

**Council of Small Business Organisations  
of Australia Ltd.**

**Submission to the  
Productivity Commission**

**on  
the review of the National Competition Policy**

**June 2004**

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## **1. *Background on COSBOA***

The Council of Small Business Organisations of Australia Ltd (COSBOA) is widely recognised as a peak body of small business organisations, industry groups and individual members. It was founded in 1979, incorporated in 1985 and operates through a secretariat based in Hobart, Tasmania with arrangements in place to re open an office in Canberra in the very near future.

We represent the small business sector in Australia. All members have the opportunity and means to influence, at political and government levels, for the well-being and future of their company and industry.

We provide the small business sector with information.

We assist individual members and member associations.

We help individual members and member associations develop business opportunities through our affiliations with key organisations. All members can use COSBOA's affiliations and contacts with industry and business organisations.

We help members influence their external business environment, especially in the area of government policy.

COSBOA assists members by monitoring government activities, influencing the development of government policies, presenting industry viewpoints and providing opportunities for members to become involved in policy development.

COSBOA is the primary lobbying vehicle for issues relating to the small business sector.

COSBOA members can have ready access to information on key policies impacting on the small business industry.

## **2. *Introduction***

The Members of COSBOA have a significant interest in this review due to the impact of the National Competition Policy in the past and the direction any future policy may take.

Most small businesses by their very nature are market followers and find it hard to dictate terms to customers, suppliers, government or big business. Competition in all market segments in Australia sees small business on the bottom of the food chain.

It is up to small business to adapt and change where required as the National Competition Policy is implemented; however there has been very little assistance for small business during this time.

The Training Industry is heavily regulated, it is very complicated and jargonised making it difficult for them to connect with small business and in turn there has been very little increase in the levels of training culture in the small business sector.

We understand that competition increases efficiency and this is urgently required for the national interest as we compete more and more on the global stage.

Unfortunately there has been an expectation at the Government level that small business is adaptable and can change quickly to accommodate influencing factors from the free market. This is a view from the top, looking at statistics and industry outcomes as a whole.

What has not been seen is the fact that many of these adaptations have occurred because one small business has gone out of business and a new one has replaced it. This is highlighted by the fact that somewhere near 80% of small businesses fail within 5 years.

There is also a consumer focus on competition, but this should not create a blindness towards the small business sector, after all there are 1.1 million small businesses in Australia employing 3.3 million people, or 47% of private sector, non-agricultural employment, this also represents 96% of all business in this country and added to this the dependant families represents a sizable percentage of the consumer base.

In the longer term small business will need to be assisted and encouraged in order to ensure the prosperity of Australia and to manifest the very ideals we have based our country on: reward for effort, a sense of accomplishment and individualism, all values that nourish the human spirit.

### **3. *Public Interest test***

COSBOA has difficulty accepting that the principle of the Public interest test within the National Competition Policy has been applied properly over the past 8 years. It is meant to provide for non-economic factors and ensure they are taken into account during reviews of legislation which restrict competition; in reforms to government business enterprises; and in the application of competitive neutrality principles.

For example, in assessing whether the benefits to the community of a particular anticompetitive arrangement outweigh its costs, jurisdictions can take account of:

- laws and policies relating to ecologically sustainable development;
- social welfare and equity considerations, including community service obligations;
- laws and policies relating to matters such as occupational health and safety, Industrial relations, access and equity;
- economic and regional development including employment and investment growth;
- the interests of consumers generally or a class of consumers;
- the competitiveness of Australian business; and
- the efficient allocation of resources.

However on many occasions these effects have been judged by review panels on dollar cost factors of the issues listed above rather than the impact on people. An example of this is seen in the Hairdressing industry where the social impact was measured by estimating the cost of injuries in the industry against the cost of implementing the regulatory scheme. The cheapest option won out!

The Productivity Commission has a good opportunity in the event of this review because it raises the possibility of ensuring the public benefits test is strengthened to include the triple bottom line, without the sole reliance on a dollar value.

Service levels, flexibility, catering for individuals, looking after our environment and impact on others in society should be considered without the dollar cost factor being the final arbiter.

### **4. *Impact on Small Business in the past***

Small business and families have felt the brunt of changes in the past. Independent retail shops, gift and homewares stores, hairdressing salons, taxi driver's, bakers and soon it seems, pharmacists have found reductions in their revenue due to the introduction of unlimited free trade in their sector due to large more powerful companies operating in their market and buying increased market share.

With market share taken away by larger businesses, small businesses have had to change the way they operate to survive, of course this is seen as a benefit by policy makers, but on the ground there is little or no help to achieve this and little or no

willingness on the part of the small business operator to take part. Small businesses are resource and time poor.

When there has been a change in generation in management there is sometimes a change in the culture of small businesses where there is a lift in standards of administration, service and productivity and these are seen as successes under the NCP. However we find this to be a very small minority and the industry and the Government need to bring the others along.

## **5. *Community Values***

COSBOA feels the Government should be resetting the parameters of the National Competition Policy and therefore the Council to ensure we do not continue to threaten the community values held dear within this country.

I speak of ensuring there is always an opportunity to start a new business, reward for effort, respect within the community for those who have a go and of course pride, self-respect and recognition.

These are all values that small business can deliver that have been the underlying reason for the success of capitalism around the world as compared with other systems.

## **6. *Market domination***

The National Small Business Summit 2003 in Canberra saw the formation of the phrase “Virtual Collusion” defined as the process that occurs when there are very few players in a market and it becomes easier to simply watch the prices of the competition and react, using modern technology, within seconds. Major and dominant company’s in this situation have the same culture within their ranks and this hard nose attitude increases the chance of less give and more take, resulting in the prices rising, service standards falling and bad outcomes for the consumer.

Examples are seen in the petrol industry and the very few oil companies competing, the airline industry, the banking industry and the retail grocery market.

Having many players in a market diminishes this effect making it harder to occur, a state of semi confusion benefits the consumer by ensuring business can’t virtually collude and the results are lower prices by way of real competition.

In market segments where competition has been reduced to this level the Government needs to act and restore the balance. The powers of the ACCC have to be strengthened to be able to deal with this.

Market dominance also occurs where the Government is half way through deregulation and selling of enterprises such as Telstra and some state electricity companies. The dominance shown by Telstra is extraordinary and it can be witnessed

on almost all occasions when dealing with them. Their systems are just not working and the costs to small business are extreme.

Companies who set up to compete with or on-sell from Telstra are always subjected to the unfair pricing arrangements, impossible communications procedures and bully style tactics.

The NCP should address itself to this type of concern simply because that is what the consumer wants and we feel it would be almost ALL consumers.

## **7.     *The Economy***

Australia has benefited from the efficiencies gained over the past 20 years by way of deregulation and competition; this has served us well in this globalised world.

However as witnessed in the negotiations for the Free Trade Agreement with the USA, other countries have still very strong ties to protectionism.

This means it is dangerous for Australia to go too far ahead of the rest of the world in deregulating our markets and exposing ourselves to other markets that are artificially propped up.

It is also cruel to expose small businesses and families to totally unfettered competition against huge companies that are the result of mergers caused by the economic necessities of a free market, when these large and powerful corporations are not constrained in their behaviour by effective Trade Practise laws which deter anti-competitive and unconscionable conduct.

Small business is a powerful force when it comes to employment and a lack of confidence and worse, poor economic conditions, will lead to lay offs and hardship.

The answer lies in education; not in macro economic settings that slash and burn at the small business end without regard to the individuals involved.

## **8.     *When the current NCP fails the community***

The Productivity Commission should also consider and the Government should introduce divestiture powers which enable the ACCC to go to the courts to force companies with excessive market dominance to divest themselves of sections of their company when it is proven to have a detrimental effect on competition in any market segment or region, resulting in poor prices and services levels to consumers.

The NCP should codify the definitions of market segments and regions from the viewpoint of the consumer.

Where companies, duopolies or oligopolies are so large that their decisions have a detrimental effect on the market and subservient businesses the Government must be able to protect competition and consumers.

## **9. *Examples***

Examples of businesses that have been affected:

1. A newsagent in Hobart Tasmania was told by QANTAS that it will now deliver the mainland newspapers one to two hours later over the next 12 weeks because the airline will fly its planes in to Launceston and truck them down. The effect of this is to cost the newsagent double wages every morning because two rounds need to be made around the CBD.
2. A small electrical repair shop with a long history finds there are now less and less TV's to repair as they become more disposable and cheaply replaced. They investigated other ways of diversifying, repairs to other types of electrical goods only to find larger outlets can buy from the same suppliers at half the cost that they can.

## **10. *Actions to be taken for the future***

- A longer-term approach to be taken in forming the new National Competition Policy.
- Ensure a bottom up approach to reform by way of training and accreditation instead of a top down by way of macro economic settings.
- Ensure a triple bottom line outcome for the Public Benefits test.
- Recognise that big does not result in more efficient. Large companies can now be compared to the old socialist government bureaucracies, where policy overruled common sense.
- To compensate the advanced economic condition of metropolitan areas an emphasis on regional areas to ensure further growth when the "economic spill over effect" currently benefiting regional areas, comes to an end. Employment is still very low in regional areas and significant population shifts to the cities have occurred. The critical mass required for a sustainable economy has risen so high almost all but the three biggest cities would not survive with out some assistance.
- A very strong policy is introduced to ensure service levels are rebuilt in all sectors in our community.
- Greater recognition of community values within NCP.
- Address the issue of fairness regarding the widening chasm, which has occurred due to the economies of scale principle.
- Addressing the instances of pre-emptive deregulation before competition has fully occurred. IE: Power and energy industry and telecommunications.
- Place a greater emphasis on orderly industry re-structuring and financial compensation
- NCC Small Business Appointment



- Regular reviews of the TPA with an eye to the effectiveness of competition.

## **11. *Training and accreditation***

In all cases of deregulation and or market dominance and eventually the entire small business sector, consideration should be given to implementing processes that will ensure standards are increased to ensure small business will not blindly go the wall in the face of such massive market power.

COSBOA recommends development of an easy to use system of education and training system using current programmes to ensure standards be raised. This needs to be targeted to the entire sector.

To ensure implementation a nationwide accreditation system should be introduced through Small Business Associations around the country. Standards Australia already have the systems available, Industry Associations have the beginnings of the infrastructure required in place and the training industry have most of the required courses.

Small business would be drawn to such a programme only if a critical mass could be reached whereby consumers would automatically look for accredited business in every sector.

Funding could even be available for association to implement this system.

This model works with most professional associations and also provides an ideal way for Government to communicate with the small business sector and ensure many issues, which are ignored currently, are addressed.

## **12. *Conclusion***

An appraisal of our community today from an objective consumer would see the market effectiveness being given a very low grade especially in the Telecommunications, banking and retail grocery sectors.

There are radical changes required to the National Competition Policy to increase efficiency at both ends of the market. More real and direct competition at the big end of town and more assistance at the small end of town.

COSBOA would be pleased to work with Government to this end.