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## 9 Other reforms

Legislation reviews as part of National Competition Policy (NCP) have led to a relaxation of restrictions governing retail trading arrangements and some professions. These more liberal trading arrangements have benefited consumers, but have also weakened the competitive position of some businesses. Concerns about the potential for future legislation reviews to contribute to the expansion of national retail chains in country Australia highlight the need for integrity in the legislation assessment process and in the use of the 'public interest' test.

Access provisions for the use of essential infrastructure (such as rail and power lines) could impede investment, to the detriment of regional development. Other reforms and competitive pressures (not within the ambit of NCP) are affecting the price of petrol and the operations of banks in country Australia.

### 9.1 Introduction

The impact of legislation reviews on the anti-competitive arrangements supporting statutory marketing of agricultural commodities was examined in chapter 7. This chapter examines the impact of legislation reviews of the anti-competitive arrangements governing retail trading and the conduct of some professions. It also examines the new arrangements that were introduced under NCP to provide access to essential infrastructure facilities.

Recent developments in markets in country Australia for petrol retailing and bank services, although mainly subject to pressures other than NCP reforms, are also examined in view of the concerns raised by participants.

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## 9.2 NCP-related reforms

### Reviews of legislation governing retail trading

While the past decade has seen considerable deregulation of retail trading, it is still subject to significant regulation throughout Australia. Much of this regulation is subject to examination under NCP legislation reviews.

Some participants supported past deregulation and any prospective deregulation of retail trading. Others expressed concerns that a review of retail trading arrangements would lead to further deregulation which would disadvantage rural communities. These concerns (discussed below) related to the possible relaxation or removal of regulations restricting retail trading hours and those restricting ‘cross-selling’ (whereby certain retailers are restricted from selling specific goods).

#### *Retail trading hours*

Legislation which restricts trading hours (and hence consumer choice on when to shop) has varied objectives. These include religious considerations and attempts to protect retail employees from work outside ‘normal’ hours. Provision of a form of assistance to small retailers has also been a factor.

At present, restrictions on general retail trading hours vary across and within jurisdictions (see table 9.1). There are no restrictions on trading hours in Victoria, the ACT and the Northern Territory, or in Western Australia above the 26th parallel. Restrictions on trading hours apply elsewhere.

Specialist retailers — such as hairdressers, electrical stores, hardware stores, motor vehicle spare parts retailers and liquor stores — are subject to different restrictions. Jurisdictions which restrict general trading hours generally exempt specialised retailers. For example, in Tasmania, retailers of motor vehicle parts, hairdressers, food shops and liquor outlets are exempt from restrictions on general trading hours. Similarly, the Northern Territory has no restrictions on trading hours of certain food stores, florists, hairdressers and tobacconists, although liquor may only be sold during permitted hours, for reasons of public health and community attitudes (sub. D303, p. 3).

**Table 9.1 Trading hour restrictions for general retail stores, January 1999**

<i>Jurisdiction</i>	<i>Monday to Friday</i>	<i>Saturday</i>	<i>Sunday</i>
New South Wales	no restrictions	no restrictions	10.00am to 4.00pm (application required)
Victoria	no restrictions	no restrictions	no restrictions
Queensland <sup>a</sup>	8.00am to 9.00pm	8.00am to 5.00pm	Brisbane CBD, Gold Coast, Sunshine Coast 10.30am to 4.00pm Cairns 1.00pm to 8.00pm Townsville CBD 8.30am to 1.00pm no trading outside these areas
South Australia	Adelaide CBD 6.00pm closing Monday to Thursday 9.00pm closing Friday Adelaide Suburbs and Country 6.00pm closing Monday, Wednesday and Friday 9.00pm closing Thursday	Adelaide CBD 5.00pm closing  Adelaide Suburbs and Country 5.00pm closing	Adelaide CBD 11.00am to 5.00pm  Adelaide Suburbs and Country no trading  Exempt areas (no regulation) Iron Triangle, Victor Harbour, Naracoorte, Kadina, Murray Bridge, Penola
Western Australia <sup>a</sup>	8.00am to 6.00pm Thursday 8.00am to 9.00pm Perth and Fremantle tourism precincts 8.00am to 7.00pm and to 9.00pm on Thursdays	8.00am to 5.00pm	no trading outside tourism precincts
Tasmania	Monday to Wednesday 8.00am to 6.00pm and to 9.00pm Thursday and Friday	8.00am to 6.00pm	no general retail trading
Northern Territory	no restrictions	no restrictions	no restrictions
ACT	no restrictions	no restrictions	no restrictions

<sup>a</sup> Stores employing fewer than 20 employees in the store at any one time are exempt from Sunday restrictions. <sup>b</sup> There are no restrictions on trading above the 26th parallel.

Source: Australian Retailers Association (1999).

### *Background to deregulation*

The relaxation of restrictions on shop trading hours has developed progressively over time. For example, Thursday or Friday late night trading and Saturday

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afternoon trading were permitted in most jurisdictions well before NCP took effect. Community pressure and changing consumer preferences have been the key factors behind the extension in trading hours, although NCP is likely to have facilitated the more recent changes.

A number of social and demographic factors — such as an increase in the number of dual income households, more flexible and longer hours worked per week by many in the labour force — have increased community pressures for longer shopping hours. For example, Woolworths said:

Consumers are also moving away from the more traditional working hours to a variety of working hours. Hence, consumer demand in relation to shop trading hours is also changing. (sub. 213, p. 24)

Research undertaken by the Australian Centre for Industrial Relations Research and Training found that just over half of all full-time employees now regularly work more than 40 hours per week, compared with only around a third in 1979. A third of these workers now regularly work more than 49 hours per week, compared with only 19 per cent in 1978 (Victorian Government 1998). These changes have increased demand for access to shops outside normal working hours.

Moves to restrict trading hours are no longer widely supported in the community. For instance, the ACT conducted a trial to restrict trading hours in town centre supermarkets in an effort to assist smaller retailers in local shopping centres. This trial was abandoned after studies found that consumers' shopping habits had changed little and there was a lack of community support for the restrictions. In ending the trial in 1997, the ACT Minister for the Environment, Land and Planning, Gary Humphries, MLA, said:

The Government has made an effort to try and help local businesses, but our detailed, independent assessment of that measure shows it is without broad community support and has not contributed to significant improvements for small shops. (Humphries 1997, p. 1)

The shift from 'corner' stores and smaller shopping centres to large shopping malls has been a feature of life in country and metropolitan centres for many years. In country Australia, improvements in roads and more reliable, comfortable and affordable motor vehicles have made larger provincial centres more accessible to people in smaller outlying communities. These larger centres have the populations both in the town and in the catchment area to support large retail establishments. As these larger centres also have the critical mass to support facilities such as cinemas and fast food outlets, they are often the destination for a family outing for those living in smaller communities. Because of the continuing movement of population away from some smaller communities, it is likely that small retailers in these locations would have declined even if trading hours had not been deregulated.

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### *Participants' concerns*

Many participants saw reviews of retail legislation as having the potential to adversely affect small retailers and small communities in country Australia if it resulted in a deregulation of trading hours. Participants had two key concerns:

- extended trading hours would favour large retailers at the expense of smaller businesses *within* communities — a concern also prevalent in metropolitan areas. (Certainly, such a change is seen by larger retailers as allowing them to use their facilities more efficiently in meeting consumer demand);
- more liberal trading hours would favour larger provincial towns — which have banking facilities, large retailers and fast food outlets — at the expense of outlying smaller communities. This was seen as likely to encourage the transfer of income away from small towns and lead to the closure of small specialist retailers such as butchers and bakers. This, in turn, was seen as leading to fewer jobs and, ultimately, to population decline.

The National Association of Retail Grocers of Australia (NARGA) said:

... any extension of retail trading hours does most definitely have an adverse attrition effect on small business, particularly on the edge of rural and regional areas, as was effectively highlighted in the recent Federal Government report on microbusinesses entitled *Under the Microscope* at page 70:

*Too often microbusinesses suffer cost disadvantages through extended trading hours. Extended trading hours dilute business activities during core hours and reduces turnover, market share and profitability of small business.* (sub. 139, p. 35)

Similarly, the Gordonvale Chamber of Commerce said the extension of trading hours had:

... seen the demise of the small businesses such as the butcher, delicatessen and green grocer — look at the local shopping centres — these small businesses do not exist. (sub. 126, p. 4)

The National Party of Australia Women's Federal Council emphasised the effect that deregulation could have on the continued existence of small retailers located in small towns:

Our members are also witness to the fall away of retail commerce in small towns following trading hours deregulation which sent customers to the bigger urban centres and away from their local community. In both instances, it is the smaller traders who lose — not from any inefficiency but because it is impossible to match the capital, advertising and price cutting wars engaged in by the mega-retailers. (sub. 130, p. 3)

Another concern expressed by some participants is that deregulation will lead to significant job losses. In this context, NARGA contended that, for every extra job

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with major retailers, there is a corresponding decrease in employment by small retailers of 1.7 jobs. (If true, this would imply a considerable increase in labour productivity in retailing). In addition, some considered that the jobs created in large retail chains are often of a part-time or casual nature and come at the expense of full-time employment in smaller retail businesses. For example, NARGA said:

Full time employment is sacrificed for part-time and/or casual work ... (sub. 139, p. 36)

### *Effects of deregulation*

The available evidence suggests that, overall, retail trade and employment has not declined and has actually increased in jurisdictions where trading hours have been deregulated.

Modelling analysis conducted soon after trading hours were deregulated in Victoria suggested that the deregulation would boost demand for retail goods by 0.6 per cent, raise retail employment around 2 per cent and generate net benefits to consumers of around \$65 per person per year (Brooker and King 1997).

Aggregate data on key retail indicators also strongly suggest that deregulation has delivered net benefits. Coles (sub. D221), for example, presented data on retail sales, floor space and jobs for the years before and after deregulation which illustrated the positive impact likely to have resulted from deregulation.

The Victorian Government reached the same general conclusion in a case study of shop trading hours reform contained in its submission to the Senate Select Committee on the Socio-Economic Consequences of the NCP. It noted that:

ABS retail figures for the 1990s indicate that, after lagging the rest of Australia from 1991 to 1996, retail sales in Victoria since deregulation in December 1996 have grown strongly, faster than any other State and at around twice the rate than the rest of Australia. The pick-up in Victorian retail trade growth occurred at virtually the same time as the shop trading reforms were implemented. ... While there are a number of factors that affect retail trade, the strong growth experienced in Victoria since December 1996 would suggest that the 1996 reforms have had a strong positive influence. (Victorian Government 1998, p. 17)

Submissions from Coles and Woolworths provided specific examples of how they responded after shopping hours were deregulated in Victoria. Coles Supermarkets (sub. 97) employed an additional 2000 staff in Victoria over the following twelve months to meet the additional demands from longer trading hours. Woolworths (sub. 213) also said it had employed an additional 2000 staff since the deregulation of trading hours. Such gains, however, need to be considered in the context of employment losses by small retailers.

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The Tasmanian Independent Wholesalers (sub. D254) cautioned that a selective use of statistics can paint too rosy a picture of the post-deregulation employment consequences. The difficulty in drawing comparisons between current and past employment figures was acknowledged in the Victorian Government submission to the Senate Committee. Despite that, it considered that deregulation had contributed to increased retail employment, and noted:

... an increase in the trend level of Victorian retail employment from around 240 000–245 000 to around 250 000–255 000 [for the two years to May 1998]. In contrast to growing Victorian retail employment, during the two years to May 1998, Australia-wide retail employment fell by 1 per cent (New South Wales retail employment fell by 7 per cent over the same period). Victorian supermarkets in particular have employed more staff, in order to cover the extended trading hours. (Victorian Government 1998, p. 17)

Participants' claims that such changes have come at the expense of full-time jobs being sacrificed for part-time or casual jobs are difficult to sustain. There have indeed been changes in the use of part-time and casual labour by retailers in recent years. For example, Woolworths' part-time employee numbers increased strongly between 1993 and 1998, although the number of full-time employees also increased significantly. There was also a trend to increase the number of staff employed on a permanent basis. For example, the proportion of total hours worked by Woolworths' casual employees in Victoria declined from 50 per cent in 1993 to a current figure of 18 per cent and, in New South Wales, from around 50 to 30 per cent over the same period (Woolworths, sub. 213). Coles Supermarkets also identified a shift from casual labour:

Over the past four years Coles has moved away from the traditionally heavy casual component of our supermarket workforce, and increased our reliance on full time and permanent part time employees. The various enterprise agreements reached over this period with the Shop Distributive and Allied Employees Association (SDA) allowed Coles to improve its customer service whilst improving permanency, job security, and career opportunities for employees. (sub. 97, p. 10)

These trends were thus apparent well before deregulation of trading hours and occurred in jurisdictions where trading hours are still restricted.

From a consumer perspective also, it appears that deregulation has given rise to considerable benefits. The removal of regulations on retail trading hours has increased consumer choice and removed the costs imposed on consumers which resulted from limiting where and when they can shop.

The result of a referendum in 1998 in Bendigo (Victoria) following opposition to the introduction of Sunday trading provides unambiguous evidence of consumer preferences for deregulation. Of the 72.5 per cent of eligible voters who participated

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in the non-compulsory referendum (conducted by the Electoral Commission), 77 per cent voted to maintain Sunday trading (City of Greater Bendigo, sub. D231).

Submissions and information from public hearings (eg the City of Greater Bendigo, Sandhurst Trustees Ltd, Bendigo Trust, Visitors Information Centre Bendigo and Greg McRae Fine Furniture) provide clear evidence that, over a year later, such deregulation has been of overwhelming net benefit to business and employment in the Bendigo community.

While some participants in country Australia pointed to costs associated with deregulation, restrictions on trading hours also impose costs on residents in remote areas of country Australia. The Shire of Yalgoo said:

Many small communities in the WA hinterland are at a considerable distance from the nearest city. The restricted trading hours imposed in WA work to the disadvantage for people from remote communities because, on their occasional excursions to the city, it limits the amount of business that can be achieved in a day. This often necessitates an overnight stay and adds to the cost of doing business. (sub. 98, p. 6)

In a similar vein, the Country Women's Association of NSW noted that:

Deregulation of retail trading hours has been of benefit to many rural communities, although some small retailers may have been disadvantaged. We feel the majority of Australians have benefited from the introduction of extended hours of retail trading, these hours also particularly benefit part-time workers and shift workers. (sub. D251, p. 4)

In short, deregulated retail trading hours appear to have delivered benefits to consumers in terms of convenience, range of goods and price. At the same time, evidence to date suggests that deregulation has had positive net effects on retail trade and employment. Where community views have been canvassed comprehensively, there appears to be strong community support for such change.

#### FINDING 9.1

*Changing social patterns (such as more flexible working hours, the increase of women in the workforce and single parent households) have contributed to decisions by governments to make shopping hours more flexible. These more flexible retail trading hours have weakened the competitiveness of some retailers. At the same time, they have been of net benefit to consumers and appear to have increased employment, including in country Australia.*



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### *Other retail trading restrictions*

Legislation restricting the sale of some goods and services to certain types of retailers and restricting the operations of specific retailing is also subject to the NCP legislation review process. Liquor outlets and pharmacies currently operate under such legislation. This legislation, much of which is yet to be reviewed, is often based on social objectives such as controlling the distribution of potentially dangerous drugs or limiting the social costs of alcohol consumption.

All States and Territories have reviewed, or propose to review, the legislation controlling the retail sale of liquor. In Queensland, Victoria and Tasmania, the sale of take-away liquor has been restricted to hotels and associated licensed premises. Other retail outlets in those jurisdictions, such as supermarkets and convenience stores, are not permitted to sell liquor (NCC 1998a).

Pharmacies are regulated at present under State Pharmacy Acts which confine ownership to qualified pharmacists and restrict the number of pharmacies that a pharmacist can own. Furthermore, these Acts establish Pharmacy Boards to regulate the standards required of pharmacists for registration and to control their number. In the Northern Territory, however, pharmacies are not required to be owned by pharmacists.

The Pharmacy Guild of Australia (sub. 190) set out what it sees as the benefits of restricting the ownership of chemist shops to pharmacists. These include: contributing to safe pharmaceutical use; economical advice on and treatment of minor ailments; the support of health programs; and assisting in lowering the price of pharmaceuticals. In addition, the Pharmacy Guild pointed to the important role played by the local pharmacist in country Australia in providing advice and treating minor ailments where there is a shortage of doctors.

Under Commonwealth legislation, the Australian Community Pharmacy Authority authorises where new pharmacies are established. It generally does not approve establishing a new pharmacy within two kilometres of an existing pharmacy. The Commonwealth, States and Territories agreed to a national review of pharmacy legislation — to be completed by the end of 1999. In May 1999, the Premier of South Australia wrote to the Prime Minister, expressing concern that the independent chair proposed for the review was an ex-pharmacist and had previously been employed in the pharmaceutical industry. Although the Prime Minister acknowledged that concern, the appointment was confirmed (sub. D298, p. 5).

Newsagents in New South Wales, the ACT and Victoria are not regulated by specific legislation and are not subject to the legislative review process of the NCP. They have an authorisation under the Trade Practices Act from the Australian

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Competition and Consumer Commission (ACCC) to maintain restrictive arrangements in the distribution of newspapers and magazines and the home delivery of newspapers. Under these arrangements, publishers grant newsagents 'sole' rights in a specified area to distribute magazines and newspapers to other retail outlets and to provide home delivery. A number of public benefits are put forward for these restrictions, such as providing opportunities for small business.

In November 1998, the Australian Competition Tribunal granted further authorisations under the Trade Practices Act to allow newsagents and publishers to continue these anti-competitive arrangements. The Tribunal authorised continuation of the restrictive arrangements for magazine distribution until 1 July 1999, for the distribution of newspapers until 1 February 2000 and for the home delivery of newspapers until 1 February 2001 (Australian Competition Tribunal 1998). While the Tribunal considered that these arrangements should not continue past these dates, further authorisations or amendments to the legislation could be sought.

There was a general concern that the loss of restrictions on 'cross-selling' through the legislation review process or the removal of anti-competitive authorisations would reduce the profitability of small retailers by allowing others (particularly supermarkets) to sell goods which were previously reserved for small retailers. As Caneland Pharmacy said:

Supermarkets want to own and operate pharmacies. Woolworths has recently said as much publicly. Their primary interest is — and must be — in sales, market share and profits. (sub. 9, p. 1)

A number of participants were concerned that if deregulation followed the legislation review process, it would have adverse impacts on the rural communities where these businesses, particularly newsagents and pharmacies, provided a range of other services. The National Party of Australia Women's Federal Council said:

Newsagents often run a variety of services including postal from their rural outlets. The loss of an enterprise such as this hurts small towns disproportionately.

Like newsagents and hotels, the local pharmacy is a key small town business providing a raft of services. Such businesses are also going to play a important roles in the delivery of more services in the future, such as those envisioned by the rural telecentres program, which aims to restore electronic services, like banking and Medicare Easyclaim to country Australia. (sub. 130, p. 4)

The concerns that small towns may lose the additional services provided by the restrictions on cross-selling are based on the apprehension that deregulation is inevitable. This is not, though, an inevitable outcome. The legislation review process is designed to take into account and weigh the potential benefits and costs from removing such restrictions on a case-by-case basis.

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**The legislation review provisions of NCP allow for the benefits to the community of restricting competition to be considered against the costs of such restrictions. To the extent that the benefits from these restrictions exceed their costs, restrictions on competition could be retained.**

*Expansion of retailing chains in country Australia*

During the inquiry, the Commission heard concerns from participants about the expansion of national retail chains into country Australia and the concentration of their market share. These concerns were instrumental in the establishment of a Commonwealth Parliament Joint Select Committee on the Retailing Sector to look into the matter.

Some participants feared that the national chains could be so successful in attracting customers that few competitors would remain. The chains could then use their market power to increase prices, thus reducing the benefits to consumers. Some argued that, if a new competitor came into the market, the national chain store would use predatory pricing to oust it.

The Commission notes though that retailing is highly competitive. Despite the high levels of concentration in Australian retailing, profit margins are lower than elsewhere; according to Coles, they are 3.4 per cent in Australia compared with 4 per cent in the UK and 5–6 per cent in the US (sub. D221, p. 9). If there are barriers to entry, low profit margins could imply inefficiencies rather than be an indication of competitiveness, but according to Access Economics:

... concentration itself is not the proper measure of market efficiency. A reduction in the number of competitors in a market does not automatically mean that the market has become less competitive. ... Retailing has few inherent barriers to entry at the level of individual products, and while the deterrents to entry are stronger on broader criteria, retailing is more open to new entrants, including from overseas, than other industries. (sub. D221, s. 4)

In addition, the Industry Commission has previously found that:

... during the first half of the 1990s ... food retailing as a whole was only marginally more profitable than retailing generally. Moreover, during 1993-94 and 1994-95, against most profitability measures, small and medium food retailing enterprises — those employing fewer than 200 people and with assets of less than \$200 million — outperformed larger enterprises in the sector. This is seemingly at odds with the view that large food retailers are exercising significant market power. (IC 1997d)

Nonetheless, NARGA saw increasing concentration in country retail grocery markets as contrary to the national interest and ‘anti rural and regional communities’ (sub. 8, p. 1). Similarly, Susan Davies, MP, said:

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Wonthaggi's supermarket prices are relatively cheap. But should Safeway achieve complete domination within the district, competition will be reduced, not enhanced. (sub. 87, p. 8)

There is a common sentiment that major corporations, whether multi-national or 'multi-regional', take substantial revenue from, and contribute little to the places where they do business. Yet much of the income earned by the corporations flows back to the local community in the form of wages, investment and indirectly in the form of taxes.

The retail industry is a labour-intensive service industry, and as such, wages represent a substantial proportion of expenditure, whether the store is owned by a national chain or is independent. Two of the three major chains have reported a large expansion in employment in country areas along with the expansion of their network.

Woolworths claimed to support local suppliers of their products and to use local contractors when investing in regional supermarkets (sub. 213, p. 73), and the investment program of both of the major retail chains has been quite large in country areas. For instance, between 1993 and 1998, 33 new Woolworths stores were built in country areas of Australia, involving estimated expenditure of more than \$200 million with local contractors.

National chains were also said to have a reduced commitment to the local communities in which their stores were located:

... large chains rarely support local communities by donation etc which was the case with local businesses and this is another area in which small rural communities are the big losers. (Harden Shire Council, sub. 7, p. 3)

... local small business operators are frequently integrated into local communities through service and charitable organisations (such as Rotary), contribute to local events and are more likely to be involved in the development of local communities [than the national retail chains]. (NARGA, sub. 139, p. 38)

Woolworths stated that it donated more than \$10 million throughout Australia between 1995 and 1998 (sub. 213, p. 5). While it did not provide a classification of cash and non-cash donations or an indication of the distribution of these donations by area, a number of regional hospitals, among others, were the recipients of donations from Woolworths (sub. 213, pp. 62–4). Thus, while small business people are intrinsically more 'visible' in community circles, it is not clear that there is a lower commitment to the country areas by outlets of the national chains.

In view of the expansion taking place in country areas and the benefits to consumers (evidenced by the success of the major supermarkets in attracting customers), it is not clear that the major supermarkets are a drain on the overall economy of country

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Australia. In fact, some participants from towns without a major supermarket expressed a desire to have such a store locate in their community in order to retain expenditure within the community rather than see it flow to large supermarkets in other nearby centres.

Woolworths submitted that a major reason for some independents' inability to compete stemmed from their unwillingness to update their 'offer' in order to meet the changing needs of consumers. However, Woolworths referred to a number of independents which have been more successful in maintaining profitability by meeting customers' preferences:

The common thread linking these independents together is a willingness to change and meet the needs of their customers, in addition to distinguishing themselves from the majors. (sub. 213, p. 4)

While it is clear that many small independent supermarkets and some specialised grocery shops are suffering from the increased competition from the national chains, there are also examples of others finding a niche and remaining profitable. Meanwhile, consumers are benefiting from lower prices, a larger range of goods and better service.

For example, in a survey of retail prices undertaken in April 1998, the Australian Consumer Association measured prices for a basket of goods in 10 metropolitan locations and 14 country locations across Australia (ACA 1998, pp. 10–11). It found that around half of the 10 cheapest cities and towns to shop at were in country areas. It also found that prices in Western Australia, Tasmania and the Northern Territory were higher across the board than those in the eastern states and South Australia. Since a large capital city such as Perth was also more expensive, this would seem to indicate that geographic isolation of these markets may be a more significant determinant of retail prices than is the number of suppliers.

Woolworths stated that it has 'a policy of overall price parity between metropolitan and most rural/regional stores in most States, absorbing normal transport costs' (sub. 213, p. 41). To the extent this is true, this implies that customers in country Australia are benefiting from the company's pricing policy.

Of itself, the expansion of national chains into country Australia is not NCP reform. It is more likely to be related to the competitive advantage that national retail chains derive from the scale of their purchasing power and the efficiency of their established distribution networks. However, the ability of national chains to use their facilities even more efficiently in response to the removal of restrictions on trading hours or on cross-selling (should that occur as a result of legislation reviews) means that there is a link to NCP.

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The Commission notes that the broader matter of assessing the degree of dominance in the retail food and grocery market (and the possible consequences for markets in country Australia of any abuse of market power) is essentially the responsibility of the ACCC. It is not the focus of this inquiry and, thus, nor is it one on which the Commission has assembled comprehensive information. The Commission is not, therefore, in a position to make recommendations on the matter.

The outcomes of legislation reviews, however, may contribute to expansion and dominance by national chains. Legislation reviews are intended to take into account the legitimate concerns (such as those raised by participants) of those potentially affected by the reviews on a case-by-case assessment of net benefits. Deregulation of retail trading arrangements (such as in Victoria) resulted from this process of legislation review. Future legislation reviews will determine the extent of any further deregulation in other jurisdictions. The best outcome for the community can be guaranteed only by ensuring the integrity of the legislation review process, including the operation of the ‘public interest’ test. These matters are discussed in detail in chapters 4 and 11, respectively.

#### FINDING 9.2

*The potential for legislation reviews to introduce important changes affecting people’s lives and livelihoods highlights the need for integrity in the review process, including the operation of the ‘public interest’ test provisions of NCP.*

### Reviews of legislation governing the professions

The present regulatory regimes governing the professions in many instances reserve certain services to practitioners and prescribe the manner of competition between accredited practitioners. The rationale for these regulatory regimes is, to some extent, directed at protecting the interests of the consumer. For example, the National Competition Council (NCC 1998a) pointed out that the use of accreditation standards or reservation of professional title may assist the consumer in overcoming information problems when selecting a medical practitioner or solicitor.

The restrictions on competition arise from the regulatory powers provided to the professional associations and registration boards to admit members, regulate their standards and, in some instances, set fees. Legislation is used to place controls on ownership structures, such as with pharmacies, and reserve certain work to members of the profession, such as in the case of conveyancing in Queensland. The NCC said:

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... some traditional form of professions' regulations appear to do little other than to restrict competition to the benefit of professional practitioners. For example, prescribed fees for professional services appear to be designed primarily to limit competition. Similarly, where accreditation standards are set at unnecessarily high levels, they have the potential to exclude suitable service providers from the market. (1998a, pp. 113–4)

Regulatory arrangements governing the professions are to be reviewed as part of the legislation review process of the NCP. In addition, NCP has extended Part IV of the Trade Practices Act, which deals with anti-competitive behaviour, to cover aspects of the professions, such as medical partnerships.

Some regulatory reform has been undertaken already by State and Territory governments. For example, restrictions on advertising legal services have been lifted and conveyancing is now open to non-lawyers. Furthermore, mutual recognition of entry standards within some professions has removed a number of State-based barriers to competition (NCC 1998a). These reforms have resulted in benefits to consumers. For example, following the removal of the restrictions on conveyancing in New South Wales, conveyancing fees fell by 17 per cent, resulting in consumer savings of around \$86 million (Baker 1996).

The review of regulatory regimes governing the professions may benefit country Australia, particularly if it removes those aspects which enable professions to limit the number of practitioners or retard flexibility in the provision of services to people in country Australia. This could ease the shortage of professional services in country areas — a concern widely raised with the Commission during the inquiry.

Beneficial outcomes from reviews of legislation may, however, be undermined by the way in which changed arrangements are subsequently administered. The Commission was presented with a claim that the potential gains from the Victorian review of legislation governing optometrists were not being fully realised for this reason (see box 9.1).

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### Box 9.1      **Review of Victorian legislation governing optometrists**

The Victorian Government reviewed its *Optometrist Act 1958* as part of a broader review of legislation governing health practitioner registration. The 1958 Act was characterised by inflexible and outdated provisions, and included significant restrictions on competition. These included restrictions on ownership of optometric practices and restrictions on orthoptists signing prescriptions for glasses (Victorian Government 1998, p. 12).

The legislative review assessed the net public benefit for each of the Act's restrictions on competition and found that changes were warranted. The review resulted in the proclamation on 1 July 1997 of the *Optometrists Registration Act*.

Among other things, the new Act removed all restrictions on who can own an optometric practice, and extended the right to prescribe for glasses — but not contact lenses — to orthoptists (but only for patients with a referral which is less than six months old from an optometrist or a practicing ophthalmologist).

However, A. and R. Hughes claimed (sub. D263 and D286, trans., pp. 567–76) that the intent of the changed legislation to improve competition and so give consumers greater choice of eye care provider, particularly in rural and remote areas, was being thwarted. They stated that the Government, by giving the Optometrists Registration Board the power to interpret and implement the Act, has allowed the Board to exercise that power in a way which prevents an orthoptist from measuring for and prescribing glasses as an independent practitioner.

### FINDING 9.3

*As the reviews of legislation governing professions in most jurisdictions have yet to be undertaken, NCP has had little impact overall to date on the provision of professional services in country Australia.*

## **Access regime issues**

### *The national access regime*

As outlined in chapter 4, access to certain key infrastructure facilities (ie essential facilities which cannot be duplicated economically) is important for competition in related markets. As part of the NCP reforms, all governments agreed to establish a suitable framework for this to occur. This involved the introduction of an access regime under Part IIIA of the Trade Practices Act. Under this regime, third parties seeking access may:

- request the NCC recommend that the Minister in the relevant jurisdiction *declare* access to the services of a particular infrastructure facility. If the



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infrastructure facility is declared, the infrastructure operator and the third party are required to negotiate mutually acceptable terms of access. (If the parties cannot agree on the terms and conditions of access, there is scope for the parties to seek legally binding arbitration);

- seek access through an *effective* access regime already in existence. (If an access regime is already in existence, the Premier or Chief Minister of a State or Territory, respectively, may request the NCC to *certify* that the regime is ‘effective’); and
- seek access based on the terms and conditions of a legally binding *undertaking* made with the infrastructure operator and registered with ACCC.

The purpose of access regimes is to improve competition in markets located upstream and downstream from essential facilities such as pipelines and rail lines. Increased competition provided by an access regime has the potential to benefit people and businesses in country and metropolitan Australia through improved services and lower prices. Examples of applications to access infrastructure are in box 9.2.

#### **Box 9.2      Applications for access to infrastructure**

Specialised Container Transport's (SCT) applied for the declaration of certain Western Australian rail services in order to access them under the terms of the new regime. The NCC recommended that the rail services be declared, but the rail freight support services not be declared. The relevant Minister, the Western Australian Premier, rejected the NCC's recommendation and did not declare either service. An appeal was lodged by SCT with the Australian Competition Tribunal which was withdrawn after SCT and the Western Australian Government reached agreement over access.

The NCC has received an application from the Queensland Premier to certify as effective the Queensland Access Regime for Natural Gas Pipeline Services. The public consultation process began in early 1999. In New South Wales, the NCC has completed the public consultation process for certification of the New South Wales Gas Access Regime.

The Victorian Government applied to the NCC to have its access regime for commercial shipping channels in the ports of Melbourne, Geelong and Hastings certified. The regime was certified as being effective for a period of five years from May 1997.

*Source:* NCC (1998e).

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### *Access and new investment*

The NFF (sub. D297, p. 11) saw access to (and pricing of) infrastructure as an issue of vital concern for rural and regional Australia. It argued that ill-considered or unduly complex processes of implementing access regimes could seriously undermine the competitiveness of Australia's rural and regional industries (p. 28). The Governments of South Australia (sub. 156) and the Northern Territory (sub. 128) raised concerns about the possible impact of access regimes on investment in infrastructure projects relevant to regional development.

The South Australian and Northern Territory Governments' concerns related to the proposed Adelaide to Darwin rail project. They considered that investors could be deterred because they might be unable to make an adequate rate of return from such a large infrastructure project if competitors were able to gain access and 'cherry-pick' the profitable services. The Northern Territory Government said:

For the private sector to commit to the project, a measure of certainty is required in terms of the use of the facility in order to protect the investment. (sub. 128, p. 7)

and:

... the existing arrangements for access are motivated around existing infrastructure and take no account of the pioneering nature and special risks associated with new infrastructure. This is likely to have an adverse effect on the development of regional Australia. (sub. 128, p. 8)

As the South Australian Government explained:

Large new infrastructure projects in regional Australia, such as the Adelaide to Darwin railway, are characterised by a large initial capital investment and a long period of much smaller annual revenues with which to service the initial capital investment. (sub. 156, p. 11)

The access application made to the NCC in September 1998 to have Hamersley's Pilbara rail network declared, and the resulting legal deliberations, illustrate the relevance of such concerns to rural and regional Australia.

Concerns that access arrangements may distort investment are not new. King and Maddock (1996) recognised that, while it was important to make the best use of existing facilities by providing competition, incorrect pricing of access could dissuade investors from future investment in the facility or service. Consequently, short-term efficiency could be at the cost of long-term efficiency. As King and Maddock said:

The regulatory authorities will inevitably find themselves trading off short- and long-term goals. At best, a balance will be struck between those goals which provide reasonable benefits to both present and future consumers. (1996, p. 107)

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In respect of the development of a new facility, King and Maddock said:

... the provisions of the Competition Policy Reform Act [access regime] may also severely curtail the likelihood of a new facility being constructed. In particular, if the prospect of providing access to a proposed essential facility dilutes profits, the facility may simply not be built. (1996, p. 120)

The Industry Commission (IC 1995b) also recognised the inherent difficulties in the regulation of access arrangements. Regulation, in general, has its own costs on government and business through compliance costs, in collecting information, resolving disputes and in uncertainty. More specifically, regulators may find it difficult to determine efficient access prices. If they fail to do so, production and investment decisions can be distorted. Setting the access price too low would reduce the profitability of the infrastructure owner and weaken the incentive for further investment in the facility. On the other hand, setting the access price too high may act as a disincentive to competitors to seek access and weaken competition.

There is no easy trade-off between the past situation where owners of strategic infrastructure could exercise monopoly control over output and prices (to the detriment of users and consumers) and a situation where the benefits of infrastructure investment may be delayed or jeopardised by an access regime.

### *The access process*

The Northern Territory and South Australian Governments raised concerns over the complexity of, and potential for delays involved with, the access process for the proposed Darwin to Adelaide railway.

The Northern Territory Government (sub. 128) raised a number of possibilities for dealing with the access issue for the proposed railway. First, there is the 'do nothing' approach. This might result in the infrastructure being 'declared', leading to the railway being used by third parties at an unacceptably low price for the owner-operator. Second, there is the prospect of a successful change to the Trade Practices Act, which the Government judged as unlikely. The third possibility is an undertaking by the operator and the ACCC. However, the Government indicated that this was not realistic, as the ACCC could deal only with the preferred consortium for the project. At this stage, there was no preferred consortium, merely three short-listed consortia. Finally, the Northern Territory Government believed that the only avenue available to deal with the access issue was for the Northern Territory and South Australian Governments to create a complementary legislative regime and seek NCC certification that the regime is 'effective'. The concern of the Northern Territory Government from this was that the certification process would

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not be completed prior to the date by which the final detailed submissions from the consortia bidding for the project were due.

The South Australian Government said:

Potential investors in these infrastructure projects are likely to be discouraged by the fact that they are subject to a complex and uncertain access regime under Part IIIA of the Trade Practices Act, which can only be avoided through equally complex and lengthy processes in the acceptance of an undertaking by the Australian Consumer and Competition Commission or the development of State regimes certified by the NCC. (sub. 156, p. 11)

The Commission, in its inquiry into *Progress in Rail Reform* (PC 1999e), found that reform in this area has been slow and current access arrangements were complex due to the multiplicity of regimes and the intricacies associated with each regime.

An open and transparent process is important to minimise uncertainty and provide confidence in the process of establishing an access regime. To help achieve this objective there must be adequate consultation and time available to permit interested parties to prepare submissions and have them assessed, and for the recommendations and the reasons for them to be published.

The Commission notes that under the Competition Principles Agreement, the Commonwealth Government will initiate a review of Part IIIA access arrangements in 1999-2000. This will provide an opportunity for the arrangements to be assessed and changed if needed.

## **9.3 Other issues**

Participants raised a number of other issues which, while not part of the NCP reforms, relate to the introduction of elements of competition in markets of importance to country Australia. Of particular concern were issues relating to petrol prices and bank closures in country Australia.

### **Petrol prices in country Australia**

Differences between retail petrol prices in metropolitan and country areas were a common concern raised by participants. This issue, while not part of NCP reforms, served as a spur for a recommendation of the House of Representatives Standing Committee on Financial Institutions and Public Administration (the Hawker Committee) to instigate this inquiry and report into NCP (HRSCFIPA 1997a, pp. 22–3). It has also been the subject of increased attention during July and August

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1999, as higher world oil prices led to price rises of about 10 cents per litre (cpl) at the petrol bowser.

The difference between city and country petrol prices can exceed 10 cpl, particularly at the height of price wars in the cities. Various studies over the years have reported average price differences of between four cpl and 12 cpl (for example, IC 1994b, pp. 84–9). Overall, the differences are significantly more than apparent cost differences would explain, and vary over time and between regions.

A discrepancy between city and country petrol prices is also common in the United States and the United Kingdom. Investigations by the ACCC found that in the United States prices differed considerably across regions (ACCC 1996, pp. 80–1). For example, the price of petrol in Alaska in February 1994 was 56 per cent higher than in Indiana. Even in more proximate States, like Arizona and Utah, the difference was 37 per cent. It is unlikely that inter-regional differences in tax rates would account for price differences of this magnitude. Similarly, in the United Kingdom, petrol in Oxfordshire, 100 kilometres from central London, was found to be 10 per cent higher than that in South-East London. Hence, differences in prices between metropolitan and country areas are not peculiar to Australia.

Many factors contribute to the difference between city and country petrol prices. For instance, in country areas the lower population density means reduced density of demand, which often dictates lower sales volumes per outlet. In turn, this results in a smaller scale of operations and higher margins. On the other hand, outlets in metropolitan areas are generally able to apply lower margins per litre of fuel, as evidenced by the following:

... an average country service station sells less than half the fuel of city service stations and their profits from non fuel sales are only 25 per cent of those of a typical metropolitan outlet. This means that where a breakeven gross retail fuel margin for an average metropolitan site is around 3–4 cpl, for the average country site it is often double this. (Shell 1996)

In addition to the smaller scale of country petrol businesses, they often have a reduced scope of business compared with city outlets. While urban stations often sell a range of food and convenience products at relatively high margins to augment returns from petrol sales, country stations typically have a smaller range of products over which site expenses can be spread.

In addition, the increased distance from terminals increases not only freight costs, but also response times to changes in supply or demand conditions. This is conducive to a greater degree of influence by the major oil companies in country regions. The corollary of this is a reduced incidence of independent outlets in country Australia.

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Although a high level of market concentration by itself is not conclusive evidence of reduced competition, the Australian petroleum industry is characterised by numerous horizontal arrangements between major oil companies. In such circumstances, the presence of independents in the market acts as a spur to competition in some regions. Over the last few years, the industry has seen the entry of a number of new suppliers without ties to the major oil companies. This has been facilitated in part by intervention by the ACCC in the Ampol–Caltex merger in 1995. As a result, undertakings were given to make surplus terminal facilities and retail sites available to independent players. These developments have improved competition and reduced prices in many areas, including in country Australia. For example, data supplied by Woolworths said they had opened 102 Petrol Plus sites across Australia by the end of August 1999, 60 of which were in rural and regional Australia. In some areas, this development has spurred the incumbent oil majors to form partnerships with other grocery retailers, further improving competition and the level of service to customers.

While increased competition has reduced prices and has been welcomed by most participants, some were concerned about whether the low prices would last. For example, some participants told the Commission that the introduction of a Woolworths outlet in their area reduced prices initially, but that after a short period, sometimes a matter of a few weeks, prices returned to their original level (eg Country Women’s Association, trans., pp. 187–9). Whether or not this is a general pattern is unclear. It may be partly an issue about the potential for country markets to become monopolistic and the extent to which a single supplier (or a few suppliers) can exploit market power. Possible policy measures against such developments are discussed in chapter 12.

During discussions with participants in Albany and Bega, it became evident that simply having a terminal in the area did not necessarily reduce the difference in prices. Participants in Bega had occasion in recent years to refer a case of possible ‘phantom freight’ pricing to the ACCC: whereby freight was being charged from Sydney and the product delivered from a terminal in nearby Eden. In such cases it would appear that, for areas with reduced ‘density of demand’, the benefits of having a terminal nearby are minimal.

Problems with matching domestic production to short-run fluctuations in demand may also contribute to price discrepancies. Efficient production from refineries dictates that they run at close to capacity. As a result, when fluctuations in demand have resulted in refinery storage facilities being full, it may be more profitable to discount sales selectively in order to move product than to curtail production. Such selective discounting is said to occur largely in the high-volume metropolitan

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market, driving down prices in city areas and increasing the difference between city and country prices.

A complicating factor in the petroleum retailing market is the considerable price variation between outlets of the same company, depending on the location. This is often due, in part, to varying levels of price support given to retailers. While oil companies will often lend price support to retailers in metropolitan areas, particularly in periods of price competition, it appears that this does not occur as often in the country.

There is also marked price variation within cities. For example, prices in the northern suburbs of Sydney are usually higher than those in the western suburbs. This is evidence that convenience is a factor in determining the 'willingness to pay' of customers. In other words, customer preference, as well as suppliers' approach to petrol markets, affects the price, whether in the city or the country. Thus, higher prices in smaller towns often reflect a 'willingness to pay' for convenience as well as higher costs. Of course, in remote areas, there may be no choice of supply.

Other factors contributing to the price differences include:

- fixed price services have an effect on profitability. The use of cards of various types for payment of fuel often attracts a fixed service fee. Amongst them are oil company fuel cards, under which the price of petrol sales is often predetermined in an agreement between the oil company and the card holder, with the retail price margin limited to a specific amount, usually below 6 cpl. For low volume sites where the overall margin is higher than 6 cpl, the reduced margin on fuel card purchases must then be offset by an increased margin on other sales; and
- the relatively large number of small volume retail outlets in country areas limits the scope for profitable sales volumes. Rationalisation has been slower to occur in country areas than in metropolitan areas. Whereas there are about 2500 to 3000 persons per retail outlet in urban areas, some country centres still have fewer than 1000 (ACCC 1996, p. 94) and considerably lower throughput.

### *The effect of deregulation in the petroleum industry*

A number of measures for deregulation of the petroleum retailing industry were announced in July 1998 (DIST 1998). The first of those measures, introduced on 1 August 1998, removed the role of the ACCC in setting maximum wholesale prices across Australia and replaced it with a monitoring role to be undertaken through cooperation between the Australian Automobile Association, the ACCC and the major oil companies. There has been no substantive evidence that the

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removal of maximum price regulation has resulted in increased retail prices in country Australia.

Another measure recently introduced was the opening of access to the terminals of the major oil companies to buyers *without existing contracts*, on a commercial basis. This measure was intended to reduce the barriers faced by independent petroleum distributors and retailers in establishing themselves in both metropolitan and country markets, thus increasing competition in those markets. Insofar as bulk users such as transport companies and farmers are now able to access terminals directly, this appears to be having some positive effects. However, the restriction against those with existing contracts appears to be a considerable impediment for many retail outlets. The Motor Trades Association of Australia (sub. D256, p. 3) estimates that ‘only a very limited percentage of retailers (approximately 7 per cent) would be able to employ the so-called “open access” arrangements.’ It may take some time before those retailers who wish to do so are able to release themselves from their existing contracts in order to take advantage of the arrangements and improve the competitiveness of the retail industry.

Announced measures yet to be introduced involve legislation repealing two Acts which regulate the influence of the major oil companies over the retail sector. Those Acts are the *Petroleum Retail Marketing Sites Act 1980* (hereafter the ‘Sites Act’), which restricts the number of sites that each major oil company may own and operate, and the *Petroleum Retail Marketing Franchise Act 1980*, which governs the relationship between franchisor oil companies and their franchisee service station owners. In return, the oil companies have agreed to strengthen the *Oilcode* — an industry agreement which regulates conduct between the parties to franchise agreements. The new code will cover all petroleum suppliers, not just the major oil companies which were the only suppliers to be subject to the legislation. Negotiations on the revamped *Oilcode* are reported to be in the final stages in August 1999, with its launch expected to coincide with the repeal of the legislation.

Repeal of the Sites Act, in particular, is expected to have a significant effect on the industry in country Australia by allowing more efficient participation by major oil companies in the country retail market. The other side of this is that the number of small business opportunities in country Australia will be reduced, since many country outlets are small business franchises rather than directly-owned and operated outlets. Further direct participation by the oil majors is intended to increase competition between major oil companies and the newer independents, who should gain from improved access to bulk product from terminals. Through this increased competition, the number of sites in Australia has been forecast to decrease by up to 50 per cent within the next five years. Most of the sites to close will be in country Australia, because there has already been significant rationalisation of sites in the



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cities. This, of course, has raised concern from some in country communities. As the National Party of Australia Women's Federal Council said:

The proposed restructuring of the petroleum industry has caused some concern amongst our members. The suggested decrease in service station outlets from 7000 to 4000 will mean that many small independently owned stations will disappear, surrendering their market share to the large retail outlets like Woolworths or large 'One Stop Shop' fuel outlets. (sub. 130, p. 5)

In summary, increased competition in petroleum supply overall brings with it the prospect of lower prices, benefiting country consumers. In this regard, the national cost savings from rationalising petroleum retailing will involve some regional losses as some outlets close, thereby improving the viability of others. With competition, such lower costs are likely to be reflected in prices. As noted, however, this depends on competition continuing after the rationalisation of sites has occurred.

#### FINDING 9.4

*There are a number of reasons why petrol prices are always likely to be higher in the country than in the cities. These include less competitive markets, the cost of transporting petrol from refineries and the more limited scope to sell large volumes of petrol at smaller profit margins.*

### **Bank branch closures in country Australia**

The closure of bank branches in country Australia was raised frequently in discussions with people in regional communities and in submissions and public hearings. For many, the local bank is seen as the 'lifeblood' of the community and the loss of the last bank in town is symbolic of a process of decline viewed as difficult, if not impossible, to arrest. In some respects, bank closures represent a 'chicken and egg' conundrum. Banks are likely to leave town when their viability is weakened by declining population, but a bank closure can expedite this very process because, as noted by De-Anne Kelly, MP:

When customers are obliged to travel considerable distances to transact bank business, they are more likely to take their other business to that centre. (sub. 47, p. 3)

Similar views were expressed by many other participants. For example:

The loss of bank branches in Home Hill and Giru has reduced the accessibility and convenience of banking services. This has increased the drift of trade to major centres ... (Canegrowers Burdekin, sub. 30, p. 2)

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Rural and regional Australians are experiencing a contraction of services as banks make a business decision that servicing small population is no longer ... economically viable. (Riverina Eastern Regional Organisation of Councils, sub. 146, p. 1)

... virtually all our banks have now closed. There's still one that opens part-time but other than that - I think it's three days a week that bank opens. The other banks have all closed and that of course has had a compounding effect in the decline of businesses. There's a lot of shops that are now vacant in the town and so on. (Webb, trans., p. 334)

Estimates by the Reserve Bank of Australia (RBA) indicate that bank branch closures between 1993 and 1996 were slightly higher in country Australia than in metropolitan areas (table 9.2).

**Table 9.2      Number of major bank branches in Australia, 1993 and 1996<sup>a</sup>**

	1993	1996	Percentage change
Metropolitan	3 153	2 790	-11.5
Non-metropolitan	2 315	1 993	-13.9
Total	5 468	4 783	-12.5

<sup>a</sup> month of June.

Source: RBA estimates from Beal and Ralston (1998).

Argent and Rolley (1998) argued that official RBA and Australian Bureau of Statistics data have some problems. They compiled a study using these official sources (1981–96) and a comparison of Telecom/Telstra bank branch listings (1981–98) for non-metropolitan New South Wales. Both data sets reveal a similar decline in financial services provision for that area. It may be noted that the Argent and Rolley figures exclude the number of agencies, ATMs and EFTPOS facilities which increased significantly over the period. Their conclusions, therefore, relate only to dedicated bank branches. Their findings were as follows:

- there has been rationalisation and consolidation of bank branches in many small country towns;
- many regional centres ‘west of the divide’ have buttressed their position at the expense of smaller rural towns — in some cases, there has been net growth in banking services indicating a possible ‘sponge city’ effect;
- in the ‘coastal corridor’ there have been many branch closures, while some nearby localities, including centres previously without any branch, have recorded growth in branch provision; and
- rural and remote areas of New South Wales lost about 23 per cent and 30 per cent of their branches, respectively, between 1981 and 1998.

In a submission to this inquiry, Argent and Rolley noted that:

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... rural and remote areas of New South Wales have borne a disproportionately large share of the rationalisation of bank branches that has occurred throughout the State over the past five years. The 'Other Rural Area' and 'Remote' zones ... together contained half of the total 'non-metropolitan' NSW bank branches in 1981. However, localities in both zones that have become branchless since this time account for 64.2 per cent of all non-metropolitan NSW centres stripped of their bank branches. (sub. 68, pp. 5–6)

The causes of bank branch closures in country Australia probably stem from a range of factors including:

- the deregulation of the financial system in the 1980s, which increased competitive pressures on banks;
- a reduction in population and activity such that the volume of trade in a bank branch is no longer able to achieve return on investment targets;
- the increasing tendency for people to undertake shopping, banking and recreational activities in provincial centres rather than local areas; and
- changing technology which reduces the need for over-the-counter transactions.

Regarding the last point, the increased use of EFTPOS and credit cards for retail purchases has directly reduced the number of cash transactions at stores. In addition, the cash-out facility of EFTPOS has reduced both the frequency with which stores need to bank takings and the need for customers to withdraw cash at bank branches.

In addition to EFTPOS, alternative modes of banking include agency arrangements such as through post offices, ATMs, and telephone and Internet banking options. Some participants acknowledged that the range of services available and the times during which they can conduct their banking have expanded considerably over the last five to 10 years. For many participants, however, such options represent unsatisfactory alternatives:

Although electronic banking has been provided, in some cases, this is still of little assistance to retail operators who have large weekly cash amounts to bank and must resort to the use of private and somewhat costly security conveyancing firms. (Sorell Council, sub. 84, p. 2)

Satisfactory alternatives are not available due to the inadequacy of the telecommunications infrastructure. (Buloke Shire Council, sub. 66, p. 4)

The Post Office Agents Association of Tasmania (sub. 76) said that insufficient licensed post offices — privately owned and operated — in rural and remote Australia had access to technology to provide banking and other electronic services for the local community. It contended that extending the technology currently available in most corporate post offices to all licensed post offices would provide benefits to the community. The Association said:

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They would keep business in their own community, spend their money in their own community, help local businesses to be viable and help provide employment opportunities. Money and time would be saved by not having to travel to another centre for these services. (sub. 76, p. 4)

In some instances, alternatives are emerging — a point raised by Associate Professor Sorensen who noted the emergence of alternative service delivery mechanisms:

Electronic banking is one of these, but more important in an equity sense is the development of non-bank financial services. In many parts of Rural Australia, Credit Unions have stepped in to provide good quality services. Other alternatives include agency arrangements housed with other businesses or even Local Government, ATMs, and EFTPOS services. (sub. 58, p. 2)

Argent and Rolley (1998) also reported some 'positive' developments for regional users. Westpac has developed an experimental facility in Canowindra, New South Wales, via an agency arrangement with the local newsagent. The Colonial State Bank is trialing similar initiatives. In Victoria, Bendigo Bank has set up 14 'community banks', with another 15 planned for 1999-2000. The fact that this has proven to be a profitable venture for Bendigo Bank, contributing to higher than expected profit results for 1998-99, indicates that there is a financial return to targeted investment in this area as a niche market.

The Pharmacy Guild of Australia and BankWest, in a plan which would improve services for many small towns, have formed a joint venture called GuildBank which is to introduce banking facilities to 90 per cent of Australia's pharmacies during 1999 (BankWest 1999).

Beal and Ralston, in a study of the economic and social impacts of bank closures, concluded that the loss of a bank branch need not be an insurmountable problem for country communities:

There is no doubt that people are able to adjust to change over the long term. Unwanted and unanticipated changes tend to inflict significant wounds in the short term, but people make reactive adjustments to their operations to cope with change. For example, it is unlikely to be coincidental that the response to this survey from people in the towns suffering the most recent closures was greater than the average response rate, whilst the response from people in the towns where the banks closed some time ago was correspondingly less.

The introduction of giroPost banking services and the establishment of credit union offices in some towns have assisted individual to adjust and to manage their cash requirements. The loss locally of other services provided by banks can be overcome by individual, at the cost perhaps of some inconvenience. (1998, p. 25)

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Nevertheless, the transitional social costs can be significant for the elderly and others who face difficulties in making the transition from face-to-face service to other technologies.

The Commission notes that some communities are seeking to find their own solutions (for example, attracting regional banks) and governments also are seeking to facilitate the establishment of rural transaction centres and improved telecommunications services (see chapter 12) which will assist electronic forms of banking.

Bank closures have less to do with government policies, including NCP, than with technological and market changes. Although inconvenient for some users, it seems inevitable that bank branches in country Australia will not be as regionally dispersed as was the case before the advent of reliable motor vehicles, good roads, and present-day communications technology. That is not to say that adequate banking services will not be widely available in rural and regional communities.

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