

## Executive Summary

The Queensland Competition Authority Act (the QCA Act) requires the Queensland Competition Authority (the QCA or the Authority) to develop criteria by 31 December, 1997 to assist the Premier and the Treasurer (the Ministers) in deciding whether to declare a government business activity to be a government monopoly business activity. The explanatory note for the QCA Act makes it clear that the term “monopoly” is intended to extend to “near monopolies” where a government agency conducting a business activity has substantial market power.

Once government business activities are declared to be government monopoly business activities, they may, but need not, be referred by the Ministers to the QCA for prices oversight. The test for identifying government monopoly business activities is based upon an assessment of whether these business activities have sufficient market power such that they are capable of persistently behaving in a manner different to that which would occur in a competitive market. In competitive markets, sellers increase their prices or reduce the quality of their products or services at their peril, as consumers are able to find alternatives relatively easily.

Where an incumbent possesses substantial market power, the rigours normally provided by competition to protect customers and to innovate are substantially weakened. This is likely to occur where:

- a government business activity enjoys a substantial influence in a market;
- a government business activity can act to an appreciable degree independently of its competitors<sup>1</sup>; or
- a government business activity’s competitors are unable or unwilling to effectively compete with it.

Figure 1 gives a simplified description of the framework within which the Authority recommends government monopoly business activities be identified. Basically, a three step process is envisaged:

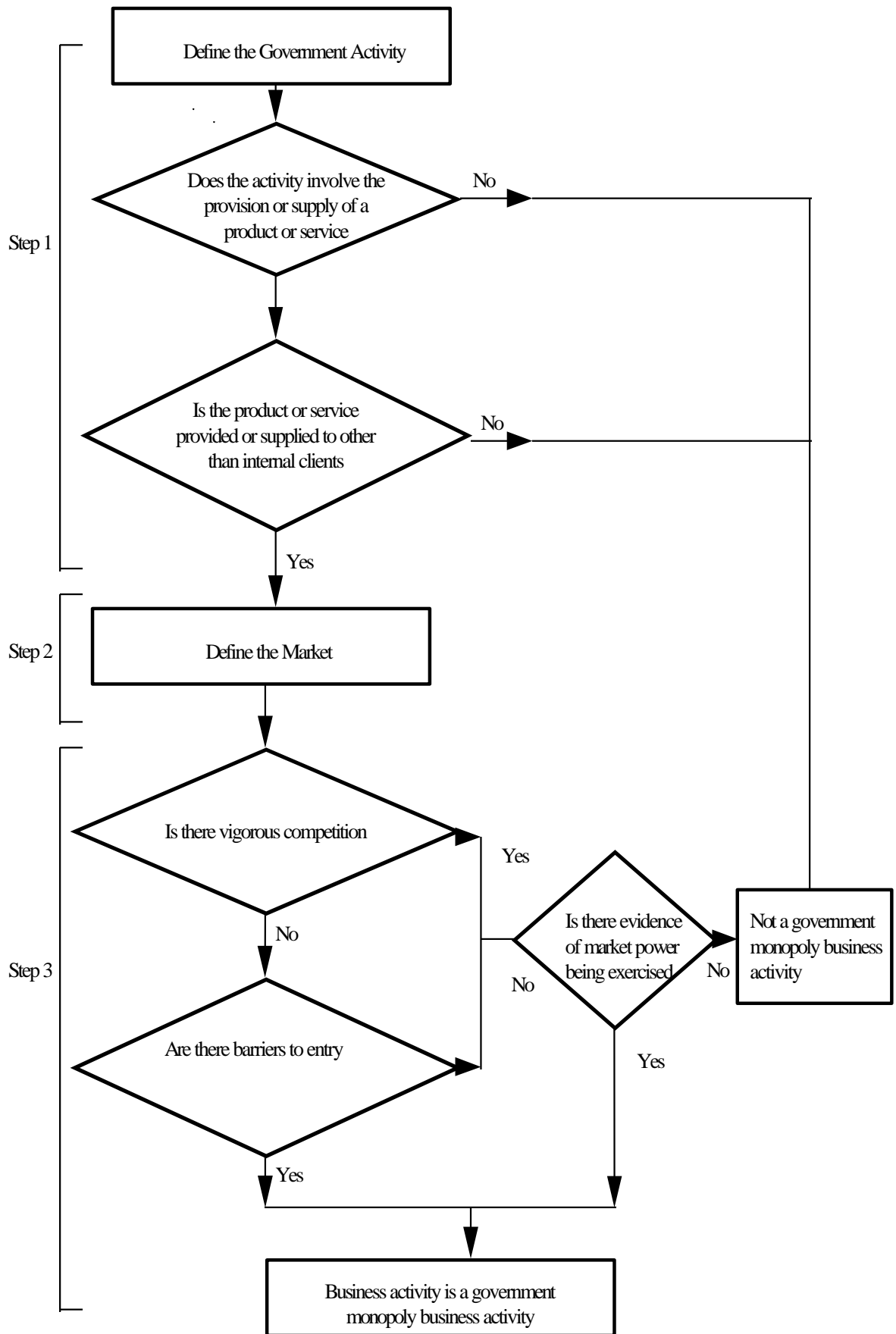
- step 1 - determines whether the activity is a government business activity;
- step 2 - defines the markets in which the government business activity operates;
- step 3 - assesses the intensity of competition in those markets that may be relevant to the enquiry.

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<sup>1</sup>

The term “competitor” refers to actual or potential competitors.

**Figure 1: Simplified framework for identifying government monopoly business activities**  
**Step 1 - Determining whether the activity is a government business activity ?**



The first step in the process is to properly define the activity which is to be the subject of the analysis with a view to determining whether it is a government business activity. There are two requirements to be addressed in this context. The first requirement is that the activity must involve the provision or supply of a product or service. The second requirement is that the product or service be provided or supplied to other than internal clients (where internal clients are clients within the relevant government agency).

A government agency may undertake several distinct business activities. Consequently, precisely defining the product or service that is the subject of the analysis is essential to correctly identify the business activity and to define the relevant market, which is the next step in the process.

### **Step 2 - Market definition**

A market is an area of close competition or rivalry. Defining a market involves drawing a line in the chain of substitutes for a product or service which potentially compete with it. In defining and analysing a market, it is important to consider the purpose of the investigation which, in the case of identifying government monopoly business activities, is to assess the extent of competitive pressure exerted on a government business activity.

The analysis will need to address the product market (alternative products or services that can be used instead of those provided by the government business activity), the geographic market (the geographical region from which alternative sources of supply may be found), the relevant functional level of the market under consideration and the period of time allowed for an effective competitor to enter the market.

Once the relevant market has been defined, the intensity of the competitive pressures can be assessed and other relevant factors, such as the extent of barriers to entry, can be considered.

### **Step 3 - Assessing the level of competition in the market**

The principal factors which assist in determining if a government business activity is not effectively constrained by competitive pressures in a market are:

- the absence of vigorous competition in the market together with barriers to entry for new entrants into the industry (or to the expansion of existing rivals); and
- even if there is vigorous competition, evidence of the exercise of substantial market power by the government business activity (eg by way of excessive pricing, inefficient operations or cross-subsidisation).

If the analysis of a government business activity indicates either of these factors, then the government business activity should be declared a government monopoly business activity.