

23 December 2004

Mr Gary Banks
Chairman
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Gary

**RE PRODUCTIVITY COMMISSION DISCUSSION DRAFT ON THE REVIEW OF
NATIONAL COMPETITION POLICY REFORMS**

The Business Council of Australia (BCA) welcomes the opportunity to provide comment on the Productivity Commission *Discussion Draft on the Review of National Competition Policy Reforms*.

In general, the BCA strongly endorses the rationale and underpinnings of the Productivity Commission's assessment of the need for and benefits that would accrue through continuation of the reform process in Australia.

Microeconomic reforms over the last 20 years, and in particular the National Competition Policy reforms implemented since the mid-1990s, have brought substantial benefits to the Australian community by way of improvements in average incomes, high employment, low interest rates, low inflation, and very high levels of consumer and business confidence. These have been the tangible fruits of economic success.

There is significant commentary at present about the inevitability of a sharp slowing of the Australian economy and the challenges posed by global competition and an ageing population. While the BCA recognises the potential threat posed, both in the short and long-term, we do not consider that a substantial slowing in our growth capacity is inevitable. Rather, Australians have an historic opportunity to lock-in the current successes of our economy. However, this will require carefully managed macroeconomic policies and timely implementation of a further series of reforms to provide ongoing growth and prosperity for Australia, now and in the future.

The Council believes a reinvigorated reform agenda should aim to improve Australia's long-term capacity to sustain strong growth through a focus on improving the competitive position of Australian business by prioritising reform of:

- Workplace relations – through establishment of a flexible and balanced work environment that supports ongoing participation in employment, job creation and allows people to work to their full potential.

- Taxation – by creating an internationally competitive taxation system that supports high levels of investment and workforce participation.
- Business Regulation – a regulatory system that supports competitiveness, investment and innovation through risk taking.
- Infrastructure and improved State-Federal relations – an integrated long-term planning framework across jurisdictions for the coordinated provision of infrastructure and environmental services.

The BCA is also focussed on creating an innovative, learning culture that uses knowledge, technology and research to create wealth and employment, and enhancing the attractiveness of Australia as an investment opportunity while improving access to all markets for Australian business. The BCA has played a key role in progressing reform in the areas of education and training and the reform agenda is currently well advanced. In the area of international trade, the Government is undertaking a proactive role through its timely pursuit of strategic Free Trade Agreements (FTAs) with important trading partners. The BCA will continue to be closely involved in developments in these areas and will further articulate the need for ongoing reform.

Comments in relation to specific areas of the Discussion Draft are provided below.

Labour Market Reform

Further labour market reform is a priority for the BCA. Progress on workplace relations reform is critical to ensuring improved employment and workforce participation outcomes, as well as providing a strong basis for sustainable non-inflationary economic growth.

While the BCA agrees with the Productivity Commission that placing labour market reform under the CoAG reform agenda is unlikely to produce results in the current climate, it is important to begin laying the foundations for future inter-jurisdictional reform. There is a need to foster greater consensus on the problems and solutions in this area as a starting point for a future nationally coordinated reform framework.

The demand for such a reform agenda is great, particularly among multi-state employers who straddle a number of different labour market regimes. Greater simplification, harmonisation and flexibility are the keys to a well-functioning labour market in the future.

Taxation Reform

The BCA agrees with the Discussion Draft's focus on the importance of further taxation reform for economic growth. Despite recent reforms, the tax system still raises some highly inefficient taxes (particularly at the State level), distorts savings and investment choices, imposes very high effective marginal tax rates on many people, and leads to vertical fiscal imbalance between Commonwealth and State Governments. The system also imposes high administrative and compliance costs on businesses and individuals.

These aspects of the current taxation system are impediments to the competitiveness of the Australian economy, and their removal will be an important determinant in how Australia deals with the challenges of increased international

competition – in particular, international competition for investment and highly skilled labour – and an ageing population.

While the BCA agrees with the Productivity Commission's conclusion that taxation reform does not need to be currently included on a new agenda for nationally coordinated reform oversighted by CoAG, we believe that CoAG involvement should be considered if reform through the Ministerial Council on Commonwealth and State Financial Relations continues to be slow. In particular, lack of progress on State taxation reform through the Ministerial Council is disappointing. The planned abolition of State Bank Account Debits (BAD) taxes in July 2005 is a positive step, however, there are still a number of inefficient State taxes, both within and beyond the Inter-Governmental Agreement (IGA), which require further attention.

Regulation Review Processes

The BCA agrees that to guard against the unwinding of previous reforms and to ensure that new regulatory initiatives are in the public interest, all Governments should ensure that they have in place effective arrangements for monitoring new and amended regulation.

The BCA recognises that regulation is essential for a well-functioning economy. However, all regulation imposes costs of some sort, even when that regulation is effective and adhered to. These costs to Governments, businesses and individuals, are increased when misguided regulation is implemented, or when current regulation fails to adjust to changing economic circumstances.

The current system of regulation and regulation review is becoming an increasing concern for business. Specific problems include:

- Governments introducing new regulation to neutralise potential political issues without assessing the adequacy of existing laws, considering how new regulation interacts with existing regulatory frameworks, without adequate regard for compliance and other costs, and/or without regard for the ability of the regulation to impact outcomes or behaviour;
- a trend in regulation towards increasing the personal liability of company officers and directors for company decisions and actions;
- existing cost-benefit analysis processes, such as regulatory impact statements, being honoured more in the breach rather than the observance;
- regulators applying rules in a bureaucratic or legalistic way, without regard to the actual policy objectives underlying the regulation; and
- a lack of any formal process for assessing regulation once it is in place to ensure it is achieving its stated policy objectives effectively and efficiently.

The BCA is undertaking work to investigate the costs of current regulation and priority areas for reform. The BCA is also considering potential structural reforms with respect to how regulation is made, administered and reviewed – including reforms to make regulation processes more transparent and accountable, and ways to encourage greater regard for the views and experiences of those who must comply with regulation.

Education and Training Reform

An effective national vocational education and training (VET) system that takes into account the skills and knowledge needs of business is essential to prevent reduced workforce participation and increased unemployment due to skills mismatch, and improve the quality and productivity of Australia's workforce.

With the abolition of the Australian National Training Authority (ANTA), the BCA believes there is a need to reconsider appropriate mechanisms for ensuring an effective national training system, particularly with regard to training packages and the qualifications framework. Consideration needs to be given to simplifying and reducing costs associated with quality assurance and mutual recognition mechanisms. For example, now would be an appropriate time to consider the establishment of a national, provider-driven body to provide independent quality accreditation.

The abolition of ANTA also requires appropriate consideration to be given to ensuring that industry, and in particular large nation-wide enterprises, participate in developing VET policies, priorities and strategy.

Finally, the current implementation of User Choice policy is a concern. In particular, User Choice should be driven by national industry needs rather than the current state-based implementation approach.

The BCA recognises the national importance of a well-planned, well-funded and competitive university system. In a global economy that increasingly values knowledge, universities play a vital role in providing training and skills development, and creating and diffusing R&D, innovation and knowledge throughout the economy. However, the ability of Australian universities to serve such a role is inhibited by the inefficiencies of dual management of the tertiary sector. As a result, the BCA suggests that consideration should be given to providing national governance and legislative frameworks for universities.

Energy, Water, Transport and Natural Resource Management Reform

The BCA agrees with the Productivity Commission's priority focus on infrastructure and natural resource management reform. Well planned, nationally coordinated provision of essential infrastructure frameworks, such as roads and rail systems, are vital to efficiency and productivity gains – particularly in a large, internally dispersed economy such as Australia.

The functioning of efficient markets for services such as energy is also of great importance – although it should be noted that in formulating competition policy for such markets the emphasis should be on achieving 'efficiency gains' and not striving to attain certain indicators of competition (such as certain market structures or concentrations). Finally, the establishment of nationally coordinated frameworks for effective natural resource management is essential for Australia to effectively deal with environmental problems, now and in the future.

While the BCA agrees that such reform is a priority, it is questionable whether CoAG in its current form is capable of addressing a number of inter-jurisdictional issues arising from infrastructure and natural resource management reform. The BCA is

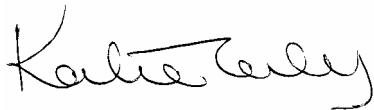
considering potential reform to CoAG institutional arrangements aimed at enhancing its ability to deliver better outcomes in these areas.

Conclusion

The BCAs overriding objective is to maintain and build Australia's prosperity through a policy agenda that supports and promotes business growth, enhanced competitiveness achieved through improved productivity, job creation, and support for those not able to contribute to and benefit from our economic strength directly.

The BCA will continue to contribute to a long-term reform agenda for Australia – with particular emphasis in the above-mentioned areas - and in this context we look forward to working with the Productivity Commission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Katie Lahey', with a stylized, cursive script.

Katie Lahey
Chief Executive