



CONFERENCE REPORT

Consumers and the Reform of Australia's Utilities (Sebel Town House 17-18 March 1994)

Consumers: The Ham in the Competition Sandwich

"Consumer protection is not just a competition issue"

Federal Consumer Affairs Minister Jeanette McHugh

Jeannette McHugh summed up the mood of this conference in rejecting what she said was the view, shared by conservative governments, of consumer protection as just another competition issue.

For the Labor government, the message is that the Hilmer Report's recommendations on competition policy will not, of themselves, deliver adequate consumer protection; and that there should be independent examination of the decisions of Hilmer's proposed Australian Competition Commission to assess their broader social impact.

The talk by Treasury Deputy Secretary David Borthwick did not reflect McHugh's view of a dichotomy between competition and consumer protection. Readers of the Hilmer Report would have recognised the assumption of consumer benefit from effective competition, and the need for consumer protection only in the context of market failure or the specific social obligations of utilities. He might have been more convincing to the audience had he not talked about AUSTEL's two functions: technical regulation and the promotion of competition - forgetting its third important function of consumer protection.

According to Commission Chairman Alan Fels, the TPC's aims in holding the conference were to identify consumer concerns, to consider the benefits of reforming public utilities and how these benefits will be passed on, and to assess whether regulation will be needed and if so, effective. Most consumer representatives at the conference would echo Jeanette McHugh's sentiments: there have been and will continue to be benefits to utility reforms, but competition policy alone will not ensure that ordinary consumers benefit. Effective regulation will be needed to ensure that reform benefits go beyond the corporate sector.

Lessons from Overseas

Important lessons for utilities reform came from two overseas speakers: Stephen Locke, Policy Director of the UK Consumers' Association and David Russell, Head of the Consumers' Institute of NZ.

In the UK, public utilities reform over the past 15 years has been through the privatisation process although, in the early Thatcher years, the rationale for change was not clearly thought out - it was a 'policy in search of a rationale'.

Locke detailed the impact of privatisation in two areas: prices and service quality. In telecommunications, prices for domestic users over the past seven and a half years have increased in real terms, including first time access charges, line rentals and local calls (which have risen by 27 per cent). Peak rate calls, particularly national, STD and IDD rates - the services used more by business - have, at the same time, fallen quite sharply, Locke said.

The service quality area, where British Telecom service, particularly for public call boxes, has improved over time, provides a better example of the benefits of reform. Locke attributed the improvement not so much to the privatisation process as the 'vociferous cries of consumer organisations, regulators and the press'.

For Locke, there were some obvious lessons: reform itself and the openness of regulation process have brought benefits, but the government needs to be clear about what the reforms are to achieve; public scrutiny will continue to be crucial and the process of utility reform will not solve everything.

A Blueprint for Regulators

Locke presented some other salutary lessons in his paper on industry regulators. The Thatcher government started with the idea of 'light touch' regulators which would act as a surrogate for market forces until competition arrived, he said, but ten years down the track, the utility regulators are now 'a major force to be reckoned with'. An important factor is that the existing companies are still hugely dominant within their respective markets and, given their investment in networks, very large brand images and 'sheer customer inertia' are likely to remain so.

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Locke suggested that Australia could learn from experience with the UK regulators. Among the lessons are: make sure the regulators are genuinely independent, headed by the right person, properly resourced and with enough power to get information from industry. Regulators must ensure maximum quality and quantity of consumer input, have effective complaints handling mechanisms, and have clear responsibility to inform the public. And finally, there must be performance standards for the regulators themselves.

The NZ Experience

David Russell showed that a major lesson from New Zealand is the need for an industry-specific regulator. In New Zealand, public utility regulation is handled by the Commerce Commission, which recently began a study of competition in the telecommunications market. That study found, among other things, that NZ Telecom had become 'the de facto industry regulator'. NZ Telecom's response was to challenge - successfully - in the High Court the Commerce Commission's right to undertake the study.

The NZ lessons for consumers were similar to the UKs: be part of the process of change from the start, and 'watch the competition argument ... you can deregulate an existing monopoly and open it up to competition but the inherent strength of the deregulated incumbent makes it very difficult for genuine competition to develop'. Ensure that consumer protections are in place before change occurs and 'don't believe disclosure regimes are the modern substitute for some controls and perhaps regulations'.

A View from Oz

Journalist Anne Davies put the telecommunications reform debate in the Australian context, saying that opening up competition has not necessarily advantaged domestic consumers. Price

deaveraging now under way has followed the UK model and the big gains in price reductions are in the long distance market, especially calls between capital cities. But Davies pointed out that it is difficult to make comparisons on service quality, since AUSTEL does not release the data. She made the point by showing over-heads of service quality reports for September 1993 - graphs which are still not publicly available.

The conference highlighted the issue of public utilities providing community service obligations, that is, the services which have social benefit and the provision of which is required by government, but which are provided at a loss to the utility. Generally, the utility provides CSOs by means of cross-subsidy from more profitable services.

Graeme John, Managing Director of Australia Post, speaking in a context of postal services, warned of the impact of removing cross-subsidies. In New Zealand, he said, people in rural areas now had to pay an additional \$80 per year for daily mail delivery.

Australia Post's community service obligations - in effect, maintaining a uniform tariff for letter delivery - currently cost around \$210 million. Removing the cross-subsidy would decrease the cost of sending a letter in urban areas by two cents, and for rural

areas, would increase the cost by 60 cents.

NSW Treasury Secretary Percy Allen took a more pragmatic view. He said Governments need to identify and cost CSOs, their provision should then be reviewed by the relevant government minister and, if the decision is to provide CSOs, it should be identified in Government budgets or contracted out.

Other consumer issues arising from utility reform which were raised at the conference included the continuing need for consumer advocacy, and for consumer information, quality assurance, complaints processes, price controls and effective regulation.

Michael Hogan, Director of the Public Interest Advocacy Centre, warned that in the larger processes of government, the voices of the disadvantaged are too easily ignored or subsumed. In the push for competition, corporatisation and privatisation, the traditional remedies of judicial review and Freedom of Information are being lost, with little regard to alternative remedies.

Stephen Locke's final principle for regulation of reforms was the need to maintain an integrated approach between competition and consumer regulation. There are a large number of issues that straddle both, he said, and there should be one regulator which can synthesise the two interests. □

Holly Raiche

