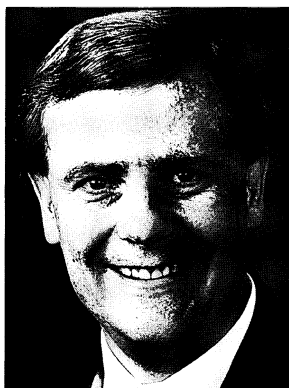


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# Policy developments



*On 19 September 1996 the Commonwealth Treasurer, the Hon. Peter Costello, MP, announced a number of changes to future prices surveillance report activities. His statement is reproduced below.*

## Prices surveillance reform

The Treasurer today announced sweeping reform in the scope of prices surveillance activity undertaken by the Commonwealth Government. In keeping with the Government's commitment to remove unnecessary red tape, these measures will significantly reduce the administrative compliance costs on affected businesses, leaving them more time to focus on their real purpose — doing business, creating jobs and making the Australian economy more competitive.

The Government regards competition as the best means of lowering prices and improving choices for consumers. To this end, the Government is committed to enhancing competition and improving regulatory arrangements across the economy.

The Treasurer said that the Government will retain the Prices Surveillance Act but, in future, prices surveillance will only be applied in those markets where competitive pressures are not sufficient to achieve efficient prices and protect consumers.

The ACCC has advised the Government that the price declarations of beer and cigarettes manufacturers should be rescinded because of increasing competitive behaviour and moderation in price setting.

In response, the Treasurer announced as from today the prices surveillance declarations of beer and cigarettes would be rescinded. The Government believes that these declarations, which had been maintained by the previous Government, were clearly unnecessary. The markets for both products are competitive, as indicated by substantial discounting activity.

However, in order to protect consumers, the Government has sought undertakings from the companies involved who have all agreed to enter into price restraint agreements with the ACCC to keep price rises below the general inflation rate over the next twelve months. The ACCC will also carefully monitor these industries for any evidence of anti-competitive conduct and will report back to the Government.

The Government remains prepared to re-impose the declaration if competition does not provide an adequate safeguard against excessive price rises.

The ACCC will continue to observe price trends in markets and advise the Government where it considers that formal monitoring arrangements should be imposed.

The Treasurer also announced his response to the ACCC inquiry reports on the steel mill products, harbour towage and glass containers prices surveillance declarations. These inquiry reports were prepared in response to the previous Government's direction to the Prices Surveillance Authority (PSA) to undertake reviews of prices surveillance declarations.

The Treasurer has decided that steel mill products supplied by BHP Steel will no longer be declared under the Prices Surveillance Act.

The Treasurer accepted the ACCC's assessment that BHP's market power is constrained sufficiently by imports and the exercise of countervailing power by certain large customers for it to be removed from prices surveillance. The Treasurer also notes that BHP is proposing to restructure its list prices for declared flat (cold rolled and coated) products. BHP has advised that the restructure will be revenue neutral. BHP has not sought any increase in authorised prices for any product category since 1990-91.

The Treasurer indicated that the declaration of harbour towage would continue. The ACCC found that the harbour towage market is dominated by a few large players and that individual ports are not generally competitive. The Treasurer noted that he will review the need to continue prices surveillance of harbour towage once structural reform in the port sector, including as a result of labour market reform, has been progressed.

The price surveillance declaration of ACI Operations Pty Ltd will be modified. Specifically, the declaration will be amended to remove product segments where prices are constrained by competition. The PSA's review of this declaration concluded that while ACI faced competition from substitute forms of packaging, ACI continued to exercise substantial market power in some sub-markets and that prices surveillance should be continued. The Industry Commission (IC) report on packaging and labelling also recommends continued price surveillance but in a more limited form.

The Treasurer noted that ACI faces limited competitive discipline from either imports or close substitutes in the wine bottles and medium to large glass food containers sub-markets and hence effective price competition is unlikely to develop. It also appears that the price of glass containers can have a pervasive effect on the competitiveness of other industries e.g. the export wine industry. Therefore, prices surveillance will be maintained for wine bottles and medium to large glass food containers (300-600 mls). This is in accordance with the IC's recommendations. To provide greater confidence to consumers of glass containers that this limited form of surveillance will be effective, ACI will be subject to monitoring and

will have to provide data to the ACCC on its prices, costs and profits.

The ACCC inquiry into the Petroleum Products Declaration recommends the declaration in respect of petrol be revoked in 1997 in conjunction with a number of other recommendations. The Government is considering these recommendations and will respond at a later time.

As an early step in responding to the report, however, the Treasurer today also announced that he had written to motoring organisations encouraging them to develop petrol price monitoring programs in country areas in conjunction with the ACCC. The Government agrees with the ACCC's assessment that monitoring programs of this kind can facilitate increased transparency of competitive conditions in country markets by providing benchmark data on retail prices and indicative profit margins on a regular basis. The ACCC and Australian Automobile Association have already identified 100 'hot spots' where country petrol prices appear excessive and which could benefit from transparency measures.

The Treasurer noted that pricing information gathered through the community supported monitoring programs will complement the ACCC's trade practices enforcement activities in country petrol markets. The ACCC has indicated that it intends to intensify its enforcement efforts in this area. The Government considers that enforcement of the Trade Practices Act is likely to be a more effective means of protecting consumers than subjecting small country petrol retailers and distributors to formal price monitoring under s. 27A of the Prices Surveillance Act. Formal price monitoring is more suited to markets where large businesses exercise significant market power.

Wider access to oil company terminals was part of the Government's election policy. Some oil companies have indicated that they will provide open access to their terminals as part of a deregulation program. The Treasurer endorses these initiatives and encourages the oil companies to implement their open access proposals as soon as possible. The greater competition generated by open access

arrangements will contribute to an environment where price deregulation is feasible.

Finally, the Treasurer encourages State and Territory and Local Governments to take action to free up restrictions on the operation of retail fuel outlets. The removal of anti-competitive legislation at the State/Territory level restricting trading may allow retailers to offer lower petrol prices through diversification. State and Territory Governments have included such legislation on their legislation review schedules, which is a requirement under the national competition policy arrangements. Similarly, local governments can facilitate enhanced competition at the retail level in country areas by facilitating planning approval for the retailing of petrol by supermarkets.