HOUSTONKEMP Economists

Revitalising the National Competition Policy

A submission from HoustonKemp

30 September 2024

Introduction to HoustonKemp

HoustonKemp is a leading firm of consulting economists

HoustonKemp is a specialist consulting firm dedicated to the **application of economics and data analytics** to bring clarity to complex problems arising in public policy, regulation, finance and competition matters. Our experts have a long track-record of assisting high stakes decision-making through the use of evidence-based economic analysis that is focused, accessible and capable of withstanding the most intense scrutiny.

Our clients include corporations, governments, trade associations, and law firms engaged in commercial and criminal litigation. Clients typically come to us in circumstances where it is critical to understand the strengths and weaknesses of options they must choose between, and when decisions by or about them may have profound consequences.

We have advised on competition and regulatory reform for many years

We have played **substantial roles in shaping regulatory reform** in Australia and New Zealand in many industries over the last 30 years, including the electricity, gas, transport and water industries. We **regularly advise clients on a wide range of competition matters** including market studies, applications for merger clearance, and whether various forms of conduct may lessen competition.

Our long track record in advising on competition and regulatory matters in our competition practice gives us a unique understanding of how government regulation affects competition in Australia, and what can be done to improve competitive outcomes.

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1 Overview of our submission

Competition and its benefits

- Competition is a dynamic process of rivalry that provides a range of benefits to consumers and the economy, when it works well.
- There are well recognised market failures that cause competitive forces to lead to poor outcomes in certain situations.
- The competitive process and the outcomes of competition are not necessarily 'fair', depending upon how fairness is defined.
- Competition can take a range of different forms, working best in different situations.
- Governments should aim to make competition and markets work as well as they can, but be aware of the practical reality that competition will never be perfect.

Interventions in competition

- The removal of government barriers to competition, where these are not otherwise justified by reference to the public interest, is good economic policy.
- Government action can support competition in some circumstances. It is important to establish a sound case for government action that is founded in a market failure.
- However, governments should be cautious about actions intended to promote competition. Poorly designed actions may introduce distortions that could lessen competition and reduce its benefits.
- More could be done to harness effectively the forces of competition to deliver outcomes that are robust to changing circumstances.

Accountability and institutions

- Emphasis must be placed on the accountability of governments at all levels to implement competition reforms as intended to ensure they are successful.
- The introduction of a government action review principle would provide a mechanism to evaluate all forms of government intervention affecting competition.
- There is a clear role for an Australian Council for Competition Policy to lead, coordinate and review competition policy across jurisdictions, enabling the Australian Competition and Consumer Commission to focus solely on enforcement.
- Greater accountability is likely to improve the quality of government decision-making and ensure that the competitive effects of government action are carefully considered.

Land transport sector urgently needs reform

- The land transport sector is facing a number of challenges, driven by increases in demand and the need to decarbonise the sector.
- The existing arrangements are highly vulnerable to poor decisions and outcomes.
- Fuel efficiency improvements and switch towards electric vehicles will erode revenue that is collected from road users.
- Existing fuel-based charges do not provide users with appropriate pricing signals.
- Reform will increase the efficiency of the use of land transport and investment in its assets.
- The importance and size of the transport network means even small improvements can deliver substantial economic benefits.

2 Competition and its benefits

Competition is a dynamic process of rivalry

Competition is a dynamic process of rivalry whereby firms seek to maximise their profits by offering price-product-service packages to consumers that are more attractive than that of their rivals, whilst minimising their costs. It serves the interest of consumers because firms have a strong incentive to provide what consumers want.

Competition allows important information to be revealed that is otherwise hard to discover: what products consumers want, how much they are willing to pay, the best form of distribution, the least cost means of producing a good or service, the cheapest suppliers of input, etc.

When it works well, **competition provides a range of benefits to consumers**, including lower prices, higher levels of output, lower costs, greater productivity and more innovation. However, competition does not work well in all situations. There are well recognised market failures that can cause competition to lead to poor outcomes. These include the presence of substantial market power, moral hazard, externalities, behavioural biases and information asymmetries. These need to be carefully considered before competition is introduced into a new area.

There are a **range of different forms that competition can take**, which work best in different situations. For example, competition can occur for the supply of a whole market over a long time period, or at the other extreme, there can be a spot market for a well-defined product where there are many bidders every minute.

In practice, **competition is imperfect**. Many consumers and firms have poor information, they are not perfectly rational, there are barriers to entry and there is often a relatively small number of firms. However, competition can still be highly effective in those situations and work substantially better than the alternative of regulating prices and outputs. Depending on the precise situation, competition can be intense between just two providers, when there are substantial barriers to entry, and only when a fraction of people search for and switch to the best products.

Governments should aim to **make competition and markets work as well as they can** but be aware of the practical reality that competition will never be perfect. Failure to recognise this can lead to continuous and costly interventions in markets that make outcomes worse for consumers.

Competition is not 'fair'

The competitive process and the outcomes of competition are not necessarily 'fair', depending upon how fairness is defined.

For a firm working hard for many years, but saddled with high costs, it may not seem fair that a new firm enters with lower costs, taking sales away from the incumbent. But this is the process of competition working. Similarly, it might not seem 'fair' that a well-established local firm loses out to a new entrant from overseas with different products that consumers prefer.

Relatedly, competition does not require or provide a 'level playing field' between firms to be effective.[1] The playing field may not be level because some firms have lower costs than their rivals or are more likely to make sales due to their geographic location.

Some firms put a great deal of effort into innovating or investing to tip the scales of competition in their favour. This is competition in action.

'What was fair yesterday may be unfair today. What is deemed unfair by one group of business men may be regarded as eminently proper by another.'
Handler (1936)[2]

1. The Treasury, *Revitalising National Competition Policy*, Consultation paper, August 2024, p 4.
2. Handler M, *Unfair Competition*, Iowa Law Review: 175-262 (January), reprinted in Readings in the Social Control of Industry, 1942.

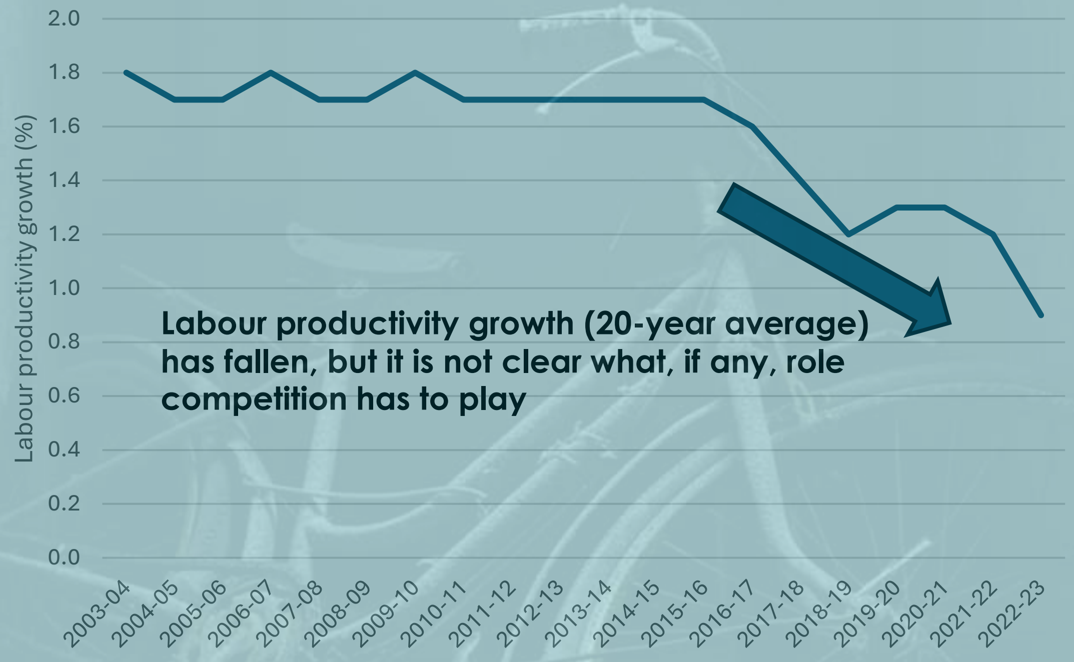
Evidence as to the weakening of competition in Australia is not persuasive

The consultation paper starts with the premise that weakened competition has contributed to slowing productivity growth.[3] Whilst Australia does have a productivity crisis, the **evidence that weak competition is the cause is not persuasive**. There is a risk that the government will incur substantial costs because it incorrectly expects competition to be substantially enhanced by a revitalised National Competition Policy. The best way to address low levels of productivity would be to start with the recommendations in the Productivity Commission's 2023 report, Advancing Productivity.[4]

Broadly speaking, the contention put forward to support the idea that weakening competition has reduced productivity in Australia is that industry concentration has increased, leading to weaker competition as evidenced by higher mark-ups (ie, prices increasing relative to marginal costs). Weaker competition reduces productivity growth. The claimed explanation is that the higher concentration has weakened competition, which leads to high mark-ups and lower levels of productivity.

There are many problems with this contention (see the following page), and it should not be relied upon.

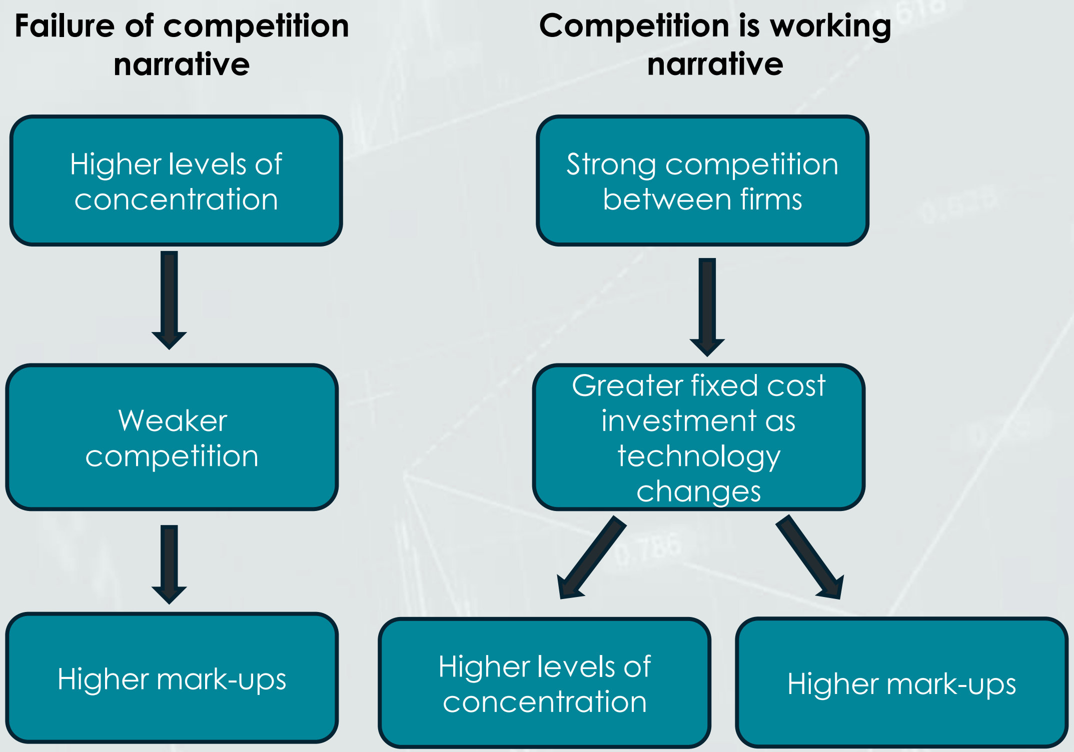
Part of the problem with this narrative is that it relies upon the examination of concentration and competition at a national level. If there is a desire to understand how competition has changed in the Australian economy, we recommend that market-wide (not economy–wide) studies are undertaken to examine changes over the past 20 years



***'…the "failure of competition narrative" is not empirically robust for Australia.'* – Stephen King[5]**

3. The Treasury, *Revitalising National Competition Policy*, Consultation paper, August 2024, p 10.
4. Productivity Commission, *5-year Productivity inquiry: advancing prosperity*, February 2023.
5. King, S, *Productivity, economic dynamism and the "failure of competition" narrative*, Economic Papers, 2023

Higher concentration and mark-ups are consistent with both competition failing and working



Key problems with the conclusion that competition has weakened[6]

1. The **measure of concentration** typically used as part of this reasoning applies at the industry/national level. This is irrelevant for assessing competition, which requires concentration to be assessed at a market level, ie, including only firms that are closely competing with one another.
2. The **estimates of mark-ups** (as a proxy for competition) may be inaccurate because they use a number of assumptions that are questionable and have not been tested in Australia.[7]
3. **Estimates of mark-ups may change for reasons that are unrelated to competition**, including changes in the balance of labour and capital used as factors of production.
4. The observed **changes to concentration and mark-ups are very small**, especially bearing in mind the difficulties in their estimation – for example the Productivity Commission estimates that the mean Herfindahl-Hirschman Index (HHI) at an industry level increased from about 800 to about 1,000 between 2003 and 2006, and then remained fairly static until 2020.
5. The **causal links** between the variables of interest are unclear and unproven – potential explanations for higher levels of concentration and mark-ups are that (see figure to the left):
    - higher levels of concentration has lessened competition leading to increasing mark-ups; or
    - greater competition between firms has led to investment in fixed costs and a reduction in marginal costs leading to higher levels of concentration and mark-ups.

6. For recent expositions of these and other contentions in Australia and the United States, see King, S, *Productivity, economic dynamism and the "failure of competition" narrative*, Economic Papers, 2023. and Shapiro, C and Yurukoglu, A, *Trends in competition in the United States: what does the evidence show?*, NBER working papers, 32762, July 2024., respectively.
7. See: Federal Trade Commission, Raval, D, *Testing the productive approach to markup estimation*, Review of Economic Studies, January 2023; Basu, S, *Are Price-Cost Markups Rising in the United States? A Discussion of the Evidence*, Journal of Economic Perspectives, Volume 33, Number 3, Summer 2019; Foster, L, Haltiwanger, J and Tuttle, C, *Rising markups or changing technology*, NBER Working Paper Series, 2022; Triana, J, *Is aggregate market power increasing? Production trends using financial statements*, February 2018; and Doraszelski, U and Jaumandreu, J, *Reexamining the De Loecker & Warzynski (2012) method for estimating markups*, April 2021.

Benefits of increased competition not likely to be as substantial as in the 1990s-2000s

The Hilmer reforms led to substantial benefits to consumers and the economy. It is unlikely that the same level of benefits can be achieved again because the ‘low hanging fruit’ has already been picked. Competition cannot be reintroduced in the electricity, gas and water sectors. There are fewer industries that can be transformed and regulations to be removed. Further, competition in Australia may be working effectively in many sectors already.

It is a worthwhile goal to reduce the regulations that limit competition in Australia, and to consider how competition can be used to its maximal extent. However, the contention in the consultation paper that the nation’s GDP would be boosted by 1-3 per cent if Australia returned to levels of competition prevailing in the 2000s is speculative. There is a real risk that the government focuses on the less important policies to boost productivity, when the Productivity Commission has already put forward a number of alternative proposals.[8]

Great care must be used in introducing competition in a market, including assessing the form of competition and the way in which it is introduced. Competition does not automatically work well in all circumstances, and it can take many different forms. For example, competition for disability supports was introduced for National Disability Insurance Scheme (NDIS) participants, but the evidence suggests this has not been very successful. Price caps were meant to support the NDIS during the early stages of the scheme, but these caps remain the primary way in which providers charge for disability supports, with only 20 per cent of providers charging below the price cap.[9]

***‘NDIS markets are not like other markets. They are social markets. Finding and buying NDIS supports is different to going to the supermarket or choosing a service like an internet provider. This means the role of government in stewarding NDIS markets must also be different.’* – NDIS review (2023)[10]**

‘National Competition Policy (NCP) has delivered substantial benefits to the Australian community which, overall, have greatly outweighed the costs.’
– Productivity Commission (2005)[11]

8. Productivity Commission, *5-year Productivity inquiry: advancing productivity*, February 2023.
9. NDIA, *Annual report 2022-2023*, September 2023, p 28.
10. See: https://www.ndisreview.gov.au/resources/paper/role-pricing-and-payment-approaches/3-price-caps-remain-primary-market-tool#price-caps-act-more-as-a-price-anchor-than-a-price-ceiling.
11. Productivity Commission, *Review of National Competition Policy reforms*, 2005, p xii.

3 Interventions in competition

Government action must be prompted by market failures

One policy element of the Hilmer review was the removal of regulatory restrictions on competition. The consultation paper generally supports a continuance of this approach and sets out numerous examples of circumstances in which government action may be harming competition.

We agree that **the removal of government barriers to competition, where these are not otherwise justified by reference to the public interest, is fundamentally good economic policy**. Likewise, good economic policy requires that the introduction of new regulations or policies be supported by the identification of a problem or market failure that demands action.

The consultation paper promotes the idea that government action may be able to support or nurture competition, for example that:[12]

- the national competition principles could guide ‘governments to promote competition’;
- governments could consider ‘actions to stimulate choice like informing and engaging consumers’; and
- governments could ‘support and enhance competition across existing, new and emerging markets by fostering market conditions that are favourable for the entry and growth of new businesses, and product and service offerings’ .

12. The Treasury, *Revitalising National Competition Policy*, Consultation paper, August 2024, pp 28, 29 and 34.

Government action can support competition in some cases

We agree that there are circumstances in which **government action can support competition**. However, it is important to establish a case for government action that is founded in a market failure that prevents or inhibits the development of competition. Absent a market failure, there is no economic basis or empirical evidence of which we are aware to support the idea that direct government action in a market can promote competition.

Competition is a means to an end

Competition is often considered to be an effective means for the organisation of markets that deliver good outcomes. The Hilmer review observed that these outcomes included various dimensions of economic efficiency, including that:

- firms are driven towards **productive efficiency** by producing goods and services at least cost;
- transactions occur between those with the lowest cost of supply and those with the greatest value, maximising overall surplus and **allocative efficiency**; and
- firms strive to tailor goods and services to best meet consumers' changing needs and desires through innovations and investments, promoting **dynamic efficiency**.

These outcomes are achieved through competition because of powerful incentives that the process provides to firms, by means of:

the 'carrot' of greater profits by increasing sales, and/or by increasing profit margins, through making products more attractive to consumers or by reducing costs; or

the 'stick' of lower profits through the reverse of the circumstances set out above.

Government action may often not have the intended effect

Governments should be cautious about actions intended to promote competition. If these actions are not carefully designed to overcome specific market failures, then they may introduce distortions that could have the counterintuitive effect of lessening competition and reducing the benefits that flow from competition.

For example, **actions designed to support new entry, or expansion of existing businesses may *increase* the number of competitors in a market but *decrease* competition** if such actions result in:

- the entry or expansion of competitors or projects that are either higher cost or provide less benefits for customers, in pursuit of government support rather than private profits; or
- the ‘crowding out’ of lower cost or more beneficial competitors or projects because they do not receive government support or because the market price signals become artificially low, which may lead to the exit of competitors or the deferment or cancellation of new entry.

Action to eliminate or reduce the benefits of ‘first-mover advantage’[13] would need to carefully consider the likelihood that such action would similarly eliminate or reduce the benefits to businesses of innovation and investment. This could be expected to exert a profound effect on competition and the economic benefits that it delivers to consumers.

Similarly, the potential for government action to empower consumers by ‘activating the demand-side’ is uncertain. The ramifications of actions designed to benefit inactive consumers may lead to worse outcomes for consumers that were already active and reduce incentives for them to remain active. This may have unanticipated negative consequences for competition.

13. The Treasury, Revitalising National Competition Policy, Consultation paper, August 2024, pp 30, 34 and 35.

When making the case for government action, all benefits and costs should be considered. This means avoiding a tendency towards a myopic focus on the immediate effects of government action in terms of lower prices for consumers by giving appropriate weight to costs incurred by businesses and subsequent (and critical) outcomes for innovation and investment.

Changing government policies and regulations can be a barrier to competition. Price signals that support innovation and investment can be undermined by poorly designed government action, but they can also be overwhelmed by frequent and unpredictable changes in the pursuit of improvements. We suggest that consideration be given to how government action is triggered and tailored to minimise these negative consequences.

Competition remains a powerful tool for organising markets

Although governments should be careful when intervening in the competitive process, we believe that more could be done to use the forces of competition to improve economic outcomes or solve public policy problems.

We observe that policy-making increasingly tends to involve the determination of a preferred market outcome, and changes to laws and regulations that seek to achieve this outcome. This approach can lead to poor outcomes, particularly where:

- market circumstances are changing quickly and so the best outcome may be unclear and/or changing; or
- policymakers do not have all information at their disposal to be able to identify the best outcome.

Harnessing effectively the forces of competition can deliver outcomes that are robust to changing circumstances and incorporate all information that is relevant to supply and demand.

4 Accountability and institutions

The success of the National Competition Policy in the 1990s can be attributed, in part, to the supporting institutions and procedural mechanisms, including the transparent and independent monitoring of progress and outcomes that governed the implementation of those reforms across jurisdictions.[14] State governments also received substantial fiscal transfers, creating an incentive to proceed with specified competition reforms.

In our opinion, the same **emphasis must be placed on the accountability of governments** at all levels to implement competition policy reforms as intended to ensure they are successful and able to achieve the proposed outcomes.

Implementation of a government action review principle

We agree with the sources cited in the consultation paper that the legislation review program initiated under the original National Competition Policy was both incomplete and insufficient.[15] It was incomplete because not all nominated legislation underwent review, and there was a lack of clarity regarding the standards against which legislation was assessed, and it was insufficient because it focused exclusively on legislation, overlooking other significant forms of government intervention that can influence competition within the economy.

To strengthen competition policy, the legislative review principle could be expanded into a more comprehensive government action review principle. This would provide a mechanism for evaluating not only legislation but also the broader array of government actions that can influence competition, including regulations, policies, procedures, and administrative processes.

This broader approach was largely envisaged by the Hilmer Review, which recognised that legislation is only one aspect of government influence over competition.[16] However, a full review of government action affecting competition was never fully implemented.

The expanded scope would ensure that all forms of government intervention are assessed for their competitive effects, fostering a more dynamic and competitive economy.

14. Australian Government Treasury, *Revitalising National Competition Policy*, Consultation paper, August 2024, pp 11-12.
15. Australian Government Treasury, *Revitalising National Competition Policy*, Consultation paper, August 2024, p 17, footnote 18.
16. Australian Government, *National Competition Policy review*, August 1993, pp xxix-xxx.

Establish an independent national council for competition policy

The Harper Review recommended the creation of a new national competition body, the **Australian Council for Competition Policy (ACCP)** to modernise the institutional framework governing competition policy in Australia.[17]

We agree that there is a clear role for an independent institution with a focus on leading, developing and reviewing competition policy, and that this should be separate from the Australian Competition and Consumer Commission (ACCC).

'…there is a clear role for an independent institution with a focus on leading, developing and reviewing competition policy…'

Under an improved regulatory framework, the ACCP could be responsible for driving the strategic development of competition policy and monitoring the implementation of reforms across jurisdictions, while the ACCC remains focused on the enforcement of competition and consumer law.

This separation of responsibilities would reduce potential conflicts of interest, allow each entity to focus on its core responsibilities, and increase accountability within the regulatory framework.

The ACCP's role could be strengthened by giving it a specific mandate to assess new government actions and policies as they emerge. This would ensure that all significant government interventions, not just existing legislation, are evaluated for their competitive effects by an independent body, enhancing the accountability and effectiveness of Australia's competition framework.

Australian Council for Competition Policy

The key responsibilities of the ACCP could include:

- **providing proactive, expert advice on competition policy reform** and on policies and proposals that may influence competitive conditions in Australian markets, potentially conducting market studies to provide industry-level advice and informed recommendations to all levels of government;
- **coordinating competition policy between jurisdictions**, promoting consistency in the implementation of reforms. This could involve determining competition payments to incentivise coordinated action between governments, eg, harmonising regulations across states and territories – particularly in cases where the benefits of such reforms do not proportionately accrue to the jurisdictions responsible for implementing them;[18] and
- **scrutinising government actions affecting competition**, including by monitoring the progress of governments in implementing competition reforms and complying with their agreements, monitoring and holding the ACCC accountable to its objective of promoting competition across the economy, and by providing regular reporting on the state of competition in Australia.[19]

17. Australian Government, *Competition policy review final report*, March 2015, pp 76-77.
18. The Productivity Commission recognised that an important feature of the institutional framework underpinning the success of the National Competition Policy in 1995 was the financial incentives made by the federal government to state and territory governments to implement reform commitments. See: Productivity Commission, *Review of the National Competition Policy reforms*, 28 February 2005, p xiv.
19. By way of example, the Competition and Markets Authority in the UK has published two reports on the state of UK competition in recent years, providing information and analysis to inform public debate and policy. See: Competition and Markets Authority, *The state of UK competition*, 30 November 2020; and Competition and Markets Authority, *The state of UK competition*, 29 April 2022.

Greater accountability for competition is likely to improve government decision-making

'…government decision-making could be improved with a formal requirement for policy makers to seek guidance from the ACCP…'

A greater focus on **accountability is likely to improve the quality of government decision-making** and ensure that the competitive effects associated with any new government action are carefully considered.

We understand that the Australian government updated its policy-making framework by replacing the regulatory impact statement process with a more comprehensive policy impact analysis framework in 2023, broadening the scope of government actions subject to review.[20] However, there are instances in which policy can be developed and implemented without a thorough consideration of the implications for competition, including where it is exempt from a comprehensive impact analysis (such as in respect of a Prime Minister's exemption or an election commitment) or where a policy impact analysis is judged as adequate or insufficient.[21]

In our opinion, government decision-making could be further improved by a formal requirement for policy makers to seek guidance from the ACCP in relation to potential competitive effects arising from new government action early in the policy development process. The ACCP could make several key contributions in this area, including:

- contributing to or conducting **reviews of policy impact analyses** through a competition lens, which would provide an enhanced level of expertise to the existing impact assessments required to be undertaken for new government action;
- **reviewing significant government privatisations** or the commencement of new commercial activities to assess the competitive effects of such actions; and/or
- undertaking regular **assessments of government decision making** in relation to regulations, policies and processes that may influence the competitive environment, ensuring that all forms of government intervention are aligned with the competition principles.

These developments would ensure that **competition considerations are integrated into broader government actions**, promoting a more dynamic and competitive economy while increasing the transparency and accountability of government decisions.

20. Office of Impact Analysis, *Australian Government guide to policy impact analysis*, March 2023; and Office of Impact Analysis, *Key changes to the Australian Government policy impact analysis framework*, 17 February 2023.
21. See: Office of Impact Analysis, *Australian Government guide to policy impact analysis*, March 2023, pp 46-48, 51.

5 Reform of the land transport sector

Why reform the land transport sector?

We recommend that land transport sector be added as a reform theme in the National Competition Reform agenda.

Land transport is facing a number of challenges. An **increase in demand** is putting increasing pressures on Australia's road and rail networks. This drives the need to invest in road and rail infrastructure, including public transport. Failure to do so in an efficient and effective manner leads to increased **congestion, substandard transport services, and worse environmental outcomes**. These consequences could hinder Australia's prospects for continuing economic growth and prosperity, and its ability to meet emission reduction targets.

Australia's land transport sector is not well placed to meet these challenges. Existing decision-making processes lead to **poor investment outcomes**. Decisions on large scale investments are often made in the lead-up to an election, and before the development of a business case. The result is poor project selection and more frequent and substantial cost overruns.

The 1990s saw major economic reforms to infrastructure sectors, including electricity, gas and rail. Road infrastructure services is the only major infrastructure service not to have followed a similar reform pathway, while continuing to rely mostly on government funding rather than user charges. A key reason has been technical difficulties with recording road use. However, technology advancements mean that it is now possible to monitor road use relatively cheaply, providing a pathway to reforming the land transport sector.

'…roads are the least reformed of all infrastructure sectors, with institutional arrangements around funding and provision remaining much the same as they were 20 years ago' Harper Review[22]

22. Australian Government, *Competition policy review final report*, March 2015, p 38

Existing arrangements are financially unsustainable

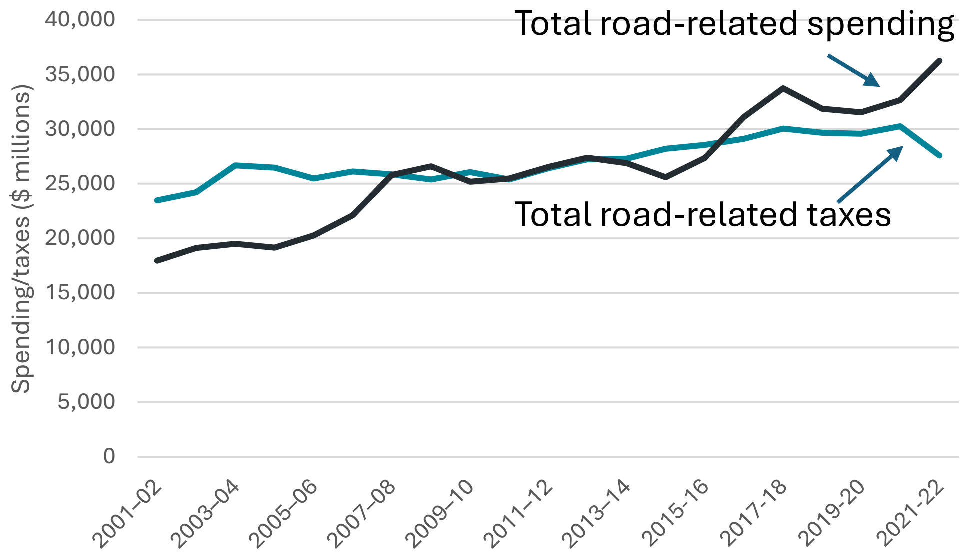
Government road related revenue is largely unlinked to government road related expenditure. Fuel excise, the primary source of government road related revenue, is a tax collected by the federal government and is unrelated to government road related expenditure, mostly incurred by state governments. This disconnect means that road expenditure is funded through consolidated government revenues rather than directly from road users.

The existing arrangements are becoming increasingly unsustainable. Historically, government road related revenue has exceeded government road related expenditure, ie, the road network has provided a surplus revenue (see pre-2007 period in the chart to the right). However, the growth in expenditure, driven by increases in demand has exceeded the growth in road related revenue over the past 20 years, creating a budget deficit. This deficit will increase over time with improvements in fuel efficiency and decarbonisation of the fleet.

'Reform of funding arrangements is becoming more urgent. Improvements to vehicle technology … as well as changes in driver behaviour and preferences, have eroded revenue from the primary road-related taxes' Productivity Commission, 2017[23]

The financial sustainability of the road sector could be addressed by moving towards a user pay model, ie, road prices could be set based on forward-looking cost of providing road services, creating a nexus between road related costs and revenue. Setting prices with reference to forward looking cost promotes economic efficiency because it sends users a signal of the cost of providing the service. This in turn promotes competitive outcomes between modes and optimal use of transport network, improving productivity of Australian economy.

Road-related taxes are now below government spending on roads



Source: BITRE Australian infrastructure and transport statistics yearbook, 2023

23. Productivity Commission, *5 year productivity review - supporting paper no.9*, August 2017, p 2.

What land transport reform would look like

The objective of reform should be for the use of, and investment in, land transport to be as efficient as possible. This requires that the decision-making processes are more user and outcome focused, which involves moving towards an arrangement where:

- users pay for the cost of the transport network and those funds are reinvested in the transport network;
- users receive price signals so they are encouraged to use the cheapest part of the transport network at times of lowest cost;
- all forms of land transport are included together;
- fuel based charges are replaced with direct user charges – this would:
    - address issues related to erosion of the revenue base caused by improved fuel efficiency and switch towards electric vehicles;
    - provide decision makers with improved information on use of network; and
    - provide the opportunity to introduce price signals, such as congestion charges; and
- prices and investments in new roads and maintenance of existing roads are approved by an independent regulator based on forward-looking demand.

Current arrangements for road service provision are highly vulnerable to poor decisions and outcomes. ' Productivity Commission, 2017[24]

Reform would lead to improved investment decision making, which would in turn lead to better user outcomes at lower costs. It will mean investments are determined by users' willingness to pay rather than government budget considerations.

24. Productivity Commission, *5 year productivity review - supporting paper no*.9, August 2017, p 12.

HOUSTONKEMP

Economists

Level 40, 161 Castlereagh Street,
Sydney NSW 2000, Australia

+61 2 8880 4800 | houstonkemp.com