Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

17 October – 18 October 2012

Question: **SBT 1787**

Topic: **Competition Policy**

Hansard: **Wednesday 17 October 2012, page 109-110**

Senator CAMERON asked:

Senator CAMERON: Seeing that this is your last estimates appearance and you are going to be there until December, I might try and give you a bit of homework. I will go through these questions and will put them on notice. National Competition Policy led to many changes in the way state and federal governments deliver services. In hindsight, were there any areas where you think the changes were poorly conceived or implemented, or would you describe competition policy as an unmitigated success story? I have only got a very short time so I will go through the range of questions.

Mr Banks: I could give you a one-sentence quick response to that, and that is that we did not in fact find that everything that NCP achieved was an unmitigated success. There were some problems along the way, including in areas of contracting out and so on, which are documented in a report from 2005. But I will get back in more detail.

Senator CAMERON: Okay. In the nineties, we went to great lengths to increase competition in the provision of public services, but over the same period concentration in a number of private markets has increased quite substantially. Do you think that the market share of Coles and Woolworths is consistent with a competitive market outcome? Do you think that governments that are interested in reducing the cost of living should be concerned with the concentration of the power of the grocery market? The Productivity Commission often assumes that people behave rationally. If that is the case, why do you think so many people with mortgages are willing to pay an average 0.5 per cent higher interest rate to the big four banks rather than take out a loan from a smaller, government guaranteed credit union or building society? So this is about the rational behaviour that underpins much of the analysis of the Productivity Commission.

Mr Banks: In some inquiries, we have also drawn on behavioural economics where we think that there are reasons why consumers would behave in ways that could be problematic and require regulation. Again, I will try to give a detailed answer in response to that.

Senator CAMERON: It has been suggested that around 25 per cent of electricity customers are swapping electricity retailers each year and that retailers are spending large amounts of money on door-to-door salespeople who often confuse customers more than inform them. Do you think that this kind of competition is delivering benefits for consumers? I do not know if you have ever looked, but the range and complexity of mobile phone plans is really quite bewildering. If you had to choose a private mobile phone plan for yourself or a family member, do you think you would feel confident that you can choose the best possible plan for your needs? Do you think that mums on buses and people with poor English would make good choices? Given the PC assumes people are rational, can the phone market work efficiently if most consumers are completely confused? The Productivity Commission has been deeply concerned with market imperfections such as government monopoly and trade protection. Why do you think the PC has spent such a small proportion of its budget looking at other forms of market imperfection such as the market power of oligopolies such as Coles and Woolworths or externalities such as greenhouse gas emissions?

Mr Banks: Again, when you say that we always assume that consumers and investors are rational, that is true to a point but we also look at issues of information failure, asymmetric information and so on. It would depend on which inquiry we were looking at. For example, the question of concentration will be looked at in the context of a particular inquiry. Sorry, I did not mean to interrupt you. We will get back to you with more detail.

Answer:

Questions relating to the National Competition Policy are addressed in SBT1.

The Commission has not been asked to assess the competitive implications of the market share held by participants in grocery retailing. However, its report into the *Economic Structure and Performance of the Australian Retail Industry* (PC 2011) noted that, for the food and liquor sector, the share of the market supplied by the largest three businesses — Coles, Woolworths and Metcash (including Franklins) — was around 85%. In Australia, the market share held by the top two and top four grocery retailers was found to be higher than in some countries, but around the middle of the range overall. The Commission considered that “market concentration alone does not provide much guidance to the competitiveness of a market. What matters more are barriers to entry and … the extent of market contestability. There are many examples in Australia of highly concentrated markets where barriers to entry are low, exposure to international trade is high and competition is intense.” The Commission reported that the Australian Competition and Consumer Commission had arrived at the same view in its 2008 Grocery Inquiry (ACCC 2008).

Why people might make apparently financially adverse decisions even in the presence of information can go to questions about human behaviour. Conventional economic frameworks model human behaviour as if people consistently make informed decisions in a rational, self-interested way — analysis based on these assumptions has generally produced reliable results for public policy making (in the sense that they broadly capture observed consumer and producer responses to changes in economic signals and incentives). Nonetheless, the Commission recognises that understanding how people make decisions is important for policy and regulatory design, and has drawn on developments in behavioural economics and other behavioural disciplines. To this end, it conducted a roundtable on *Behavioural Economics and Public Policy* (PC 2008) and drew on that work for its 2008 *Review of Australia’s Consumer Policy Framework*. The main results of behavioural economics are that people often make decisions relying on simple heuristics or rules of thumb rather than considered calculation (often simply to save time and effort); care more about losses than equivalent gains; care more about immediate benefits and costs than those in the future (time preference); and care about others, rewarding or punishing behaviour sometimes to their own ‘cost’. In the *Review of Australia’s Consumer Policy Framework* the Commission noted that the findings of behavioural economics may influence but generally do not require radical changes to regulatory frameworks or processes:

- Much current policy is based on, or implicitly accounts for, behavioural economic tenets.

- The benefit of recent behavioural economics work will be to improve policy in specific areas, such as by improving information disclosure.
- Responding to the findings of behavioural economics is similar to addressing other 'market failures', such as externalities. There is still a need to consider the significance of the problem and the costs and benefits of intervention, taking into account the way in which markets can adjust over time.

There is a growing market for people to access advice in areas where there is a lot of choice and information — e.g. mortgage and insurance brokers, search tools for selecting utilities suppliers and phone/internet plans. These services aim to reduce search/transactions costs, especially for time poor consumers who may feel overwhelmed by the available information. The important point is that vulnerable consumers are appropriately protected by the consumer protection regime, such as in the Competition and Consumer Act. The Commission's *Review of Australia's Consumer Policy Framework* stressed the need for clear objectives to anchor consumer policy, with the overarching objective being to improve consumer wellbeing by fostering effective competition and enabling the confident participation of consumers in markets in which both consumers and suppliers can trade fairly and in good faith. To that end, it identified a pressing need to put in place institutional arrangements that were more compatible with the national nature of Australia's consumer markets — matters such as dealing with unfair contract terms, helping vulnerable and disadvantaged consumers and guarding against unsafe and defective products.

The proportion of the Commission's budget expended on investigating the market power of oligopolies, or externalities such as greenhouse gas emissions, is directly related to the work requested of the Commission by the government of the day. The Commission currently has two branches focusing on environmental issues: the Carbon Policy Analysis branch which has responsibility for carrying out a range of tasks given to the Commission in relation to the Government's Jobs and Competitiveness Program, and the Environmental and Resource Economics Branch which undertakes supporting research on various environmental issues.