

7 December 2010

The Secretary
Senate Standing Committee on Economics
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Parliament House
CANBERRA ACT 2600

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Business
Council of
Australia



Dear Sir

INQUIRY INTO COMPETITION WITHIN THE AUSTRALIAN BANKING SECTOR

The Business Council of Australia is pleased to make this submission to the Senate Economic References Committee as a contribution to its investigation into competition within the Australian banking sector.

In making this submission, the BCA welcomes the committee's invitation for comment on banking-specific issues as well as other related matters.

In this context, we wish to encourage the committee to take account of the changing nature of the economic environment in which Australian businesses have been operating – both over recent decades and in the period since the global financial crisis.

Australia's economy has become more open, connected and integrated with the world economy. While our economy has strengthened, our markets have become more dynamic, we have many new products and services, and also new competitors.

The changed economic context that has delivered so many benefits to Australia has been underpinned by a market-focused reform agenda that promotes flexibility, competition and improved incentives.

The Australian banking industry has been fully exposed to these forces of change. As far as consumers are concerned, this has increased the range of products available and lifted the number of households and businesses with access to credit.

This is not to suggest we imagine that markets always work perfectly. Clearly, regulatory intervention is sometimes necessary. But it is important first to explore the perceived problem, and to assess whether regulation is the best way of addressing it.

This assessment has to weigh up all potential consequences, including unintended ones, arising from extra regulation.

As the committee deliberates, the BCA believes it will be useful for you to consider fundamental underpinnings of competitive markets and best-practice competition regulation. To assist in this regard, the BCA has compiled a set of high-level principles on competition that should be used to assess recommendations or actions arising from the committee's report.

These principles are:

1. A market-based system promotes growth and raises living standards.
2. For markets to work, the system must have a strong legal underpinning which inspires trust. Information must be readily available, and both individuals and businesses should be able to reap the rewards of their efforts.
3. Competition laws should protect the competitive process rather than particular competitors.
4. Competition laws should not be used to deliver broader social objectives, such as preserving domestic firms or employment.
5. Government businesses should not receive undue competitive advantage.
6. Better choices and outcomes for consumers should be the overriding goal, recognising that consumers' interests can be met when there are many competitors or in markets with a smaller number of large and efficient firms.
7. Competition laws should prohibit misconduct that seriously weakens the competitive process, including predatory pricing and collusive cartel conduct.
8. While instances of market failure will occur from time to time and require regulatory intervention, it should be evidence-based and only introduced after broad consultation with stakeholders.
9. Competition regulation targeting a particular sector should only be introduced where there is clear evidence of market failure that requires it. Addressing industry specific issues by introducing competition laws that affect the rest of the economy should be avoided.
10. Competition laws should be applied consistently, transparently and in a timely way to avoid creating unnecessary uncertainty.

Thank you again for the opportunity to take part in this inquiry. We look forward to reading the committee's report.

Should you have any further questions on this submission, please feel free to contact the BCA's Chief Economist and Policy Director, Peter Crone, on 03 8664 2604.

Yours sincerely



Katie Lahey
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