



Australian Government

The Treasury

COMPETITIVE NEUTRALITY IN AUSTRALIA

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Australia's Competitive Neutrality Policy

- In Australia, Competitive Neutrality (CN) is a Government policy which seeks to ensure that government businesses do not have net competitive advantages over competitors by virtue of government ownership

Presentation Outline

1. The development of CN policy in Australia
2. How CN policy applies in Australia
3. Conclusions

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The Development of CN Policy in Australia

- 1980s-1990s: Recognition of the need for further reform light of:
 - increasing inter-State economic activity
 - inefficiencies restricting productivity growth
 - desire to benefit consumers by allowing more efficient businesses to supplant less efficient businesses
- 1995: Development of National Competition Policy (NCP)

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Key Elements of NCP Reforms

- Competitive neutrality between government owned businesses and private sector businesses
- Extension of anti-competitive conduct legislation to all sectors of the economy, including government businesses
- Structural reform, privatisation and corporatisation of government owned enterprises
- The introduction of a national access regime to provide third party access to essential infrastructure facilities

NCP CN Principles

- Governments to impose similar obligations on significant government businesses, as those on private sector businesses
- Prices charged to reflect full cost attribution for the business activities

Other CN Commitments Under NCP

- Each jurisdiction to:
 - Establish a complaints mechanism
 - including an independent complaints office
 - Publish a policy statement on competitive neutrality
 - Report annually on implementation progress

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Scope of CN reforms

- CN was not intended to:
 - put all businesses on equal footing
 - require sales of assets and privatisation
 - require governments to open in-house services to competition and contract out delivery of services
 - remove community service obligations (CSOs)
 - prevent the government from pursuing policy objectives where there is perceived to be a legitimate reason for intervention

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How CN Policy Applies in Australia

Business test

- User charging?
- Actual or potential competitors?
- Independence in price & supply?

If yes to all,

Significance test

- Is the business significant?

If yes,

Cost-benefit test

- Do the benefits of applying CN exceed the costs?

Apply CN

Implementing CN adjustments

- CN requires government business activities to charge prices that fully reflect 'costs', making adjustments to account for areas of advantage, including:
 - Taxation
 - Debt
 - Regulation
 - Rate of return requirements

Taxation neutrality adjustments

- 3 methods of neutralising tax advantages:
 1. Apply and pay tax
 2. Tax equivalent regime – equivalent payment of tax to Government
 3. Tax neutrality adjustment – notional tax adjustment incorporated into cost base of business

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Debt neutrality adjustment

- Debt neutrality charge: payment equal to the difference between:
 - CN benchmark cost of debt
 - Based on credit rating from external rating agency (if cost effective to obtain)
 - actual cost of debt of the relevant business

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Regulatory neutrality

- Types of regulatory advantage typically include exemptions from obligations to:
 - make a payment or
 - undertake certain activities
- Methods for neutralising regulatory advantages:
 1. Government amends regulations so that business must comply with regulation and makes payments
 2. Business makes equivalent payments (calculated on case-by-case basis)

Methods available to neutralise advantages

- Application of law or regime to the government business as it applies to the private sector
- Establishment of an equivalent law or regime for the government business
- Calculation of a notional adjustment for the government business

Rate of return (RoR)

- Businesses required to generate a commercial rate of return on the assets used in conducting the activity, at least sufficient to:
 - justify the long-term retention of assets in the business and
 - pay commercial dividends from those returns

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Case study: Defence Housing Australia (DHA)



- DHA is subject to the Federal Government's income and other taxation and a competitive neutrality charge on borrowings.
- DHA is exempt from state taxation, however State Tax Equivalent payments are made in respect of applicable State taxes.

	2009-10 \$'000	2008-09 \$'000
State payroll tax equivalent	3,351	2,937
State stamp duty and land tax equivalent	22,354	18,899

Complaint: Australia Post



- Complaint: Australia Post enjoyed a commercial advantage in competing for business by virtue of differences in the regulatory arrangements for postal items
- Complaints Office recommendation: that the value thresholds for imported postal items be aligned
- Government response: alignment of import thresholds

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Conclusions

- CN policy, part of the NCP which implemented substantial reforms to arrangements where governments operate in markets, has been heralded as a landmark achievement in economic reform
- The performance of government businesses has improved as CN has promoted greater transparency and accountability

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Conclusions

- However –
 - Rates of Return by some government businesses continue to be below commercial returns
 - In part reflective of CSO obligations and decisions by pricing regulators
 - There is scope for improving the coverage of CN policy and the complaints mechanisms

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Useful links

- Commonwealth Competitive Neutrality Policy Statement 1996 -
<http://www.treasury.gov.au/contentitem.asp?pagelid=&ContentID=275>
- Australian Government's Competitive Neutrality Guidelines for Managers 2004 -
<http://www.finance.gov.au/publications/finance-circulars/2004/01.html>
- Australian Government Competitive Neutrality Complaints Office (AGCNCO) website -
www.pc.gov.au/agcnco

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