this is done, the "natural monopoly" elements of the government business should generally be separated from those parts which are amenable to competition. It also provides that any regulatory functions the government business may possess should be given to a separate government agency.
- *putting public and private businesses on an equal footing:* under the package's "competitive neutrality" provisions, where government businesses compete with private businesses, governments must remove unfair advantages enjoyed by their government businesses, such as tax exemptions or exemptions from regulation.
- *monitoring prices of government businesses:* the package provides that, where government businesses retain a significant degree of market power, independent prices oversight should be considered to constrain their prices.
- *facilitating access to "nationally significant" infrastructure services*: the package provides for a national access regime so that businesses which want to use the services provided by other businesses infrastructure can do so, on reasonable terms and conditions. For example, under the regime, a business may be able to get access to a rail network and operate trains on that network, in competition with the existing train operator.

The package requires that reforms be implemented not only at Commonwealth and State/Territory level, but also at local government level.

The package also incorporates pre-existing Council of Australian Government (COAG) agreements on reforms in the areas of electricity, gas, water and road transport.