

Business SA's submission | Background

Business SA is South Australia's leading business organisation representing many thousands of businesses ranging in size from sole proprietors to large multinationals and spanning all industry sectors.

Business SA believes that achieving balanced and sustainable economic growth requires the commitment of the whole community. Core to this commitment is a fundamental dedication to improved competition levels within non-competitive industries and legislation.

Since the inception of Australia's National Competition Policy (NCP) in 1995, South Australia has shown significant dedication to implementing greater competition in a range of industries including dairy, electricity and retail.

The issue of competition is often perceived to have the sole objective of delivering lower prices for consumers. Business SA believes that it is important to recognise that this is not necessarily the case. Rather increased levels of competition should result in market based pricing (as opposed to regulatory pricing), improved customer service and reflect the health of the supply-side and demand-sides of the market.

In the last couple of years, the drive for further deregulation and competition appears to have waned across Australia, partly due to a lack of perceived consumer benefit of cheaper prices. Business SA has remained a consistent advocate for the promotion of state competitiveness through improved industry efficiency induced by increased competition. In its *Manifesto for SA business*, released in early 2002, Business SA advocated the principle that:

Market reform should be pursued in areas such as deregulation, the diligent application of competition policy and the implementation of principles such as competitive productivity.¹

¹ Business SA, *Manifesto for SA business*: Section 2, Economic Development, pp. 5.
[http://www.business-sa.com/03_services/01_lobbying/page/lobbying_ecodev.asp] May 2004

And further recommended that:

[The State Government should] Continue the development and implementation of micro-economic reform aimed at encouraging competitive markets.²

Business SA recognises that deregulation and competition take a period of adjustment as markets mature. The development of competition in a number of markets has not come without pain as inefficient market participants have ceased operations and employee numbers have reduced in inefficient sectors. However the long-term benefits of competitive markets and improved efficiencies must be considered paramount. It is through improved efficiency and competition that industry can innovate and develop – protection only encourages the status quo.

The deregulation of South Australia's electricity industry is a prime example of this. Although consumers initially experienced increases in electricity prices, innovation in new technologies to improve electricity usage and demand side management measures have emerged, which will provide a sound foundation for sustainable electricity supply for the community.

Business SA therefore supports the removal of regulation to enable new innovative business models and technologies that emerge from the move to a competitive market place.

² *Ibid*, pp. 9.

Business SA's submission | Comment on Issues Paper

Business SA believes that much of the economic growth enjoyed by Australia in recent years is a by-product of a sustained drive towards micro-economic reform. The fact that Australia's economy has maintained strength in the face of a slow global economy indicates the strength of Australian industry, facilitated by increased competition. There is very little evidence to demonstrate that NCP has been substantially detrimental to either the South Australian or national economies.

Data relating to economic growth and employment levels demonstrates an improved South Australian economy over the latter half of the 1990s (see Figures 1³ and 2⁴ in appendix relating to employment and Gross Domestic Product growth). However, it is unclear as to how much of this improvement is related to increased competition as separate from natural economic growth. The economic performance of South Australia has delivered a substantial benefit to both the South Australian and federal governments through increased taxation revenue; a component of this improvement could be attributed to improved competitiveness.

Increased competition has delivered greater innovation in industry and recognition of the need for technological change to improve efficiencies. This has ensured that industries affected by NCP have diversified into high value-added products and new, more efficient, technology to improve output levels.

The benefits of increased competition require time to develop. New markets rarely deliver immediate benefits however there are signs that competitiveness in a number of industries, including energy, are beginning to deliver outcomes to consumers, other than the misconception of cheaper prices.

There have also been delays to the flow through of consumer benefits of increased competition in a number of industries as a result of the impost of levies by the federal government, in particular the milk levy to pay for industry compensation. This has slowed the pace of innovation and improved efficiency within this industry. Business SA believes that the real social, environmental and consumer benefits, of increased competition will take time to filter through the system. This must be better recognised by the community.

It is important that the commitment to increased competition is not downgraded. The overall long-term benefit to the economy of micro-economic reform and the internal competitive strength that it provides to the Australian economy is vital. When

³ ABS, *Australian National Accounts State Accounts*, Cat. No. 5220.0 (2002-2003), Table 1.

⁴ ABS, *Labour Force Australia: Time Series Workbook*, Cat No. 6202.0.55.001, Tables 2 & 7

considering how the NCP should be applied in the future, Business SA believes that a couple of factors must be taken into consideration when reviewing industries. These include:

- The health of the particular market, in terms of the size of the market and opportunities for new market entrants, and
- The affordability of entry into the market. For markets where a large capital expenditure would be required for entry, this will reduce the number of potential competitors.

Additionally, from a South Australian perspective, it is important that the decision to apply the NCP to a particular industry or legislation considers the impacts on regional economies like South Australia, not simply the 'East Coast'. While New South Wales, Victoria and Queensland, and to a lesser extent Western Australia, all have large economies and populations which can accommodate greater levels of competition, the smaller economy and population of South Australia has less ability to do so.

Furthermore, it is important to consider the future impacts on competition through the emergence of oligopolies. While media ownership is covered by cross-media ownership rules, general industry is not. This has seen the development of retail oligopolies of Coles and Woolworths as they diversify from their traditional market into alcohol and fuel. While Business SA recognises that this is predominantly an issue for the ACCC, it must be a key factor in deliberations on the current and future benefits of the NCP.

One of the core elements of NCP is that of competition payment arrangements. This is essentially the 'carrot and stick' aspect of NCP to facilitate greater implementation of competition throughout the states. Business SA believes that this element should be maintained to facilitate the uptake of competition throughout the states and territories.

Business SA believes that the competition payments should be tied to a variety of measures including education and training for those that lose out as a result of micro-economic reform. These payments should not be consigned to general state revenue. Instead they should be used to further improve economic development by increasing and improving the capability, knowledge and skills of business and the workforce. They then have a greater chance to "see" how they can be innovative and the relationship of their role in the "bigger picture".

Finally, when considering where the NCP could be applied in future, Business SA believes that the Productivity Commission should contemplate the areas of industrial relations, government delivery of services and tendering for service delivery and competitive neutrality.

Industrial relations

Business SA has attached a copy of a previously prepared paper that canvasses specific reforms that we believe would improve the competitiveness of the industrial relations system in South Australia and Australia.

Government delivery of services

The South Australian Government currently operates a number of free business assistance programs that directly compete with the private sector. While Business SA accepts that where there is an absence of private sector delivery of a particular service there may be a need for Government to intervene, it is not however appropriate for the State Government to compete with the private sector on the delivery of services.

Tendering for service delivery and competitive neutrality

The State Government does not put out all its goods and service needs to tender such as education and training. For example, South Australian Government trainees are provided training through the TAFE system. The provision of these services should be presented for tender to provide the private registered training organisation market an opportunity to tender for the delivery of the services in a competitively neutral environment.

Business SA's submission | Conclusion

Business SA believes that this review should continue the NCP. It is important that Australia continues to build upon the stronger industries that have resulted from increased competition to ensure Australia's strong economic future.

While it is reasonable to consider each industry on a case by case basis, it is important to recognise the value of a strong and competitive national market in ensuring Australia's economic strength into the future.

While greater economic development will allow governments to provide increased funding into social and environmental areas, it will also provide employment, wealth creation and greater social inclusion. To ensure that the community understands the important link between NCP, economic development and social outcomes, the state and federal governments must commit to promote a range of outcomes arising from competition and the need for economic development throughout Australia.

However, the application of the NCP should consider the true picture of competition relating to the health of the market and the affordability of entry as key components. Furthermore it should account for the impact on regional economies and the emergence of oligopolies as a consequence of its application.

Yours sincerely

Peter Vaughan
Chief Executive Officer

June 2004

Business SA's submission | Appendix

