

**South Australian Government  
Submission  
to the  
Competition Policy Review**

**June 2014**



## 1. Introduction

The South Australian Government welcomes the opportunity to contribute to the review of competition policy. The broad nature of the Terms of Reference implies that many potential reform areas are of State and Territory Government responsibility and as such State and Territory governments should be extensively consulted throughout the review process.

Flexibility in how to implement proposed reforms and transparent and independent monitoring of progress and outcomes were key success features of past reform efforts. The South Australian Government would encourage a similar approach to this latest round of reforms and also recommends that consideration again be given to the fair distribution between the tiers of government of the benefits and costs of implementing any recommended reforms.

In this submission the South Australian Government offers the following broad discussion for consideration by the Review panel and will prepare a more detailed submission in response to the draft report.

## 2. Clear Objectives

Productivity growth is the dominant mechanism by which the living standards in our economy are improved in the long term. Over the last four decades, like Australia, South Australia's productivity performance has underpinned our prosperity. Of concern, this productivity growth has weakened over the past decade. The South Australian Government is acutely aware that as our economy faces significant structural adjustment pressures and declining terms of trade, the importance of improving productivity performance to maintain standards of living has never been more apparent.

There are a range of factors that can enable or drive productivity; exposure to market competition is well recognised as one of the main incentives for firms to innovate. In response to competitive pressures, firms can improve their competitiveness by innovating in their products, services and business models.

Despite this, competition is a means to an end not an end in itself (National Competition Council, 2014) as many other factors also affect the wellbeing of Australians beyond higher incomes, including leisure time, environmental amenity and access to social services. It is therefore critical to ensure that when considering potential reforms that the broader concept of improving welfare is the central long term objective and not competition per se. This implies that Competition Policy should entrench the primacy of the consumer, including improved choices, better services, and lower prices.

Ensuring this broader objective is central to the reform agenda may also encourage the consideration of other approaches. For example, there are many circumstances in which enhanced collaboration would be productivity-enhancing and may benefit greatly from getting the balance between collaboration and competition right. This appears to be particularly true in innovation and export activities, but also in many instances of general domestic-market contracting.

The Tinbergen Principle (Tinbergen 1950) states that to attain a given number of independent policy targets there must be, at least, an equal number of policy instruments.

Past examples of trying to include principles of competition into land use planning which requires a definition of exactly what is meant by an improvement in competition highlights the difficulty of not observing this principle. To illustrate, it is possible that the establishment of an entry barrier through planning restrictions, sensibly viewed as a decrease in competition, could result in one large, highly productive firm being replaced by a multitude of small, less productive firms. Many would consider this industry as becoming more competitive, given the decrease in measured market concentration.

The preferred policy position is that which leads to improved welfare outcomes and it is critical that Competition Policy be formulated to create the environment *within which* businesses operate but not influence *which* businesses operate. As noted by the Productivity Commission (2009), serious policy errors can arise if we lose sight of the ultimate objective of raising living standards.

### **3. Evidence Based Approach**

The case for any government initiative or reform requires clear identification of the problem to be addressed and robust consideration of all benefits and costs of such intervention using an evidence-based approach. Implementation of a rigorous assessment framework is even more important now that much of the 'low hanging fruit' have been picked and future regulatory refinement will very likely be subtle and complex to assess.

While the South Australian Government agrees that governments should generally avoid policy and legislation that restricts competition, such an outcome may sometimes be justified if the benefits of the restriction to the community as a whole outweigh the costs, and the social objectives of such a policy or legislation may only be achieved by restricting competition.

As noted by the Productivity Commission (2005), some past reforms were procedurally costly to implement and the adjustment burden considerable when compared to the potential benefits. This has particularly been an issue at the regional level and for smaller State and Territory Governments in dealing with more minor items on the legislation review program.

To avoid creating a competition policy 'industry' the assessment framework should also include sufficient attention given to the costs of collecting information and developing, monitoring, enforcing and updating proposed policy responses. It is important to consider what the essential characteristics of successful reform have been and those that have not been successful, such as the National Occupational Licensing System. Harmonising complex regulatory regimes across multiple jurisdictions is only one potential approach. National uniformity should not become an end in itself as there are often valid reasons for continuing inter-jurisdictional differences.

The South Australian Government therefore considers it essential that the assessment frameworks for reviewing and/or implementing reform options continue to explicitly provide for consideration of social, environmental, equity, regional and adjustment impacts.

### **4. Scope of Reform**

The South Australian Government recognises the changing sectoral mix of the Australian economy, notably services growth (including health and education services) and the

significant challenges associated with incorporating competition into these sectors. Reforms in these sectors are not likely to be quickly achieved and will require the input from several other parallel processes.

For example, with the introduction of national reforms in disability and aged care home support services the South Australian Government is currently undertaking an analysis of future market capacity, both metropolitan and regional, across the range of services and consumer preferences in order to assess the possibility of transitioning government service provision into a more competitive marketplace.

Regulation across the economy should be continually reviewed against an ultimate objective of raising living standards and to reflect the competitive landscape of today where the global economy has continued to be transformed with a multitude of products and services becoming part of the tradeable sector.

## 5. Summary

The South Australian Government's key points can be summarised as:

- Ensuring that improving welfare is the central long term objective and not competition per se to avoid serious policy errors and encourage consideration of other policy approaches to enhancing productivity;
- It is crucial that Competition Policy be formulated to create the environment within which businesses operate but not influence which businesses operate;
- The case for any government initiative or reform requires clear identification of the problem to be addressed and robust consideration of all benefits and costs of such intervention using an evidence-based approach;
- To avoid creating a competition policy 'industry' the assessment framework should include sufficient attention given to the costs of collecting information and developing, monitoring, enforcing and updating proposed policy responses; and
- Recognition of the changing sectoral mix of the Australian economy, notably services growth (including health and education services) and the significant challenges associated with incorporating competition into these sectors.