



**C E M E N T I N D U S T R Y  
F E D E R A T I O N**

Prices Surveillance Inquiry  
Productivity Commission  
LB2 Collins St East PO  
MELBOURNE VIC 8003

**CEMENT INDUSTRY FEDERATION Submission to the**  
***Productivity Commission Inquiry into the Prices Surveillance Act 1983***

The Cement Industry Federation (**CIF**) welcomes the opportunity to make a submission to the Commission's Inquiry into the Prices Surveillance legislation. The attached submission represents the views of the Australian cement industry on various aspects of this Inquiry.

The Cement Industry Federation wishes to draw to the Commission's attention the cement industry's strong view that there is no need for price monitoring or control where the market for goods and services is clearly competitive and subject to the exercise of market powers by Australian consumers, and/or suppliers outside the Australian economy.

Our detailed comments on the operation of the PSA legislation are only provided to assist discussion in the event that the Government decides that some form of price monitoring/control legislation is required. These detailed comments should not be regarded as any endorsement by the **CIF** of a view that price monitoring/control legislation is required.

The CIF looks forward to discussing with the Commission the details of the submission.

**John Tilley**  
**Chief Executive**

11 May 2000



**CEMENT INDUSTRY  
FEDERATION**

# **Submission to**

Productivity Commission

## **Review of the**

# *Prices Surveillance Act 1983*

**May 2000**

# The Cement Industry Federation and the Prices Surveillance Act

## The Cement Industry Federation

The Cement Industry Federation is the national body representing the Australian cement industry, comprising the four major Australian cement producers - Adelaide Brighton Ltd, Blue Circle Southern Cement Ltd, Australian Cement Holdings Pty Ltd and Queensland Cement Ltd. Together these companies account for 100 percent of integrated clinker and cement supplies in Australia.

CIF aims to help promote and sustain a competitive Australian cement industry, committed to best practice in its activities.

Key features of the Australian cement industry in 2000

- annual turnover of more than \$1 billion (\$0.9 bill in 1990)
- employs more than 2200 people across regional Australia ( 3600 in 1990)
- average production expenses per tonne of cement produced have decreased by over 12% since the early 1990s
- Total capital replacement value of the industry is \$2.5 billion.
- Cement plants are located in Queensland, NSW, Victoria, Tasmania, South Australia and Western Australia
- Rationalisation of the Australian cement industry has continued throughout the 1990s with the industry now comprised of 4 main companies and a number of subsidiaries
- Industry is firmly committed to investment in Australia as evidenced by our investment of almost \$1.2 billion in new and upgraded plant and facilities over the past decade.
- The major raw material used in cement production is limestone, with small quantities of alumina, iron ore and silica; the major primary energy sources in the industry are coal and natural gas. A number of alternative fuels including various waste products are also used

## Cement Industry involvement with the PSA

In 1986, nine Australian cement manufacturers were originally declared under the PSA in relation to the supply of Portland cements. Over the ensuing 8 years, there were a number of additions and changes to the list of cement companies declared under the Act. The declaration of Portland cement occurred at a time when the Government was increasingly concerned with ensuring price restraint was being exercised by Australian industry. Reasons for the original declaration included production of cement in a number of States by a single manufacturing group, perceived market power of local producers, importance of cement in the housing and construction industries, cement prices rising faster than prices of other building materials.

In 1994, the cement industry was the subject of a detailed inquiry under the PSA, to determine whether there had been significant changes in industry structure and competitiveness since declaration in 1986. This was part of a wider range of inquiries into the need for continuation of price surveillance of Australian industries.

This review concluded that market power and competitiveness in the Australian cement industry had changed significantly since 1990, and was expected to continue to change. Price surveillance was no longer regarded as necessary.

Key findings of the 1994 PSA review of the cement industry were

- **Changes within the industry and in industry infrastructure have led to the emergence of a national cement market**
- **The market power once enjoyed by cement companies in State markets has steadily decreased**
- **Industry investment in dockside facilities and shipping has enhanced interstate trade in cement as a permanent feature of the Australian industry**
- **Although barriers to entry to the cement industry remain high, they are not as important in limiting competition as they were when the industry was characterised by regional markets**
- **Vertical integration within the industry is not seen as anti-competitive; the potential for there to be a lessening of effective competition, is balanced against the greater efficiencies in production and distribution**
- **Imports, although not significant, provide some competition, and hence impose discipline on domestic producers**
- **Cement prices have not increased at excessive rates when compared with the CPI and the ABS building material indices; real cement prices have fallen**
- **Large independent users of cement are able to exercise some countervailing market power against the cement producers**
- **Industry rationalisation is improving competitiveness with older, less efficient plants being closed and excess capacity being reduced; overall productivity is also being substantially improved, eg significant improvements in labour and energy efficiency**
- **Formal price surveillance mechanisms such as cost-based and price-capping approaches are not considered appropriate due to absence of market power by cement companies; a yardstick approach is rejected because of the difficulty in**

#### Cement Industry developments since 1994 PSA Inquiry

The key changes in the Australian cement industry which were identified in the 1994 PSA Inquiry have continued to enhance the level of competition within the industry. The national character of the cement market has continued to grow through ongoing rationalisation within the industry and continuing improvements in distribution facilities. The size of the market has also increased. Efficiency of production has continued to improve as part of industry rationalisation and through substantial investment in new and upgraded facilities. The market power of larger cement users, and the ongoing availability and threat of imports, mean that the level of competition within the Australian industry remains high. Cement prices have not moved excessively since the PSA Inquiry, and real cement prices have declined.

Key issues for the Current Productivity Commission Review of the PSA

**The Cement Industry Federation is strongly of the view that there is no need for price monitoring or control where the market for goods and services is clearly competitive and subject to the exercise of market powers by consumers and/or suppliers outside the Australian economy. If the government believes there is a need to protect consumers from unfair or illegal practices that might disadvantage consumers, the CIF believes that adequate powers already exist for the ACCC to undertake this role.**

Consequently, the CIF would support the repeal of the PSA legislation. A second best option would be substantial revision of the legislation to restrict formal price monitoring/surveillance activities to those goods and services where there is limited scope for consumers to influence prices for those goods and services.

If a decision is taken to follow this latter path, a number of issues will require consideration. CIF views on these issues are outlined below and draw on industry experiences under the PSA and other legislation.

### **Statement of general aims and objectives**

**The CIF believes that if the PSA is retained in some form, then a statement of aims and objectives will be essential for the effective administration of the legislation. Appropriate objectives would focus on improving economic efficiency by discouraging the use of substantial market power, ensuring the benefits of microeconomic reforms and structural change flow through to consumers in cases where market power is a transitional or continuing issue. Objectives should desirably be outcome oriented.**

**The CIF does not see general price surveillance as the appropriate mechanism to achieve the government's social objectives or to intervene in the general operation of the market for particular goods and services for other policy reasons. For example, the CIF would not wish to see PSA legislation used as an indirect means to achieve policy outcomes in the environment or employment areas – these matters should be dealt with directly and in a transparent way through legislation or policy related to the specific topic.**

### **Other ways to achieve objectives**

**The CIF does not see the PSA legislation as a rational tool for general economic management and control of inflation.**

**The legislation is not regarded the sole solution for control of market power where competition is weak. The CIF believes it is imperative in such circumstances for the government of the day to take direct action to open such markets up to competition and to ensure that the process continues in those areas in transition to a fully competitive environment.**

**The CIF is strongly of the view that competition policy must continue to be pursued at the national level, and that there should not be a reversion to State-by-State approaches to price monitoring or control. It is our view that market intervention at the State level contributed significantly to the delay in establishment of a national cement market, and is likely to impact similarly in other sectors if pursued.**

### **Coverage of products and services**

**The CIF is of the view that any price surveillance activity should be limited to specified goods and services for which the market is clearly not competitive when viewed against a clearly defined set of criteria. We do not see any justification for**

**price surveillance of goods and services for which the market is competitive, even if those goods and services are provided by an enterprise that has monopolistic powers in other areas.**

### **Benefits/Costs**

The CIF believes that any case for price surveillance must be based on an assessment of the benefits and costs of taking such action. This must be against a clearly defined set of criteria for identifying and quantifying the various benefits and costs to producers and consumers.

Particular attention must be given to the implications for industry operations and investment flowing from uncertainty about future prices and profits under any price control regime. While these impacts might be lessened under a regime that has very clear guidelines for assessing price changes and has very tight timeframes for decisions, the industry has considerable experience in the areas of anti-dumping and greenhouse policy of the adverse impacts of poorly defined criteria and long timeframes for decision-making.

From an industry point of view, the direct administrative costs of price monitoring were very substantial. At the time of the 1994 PSA Inquiry, industry members estimated costs in excess of \$40,000 per company submission. Industry experience with provision of similar types of cost and revenue data to support anti-dumping actions confirms that this would now be at the low end of the range for even a relatively straightforward operating environment.

### **Methodology**

**The CIF believes that the methodology for price surveillance must be set out in legislation so that acceptable variations to prices are clearly understood. Our experience with the anti-dumping legislation confirms the need for clearly defined methodologies for considering price changes. Industry views on the impacts of the various possible approaches (price caps, cost of service etc) were considered in the 1994 PSA Review of the cement industry. In particular, industry raised concerns about the treatment of unit costs changes stemming from changing utilisation factors in capital intensive industries. The potential for this cost treatment to have adverse impacts on investments in plant efficiency requires careful consideration. Industry is also concerned that cost based approaches lead to a business focus on cost increases, rather than stimulating industry effort to seek out efficiency improvements and cost reduction opportunities.**

### **Initiation**

**The CIF is strongly of the view that any price surveillance or price control activities carried out by a government agency should only be at Ministerial request based on a transparent assessment of the need for such action. We do not consider that the current ACCC price monitoring powers in relation to GST implementation should be extended to a generic price monitoring or price control power.**

### **Conclusions**

The Cement Industry Federation is strongly of the view that there is no need for price monitoring or control where the market for goods and services is clearly competitive and subject to the exercise of market powers by consumers and/or suppliers outside the Australian economy. Adequate powers already exist for the ACCC to protect consumers from unfair or illegal practices that might disadvantage consumers.

**Our detailed comments on the operation of the PSA legislation are only provided to assist discussion in the event that the government decides that some price monitoring legislation is required.**

