Pricing

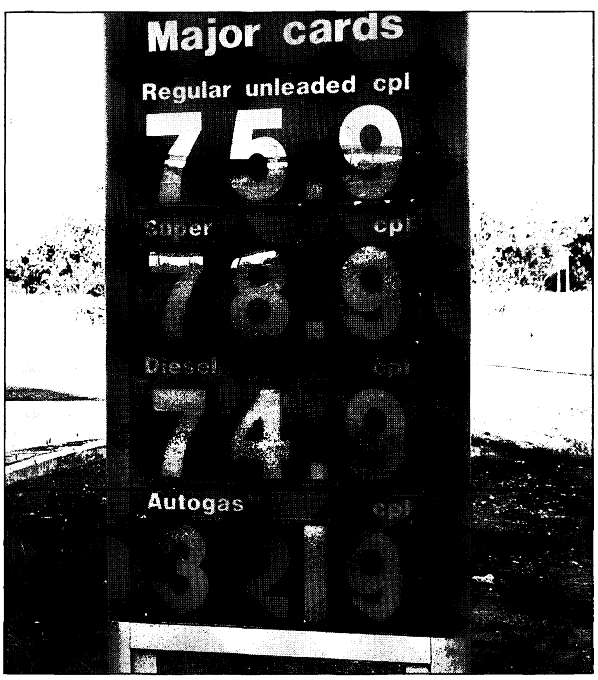
Petrol pricing inquiry

The Commission's inquiry into petrol prices began with a public hearing in Melbourne on 1 April 1996. Public hearings were conducted in every State capital and in one regional centre, Albury-Wodonga, between April and May. The inquiry also visited Cairns in order to examine conditions in one of the local markets with a history of pricing problems.

The inquiry is reviewing the present method of regulating wholesale petrol prices in Australia. It is also examining the disparity between city and country prices and has been asked to recommend measures that might sharpen competition in rural markets. The Commission will assess the degree of competition at each level of the industry.

Some of the issues to be examined are:

- the structure of the industry, including the impact of vertical integration;



Photography by Arthur Mostead

- oil company moves to multi-site franchising;
- regulations governing the ownership and location of service stations;
- pricing of, and access to, petrol supplies from main distribution terminals; and
- why petrol prices in the country are generally higher than in the city, sometimes by more than 10c a litre.

The Commission is scheduled to submit its report to the Commonwealth Government by 31 July 1996.

Air fares 1990–95

In April 1996 the Commission published a report assessing the cumulative effect of deregulation on the domestic interstate aviation market between the September quarters of 1990 (the quarter immediately before deregulation) and 1995.

In February 1991 the Prices Surveillance Authority was directed to monitor movements in average air fares to enable the Government to assess the overall pricing benefits from deregulation of interstate air services since 31 October 1990. This role has since been assumed by the ACCC.

Data used by the Commission for monitoring relate to 21 principal interstate routes which are common to Ansett Australia and Qantas Airways Limited. The passengers carried on these routes represent around 80 per cent of the total network passengers carried by the airlines.

Analysis of the passenger and air fare data shows the following.

- Since deregulation, average air fares have fallen 8.7 per cent in nominal terms and 19.8 per cent in real terms.

- The reduction in average fares was greatest during the period when Compass I was operating, with a 31.6 per cent reduction in nominal terms. When Compass II was operating, the reduction was 21 per cent from the level before deregulation.

- The price falls have expanded the demand for air travel: far more people have chosen to fly (or fly more often) in the years since deregulation. The number of passengers on the major domestic routes has grown by 57 per cent in the five-year period. The total was 8.9 million in 1990–91; it was close to 14 million in 1994–95. The biggest single addition to passenger numbers was during the operation of Compass I. The rate of expansion has been steadier since.

- The pricing benefits of deregulation have not been distributed evenly. Average air fares have fallen 11.1 per cent on long distance routes but they have risen 3.1 per cent on short distance routes. Average air fares have fallen most on routes where the airlines need to offer more discount fares in order to fill seats.

- Depending on the route, economy fares have increased between 15 and 35 per cent since deregulation. However, a much smaller proportion of passengers is now paying a full economy fare. Before deregulation about 50 per cent of passengers paid the full economy fare. Because of discounts, less than 20 per cent are now paying the full fare. This change in traffic mix is the major reason average fares have fallen since deregulation despite the increase in full fares.

- The airlines have been offering a wider range of discounts to a greater number of consumers. The discounts have been bigger too. Before deregulation, the deepest discount was generally about 50 per cent from the economy fare. Discounts of more than 60 per cent are now regularly offered.

- The two airlines possess substantial market power but their published accounts indicate their profitability has not been excessive since deregulation.

The report is wary about more recent trends in the domestic industry. It notes that the two airlines, Qantas and Ansett, have identical pricing structures (for full and discount fares) and thus the services they provide have become their prime method of competing for market share. It also observes that, in the absence of a third operator, there has been a recent upward trend in average air fares and substantial increases in economy fares.

Because of these developments, the Commission believes it should continue to monitor price movements in the domestic airline industry.

The report concludes that deregulation has removed the shield of protection for the two main airlines and forced them to compete for market share, respond to the demands of consumers and improve the efficiency of their operations in order to ensure their long-term economic viability. It cites the introduction of frequent flyer schemes, the upgrading of terminal facilities and the advent of sophisticated yield management systems as other changes spurred by deregulation.

Copies of the report are available for $10 from all Commission offices.

Coastal shipping freight rates 1993 and 1994

In April 1996 the Commission published a report on coastal shipping rates which monitors the pricing impact of reforms on the coastal shipping trade. The report covers the 1993 and 1994 financial years, and follows two reports published previously by the Prices Surveillance Authority.

The primary components of the Commonwealth Government's reforms for coastal shipping were subsidies on the provision of capital investment and for crew reduction programs. The newly elected Government introduced legislation on 1 May 1996 to remove the capital grants benefit; depreciation benefits are to cease at the end of financial year 1996–97. The original reforms were progressed while the industry remained protected from direct competition from foreign shipping through a policy of cabotage. (In Australia, cabotage is the reservation of domestic shipping tasks for licensed vessels.) Cabotage raises the costs of coastal shipping to users.

In March 1990, after its inquiry into coastal shipping rates, the PSA was directed to monitor coastal shipping freight rates, focusing on rates charged by shipping operators which should benefit from the reforms.

The inquiry report concluded that, as most cargoes are shipped 'in-house', these shippers should directly benefit from the reforms. Further, shippers seeking long-term contracts should have sufficient countervailing power to capture the benefits of the reforms through freight rate negotiations. However, the PSA remained concerned that smaller shippers which did not have close ties to shipping lines could lack the countervailing power to negotiate competitive freight rates.

Subsequent monitoring has, therefore, focused on these groups of bulk and non-bulk shippers. The reference from the Minister suggested that monitoring be conducted annually. The Commission took over the monitoring role from the PSA when it was formed in 1995.

This is the first coastal shipping monitoring report by the Commission. It found that the costs incurred by Australia's coastal shipping operations continued to grow despite reduced crewing levels and government subsidies on capital expenditure.

The data suggest the declines in freight rates experienced in preceding years were largely a response to depressed economic activity rather than a reflection of improved efficiency. Some, but not all, shippers experienced rising freight rates as the economy recovered.

The report reveals different trends for segments of the trade.

- On the Bass Strait trade, freight rates continued to fall despite a reduction in shipping capacity. This suggests that the effectiveness of competition has not been significantly reduced on the trade between Tasmania and the mainland despite the demise of one operator and the merger of Union Shipping and ANL's operations.

- For bulk cargoes, freight rates rose sharply in 1993 and then slipped a little in 1994. Despite the overall rise for the two years, returns for the operators of bulk ships remained depressed.

The report concluded that, overall, the benefits of reform continued to be reflected in rates. However, concerns about the effectiveness of competition would re-emerge if some shipping operators continued to increase rates. In that event, the net impact of the current range of policies on coastal shipping might need to be fully reviewed. The Government is currently investigating changes to the cabotage system.

The coastal shipping report is part of a wider Commission program for monitoring the pricing impact of reforms in the maritime industries.

Copies of the report are available for $10 from all Commission offices.