

Open competition means playing to win

[Media, Telecommunications and IT Unit](#) | [Alan Moran](#)

The Herald Sun 18th November, 2006



A key reason why Australia has enjoyed prosperity over the past dozen years is the opening up of the economy to greater competition.

One part of this was reform to abolish monopolies held by government businesses and private companies protected by government regulations.

Businesses that were integrated, such as a railway that owns track as well as trains, had to allow their bottleneck track facilities to be used by competitors.

Industries with similar structures included electricity, gas, ports and telecommunications. Unscrambling bottlenecks allowed new and more efficient players into the market. This forced all suppliers, new and old, to look to more efficient ways of meeting consumers' needs.

The dividend for Australia has been higher standards of living as under-performing facilities became better used.

However, requiring companies to allow their facilities to be used by competitors creates tensions. You can imagine Holden's reaction if it was told it must allow Ford to use its vehicle assembly line. It would be like telling a homeowner rattling around in a large house that she must let others use some of her spare space.

Faced with such requirements pretty soon investors would start avoiding the controlled assets.

On top of this, policing laws that require facility sharing spawns new bureaucracies and, like all bureaucracies, these will seek to expand their roles.

For these reasons, throughout the world, governments and courts have confined facility sharing requirements to very specific and rare circumstances. Less so in Australia!

Governments normally require private companies to share only those facilities that cannot be duplicated. In Australia our laws provide applicants an easier path.

Rupert Murdoch has complained about the slowness of the Australian internet. This is an outcome of regulations requiring Telstra to share any high-speed investments it makes with its competitors.

A legal case is presently being fought about access to rail lines serving iron ore mines in the Pilbara.

A small new producer wants to force BHP to allow it to piggyback on its rail lines. BHP is resisting this because it wants to retain control of its assets.

As a result, it and Melbourne's other giant iron ore miner Rio are being deterred from expanding their vital rail network to take advantage of the China-led boom in iron ore.

They are unsure about whether the law will take away their control of any new or existing rail lines which they see as an integral part of their production process.

Predictably, the responsible regulatory agencies led by the National Competition Commission are assisting the company seeking piggyback access. For the NCC the case offers considerable potential to open up its area of its influence and employment.

However, such jobs are precisely the ones we want to avoid.

Opening up access to these sorts of facilities provided a lightning rod to increased prosperity. But its downside has always been recognised -- indeed the Productivity Commission has remarked about potentially chilling effects on new investment of forcing companies into unwanted contracts.

We have made the gains from unscrambling former government monopolies. Now is the time to adopt the more restrictive framework for such requirements that are seen in other similar countries.

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