

**TITLE: The remaining agenda for free traders**

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Australia used to have very high protection rates for its manufacturing industries. Historically tariff quotas on motor vehicles meant that Australian car prices were double the prices for equivalents overseas. Many other manufactured goods were sold at multiples of the prices in overseas markets. Australia like many other countries imposed very high tariffs on most imported consumer goods.

The end of high tariffs under the Hawke/Keating Government meant that, in principle, Australians now pay pretty well the world market price for most goods. Remaining tariffs are a trivial 5 per cent on manufactured goods except for clothing which is 10 per cent now but reducing to 5 per cent in January 2015. So in principle Australia should face pretty well the world prices for most of the items we import. Services and virtual products should not be a problem since they do not and often cannot face either tariffs or quotas. But what about the practice?

Previous work by The Australia Institute has shown that Australians still pay double the prices of overseas consumers despite the micro reforms of Australian governments over the last several decades. Comparing our prices with overseas prices it looks like nothing has changed since Allan Fels headed the Prices Surveillance Authority in the 1980s and 1990s.

The prices charged for DVD discs from different countries have a wide range of prices. For example when checking for a number one DVD on a popular on-line and physical chain outlet it was the ParaNorman DVD selling for A\$24.99 while the same thing on a well-known American site was selling the same item for US\$12.99. That day the conversion was 92 Australian cents to the US\$ so in Australian currency the difference was A\$14.12 in the US compared with A\$24.99 in Australia. Likewise, to take another example, the Lord of the Rings extended trilogy in Blu-ray sold for A\$119.99 in Australia and US\$57.69.

CDs have shown a good deal of variability in the prices charged in the main world markets. Doing the same experiment the top selling Australian CD was 'More than a dream' by Harrison Craig and it sold in Australia for A\$21.99, but that and the second highest are Australian acts that are not as popular in the US. The third best seller is 'Yeezus' by Kanye West which also

sells in Australia for A\$21.99. The US price is US\$11.99 and the site tells us that there are offers starting at US\$8.94 at alternative sites.

These price differences also apply to more traditional items where Australia has rolled back protection. An Audi A4 has a base price of US\$37,800 in the US and the Australian equivalent with a two litre motor costs A\$57,900. The UK list price is £23,960 or \$39,900. Price differences of those sorts of magnitude are not explained by the small remaining tariffs on motor vehicles or the GST versus value added taxes or the retail taxes in the US.

One of the last barriers to genuine access to foreign products and foreign prices is the pricing and availability strategies employed by suppliers. In some examples there are fairly extreme attempts to foil the tendency for prices to equalise around the world. We suspect the high price of CDs encourages a large volume of imports by Australian consumers. On-line sales of many other items are playing havoc with physical retailing. Yet CD prices remain high in Australia.

Consumers shopping around have traditionally kept suppliers 'honest' in the prices they charge. And now the competitor is not the shop next door but the on-line outlets in the US, Hong Kong and elsewhere. Yet the system still is not working to the advantage of consumers.

Suppliers in the modern technology environment have other strategies to prevent consumer access to the best prices. The manufacturers of DVDs and the DVD players split the world into four regions; North America is in region 1 and Australia is in region 4. The manufacturers then made it virtually impossible for a consumer using a DVD player sold in a particular region to play discs from another region.

That hurts consumers in Australia who do not have access to cheaper DVDs but also hurts US consumers for example—they might have cheaper DVDs but if they like European content, or Australian for that matter, they cannot play it on their own DVD players.

It is not surprising that companies try to use technological measures to protect their products and force users to purchase compatible players and other devices. The surprising thing perhaps is that governments have aided and abetted the attempts by the corporate sector to entrench their monopoly power. For example, under the Australia US Free Trade Agreement the US tried to entrench Australia's acceptance of technology protection measures ostensibly designed to protect intellectual property such as computer games. Those clauses made it a criminal offence to try to circumvent such 'technology protection measures'. However those go well beyond just protecting intellectual property rights.

There had been allegations that, for example, the US legislation had been abused by big business. Rather than being used to counter piracy as it was intended, the allegations are that the legislation was being used to preserve monopoly power on the part of copyright holders with examples such as the regional coding already mentioned.

Sony had also been active in the US, using litigation or the threat of it to stop software developers allowing Sony games to be played on ordinary PCs, and likewise for other games to be played on Sony Playstations. Restrictions on encryption have the immediate effect of denying a lot of the fair use exemptions that normally apply under copyright legislation, such as making back-ups and recording for later viewing, as well as activities undertaken for purposes such as criticism, comment, news reporting, teaching, scholarship or research. Those costs are

of course not borne by the Sonys of the world who use technology restrictions to make sure that a game user has to buy a player from the same company in that example.

In the past, former ACCC chair Professor Allan Fels has expressed concern about the emerging practice of inserting copy protection measures into CDs, which has the effect of making illegal copying more difficult but also prevents the use of back-up copies and makes CDs unplayable on some equipment. However the complications have grown exponentially since then.

The trend is curious since in many ways video and audio are converging with computer goods and services and the computer industry has been at the forefront of pushing for common standards and interoperability; the ability of products from different vendors to be able to operate together—except Apple of course. The Australian Government also has a strong position on interoperability. In the main the policy involves developing and adopting the relevant international standards, which themselves reflect the pressure to make ICT software and hardware that can plug into each other without causing major problems for business users. It appears that business and other large users have been able to make gains with common standards and interoperability. However, interoperability seems to elude items designed for retail consumers.

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