

TITLE: End of the price gouging

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The standard excuse for why Australians pay far higher prices than Americans for clothes, consumer goods and cars is to highlight the high transport costs associated with the tyranny of distance.

So what is their excuse for more expensive music and software downloads? Dearer data costs due to longer cables?

You might assume that because Australia has a free-trade agreement with the United States that Australian consumers and American retailers could trade freely, but you would be wrong. Just try paying the US price for a song on iTunes or a ring at Tiffany's.

Many American retailers make Australians pay a premium price. They have engineered their US websites to prevent customers with Australian credit card numbers or Australian delivery addresses from purchasing from their sites. Such shoppers are redirected to the Australian website where they may pay up to 50 per cent more.

Last week the Minister for Communications, Stephen Conroy, announced that an inquiry would be held into the significant price differences for software and music downloads between Australia and the US. He cited a number of remarkable case studies. For example, Australian graphic designers pay \$1745 more for Adobe's "Creative Suite" than their competitors in the US.

The inquiry, which will be conducted by the House of Representatives Standing Committee on Infrastructure and Communications, is yet to release its terms of reference. But the most obvious question is why isn't the inquiry being conducted by the Standing Committee on Trade? If there are no clauses in the Australia-US free-trade agreement that ensure that Australian consumers can buy things from American stores, then why don't we insert one?

The whole point of free-trade agreements, from an economic point of view at least, is that the removal of trade barriers between countries means that consumers in both countries will have access to a greater range of products from a greater range of suppliers.

The increase in choice and the reduction in price, it is argued, will deliver benefits in both countries. From a political point of view, however, FTAs have become an opportunity for the leaders of countries to demonstrate the extent of their “special relationships”.

John Howard was at pains to emphasise the strategic significance of securing an FTA with the US, describing the agreement as a “once in a generation opportunity”. While Australian consumers have a lot to gain from the removal of barriers to retail trade between Australia and the US, it is unlikely that retailers on either side of the Pacific are keen to tear them down.

Indeed, what could be more profitable than selling identical products to different groups of customers at the maximum price that their market segment can bear? Up until 1995, price discrimination was prohibited in Australia under the then Trade Practices Act (now renamed the Competition and Consumer Act).

This prohibition was lifted on the basis that price discrimination could sometimes be good for competition and, when this is not the case, the general prohibition on the misuse of market power was deemed to provide sufficient protections, for companies at least.

Australian consumers have been gouged so deeply, and for so long, that they barely even notice.

While Australians regularly complain about the cost of petrol and fresh food (both of which are cheap by world standards) there are few complaints that clothes, computers and cars are substantially overpriced. Only those who travel regularly understand just how overpriced Australian bricks and mortar stores really are.

If the government, or the opposition, were serious about addressing middle-class concerns about the cost of living, they could also deliver considerable benefits to the working families they talk so much about by addressing the high mark-ups charged by Australian retailers. But rather than pick a fight with the retailers and the commercial property owners, it is far more likely that both major parties will line up for set-piece debates focusing on industrial relations reform, red tape and payroll tax.

The rise of online shopping is beginning to deliver great benefits for many Australian consumers.

However, many of the big retailers on both sides of the Pacific are keen to keep those benefits for themselves.

An inquiry into software price differences isn't a bad place to start, but any political party that is serious about free markets and the cost of living should go further than iTunes.

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