



National Competition Policy analysis

Call for submissions

The impacts of National Competition Policy reforms

The Productivity Commission is undertaking a study to assess the economic effects of national competition reforms. We invite you to share your perspectives, experience and expertise on national competition matters and modelling competition reforms.

Competition policy in Australia

Competition plays a pivotal role in driving economic growth and prosperity. It fosters innovation, encourages efficiency, and ensures fair market dynamics. Strong competition motivates businesses to offer better products and services, leading to improved standards of living for consumers. Additionally, competitive markets create jobs, boost wages, and prevent monopolistic practices. Globally, policymakers recognise the need to maintain robust competition laws and policies to support thriving economies (OECD 2014).

Australia has greatly benefited from past competition reforms. Beginning in the 1980s, the Australian Government fostered competition by integrating Australia into world markets through trade liberalisation, and by deregulating capital markets and traded services (Harper et al. 2015). In 1993, the Hilmer Report found that, with interstate trade growing due to advances in transport and communication technology, a nationally consistent approach to competition policy was needed (Hilmer 1993). The report set out a framework for a National Competition Policy and, in 1995, the Australian, State and Territory Governments committed to a suite of reforms (box 1). The result was expanded consumer choice, lower prices and a level playing field for domestic and international firms, which helped to improve Australian living standards (PC 2005).

Two decades later, the 2015 Harper Review revisited the issue of Australia's competition policies. The review took place as Australia's mining boom drew to an end, and found that additional microeconomic and competition reforms were required to support continued economic growth (Harper et al. 2015). The review made recommendations to reinvigorate Australia's competitive landscape (box 2), but many of those recommendations remain unimplemented (Bogaards 2019).

Box 1 – The Hilmer Report and the National Competition Policy reforms

The 1993, the National Competition Policy Review (Hilmer Report) recommended the adoption of a nationally consistent approach to competition policy (Hilmer 1993). It recommended reforms that would:

- limit anti-competitive conduct of firms
- deregulate certain industries
- reform the structure of public monopolies
- provide third-party access to certain key infrastructure to facilitate competition
- restrain monopoly pricing behaviour
- foster fair competition between government and private business
- facilitate specific reforms relevant to the electricity, gas, road and water sectors.

In 1995, Australian governments signed a set of agreements to implement this suite of reforms under the banner of a National Competition Policy. These reforms were underpinned by competition payments, made by the Australian Government to the States and Territories, to help distribute the benefits from the reforms across the Australian community.

Box 2 – The Harper Review and its recommendations

The 2015 Competition Policy Review (Harper Review) examined Australia's competition policy, laws and institutions to determine if they were fit for purpose given the opportunities and challenges facing Australia (Harper et al. 2015). The report made 56 recommendations, including recommendations relating to: human services focusing on consumer choice; the electricity market; planning and zoning; parallel imports; competitive neutrality and government procurement.

While the Australian Government committed to implementing the majority of the review's recommendations (2019), progress in doing so has been slow. Most recommendations relating to competition law have been implemented, but little progress has been made on recommendations relating to competition policy and governance structures (Bogaards 2019). Amongst those not implemented was a recommendation to task the Productivity Commission with modelling the economic effects of the reforms.

What is this study about?

The Australian Government is undertaking a two-year competition review (Treasury 2023). This review is occurring against the backdrop of declining productivity growth in the past decade (Bruno et al. 2023; Hambur 2021; PC 2023). As such, a key focus of the review is to 'look at competition laws, policies and institutions to ensure they remain fit for purpose, with a focus on reforms that would increase productivity, reduce the cost of living and boost wages' (Chalmers and Leigh 2023).






The Australian Government has announced that this review will cover, amongst other things, competition issues relating to achieving net zero, data and digitalisation, growth in the care and support economy (Chalmers and Leigh 2023).

The Australian Government is also working with states and territories on reforming national competition settings. In December 2023, Treasurers agreed to progress competition-enhancing reforms by revitalising National Competition Policy. Potential competition reforms are being developed through the Council on Federal Financial Relations (CFFR). The Commission has been asked to assess the economic impacts of the reforms. This includes an assessment of the scale of any benefits from the reforms, and how those benefits are distributed. The findings from this study will help inform CFFR decision-making about future competition policy in Australia.

How will we do it?

We will look at the likely impacts on Australia's national economy, as well as on individual states and territories. We will also assess how segments of the economy are likely to be affected, including consumers and households, relevant industries and sectors (including small businesses), and the government sector. Figure 1 summarises the types of impacts that we will consider.

Figure 1 – What economic impacts will we assess?

National		States & territories	
Impacts on economic progress, prosperity and dynamic efficiency		Impacts on economic progress, prosperity and dynamic efficiency	
			
Gross domestic product (GDP)		Gross state product (GSP)	
Consumers & households		Industry	Government
Impacts on consumer welfare, cost of living and living standards		Impacts on growth, productivity and small businesses	Impacts on government budgets
			
Incomes, prices, wages, consumer choice, product quality		Output, prices, employment	Government revenue

Where possible, we will be using Computable General Equilibrium (CGE) models to assess the likely impacts of the national competition policy reforms. This is line with the approach that the Commission has previously used to quantify the effects of past competition reforms (box 3).

Box 3 – Competition reforms and Computable General Equilibrium (CGE) models

Computable General Equilibrium (CGE) models use actual economic data, fitted to a set of equations that describe the structure of the economy. They can be used to estimate how an economy might react to shocks, including policy changes.

The Commission has previously used CGE models to estimate the economic effects of the Hilmer reforms (IC 1995; PC 2005). Under this modelling approach, the first step is to estimate the 'direct impacts' of individual reforms. By way of illustration, the following table sets out the estimated direct impact of some of the Hilmer reforms.

Reform	Direct impact
Remove barriers to interstate trade in gas	Interconnection makes gas prices 4% lower than otherwise by 2005
Remove monopoly on conveyancing in Vic, Qld, Tas and ACT	Reduce conveyancing costs in those States by 50%
Remove unnecessary delays in building approvals	Reduce costs by 3% for residential and non-residential construction

Source: PC (1995).

The CGE model then uses these direct impacts to model the flow-on economic effects of the reform. Depending on the model, this can yield information about how a package of reforms is likely to affect aggregate economic measures such as output, prices, employment, and so on.

Have your say

We invite interested individuals and organisations to make a **written submission** addressing:

- suitable methodologies for modelling direct and economy-wide impacts of competition reforms
- what metrics should be used to measure the impact of reforms on the economy broadly, households and consumers, affected industries and small business, and government revenue.

Submissions are requested by **15 May 2024**. Further information on the study and how to participate in this study is available at www.pc.gov.au/inquiries/current/competition-analysis.

References

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Treasury 2023, *Competition review*, <https://treasury.gov.au/review/competition-review-2023> (accessed 20 March 2024).

Terms of reference

Assessment of the impacts of National Competition Policy

I, Jim Chalmers, pursuant to Parts 2 and 4 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission undertake a Study to assess the impacts to GDP, economic growth, productivity, government revenue and consumer wellbeing from the implementation of competition reforms proposed by Commonwealth, State and Territory governments as part of a revitalised National Competition Policy being progressed through the Council on Federal Financial Relations (CFFR).

In undertaking this work, the Commission should consider the November 2023 Statement of Expectations which directs the Commission to consider national prosperity and economic progress broadly, to ensure strong, sustainable and inclusive economic growth and rising living standards.

Background

The Australian Government recognises the importance of competition in lifting dynamism, productivity and wages growth, putting downward pressure on prices and delivering more choice for Australians dealing with cost-of-living pressures.

Australia's productivity growth has slowed over the past decade, and we are facing challenges from an uncertain international environment and structural changes taking place from the transition to net zero, digitalisation, and the expansion of the care and support economy. We need a competitive and resilient economy that can adapt to these challenges and make the most of opportunities in our economy.

Laws and policies at all levels of government – Commonwealth, state and territory, and local – impact the competitiveness of our economy. In this context, the Australian Government is committed to working with states and territories on reforming national competition settings to ensure these challenges are met. At the December 2023 CFFR meeting, Treasurers agreed to progress competition-enhancing reforms by revitalising National Competition Policy.

To inform this work, and recognising the principle that all governments should share the benefits of economic growth and revenue from competition reforms to which they have contributed, CFFR agreed the need for economic modelling to assess the impact of proposed reforms, including impacts on government revenue. This will be required to inform any intergovernmental agreements associated with revitalised National Competition Policy, and to inform the National Reform Program – which consists of a National Reform Agenda and Jurisdiction-specific Reform Plans.

Scope of study

The Commission will undertake a study to assess reform options proposed by Commonwealth, state and territory governments as part of the revitalised National Competition Policy (as considered by CFFR in mid-2024) to understand the economic and other benefits to the Australian community, as well as the government revenue impacts. While the reform options are yet to be agreed by CFFR, it is important that they tackle shared priorities such as addressing cost-of-living pressures, and adapting to the net zero transition, digitalisation, expansion of the care and support economy, and creating a more dynamic business environment.

In undertaking this assessment, the Commission should provide an assessment of:

- The long-run economic impacts arising from the implementation by all levels of government of proposed reforms to revitalise National Competition Policy, including:
 - the expected impact on GDP

- to the extent possible, the analysis should separately identify the contribution to GDP that would arise from the reforms being implemented by (a) the Commonwealth government; and (b) state, territory, and local governments.
- any impacts on dynamic efficiency and other measures of economic progress and national prosperity.
- To the extent possible, the total additional revenue accruing to the Commonwealth government, and state, territory, and local governments, arising from the proposed reform options.
- Benefits accruing to Australian households and to the extent possible, distributional impacts. This should include estimated impacts on aggregate measures of incomes, prices and wages; the differential impacts across various groups (delineated, to the extent possible, by age, gender, income and education); and measures of consumer wellbeing, such as impacts on cost-of-living or consumer choice.
- Where possible, other impacts on consumers that may be difficult to quantify, such as improved quality of service, living standards or other outcomes for consumers.
- Impacts, in terms of output, prices, productivity and growth on relevant industries and sectors.

Where possible, the Commission should provide an indication of the likely time over which any economic or other impacts are expected to occur.

In providing its assessment of the benefits to the Australian community, the Commission should provide an explanation of the methodology and assumptions used to derive the estimates. The Commission should also undertake sensitivity analysis of the results to the assumptions used.

The Commission should also consider any available reviews, estimates or analysis of the potential impacts of proposed reforms.

Process

The Commission should:

1. Develop a suitable methodology and framework to model the direct and economy-wide economic and revenue impacts of the proposed reform options and revisions to revitalise National Competition Policy. This should be informed by a review of previous modelling undertaken by the:
 - Industry Commission in 1995 on the growth and revenue impacts of the original National Competition Policy, and
 - Productivity Commission in 2005 to estimate the benefits of the original National Competition Policy.
 The Commission will be provided with early indicative reform options to inform model development.
2. Model the impacts of reform options considered by CFFR using the developed methodology to estimate the overall economic and revenue impacts, and other outputs described above.
3. Prepare a report which provides analysis of the likely impacts of reforms, covering the outputs and analysis described above.

The Commission will consult as required, including with state and territory governments, in completing this Study.

The Commission should provide a report to the Government by 1 November 2024.

The Hon Jim Chalmers MP
Treasurer

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