THE AUSTRALIAN

SE Business
HD MORRISON MAKES HIS MARK
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WC 1172 words
PD 21 November 2015
SN The Australian
SC AUSTLN
ED Australian
PG 31
LA English


LP The Harper reforms pull the right economic levers

A rule of thumb in Canberra according to Scott Morrison is whoever gets micro reform right will be the one remembered best in history. And the Treasurer is headed down that path with his enthusiastic backing of the Harper review on competition policy.

TD The argument is that macro-economic policy is hard to control, but pulling the right micro levers has the biggest impact on growth and has the most effect on people in the economy.

It's a question of definition but the truism is largely correct if you include tax and budgetary reform in the equation — the latter through cutting spending rather than relying on big tax increases.

Next week Morrison is due to take his Harper reforms to cabinet. The reforms include landmark changes by making government subject to the same laws as the private sector and increasing choice in government services such as health services and welfare.

Australia spends $150 billion a year on health and the Productivity Commission argue that applying clinical best practice would cut the bill by 20 per cent.

Changes advocated by Harper apply competition principles to health and welfare services, right down to road pricing where users pay more, and price signals dictate where new roads should be built.

The changes include the establishment of a state-federal national competition council that will maintain a permanent reform function, advocate competition and undertake market studies on industries and sectors as a lever by which reform and enforcement action will follow.

Clifford Chance partner Dave Poddar has also urged the government to adopt suggestions such as stepping up mediation with small businesses before taking them to court. The argument is that small businesses incur serious costs when the ACCC takes them to court and there might be a middle ground that achieves the same goal but at a less cost.

A key recommendation in the report is that the government looks at all regulations and considers what impact they have on competition. It is already making headway on this through its efforts to reduce regulation.

Morrison yesterday handed the Productivity Commission a review of farm regulation which could be a landmark reform of agriculture, covering water, food standards and regulations, and the impact of government assistance.

Some drought relief measures, for example, have the right aim but the wrong effect — they drive up the cost of feed and pay drivers more rather helping the farmer.

Other Harper changes the government should adopt include simplifying key provisions in the law such as making cartel laws easier to understand.

Others include collective bargaining, under which it would be easier for people to join together to argue for a better deal from suppliers and service providers.

The government will also combine the informal and formal merger clearance process to give the ACCC the right to consider the net benefit of deals that might otherwise breach competition rules. Presently, this only takes place when parties take actions to the Competition Tribunal, and the change will mean the remedy is available at first instance.

The price signalling rules that now only apply to banks will be replaced by new powers to combat deals in so-called facilitating practice. This is where a few people in the same industry talk about, say, future price action on the understanding that everyone will increase prices even though there is no formal agreement to do so. The government will add this test.

The specific changes to the law will be welcomed by the practitioners and should make the law simpler so outsiders can have some hope of understanding how it works. An important project is to reduce the word count to make it easier to understand. Alan Fels has long argued that the law is too long because, historically, no-one trusted the courts.

Part 4, which covers the anti-competitive provisions, runs to a 20,000 words against compared to the US's Sherman Act, which has two sentences, and the EC's single page antitrust law.

As noted earlier the government will issue a separate discussion paper on proposed changes to section 46, which covers abuse of market power.

John Osborn, Australian Chamber of Commerce director of economics & industry policy, said the change is "about ensuring stronger competition for everyone in the market place".

But big business has rallied hard against the proposal that had threatened consideration of the entire report.

The proponents are still pushing for its adoption but at least it will now be subject to proper review while maintaining key parts.

Woomera warning Meanwhile, Morrison's grandstanding against the $370 million Chinese bid for the Kidman properties was obviously a political tactic designed to show the government in action.

Just why EY and the bidders didn't cut the offending property and short circuit the political response remains a mystery.

As noted yesterday, there was precedent for knocking back foreign purchases near Woomera. This let Morrison loose for the wrong reason but now the sale can proceed without the Anna Creek property, and life will go on with Chinese giant State Grid free to buy the NSW electricity transmission assets on Monday.

Iron-clad support Some 99 per cent of Iron Mountain shareholders have approved the equity issue to support the group's $2.7bn bid for Recall.

The overwhelming support is no surprising given the benefits of the merger include lower gearing for the bidder flowing from the equity issue, reducing gearing from 5.5 times to five times.

It remains to be seen whether the ACCC approves the deal, which combines the number one and two players in the market.

Separately, Qube yesterday lodged its ACCC submission for the Asciano takeover which means the timetable will now be set early next week. Qube it should be noted has taken its time to get the ball rolling.

Myer sales uptick Myer posted better than expected same-store sales last quarter underlining the boost in consumer confidence since the change in leadership in Canberra.

Same-store sales were up 3.9 per cent, a 1.3 per cent increase on the second half of last year.

The company reaffirmed its profit forecast of $64m-$72m on the back of the 3.4 per cent rise in first quarter sales to $714.8m.

Myer still lags David Jones, which has just reported same-store sales growth of 10.4 per cent for the quarter, but both retailers are showing pleasing signs of life.

This not only reaffirms confidence in the department store model but the improved consumer confidence numbers since the change of leadership.

Myer’s stock price closed up 4.6 per cent to $1.03, but the stock was trading at $1.52 in March and slumped to a record low of 83c last month in the wake a $221m equity raising.New boss Richard Umbers was upbeat at yesterday’s annual meeting and the sales figures provide confidence about his plans.

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AN Document AUSTLN0020151120ebbl0006d