
Pricing

The Prices Surveillance Act is a statutory means for holding business organisations — where necessary — publicly accountable for the prices they set. The pricing branch examines selected goods and services and assesses the efficiency and fairness of their pricing.

Price capping

The Commission and Australia's two main brewers, Carlton & United and Lion Nathan, have agreed on methods of capping price increases for beer. The application of price caps will ensure that the wholesale price for the companies' beers will decline in real terms for the duration of the agreement. The declaration of both companies under the Act is not due to be reviewed until November 1997.



The Commission endorsed the first price rise under the caps in January 1996. Carlton's prices (before excise) rose on average by 1.7 per cent and Lion Nathan's by 2.3 per cent. Both brewers tend to raise their prices twice a year, on 1 February and 1 August, the days when automatic half-yearly CPI adjustments to the federal excise duty on beer take effect. The latest rises in beer prices also include a 2.0 per cent increase in federal excise.

Instead of the previous method of assessing all the changes in brewing costs that might justify a price rise, the Commission will endorse any proposed rise in beer prices provided the increase is equal to or less than the price ceilings.

This approach ensures cumulative, real declines in wholesale prices while providing greater incentives for companies operating in markets where there are few direct competitors to pursue efficiency gains. The companies are able to retain the benefits of any efficiency and productivity gains greater than that factored into the price capping agreements.

The new approach also streamlines the regulatory process, imposing lower compliance costs on the companies and removing much of the uncertainty surrounding applications to the Commission for authorisation of price increases.

The price cap agreements with the brewers reflect the Commission's desire to shift away, wherever appropriate, from the former cost-based approach to prices surveillance. The Commission is exploring the possibility of price capping or other streamlined procedures with some of the other organisations still declared under the Act.

Public inquiries

Petrol

The Commission has scheduled public hearings in all State capital cities for its inquiry into petrol prices. It will hold hearings in some regional areas of Australia as well.

The prime task of the inquiry is to review the present arrangements for regulating wholesale prices for petrol throughout Australia. To do so, the Commission will have to make an

assessment of the level of competition in the petroleum industry.

In addition, the Commission has been asked to examine the disparity between city and country prices for petrol and to recommend any measures that might heighten competition in regional markets where prices appear to be high.

In the process, the inquiry will also consider the degree of vertical integration in the industry, the impact of the Ampol/Caltex merger and the moves to multi-franchising in some areas of the retail market.

The Commission has to report its findings and recommendations to the Commonwealth Government by 31 July 1996.

Nine days of public hearings have been scheduled so far, starting in Melbourne on 1 April 1996. Apart from the State capital cities, hearings have been set down for Townsville and Albury-Wodonga. The Commission is planning to visit several other regional locations too in order to examine local market conditions. The need for further hearings will be considered once the nature of the initial evidence to the inquiry has been assessed.

The Commission published an issues paper in February 1996 setting out a detailed list of the topics it is likely to consider during the course of the inquiry. The paper also provides details for those wishing to participate in the inquiry. The Commission is seeking written submissions by 25 March 1996.

This inquiry will complete the systematic review of companies declared under the Prices Surveillance Act. Eighteen inquiries have been completed over the past two years, leading to the removal of 23 companies from the list of declared companies. Eight companies and government business enterprises have been retained on the declared list. There is a recommendation before the Government to retain one other.

The decline in the number of declared companies reflects both the heightened competition in the economy and the shift to a

more light-handed form of prices surveillance (price monitoring) wherever it is considered likely to be as effective.

Steel

Changes in steel markets over the past decade have removed the need for prices surveillance of BHP's steel mill products, according to a Commission inquiry. The Commission has recommended the Commonwealth revoke the declaration of three companies that are part of BHP Steel.

The products covered by the price notification requirements of the Prices Surveillance Act are standard mill products such as plate and hot rolled strip, tinplate, hot rolled steel, cold rolled steel, metallic coated steel, pre-painted steel and heavy structural steel.

The Commission's recommendation takes into account a number of developments since the initial declaration of the steel products in 1986. It found:

- lower tariffs on steel products and increasing imports for some products;
- continuing technological developments that make potential entry to the markets more feasible in the future;
- falling real average prices for the declared products;
- smaller price increases relative to building products and manufactured goods generally;
- prices for a substantial proportion of declared products had been restrained in recent years;
- significant improvement in services acknowledged by customers;
- substantial improvements in productivity; and
- no evidence of sustained high profitability.

The Commission report suggests informal monitoring would be adequate to track the impact of industry developments on steel prices in Australia. BHP has agreed to provide suitable information and this can be supplemented by data from other sources.

The Commission's decision took into account the wider array of measures available to the new statutory authority under national competition policy. Direct measures to protect competition are available to it under competition legislation. It also retains the option of reverting to prices surveillance or formal price monitoring, should substantial pricing problems emerge in the future.

Harbour towage

A Commission inquiry has reviewed the declaration of the nine companies that provide harbour towage services in the ports of Melbourne, Sydney, Botany Bay, Brisbane, Fremantle, Adelaide and Newcastle.

The inquiry report recommends revoking the declarations. It suggests formal price monitoring under the new provisions of the Act is likely to be as effective as the system of price notifications. The report recommends, however, that the scrutiny of prices should be extended to cover other major ports such as Port Kembla, Geelong, Westernport, Gladstone, Townsville, Kwinana and Bunbury.

The inquiry found the \$158 million harbour towage market to be highly concentrated. Three companies, Adsteam, Howard Smith and Brambles, supply about 87 per cent of towage services in the country's ports. They also have vertical links to other sectors of the maritime industry.

Although the groups operated in a national market, the Commission found there were distinct sub-markets where the service provider was usually a local monopoly. The report notes two exceptions, Sydney and Newcastle. (The two operators in Sydney have merged since the report was submitted to the Government.)

Newcastle was the only port where there was evidence of strong price competition, arising from BHP's decision to set up its own harbour towage operations and compete (very successfully) with the established operator.

Despite BHP's entry, the Commission concluded the market was characterised by high barriers to entry arising from economies of scale, capital and sunk costs. It argued there were very few companies in a position to adopt BHP's strategy.

The report also finds that, despite a real decline in prices since the operators were declared in 1990, the towage industry is highly profitable. Profitability has generally been increasing since 1992.

The Commission concluded it was in the public interest, because of the strategic importance of harbour towage in the sea transport chain, to place tugboat operators under a formal monitoring regime.

