

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

1974 — *Parliamentary Paper No. 274*

JOINT COMMITTEE ON PRICES

**Report on Import Prices Inquiry  
Price Effects of Currency Changes**

**Report No. 3**

- 26 COMMODITY STUDIES
- OTHER MATTERS
- CONCLUSIONS

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## JOINT COMMITTEE ON PRICES

The Committee was appointed by resolution of the Senate on 23 July 1974 and the House of Representatives on 18 July 1974 to inquire into and, as appropriate, report upon -

- (a) complaints arising from prices charged by private industry and by the public sector;
- (b) movements in prices of goods and services in particular fields or sections of private industry and the public sector, for example as measured by price indices;
- (c) such other matters relating to prices as may be referred to the Committee by resolution of either House of the Parliament.

These terms of reference are identical to those of the Committee established by the Twenty-eighth Parliament.

The House of Representatives resolved on 3 May 1973 that the Import Prices Inquiry be referred to the predecessor Committee. This reference was again referred to that Committee on 7 March 1974. On 10 May 1973 that Committee resolved that two sub-committees be formed to be known as Sub-committee 'A' and Sub-committee 'B' and that the Import Prices Inquiry be conducted by Sub-committee 'A'.

At the dissolution of the Twenty-eighth Parliament the predecessor Committee had reported to the Parliament on two occasions on this reference. Sub-committee 'A' had completed its inquiries but was unable to present its final report to the Committee.

The House of Representatives resolved on 2 August 1974 that the reference be again referred to the Committee. On 24 September the Committee resolved that it resumes the Inquiry commenced by its predecessor in the Twenty-eighth Parliament.

The conclusions and recommendations in the Report are those of the present Committee. References to Subcommittee 'A' in the Report and in some places to the Committee are references to the predecessor Committee.



### Personnel of the Committee

Chairman .. .. . Mr C.J. Hurford, M.P.  
Members .. .. . Senator F.M. Chaney  
Senator R.N. Coleman  
Senator A.T. Gietzelt  
Senator D.B. Scott  
Mrs G.J.L. Child, M.P.  
Mr J.C. Hodges, M.P.  
Mr J.W. Howard, M.P.  
Hon. R.S. King, M.P.  
Mr R.B. Whan, M.P.  
Mr R. Willis, M.P.

Clerk to the Committee .. Mr M.E. Aldons

### Personnel of the Committee in the Twenty-eighth Parliament

Chairman .. .. . Mr C.J. Hurford, M.P.\*  
Deputy Chairman .. .. . Rt Hon. J.G. Gorton, C.H., M.P.\*  
Members .. .. . Senator A.T. Gietzelt  
Senator M.G.C. Guilfoyle\*  
Senator J. O'Byrne\*  
Senator E.W. Prowse\*<sup>1</sup>  
Senator D.D. Reid\*<sup>2</sup>  
Hon. R.V. Garland, M.P.  
Hon. P.J. Nixon, M.P.  
Mr J.M. Riordan, M.P.  
Mr R.B. Whan, M.P.  
Mr R. Willis, M.P.\*

Clerk to the Committee .. Mr M.E. Aldons

\* Members of Sub-committee 'A'

<sup>1</sup>Senator E.W. Prowse resigned his place in the Senate on 31 December 1973.

<sup>2</sup>Senator D.D. Reid was appointed to the Committee on 7 March 1974 and was appointed to Sub-committee 'A' on 14 March 1974.

The Advisers to the predecessor Committee were Dr W.E. Kasper, Senior Research Fellow in the Department of Economics, Research School of Social Sciences, Australian National University, Canberra, and Dr P.J. Lloyd, Senior Fellow in the Department of Economics, Research School of Pacific Studies, Australian National University, Canberra.

Dr Kasper was also adviser to the present Committee. In addition to the Clerk to the Committee, whose name appears on the previous page, the other officers of the Secretariat who assisted the Committee in this Inquiry were Mr P.F. Bergin (Clerk to Sub-committee 'A') and Mr G.L. Curnow.

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## FINDINGS AND RECOMMENDATIONS

### Findings

The reference from the House of Representatives requires the Committee to report on whether consumer or user prices of imports failed to respond to reductions in landed costs following the December 1972 upvaluation of the Australian dollar and other relevant currency changes in 1973.

During the course of the Inquiry the Australian Government reduced tariffs by 25 per cent 'across the board' (the tariff cuts) in July 1973 and also upvalued the Australian dollar in September 1973. The tariff cuts and the upvaluations have had a cumulative effect on landed costs of imports and it is not possible, in practice, to separate the price effects of the one from the other.

The Committee found that the only way to discharge its terms of reference was by means of commodity case studies (paragraphs 7-9). Thirty-five commodities were selected which, in the opinion of the Committee, covered '... imports having a significant effect on domestic costs and prices' (terms of reference). These commodities accounted for over 60 per cent of total commodity imports in 1972-73. This commodity coverage has involved the Committee in time-consuming consideration of over 300 submissions.

Table 3 on page 58 shows, in summary form, the response of import prices to the upvaluations for the 35 commodities selected for investigation. This table can be further summarised as follows:

	Per cent of cases <sup>a</sup>
1. Landed costs reduced	40
2. Upvaluations restrained increases in landed costs	55
3. Landed costs did not react	<u>5</u>
	100
4. Reductions passed on to consumer or end-user	90 <sup>b</sup>

<sup>a</sup> Weighted according to the importance of the commodity in the total coverage.

<sup>b</sup> 90 per cent of the 40 per cent of cases where landed costs were reduced.

The graph on page 60 indicates that the upvaluations of the Australian dollar in December 1972 and September 1973 had a visible impact on import prices.

The conclusion which can be drawn is that in the case of equipment for production (producer goods) the upvaluations resulted in reductions in landed costs and these reductions were generally passed on to the end-user. For producer materials (raw materials), the boom of world demand and world-wide material shortages in 1973 led to a rapid increase in prices in overseas markets so that landed costs in Australia increased despite the upvaluations. However, the upvaluations generally restrained these price increases. (paragraph 178)

The Committee notes that producer goods and raw materials account for 70 per cent of commodity imports.

With respect to consumer goods which make up the balance, the results were more mixed. For commodities such as tea, consumer prices responded promptly. For clothing and footwear, the practices of 'psychological pricing' and 'averaging' of retail margins appear to have denied the consumer of imported goods the full benefits of the policy measures taken by the Australian Government in 1972 and 1973.

(paragraphs 148-55)

The findings in the case studies are brought together at Appendix IV. These findings can be usefully re-arranged as follows:

(a) following the upvaluations landed costs have been reduced in respect of imports of -

- |                                      |                           |
|--------------------------------------|---------------------------|
| . agricultural machinery             | . jute                    |
| . excavating and levelling machinery | . motor cycles            |
| . telecommunications equipment       | . tyres and tubes         |
| . non-electric machinery             | . pharmaceutical products |
| . office machines                    | . toys                    |
| . photographic equipment             | . printed matter          |
| . internal combustion engines        | . tea                     |
| . anti-knock preparations            | . alcoholic beverages     |
|                                      | . unmanufactured tobacco  |



(b) consumer or user prices have responded to these reductions in respect of -

- |                                      |                           |
|--------------------------------------|---------------------------|
| . excavating and levelling machinery | . jute                    |
| . telecommunications equipment       | . motor cycles            |
| . non-electric machinery             | . tyres and tubes         |
| . office machines                    | . pharmaceutical products |
| . photographic equipment             | . toys                    |
| . internal combustion engines        | . printed matter          |
|                                      | . tea                     |
|                                      | . alcoholic beverages     |

(c) following the upvaluations landed costs have not been reduced in respect of imports of -

- |                   |                       |
|-------------------|-----------------------|
| . chemicals       | . textiles            |
| . petroleum       | . clothing            |
| . plastics        | . floor coverings     |
| . man-made fibres | . motor vehicles      |
| . crude rubber    | . domestic appliances |
| . timber          | . ceramic tiles       |
| . flat glass      | . cutlery             |
| . footwear        | . coffee              |
| . paper           | . fish                |

(d) however, the upvaluations have restrained the price increases for most of the commodities referred to in (c) above.

In a few instances the Committee has found that foreign suppliers have used their market power to obtain windfall gains from the upvaluations by quoting their prices in Australian dollars.

(paragraphs 159-64)

### Recommendations

To counter-balance, where possible, this abuse of market power and to measure the price effects of currency changes more speedily by better statistics rather than by commodity studies, the Committee makes the following recommendations:

- (a) that the Australian Government invites the attention of the Prices Justification Tribunal and the Industries Assistance Commission to the need to scrutinise, where appropriate, the treatment of 'the foreign exchange risk' by Australian companies that import from associate companies overseas; (paragraph 164)
- (b) that the Australian Bureau of Statistics be given the necessary resources to enable preparation and publication as soon as possible of import price statistics that give imports on a cost, insurance, freight and exchange basis and also statistics that show the prices of imported materials and fuels used in manufacturing; (paragraph 169)
- (c) that the Australian Bureau of Statistics be prepared to publish from time to time an index that comprises those consumer items within the Consumer Price Index that are fully imported, have a sizeable import content or face significant import competition. (paragraph 173)



REPORT ON PRICE EFFECTS OF THE  
CURRENCY CHANGES  
(REPORT NO. 3)

1. Introduction

Terms of Reference

On 2 August 1974 the House of Representatives resolved that the following matter be referred to the Joint Committee on Prices:

"Imports in respect of which evidence is presented to the Committee that the Australian dollar price to consumers or users failed to respond to reductions in landed costs following the revaluation of the Australian dollar in December 1972 or following other relevant currency changes in 1973, with particular reference to those imports having a significant effect on domestic costs and prices".

2. This matter had been previously referred to the Committee established in the Twenty-eighth Parliament on 3 May 1973 and again on 7 March 1974.

Public Hearings

3. Public hearings were held in:

- . Canberra on 20 and 21 June 1973,  
22 October 1973 and 15 March 1974;
- . Sydney, from 24-26 July 1973; and
- . Melbourne, from 7-9 August 1973.

4. The names of organisations that provided the Subcommittee with submissions on matters considered in this Report are shown at Appendix I. The Appendix distinguishes between organisations that made submissions and were examined by

Sub-committee 'A' at public hearings (Hansard dated 20 and 21 June 1973, 24-26 July 1973, 7-9 August 1973, 22 October 1973 and 15 March 1974), others whose submissions were incorporated in Hansard (dated 16 October 1973, 6 December 1973 and 13 December 1973) and those whose submissions were not incorporated in Hansard. Evidence incorporated in Hansard is available for purchase from Australian Government Publishing Service bookshops and is available for inspection at the Committee Office of the House of Representatives and at the National Library.

#### Previous Reports on Import Prices Reference

5. The predecessor Committee reported on two occasions to the Twenty-eighth Parliament.<sup>1</sup> The first Report covered inward freight rates, tyres and tubes, timber and pharmaceutical products. The second Report covered tea, jute, unmanufactured tobacco, fish, textiles and flat glass.

#### Scope of the Report

6. The remainder of this Report falls into four broad areas:

- . the approach to the Inquiry is outlined in this chapter;
- . Chapter 2 contains 26 case studies which in addition to the case studies in the previous reports, cover over 60 per cent of commodity imports (1972-73 figures);
- . Chapter 3 covers such matters as retail pricing practices, the tariff cuts and the need for better import price statistics; and

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<sup>1</sup> Report from the Joint Committee on Prices, Import Prices Inquiry, Price Effects of Currency Changes (Report No. 1), 1973, Parliamentary Paper No. 235.  
Report from the Joint Committee on Prices, Import Prices Inquiry, Price Effects of Currency Changes (Report No. 2), 1974, Parliamentary Paper No. 65.

the final chapter draws conclusions on the general effects of the upvaluations on consumer and user prices of imports.

#### Approach of the Committee to the Inquiry

7. The Committee considered several ways of discharging its terms of reference on whether consumer or user prices had responded to reductions in landed costs following the upvaluations. One way was to use existing statistics. The available statistics include the import price index published by the Reserve Bank of Australia (Reserve Bank) and various 'implicit import price deflators', which can be derived from statistics published by the Australian Bureau of Statistics (A.B.S.). Since the effect of the upvaluations is 'built into' the import price index of the Reserve Bank its usefulness as an indicator of changes in landed costs is limited (paragraph 33 of Report No. 1). These statistics are on the basis of prices 'free on board' (f.o.b.) and do not include freight and other charges, therefore they cannot be used to indicate how landed costs of imports have responded to the upvaluations.

8. Another way of estimating the price effects of an upvaluation is through the use of what economists call 'input-output' analysis. The Committee was advised that, in simple terms, the models for such analysis estimate, under certain assumptions, the cost savings to various user industries and the reduction in consumer prices that would result from a given upvaluation or tariff cut. The Committee is further advised that some of these assumptions, for example competitive conditions, are the very phenomena the Committee would have to test in order to find out whether the conclusions of 'input-output' analysis apply. In these circumstances the Committee was not encouraged to use 'input-output' analysis for the purpose of this Inquiry.



9. In the absence of satisfactory alternative methods, which would be capable of producing quicker results, the Committee had to use the time-consuming and tedious method of commodity case studies. As mentioned previously the case studies covered over 60 per cent of commodity imports in 1972-73, and, inward freight which is in a sense the most significant 'import' and affects landed costs of all commodity imports.

#### The Evidence

10. This Report is based on the evidence taken by Subcommittee 'A' which related mainly to the currency changes of December 1972 and early 1973 as required by the terms of reference. Some companies, however, up-dated the information to include the September 1973 upvaluation while others also included information on the 18 July 1973 25 per cent 'across the board' reduction in tariffs (the tariff cuts) which have price effects that are similar to an upvaluation. It must be remembered that about two-thirds of all imports enter at non-protective rates of duty.<sup>2</sup>

11. The Committee does not consider that the information on which this Report is based is dated in any way because the bulk of the information was directly related to the terms of reference. In any case, the response of consumer prices to reductions in landed costs is examined in the context of competitive and non-competitive market structures. These structures change only slowly through time.

#### The Currency Changes

12. Before proceeding to the case studies it would be useful to up-date the statistics on changes in market exchange rates between Australia and her major trading partners given in the first Report.

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<sup>2</sup> Industries Assistance Commission, Annual Report 1973-74 (Australian Government Publishing Service, Canberra, 1974), p. 14.

TABLE 1  
Market Exchange Rates Between Australia and Major Trading Partners

	\$A rate <sup>1</sup> at the end of						Percentage change <sup>2</sup>			
	Nov. 72	June 73	Sept. 73	Dec. 73	June 74	Sept. 74	Nov. 72- June 73	Nov. 72- Dec. 73	Nov. 72- June 74	Nov. 72- Sept. 74
1 US \$	0.8413	0.7071	0.6734	0.6734	0.6734	0.7646	+15.9	+20.0	+20.0	+ 9.1
1 UK £	1.9841	1.8315	1.6313	1.5625	1.6134	1.7863	+ 7.7	+17.8	+18.7	+10.0
100 Yen	0.2823	0.2694	0.2558	0.2422	0.2390	0.2587	+ 4.6	+ 9.4	+15.3	+ 8.4
1 D-Mark	0.2648	0.2877	0.2723	0.2516	0.2661	0.2891	- 8.6	- 2.8	- 0.5	- 9.2
1 Canadian \$	0.8477	0.7127	0.6732	0.6793	0.6978	0.7789	+15.9	+20.6	+17.7	+ 8.1
1 New Zealand \$	1.0020	0.9399	0.9960	0.9625	0.9794	0.9963	+ 6.2	+ 0.6	+ 2.3	+ 0.6

5

Effective exchange rate<sup>3</sup> (excluding effect of tariff cut)  
Effective exchange rate<sup>3</sup> (including effect of tariff cut<sup>4</sup>)

	+10.6	+20.3	+24.3	+19.4	+ 8.8
	+10.6	+24.8	+28.8	+23.9	+13.3
		to	to	to	to
		+26.3	+30.3	+25.4	+14.8

<sup>1</sup> Price of one unit of foreign currency in \$A, buying rates on the last trading day.

<sup>2</sup> + signifies upvaluation of \$A against foreign currency (new rate over old rate, changed from basis used in Report No. 1).  
- signifies devaluation of \$A against foreign currency.

<sup>3</sup> Changes in the basket of the currencies of Australia's main trading partners (Japan, U.S.A., U.K., West Germany, Canada, France and Italy) weighted with the shares in Australia's overseas trade, 1968-71.

<sup>4</sup> The 25 per cent tariff cut is estimated to equal an effective upvaluation of 4.5 to 6.0 per cent.

Sources: Department of Customs and Excise and Australian Bureau of Statistics.

13. The Australian dollar was repeatedly upvalued against the U.S. dollar and other currencies in the period December 1972 to September 1973. It was upvalued in relation to the U.S. dollar by 4.6 per cent on 23 December 1972, by 10 per cent on 13 February 1973, when the Australian Government decided not to follow the devaluation of the U.S. dollar against gold, and again by 4.8 per cent on 9 September 1973. In addition, the Australian Government cut tariffs 'across the board' by 25 per cent in July 1973, a measure that has similar price effects on imports as an upvaluation. The Australian Government devalued the Australian dollar on 9 September 1974 but the Committee had completed its detailed work by that date. Table 1 on page 5 shows the extent to which the Australian dollar has appreciated against the currencies of major trading partners in various periods between November 1972 and September 1974.

## 2. The Case Studies

### Agricultural Machinery

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	28.8	46.8
Value as proportion of total imports (%)	0.73	1.15
Main items imported	tractors	
Major sources of imports	U.K., U.S.A.	

14. Sub-committee 'A' received a submission from the Queensland Graingrowers' Association claiming that, with the exception of Allis Chalmers, importers of farm machinery had not passed on any of the price advantages resulting from the currency changes. This claim was disputed by Caterpillar of Australia Ltd (Caterpillar). The Company said its prices have been reduced as a result of the upvaluations and gave the following information, shown in Table 2.

TABLE 2

Reduction in Prices of Caterpillar's Imports

<u>Machines</u>		<u>Parts</u>	
<u>Date</u>	<u>Price reduction</u>	<u>Date</u>	<u>Price reduction</u>
	%		%
23 December 1971	5	23 January 1972	5
23 December 1972	6	23 January 1973	6
12 February 1973	5	22 March 1973	5

Source: Hansard, p. 356

15. Changes in the prices of Caterpillar's parts were delayed because of the complexity of re-pricing some 250,000 items.

16. The International Harvester Company of Australia Pty Ltd (International Harvester) told the Sub-committee that no changes had been made to its wholesale list price following



the exchange rate variations. However, International Harvester had given its distributors an additional discount of 10 per cent on crawler tractors imported from the United States of America (U.S.A.). The Company considered that the competitive nature of the industry would ensure that this discount would be passed on to the purchaser.

17. Massey-Ferguson (Australia) Limited (Massey-Ferguson) told Sub-committee 'A' that the favourable impact on profits resulting from the upvaluations could not be treated in isolation but must be related to the cost and profit position of the group as a whole. The group was facing significant local cost increases in wages, salaries and materials which offset the benefits arising from lower landed costs of imported goods. In the five-year period 1968 to 1972 the Company had incurred a loss of \$546,000 after tax (excluding profits on export sales and sales of capital assets). Massey-Ferguson also claimed that during the period of the 1972 rural slump the group had to absorb many cost increases which could not be passed on by increasing selling prices.

18. J.I. Case (Australia) Pty Ltd and David Brown Tractors Pty Ltd claimed that the benefits of the upvaluations had been used to balance cost increases in other areas.

19. The Committee finds in respect of imports of agricultural machinery that:

- (a) the upvaluations have resulted in reductions in landed costs;
- (b) these reductions in landed costs have in general not resulted in lower distributor prices because of cost increases in Australia;
- (c) Caterpillar and International Harvester have passed on part of the benefits of the upvaluations to their distributors.



### Excavating and Levelling Machinery

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	68.8	65.4
Value as proportion of total imports (%)	1.74	1.61
Main items imported	rock cutting machines, levellers, scoops & graders	
Major sources of imports	Japan, U.S.A.	

20. Importers of this type of machinery also import either agricultural or non-electric machinery or both. The comments made by the particular importers in relation to these other case studies generally apply to this case study.

21. This was particularly so in respect of Caterpillar. The price reductions referred to in Table 2 also apply to the Company's range of earthmoving equipment. Clark Equipment Australia Limited (Clark Equipment) told Sub-committee 'A' that it had reduced the price of its loaders and handling equipment in May 1973. The Company stated that it was not able to pass on the full benefits of the upvaluations as it had been subject to increases in other local costs. General Motors-Holden's Pty Limited (General Motors) had reduced the price of its Terex earthmoving equipment as a result of the currency changes. International Harvester, while not reducing its list prices, had given its dealers an additional 10 per cent discount on wheel loaders and attachments imported from the U.S.A.

22. Wabco Australia Pty Limited told the Sub-committee that it had not reduced the price of its construction equipment but had reduced the price of spare parts by up to 10 per cent. Massey-Ferguson's comments in relation to the effects of the upvaluations are summarised in the section on agricultural machinery.

23. The Committee finds in respect of imports of excavating and levelling machinery that:

- (a) the upvaluations have generally resulted in reductions in landed costs;
- (b) only part of these reductions in landed costs have been passed on to end-users because of cost increases in Australia.

Telecommunications Equipment

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	52.4	52.9
Value as proportion of total imports (%)	1.33	1.30
Main items imported	radar apparatus, transmitters & transistorised radios	
Major sources of imports	Japan	

24. Sub-committee 'A' received submissions from the Australian Post Office (A.P.O.) and the then Department of Civil Aviation (Civil Aviation). The submissions gave details of actions taken by these organisations and the result of these actions following the December upvaluation.

25. Civil Aviation provided details of savings effected on contracts with overseas suppliers and importers since the upvaluation. It stated that the majority of these contracts are subject to variation in respect of overseas list prices, freight, insurance and rates of exchange. Additional controls were implemented following the December upvaluation and savings were effected on purchases of carrier telephone and communications equipment.

26. The A.P.O. stated that tenderers are given the option of quoting prices either firm or variable in relation to exchange rate variations. Following the December upvaluation and other currency movements, the A.P.O. included a provision in its tender schedules to encourage the use of currency clauses. It also increased departmental scrutiny of the terms and conditions of contract.

27. In response to the Committee's Inquiry the A.P.O. carried out a survey of its contracts. The survey showed currency clauses applied to contracts worth \$32 million out of \$35 million. The A.P.O. entered into negotiations with tenderers who did not include currency clauses in their contracts, and was successful in obtaining price reductions in half these instances.

28. The A.P.O. also noted that in terms of its total expenditure of \$1,276 million the impact on costs as a result of currency variations was not significant.

29. Submissions were received from three importers of transistorised radios, Haco Distributing Agencies Pty Ltd (Haco), Sanyo-Guthrie Australia Pty Ltd (Sanyo) and Jacoby Kempthorne Pty Ltd (Jacoby). Sanyo stated that the Company's price lists had been revised in May 1973 and every saving possible had been passed on to the consumer. The benefits arising from the upvaluations have been offset by increased prices in Japan, increases in ocean freight rates and internal operational expense factors within Australia.

30. Haco did not alter its trade or recommended retail prices to the consumer. The prices to the consumer were set in April 1972 and increases in ocean freight rates plus a one per cent increase in f.o.b. prices from Japan had been absorbed by the Company. The Company gained a 4 per cent increase in profit margin from the December upvaluation. This increase was used to assist in promoting the sale of the Company's products.



31. Jacoby, although not a major supplier to the domestic market, had offered additional discounts to its dealers.

32. The Committee finds in respect of imports of telecommunications equipment that:

- (a) the upvaluations have resulted in reductions in landed costs to a number of users because of the operation of currency clauses;
- (b) the upvaluations have resulted in reductions in landed costs of transistorised radios;
- (c) the reductions in landed costs have been offset in some cases by cost increases in Australia;
- (d) in certain instances the consumer has benefited as a result of the reduced landed costs of transistorised radios.

Non-electric Machinery

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	255.1	230.6
Value as proportion of total imports (%)	6.45	5.66
Main items imported	forklift trucks, container processing machines, bearings & valves	
Major sources of imports	Japan, U.K., U.S.A.	

33. Sub-committee 'A' received evidence on two sub-groups within this category, forklift trucks and container processing machines.

34. Two importers of forklift trucks, Clark Equipment and Caterpillar, informed the Committee that because of currency changes they had reduced prices of machines and parts. Clark

Equipment gave evidence of reductions in the prices of spare parts. Caterpillar gave evidence of reductions in the prices of fully imported machines and parts which were the same as those for agricultural machinery shown in Table 2 on page 7.

35. Henry Simon Australia, an importer of packaging machines, informed the Committee that its machines are generally imported against specific orders and are delivered directly to the place of installation. The Company's contract of sales provides for any variation in the exchange rate to be to the buyer's account. This Company stated that as a consequence of the upvaluations, reductions in landed costs of packaging machines have been passed on to its customers.

36. The Committee finds in respect of imports of non-electric machinery that:

- (a) the upvaluations have resulted in reductions in landed costs of forklift trucks and packaging machinery;
- (b) these reductions in landed costs have been passed on to end-users.

#### Office Machines

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	107.0	119.3
Value as proportion of total imports (%)	2.71	2.93
Main items imported	E.D.P. machines, typewriters, calculating machines & duplicators	
Major sources of imports	Japan, U.K., U.S.A.	

37. The Sub-committee decided to concentrate its investigations on the electronic data processing (E.D.P.) group within this section. E.D.P. machines were the most significant item within this group and Sub-committee 'A'

received submissions from six companies that import these machines, including the National Cash Register Co. Pty Ltd, IBM Australia Limited, Honeywell Pty Limited and Burroughs Limited.

38. Evidence submitted to Sub-committee 'A' supported the industry's claim to be highly competitive. The machines are sold by competitive tender generally with contracts providing for any change in exchange rates to be reflected in the prices of the goods. Confidential evidence indicated reductions on tenders following the upvaluations.

39. A number of witnesses provided Sub-committee 'A' with details of their sales contracts and prices. The prices quoted generally included installation and servicing costs, with the cost of the equipment being approximately 50 per cent of the quoted price. Costs not affected by the upvaluations were the local costs such as installation and staff training.

40. It was claimed that greater savings had been effected on the larger machines. Price increases had been contemplated on some smaller units because of increases in prices in the country of origin. The upvaluations have enabled the companies to maintain existing prices.

41. Sub-committee 'A' also received evidence from Hewlett Packard Australia Pty Ltd, an importer of hand-held and desk-top programable calculators. The Company stated that the prices of these items had been reduced on 1 January 1973 following upvaluation of the Australian dollar and again in February 1973 following devaluation of the U.S. dollar. The price reductions had been of the order of 16 per cent.



42. The Committee finds in respect of imports of office machines that:

- (a) the upvaluations have resulted in reductions in landed costs of large E.D.P. machines and certain programable calculators;
- (b) these reductions in landed costs have been passed on to end-users;
- (c) landed costs of small E.D.P. machines have not fallen despite the upvaluations because of increases in prices in the countries of origin;
- (d) the upvaluations have enabled the importers of small E.D.P. machines to maintain existing prices.

Photocopying and Photographic Materials and Equipment

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	48.6	51.2
Value as proportion of total imports (%)	1.23	1.26
Main items imported	cameras, films & photocopying apparatus	
Major sources of imports	Japan, U.K., U.S.A.	

43. Sub-committee 'A' received a submission from Kodak (Australasia) Pty Ltd (Kodak) an importer of a comprehensive range of photographic goods. Kodak stated that the December 1972 upvaluation had resulted in a reduction in landed costs of imports from the U.S.A., Canada, the United Kingdom (U.K.), France and the Federal Republic of Germany (Germany, F.R.). However, these reductions in landed costs were affected by the appreciation of the German mark and the French franc as well as by increases in prices of some of the goods imported from the U.S.A., the U.K. and Germany, F.R.

44. Kodak stated that its selling prices were reduced as inventories were replaced by imports at lower landed costs.

It had not been possible to review all selling prices immediately because of the range of imported products. The Company stated that the review was a continuing process and that price reductions were being progressively instituted having regard to the Company's inventory position.

45. The Sub-committee also received two submissions from importers of photocopying equipment. One importer claimed that though the landed costs of its imports from Germany, F.R. had increased by 7 per cent the Company had not increased its prices. The other claimed that cost increases in Australia were greater than the benefits of the upvaluations.

46. The Committee finds in respect of imports of photocopying and photographic materials and equipment that:

- (a) the upvaluations have resulted in reductions in landed costs of certain photographic materials and equipment;
- (b) there was a delay in the passing on of these reductions to end-users because of the need to clear stocks imported at pre-upvaluation prices;
- (c) landed costs of photocopying equipment have increased despite the upvaluations;
- (d) these increases in landed costs did not result in higher user prices.



### Internal Combustion Engines

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	68.7	73.7
Value as proportion of total imports (%)	1.74	1.81
Main items imported	diesel, petrol & kerosene engines	
Major sources of imports	U.K., U.S.A.	

47. A number of the firms who made submissions to Sub-committee 'A' on internal combustion engines also made submissions on imports of other types of machinery. The comments made in respect of Caterpillar and Massey-Ferguson in the case study on agricultural machinery also apply to this case study.

48. General Motors also imports engines. Petrol engines are imported from the U.K. and are incorporated in Torana vehicles. The Company said that there had been a reduction in landed costs of these particular engines. It claimed that higher salary and wage rates and increases in material costs meant that there was no reduction in the price of these vehicles to the consumer. The Company had reduced the price of diesel engines imported from the U.S.A. These engines are used in industrial, earthmoving, marine and automotive applications and the reductions were a result of the upvaluations.

49. A.N.I. Australia Pty Limited gave evidence in respect of its imports of petrol engines from the U.S.A. and of diesel engines from the U.K. The Company stated that while landed costs of its imports from the U.S.A. had fallen by 20 per cent and those from the U.K. had fallen by 7 per cent it had not been possible to pass the full reductions in landed costs on to the end-users because of increases in local operating costs. The Company also had a stock of engines bought at pre-upvaluation prices. There had been some benefit

to end-users because as at March 1974 the selling prices of the petrol engines were 9 per cent below those established in 1971 while the prices of diesel engines have been maintained at their December 1972 level.

50. The Committee finds in respect of imports of internal combustion engines that:

- (a) the upvaluations have resulted in reductions in landed costs;
- (b) part of the reductions in landed costs have been passed on by some companies to end-users.

#### Chemicals

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	139.3	143.3
Value as proportion of total imports (%)	3.52	3.52
Main items imported	organic & inorganic chemicals	
Major sources of imports	Canada, Japan, U.K., U.S.A.	

51. The Sub-committee received submissions from a number of importers of chemicals including Union Carbide Australia Limited, Bayer Australia Ltd and Shell Chemical (Australia) Proprietary Limited. It was stated that the increased demand for chemicals overseas had outstripped productive capacity. For this and other reasons such as increases in raw materials and production costs and freight rates, landed costs of imports had increased despite the upvaluations.

52. It was generally agreed that the upvaluations had lessened the impact of substantially higher chemical prices which otherwise would have applied.

53. The Sub-committee was informed of a number of instances where companies had been able to pass on the benefits of the upvaluations. These instances were generally of specialty-type products.

54. The Committee finds in respect of imports of chemicals that:

- (a) landed costs have increased despite the upvaluations because of increases in prices in the countries of origin and increases in freight rates;
- (b) the upvaluations have assisted in restraining these increases which would have been greater had the upvaluations not taken place.

Anti-knock Preparations

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	19.5	18.2
Value as proportion of total imports (%)	0.49	0.45
Main items imported	tetraethyl lead, tetramethyl lead or a blend of the two	
Major sources of imports	U.K., U.S.A.	

55. The petroleum industry adds small quantities of anti-knock preparations to petrol in order to boost octane quality. The anti-knock preparations constitute an extremely low volumetric proportion of the final gallon of the product being less than 2.0 grams a gallon. Sub-committee 'A' was told that the cost of the anti-knock preparations represented approximately one per cent of the cost of petrol.



56. Landed costs of the anti-knock preparations have responded to the currency changes. However, the full benefit was not obtained because of increases in the prices of the preparations. Two companies told Sub-committee 'A' that landed costs had been reduced by 4 per cent. The companies considered that the savings were insignificant in comparison with other cost increases in the petroleum industry.

57. The Committee finds in respect of imports of anti-knock preparations that:

- (a) the upvaluations have resulted in marginal reductions in landed costs;
- (b) these reductions in landed costs were an insignificant saving in relation to the cost of a gallon of petrol.

Petroleum and Petroleum Products

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	193.3	174.7
Value as proportion of total imports (%)	4.89	4.29
Main items imported	crude petroleum, partly refined petroleum, motor spirit & residual fuel oils	
Major sources of imports	Middle East countries	

58. Indigenous crude oil accounts for approximately 70 per cent of Australia's total petroleum requirements. Because of its composition Australian crude oil produces a high yield of light products such as petrol and a low yield of heavy products such as fuel oil. It was also stated that indigenous crude oil would yield up to 90 per cent of petroleum fuels required for general consumption. Imported crude oil is generally used to manufacture products such as asphalt, solvents, petrochemical feed and fuel oil bunkers.

59. The Sub-committee was informed of the tight world-wide petroleum supply situation which had led to crude oil price increases. It was claimed that these price increases had more than offset the advantages of the upvaluations. It was also claimed that international freight rates had increased as a result of changes in tanker availability and operating costs. It was stated that the upvaluations had had a short-term effect on prices. Caltex Oil (Australia) Pty Limited stated that prices of refined petroleum products in the country of origin in June 1973 had increased by from 17.10 per cent to 24.16 per cent over prices prevailing at the beginning of December 1972.

60. Esso Australia Ltd assessed that there had been a reduction in landed costs of its lubricating blend oil stocks of approximately 15 per cent during the first six months of 1973 compared with 1972. These stocks were blended with locally manufactured products and the reduced import prices would have reduced prices by about 2 per cent. However, increases in local manufacturing and distribution expenses had more than offset the benefits of the upvaluations.

61. The Committee finds in respect of imports of petroleum and petroleum products that:

- (a) landed costs have increased despite the upvaluations because of increases in export prices in the countries of origin and increases in freight rates;
- (b) the upvaluations have assisted in restraining these increases which would have been greater had the upvaluations not taken place.

## Plastics

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	96.1	105.2
Value as proportion of total imports (%)	2.43	2.58
Main items imported	plastic materials, regenerated cellulose & artificial resins	
Major sources of imports	Japan, U.K., U.S.A.	

62. Sub-committee 'A' received submissions from eight importers including ICI Australia Limited, BASF Australia Ltd (BASF) and Advance Industries Limited. All importers claimed that during 1973 there had been a continued, and in some cases marked, increase in the prices of plastics. The base materials for the plastics industry are by-products of the petro-chemical industry. These base materials have been in short supply and there have been increases in world prices.

63. BASF stated that landed costs of nylon for synthetic fibre production had been reduced as a result of the upvaluations. This reduction had been passed on to the users.

64. A number of submissions stated that the upvaluations did result in some landed costs being not as high as they would have been without the upvaluations.

65. The Committee finds in respect of imports of plastics that:

- (a) landed costs have increased despite the upvaluations because of increases in prices in the countries of origin;
- (b) the upvaluations have assisted in restraining these increases which would have been greater had the upvaluations not taken place.

### Man-made Fibres

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	19.0	23.3
Value as proportion of total imports (%)	0.48	0.57
Main items	acrylic and viscose fibres	
Major sources of imports	Japan, U.S.A.	

66. Sub-committee 'A' was informed that because of a world-wide shortage of man-made fibres and the consequent escalation of world textile commodity prices, prices in Australia had increased despite the upvaluations. Although the price increases were not as dramatic as those for natural fibres (wool and cotton) they were estimated by the Textile Council of Australia (Council) to be as high as 50 per cent. Pacific Carpets International Pty Ltd said that the landed costs of acrylic fibres imported from Japan had risen by approximately 60 per cent between December 1972 and September 1973.

67. The Council informed the Sub-committee that certain of its members had been advised by the Japanese industry that it would not honour firm contracts for the supply of man-made fibres. The Council noted that all that may be claimed is that in some instances import prices are 7 per cent less than they might have been in the absence of the December 1972 upvaluation.

68. The Committee finds in respect of imports of man-made fibres that:

- (a) landed costs have increased despite the upvaluations because of increases in prices in the countries of origin;
- (b) the upvaluations have restrained these increases which would have been greater had the upvaluations not taken place.



### Crude Rubber

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	22.6	24.6
Value as proportion of total imports (%)	0.57	0.60
Main items imported	natural rubber & synthetic rubber	
Major sources of imports	Malaysia, U.S.A.	

69. Evidence was supplied by Dunlop Australia Ltd (Dunlop) The Goodyear Tyre & Rubber Co. (Australia) Limited and Uniroyal Pty Ltd (Uniroyal). All Australia's requirements of natural rubber are imported. Dunlop said that the use of imported synthetic rubber is small when compared with the natural rubber used in the Company's products. Uniroyal stated that it imported about 35 per cent of its raw materials and that natural rubber was the largest single item in terms of value. Imported raw materials represent approximately 15 per cent of total manufacturing costs.

70. Prices of natural rubber are determined on the Malaysia/Singapore Rubber Exchange. Dunlop buys its requirements from local firms. Sub-committee 'A' was told that because of buoyant demand in 1973 natural rubber prices had increased dramatically; by 45 per cent to 65 per cent between December 1972 and July 1973. Thus landed costs of natural rubber imported from Malaysia have increased despite the upvaluations because of buoyant world demand in 1973.

71. Rubber bought from Malaysia is paid for in Malaysian dollars. Although the value of the Australian dollar appreciated against the Malaysian dollar in December 1972, it declined in relative value in the first half of 1973. By the middle of the year the relative value was below the level prior to the December upvaluation. Nevertheless, the Committee accepts Dunlop's view that landed costs of imports would have been greater but for the upvaluations.



72. While Malaysia is the major supplier of natural rubber, imports from Papua New Guinea are also significant. The duty free entry of natural rubber into Australia is subject to the sale of the available output of natural rubber from Papua New Guinea at a satisfactory price. This is achieved each year when agreement has been reached between the Papuan Rubber Pool and the major Australian rubber manufacturers for the sale of all rubber produced in Papua New Guinea. The purchase price is based on prices quoted on the Malaysia/Singapore Rubber Exchange. When agreement is reached the Department of Customs and Excise is notified and concessional by-law entry for Malaysian rubber is granted for the ensuing twelve months.

73. Sub-committee 'A' was told that the agreement increases manufacturing costs in Australia by between 1 cent to 2 cents a pound because Papua New Guinea rubber is of a higher quality than is required by Australian rubber manufacturers who pay world prices for this quality.

74. The Committee finds in respect of imports of crude rubber that:

- (a) landed costs have increased despite the upvaluations because of increases in prices in the countries of origin;
- (b) the upvaluations have assisted in restraining these increases which would have been greater had the upvaluations not taken place;
- (c) the operation of an agreement between the Papuan Rubber Pool and the Australian rubber manufacturers adds to manufacturing costs of rubber goods made in Australia.

75. The Committee wishes to emphasize, however, that the last finding is not, in any way, critical of the need for Australian Government assistance to the Papua New Guinea natural rubber industry.

## Paper

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	101.7	110.9
Value as proportion of total imports (%)	2.57	2.72
Main items imported	newsprint	
Major sources of imports	Canada, Finland, New Zealand, U.K., U.S.A.	

76. The Sub-committee received a submission from the National Paper Marketing Council of Australia (Council) which represents the major importers of fine paper. The Council claimed that there had been strong demand pressures on paper mills all over the world. Pulp prices had risen and delivery times were extended.

77. The Council stated that some mills quote and invoice in Australian dollars and others in U.S. dollars. Those quoting in Australian dollars maintained prices following the December upvaluation while those invoicing in U.S. dollars increased prices.

78. The only producer of newsprint in Australia is Australian Newsprint Mills Limited (A.N.M.). The Company allocates its mill output to users of newsprint by means of three-year contracts. Individual allocations are based on the user's consumption of newsprint in previous years.

79. The Australian market for newsprint is supplied mainly by A.N.M. and the Tasman Pulp and Paper Company (Tasman) of New Zealand. Other countries, of which Canada is the major supplier, supply about 11 per cent of the market. This supply arrangement has been made under the New Zealand-Australia Free Trade Agreement (NAFTA). The limitation on imports from sources other than New Zealand does not apply to South Australia and Western Australia.

80. Ten per cent of the shares in A.N.M. are held by the public. Tasman holds 16 per cent and the metropolitan daily newspapers the remainder. The shareholding of Tasman resulted from an arrangement by which two million shares were exchanged between the two companies.

81. The Herald and Weekly Times Ltd told the Subcommittee that since 1955 New Zealand prices were expressed in Australian dollars. Up to 1972, Canadian prices were expressed in U.S. dollars but in September 1972 the Company negotiated prices in Australian dollars with its Canadian suppliers. It was stated that this gave stability in the price of the raw material (newsprint). As a consequence, the upvaluations had no effect on the prices of newsprint.

82. In the newsprint industry the major users have a vested interest in the sole Australian producer and the producer and the major importer have a vested interest in one another. Thus the structure of the industry, which is supported by NAFTA, restricts competition between local and overseas suppliers of newsprint.

83. The Committee finds in respect of imports of paper that:

- (a) landed costs of fine paper have not fallen despite the upvaluations because of increases in prices in the countries of origin;
- (b) the New Zealand-Australia Free Trade Agreement contributes to the restriction of competition between local and overseas suppliers of newsprint.



## Footwear

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	25.4	22.6
Value as proportion of total imports (%)	0.64	0.56
Main items imported	footwear	
Major sources of imports	Italy, Japan, Taiwan, U.K.	

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84. Sub-committee 'A' received evidence from thirteen importers of footwear including Dunlop Australia Ltd (Dunlop) and Instep Pty Ltd (Instep).

85. Instep had reduced its wholesale prices by 5 per cent following the December upvaluation. The firm claimed that the full benefit of the upvaluation had been eroded by price increases in the countries of origin. Other firms claimed that prices in most countries had increased and these price increases outweighed the benefits of the upvaluations. It was claimed that the upvaluations had obviated the necessity of increasing prices to the consumer.

86. Dunlop has an arrangement whereby its imports from Korea, Taiwan, the Philippines, Indonesia, Malaysia and Hong Kong are imported exclusively through the Mitsubishi Corporation (Mitsubishi). In June 1973 Mitsubishi advised Dunlop that prices in Taiwan had increased and further increases were expected. The reasons given were the increases in the basic material costs, particularly cotton yarn and crude rubber.

87. The practices of 'psychological pricing' and 'averaging' of retail margins which have affected retail prices of footwear are discussed in paragraphs 148-55.

88. The Committee finds in respect of imports of footwear that:

- (a) landed costs have increased despite the upvaluations, except in certain instances, because of increases in prices in the countries of origin;
- (b) the upvaluations have assisted in restraining these increases and have enabled a number of importers to maintain existing prices.

Clothing

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	49.7	63.5
Value as proportion of total imports (%)	1.26	1.56
Main items imported	outer garments	
Major sources of imports	China, Hong Kong, Taiwan, U.K., U.S.A.	

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89. The price of clothing is dependent, among other factors, on the cost of the fabrics and yarns from which it is made. The costs of these yarns and fabrics are in turn dependent on fibre prices. The Committee has considered the effects of the upvaluations on prices of man-made fibres in paragraphs 66-68 of this Report. The case study on textiles, which covers fabrics and yarns, appeared in Report No. 2. In both cases the Committee found that export prices had increased significantly because of world shortages with the result that landed costs increased despite the upvaluations. The upvaluations assisted in restraining these cost increases which would have been greater had the upvaluations not taken place.



90. A number of witnesses told the Sub-committee that overseas exporters increased prices of clothing. These increases were the result of the increases in raw material prices already mentioned and buoyant world demand. Crystal Clothing International Pty Ltd (Crystal) told the Sub-committee that the benefits resulting from the U.S. devaluation were offset by the need to accede to the demands from Taiwan suppliers for higher prices to compensate for losses in the value of the U.S. dollar relative to the new Taiwan dollar. Crystal supplied the Sub-committee with evidence of claims for price increases of 5 per cent in February 1973 and 9.5 per cent in July 1973. The increase in July 1973 was stated to be needed to cover increased raw material costs. These claims were supported by other witnesses. Since importers generally pay for their overseas purchases in foreign currency and not in Australian dollars the Committee concludes that the upvaluations restrained the extent of the price increases.

91. The Gazal Clothing Company Pty Limited (Gazal) stated that the upvaluations had enabled the Company to maintain existing prices in spite of an increase in prices by the supplier. Gazal imports men's polyester/cotton shirts which are manufactured in Hong Kong from cloth imported from Japan. In 1971 the f.o.b. price of these shirts was US\$12.25 a dozen. For orders placed with overseas suppliers in 1972 the price was US\$14.66 a dozen. If there had been no upvaluations the Company would not have been able to maintain the existing wholesale price of \$A1.95 and \$A2.00 a shirt. Because of the upsurge in overseas prices, however, the f.o.b. price at June 1973 was US\$24.10 a dozen.

92. The practices of 'psychological pricing' and 'averaging' of retail margins which have affected retail prices of clothing are discussed in paragraphs 148-55.

93. The Committee finds in respect of imports of clothing that:

- (a) landed costs have increased despite the upvaluations because of increases in prices in the countries of origin;
- (b) the upvaluations have assisted in restraining these increases and have enabled a number of importers to maintain existing prices.

Floor Coverings

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	30.5	30.7
Value as proportion of total imports (%)	0.77	0.75
Main items imported	carpets, rugs & mats	
Major sources of imports	N.Z., U.K., U.S.A.	

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94. Evidence was received from manufacturers who import floor coverings to supplement their local range and from firms who distribute both local and imported floor coverings. Sub-committee 'A' was told that the price of carpet is very dependent on the price of the raw material used. There had been a world-wide boom in fibre prices and this had affected the prices of carpets.

95. It may be of interest to note that little Australian wool is used in the manufacture of carpets.

96. Sub-committee 'A' was told that prices of wool carpets in the exporting countries had increased from late 1972 to mid-1973. In the case of imports from the U.K. the increase in prices had ranged from 14 per cent to over 30 per cent. The reason given for the increase in prices was the rise in the price of carpet wool which was in line with the general trend in

wool prices. The Sub-committee was told that the upvaluations had enabled a number of firms to maintain existing selling prices. Had it not been for the upvaluations these prices would have increased.

97. Sub-committee 'A' received details of price reductions made by one importer of wool carpets from New Zealand. The price reductions were a result of the upvaluations and increased efficiency within the company.

98. Sub-committee 'A' was told by one firm that it had been able to reduce the prices of its bri-nylon carpet by 9 per cent. Selling prices in the U.K. had not increased which meant that landed costs had been reduced and the price reduction was a direct result of the upvaluations.

99. An importer of vinyl floor coverings from the U.S.A. said that landed costs of his imports had fallen. Landed costs from one supplier had decreased by 10 per cent in December 1972 and by a further 10 per cent in March 1973. Imports from another supplier had also been reduced by approximately 10 per cent in February 1973. These reductions had been passed on to retailers.

100. The Committee finds in respect of imports of floor coverings that:

- (a) landed costs of wool carpets have increased despite the upvaluations because of rising wool prices;
- (b) the upvaluations have assisted in restraining these increases and have enabled a number of importers of wool carpets to maintain existing prices;
- (c) the upvaluations have resulted in reductions in landed costs of other floor coverings;
- (d) the reductions in landed costs of other floor coverings have been passed on to retailers.

### Motor Vehicles

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	307.9	298.9
Value as proportion of total imports (%)	7.79	7.34
Main items imported	motor vehicles & parts	
Major sources of imports	Japan, U.K., U.S.A.	

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101. The upvaluations resulted in landed costs of imports from Japan and Germany, F.R. being reduced. However, the reduction was only short-term as movements in both the Japanese yen and the German mark have led to increases in landed costs.

102. The Sub-committee found no evidence of price reductions in motor vehicles imported from countries against which the Australian dollar appreciated in value.

103. The Sub-committee was told by the Ford Motor Company of Australia Limited, Volvo Australia Pty Ltd and Australian Motor Industries Limited that certain planned price rises had been postponed and other proposed price rises had been reduced. Reasons given for the proposed rises were the increased Australian labour and material costs for the local component of the vehicles, increased freight rates, increased f.o.b. costs from overseas suppliers and increased import duty because of the revised local content rules.

104. The Sub-committee noted that a significant proportion of vehicles and vehicle components is imported by subsidiaries of overseas companies. Nissan Motor Company (Australia) Pty Ltd told the Sub-committee that its imports from Japan were priced in pounds sterling and that the relative movements between the three currencies, i.e. the Japanese yen, the Australian dollar and pounds sterling, as well as increased prices in Japan effectively offset the benefits of the upvaluations of the Australian dollar. The Company also stated that the upvaluation of the Japanese yen increased buying prices in pounds sterling by 9 per cent.



105. Leyland Motor Corporation of Australia Limited (Leyland) told the Sub-committee that its overseas parent company had previously refrained from passing on cost increases for competitive reasons, but took advantage of the upvaluations to recoup part of the deferred cost increases. Leyland advised that its pricing policy was to obtain a 'satisfactory' level of profits over a twelve-month accounting period and did not believe it was sound policy to adjust prices immediately exchange rates varied.

106. Spare parts and accessories are important imports and all companies reported the need to hold a high level of stock. In some cases up to eight months future sales of parts must be kept in stock. The Sub-committee was told that reduced landed costs, because of the upvaluations, would be taken into consideration as the prices of new batches of parts were determined.

107. The Committee finds in respect of imports of motor vehicles that:

- (a) landed costs have increased despite the upvaluations because of increases in prices in the countries of origin;
- (b) the upvaluations have assisted in restraining these increases which would have been greater had the upvaluations not taken place.

108. The Committee notes, however, that the upvaluations and the tariff cuts have given imported motor vehicles a price advantage over locally produced vehicles. The locally produced vehicles have increased in price as a result of cost pressures within Australia while cost increases which would have affected imported vehicles have been restrained by the upvaluations and tariff cuts. This advantage led to an increase in imports of motor vehicles in 1973-74 to \$457 million.

### Motor Cycles

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	21.2	34.9
Value as proportion of total imports (%)	0.54	0.86
Main items imported	motor cycles & parts	
Major sources of imports	Japan	

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109. Motor cycles are not manufactured in Australia. Sub-committee 'A' received submissions from McCulloch of Australia Pty Limited (McCulloch), the N.S.W. distributor for Yamaha motor cycles, Bennett Honda (a division of Bennett & Wood Ltd) and Honda Australia Pty Ltd.

110. In N.S.W. Yamaha prices were reduced on 1 February 1973 and McCulloch advertised these reductions as resulting from the December upvaluation. The reductions were approximately 5 per cent overall and the recommended retail price lists submitted showed reductions ranging up to 12 per cent. The Company added that since then Yamaha Motor Co. Ltd of Japan (Yamaha) had increased its selling prices on two occasions by a total of 18 per cent and planned a further increase of 3 to 5 per cent. These price increases, and rising overhead costs in Australia, would lead to a revision of McCulloch's selling prices in the future.

111. Japanese suppliers quote their selling prices in U.S. dollars. Yamaha told its distributors that it was suffering considerable exchange loss from the February 1973 devaluation of the U.S. dollar and the subsequent floating of the Japanese yen. Because of this Yamaha increased its prices for spare parts and accessories by 18.5 per cent and prices for other goods by 15 per cent from 1 March 1973. Yamaha increased its motor cycle selling prices again in August 1973 by 3 per cent because of rising costs in Japan.

112. Bennett Honda said it was required, by the terms of trading, to compensate its Japanese suppliers for any major

variation in the conversion rate of 308 yen to the U.S. dollar. These prices were increased by 18.6 per cent from 1 March 1973 because of the February devaluation of the U.S. dollar. Bennett Honda concluded that the combined effect of the upvaluations and the price increases was that landed costs remained constant.

113. The fact that import contracts were made in U.S. dollars did not lead to automatic benefits from the upvaluations of the Australian dollar to the Australian importer and user, because Japanese suppliers increased their sales prices (in U.S. dollars). Both major Japanese producers of motor cycles were obviously able to shift the foreign exchange risk resulting from the U.S. dollar devaluation on to their Australian customers. The immediate increases in their U.S. dollar prices by nearly identical amounts indicate that economic conditions and the relative market power of Japanese suppliers excluded any positive benefit from appreciation of the Australian dollar.

114. Despite this, the consumer has benefited because of price competition in the local market. The reduction in list prices by McCulloch, increased discounts offered by Bennett Honda to its dealers and discounting by dealers is indicative of keen price competition.

115. The Committee finds in respect of imports of motor cycles that:

- (a) the December 1972 upvaluation has resulted in reductions in landed costs which have been passed on to the consumer because of competition in the domestic market;
- (b) with the devaluation of the U.S. dollar in February 1973 Japanese suppliers have taken advantage of buoyant economic conditions and their market power to shift the exchange risk to the Australian importer and to exclude any benefit from the Australian dollar upvaluations to the Australian buyer.

### Domestic Appliances

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	31.9	35.4
Value as proportion of total imports (%)	0.81	0.87
Main items imported	refrigerators, freezers, washing machines & vacuum cleaners	
Major sources of imports	Japan, N.Z.	

116. The Sub-committee restricted its analysis to the effect of the upvaluations on landed costs of refrigerators and freezers. It received submissions from Sun Electric Company Pty Ltd (Sun), W.P. Tresise & Co. Pty Ltd (Tresise), AWA-Thorn Consumer Products Pty Ltd (Thorn) and Sanyo-Guthrie Australia Pty Ltd (Sanyo).

117. Sanyo told the Sub-committee that the December 1972 upvaluation had enabled the Company to abandon a proposed new price list. It maintained its current price on the stocks on hand. A new price structure was implemented on 1 May 1973 and this new price structure reflected the savings resulting from the upvaluation. Tresise claimed that the currency changes had enabled the maintenance of a level of prices that would otherwise have been impossible.

118. Sun claimed that the upvaluations had resulted in only short-term reductions in landed costs. Prices in the countries of origin and freight rates had progressively increased landed costs. Thorn stated that landed costs had risen because of increases in f.o.b. prices, freight rates, landing charges and duty rates.

119. The Committee finds in respect of imports of domestic appliances that:

- (a) landed costs have not fallen significantly despite the upvaluations because of increases in prices in the countries of origin;
- (b) the upvaluations have enabled a number of importers to maintain existing prices despite increases in prices in the countries of origin.



Cutlery

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	11.8	14.0
Value as proportion of total imports (%)	0.30	0.34
Main items imported	knives, spoons, forks & butter knives	
Major sources of imports	Japan, U.K.	

120. Importers of cutlery told Sub-committee 'A' that landed costs had not fallen following the upvaluations. Increases in prices in the countries of origin, increases in freight rates and other costs outweighed the benefits of the upvaluations. It was also stated that increases in landed costs would have been much greater but for the upvaluations.

121. One importer claimed that he had been forced to compensate his Hong Kong and Japanese suppliers for losses that these suppliers had incurred by dealing in U.S. dollars. The importer claimed there were limited reliable sources of supply and he had no alternative but to pay the additional cost. The Committee notes that this practice is also prevalent in respect of motor cycle imports.

122. The Committee finds in respect of imports of cutlery that:

- (a) landed costs have not fallen despite the upvaluations because of increases in prices in the countries of origin and increases in freight rates;
- (b) the upvaluations have assisted in restraining these increases which would have been greater had the upvaluations not taken place.

### Ceramic Tiles

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	9.5	14.9
Value as proportion of total imports (%)	0.24	0.37
Main items imported	non-refractory ceramic setts, flags & tiles	
Major sources of imports	Japan, U.K.	

123. Sub-committee 'A' received submissions from five companies that import ceramic wall and floor tiles including William Crosby (Holdings) Limited, Lehmann Bros Pty Ltd and Indent Wall and Floor Tiles Pty Limited which is a subsidiary of R. Fowler Limited. These importers purchase ceramic tiles from ten different countries.

124. Rising costs in the countries of origin have led to increases in selling prices of exports. Freight charges had also increased. These factors had cancelled the benefits of the upvaluations in most cases. However, since export prices are quoted in a foreign currency, usually that of the exporting country, which is then converted to Australian dollars at the ruling rate of exchange, the Committee concludes that the upvaluations have restrained increases in landed costs.

125. In some cases, however, landed costs have fallen but such reductions were used to offset increases in operating costs in Australia. The evidence suggested that the local industry is competitive and that prices charged in the market place change daily. The Committee observes that this competition could have resulted from the abandonment of a manufacturers' agreement which restricted import competition.<sup>3</sup>

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<sup>3</sup> Commissioner of Trade Practices, Fourth Annual Report Year ended 30 June 1971 (Australian Government Publishing Service, Canberra, 1971), p. 5.

126. The Committee finds in respect of imports of ceramic tiles that:

- (a) landed costs have not fallen despite the upvaluations because of increases in prices in the countries of origin;
- (b) the upvaluations have assisted in restraining these increases which would have been greater had the upvaluations not taken place.

Toys, Games and Sporting Goods

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	29.9	34.9
Value as proportion of total imports (%)	0.76	0.86
Main items imported	dolls, plastic toys, indoor games & fishing equipment	
Major sources of imports	Hong Kong, Japan, U.K., U.S.A.	

127. Sub-committee 'A' was told of a number of instances where the upvaluations have resulted in reduced landed costs. These reductions in landed costs have been passed on to retailers.

128. In some instances the full benefit of the upvaluations has not been obtained. The benefit had been eroded by price increases in the country of origin and by increases in freight rates.

129. Woolworths Limited (Woolworths) provided the Sub-committee with details of its imports of toys. The Company stated that its range of toys changes substantially from one Christmas to the next so that very few lines are directly comparable. Selling prices were provided for seven such toys and although there had been small movements in costs there had

been no change in selling prices. The Myer Emporium Ltd also commented that the mix of toys from one year to another is very substantial.

130. The Committee finds in respect of imports of toys, games and sporting goods that:

- (a) the upvaluations have resulted in reductions in landed costs;
- (b) these reductions in landed costs have been passed on to retailers.

Printed Matter

	<u>1971-72</u>	<u>1972-73</u>
Value of imports	71.5	71.5
Value as proportion of total imports (%)	1.81	1.76
Main items imported	printed books, pamphlets, newspapers, journals & periodicals	
Major sources of imports	Hong Kong, U.K., U.S.A.	

131. Over 80 per cent, by value, of the books sold in Australia are imported. About half of the imports are from the U.K. and a third from the U.S.A. As can be seen from Table 1 on page 5 the Australian dollar has appreciated substantially against the currencies of these two countries. Of the books produced in or imported into Australia about half are used for educational purposes or by public libraries or are text books for students.<sup>4</sup> Imports consist of school and university

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<sup>4</sup> Commissioner of Trade Practices, Fifth Annual Report Year ended 30 June 1972 (Australian Government Publishing Service, Canberra, 1971), p. 36.



textbooks, books for the library trade, dictionaries, children's books, general books, magazines and periodicals.

Books and other printed matter are imported by companies who also publish in Australia or by other suppliers who do not publish but purchase their requirements from overseas and Australian publishers. Both categories of suppliers service the library and other institutional markets direct, or service booksellers (general booksellers, newsagents, department stores, supermarkets) who in turn sell to the general public. Sub-committee 'A' received submissions from more than 30 importers of printed matter and took evidence from 9 of these which included Penguin Books Australia Limited (Penguin), Gordon & Gotch (Australasia) Limited (Gordon & Gotch) and the President of the Australian Booksellers Association (A.B.A.).

The A.B.A. said it reduced recommended retail prices by 7.5 per cent in April 1973 as a consequence of the December upvaluation of the Australian dollar. The President of the Association said that 75 per cent of importers would have given the benefit of the upvaluation to booksellers because most firms observe the A.B.A. schedule. It was stated that a book invoiced at £1.00 had a recommended retail price of \$5.15 before the upvaluation and \$4.80 after the upvaluation. The difference in price represented the difference in the purchasing power of the Australian dollar in terms of pounds sterling. The same procedure was applied to the U.S. dollar.

This response of consumer prices to the currency changes was also confirmed by other importers. William Collins (Australia) Ltd (William Collins) told the Sub-committee that its recommended prices are slightly below those of the A.B.A. The Company said it had reduced these prices by 7.5 per cent on average for general books, educational books and children's books. In the case of 'closed market titles', which are imported, prices have been reduced in line with the currency changes. 'Closed market titles' refer to the practice of

overseas publishers 'closing' the market in favour of their Australian agent or branch. Booksellers are then required to purchase their requirements through the local agent or branch.<sup>5</sup> The Grahame Book Company Pty Limited (Grahame) also referred to price reductions on books published in the U.S.A. but obtained from closed market sources in Australia.

135. Grahame is a major supplier to libraries and reduced prices of books it imports from the U.K. and the U.S.A. on two occasions (up to July 1973) following the currency changes by between 14 per cent and 20 per cent. Cheshire Publishing Pty Ltd (Cheshire), which imports less than 15 per cent of its total requirements, said that since library book suppliers could buy overseas and thereby by-pass importers like Cheshire, this, of itself, had led importers to alter their prices to reflect the currency changes.

136. There have been cases where consumer or user prices have not been affected by the upvaluations. One is where there has been substantial stocks imported and paid for before the December upvaluation. Butterworths Pty Limited said it had such stocks of educational books. In other instances, although landed costs had fallen, selling prices in Australia did not fall. Thus Encyclopaedia Britannica Inc. said that all that the upvaluations have done was to reduce an annual trading deficit by \$85,000. Penguin said the upvaluations have forestalled a price increase and referred to the rapid decline in profitability in 1972 compared with 1971. It later advised the Sub-committee that it had reduced the price of its hard

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<sup>5</sup> Department of the Media, Report of the Interdepartmental Committee on the Production of Educational Publications (Australian Government Publishing Service, Canberra, 1974). The Committee recommended that closed market arrangements within the Australian book trade be referred to the Commissioner of Trade Practices (now the Trade Practices Commission) for examination.

cover books. William Collins explained that although it reduced recommended prices by 7.5 per cent it did not pass on the full benefit of the currency changes because it used some of the benefit to increase profits considered to be inadequate, to increase sales promotion and to make special deals to improve sales.

137. Another reason why consumer or user prices for some types of books were not reflected by the upvaluations is the practice of pre-pricing, on some paperbacks for example. William Collins said the recommended retail price was printed on the back of paperbacks and that there would be a time lag before books with printed prices that reflect the currency changes are available for sale to the public. The Company considered the costs of re-pricing to be formidable. When questioned as to why William Collins did not recommend that retailers reduce the retail price below the printed price, the Company replied that this would destroy or put at question the respect for the price printed on the back which is something that has been built up over a long time. This statement clearly indicates how business attitudes to price competition can reduce the benefits consumers should receive. The absence of consumer benefit reflects an attitude that favours orderly marketing rather than competition in the retailing of books.

138. A final reason for reduction of consumer benefit is the practice of prices quoted in Australian dollars and converted to pounds sterling at ruling rates of exchange, with the benefits of the upvaluations accruing to the overseas supplier. This was the experience of the largest importer of magazines, Gordon & Gotch, in respect of most magazines imported from the U.K. It reflects the presence of monopoly power overseas.

139. The Committee finds in respect of imports of printed matter that:

- (a) the upvaluations have generally resulted in reductions in landed costs;
- (b) in some cases part of the benefits of the upvaluations have been retained by Australian suppliers because of inadequate profits;
- (c) in other cases the consumer has been temporarily denied the benefits of the upvaluations because of the preference for orderly marketing rather than competition;
- (d) in the case of magazines imported from the U.K. benefits of the upvaluations have accrued to U.K. suppliers because of the monopoly power of overseas suppliers.

Coffee

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	16.3	18.8
Value as proportion of total imports (%)	0.41	0.46
Main items imported	raw or kiln dried coffee	
Major sources of imports	Brazil, Papua New Guinea, Uganda	

140. Imports of coffee from Papua New Guinea which account for over 30 per cent of imports are purchased in Australian dollars and are not affected by the upvaluations. The Australian dollar is the normal trading currency of Papua New Guinea.



141. The green coffee beans are imported into Australia in the raw form and are then processed and packaged for retail sale. The Sub-committee received evidence from the major firms which process and distribute coffee, namely the Nestlé Company (Australia) Limited (Nestlé), Cottee's General Foods Ltd (Cottee's) and Bushells Pty Ltd (Bushells). These firms stated that although the upvaluations may have reduced landed costs of some shipments these reductions in costs had been outweighed by increases in the costs of other shipments.

142. In addition to the increased costs of the raw materials there have also been significant increases in packaging and processing costs. Nestlé and Bushells absorbed these increases in costs and wholesale prices remained unchanged during 1973. Cottee's increased its wholesale prices but the increase was less than the increase in landed costs of green beans.

143. The Committee finds in respect of imports of coffee that:

- (a) landed costs have increased despite the upvaluations because of increases in prices in the countries of origin;
- (b) the upvaluations have assisted in restraining these increases and have enabled a number of importers to maintain existing prices.

### Alcoholic Beverages

	<u>1971-72</u>	<u>1972-73</u>
Value of imports (\$m)	22.2	24.6
Value as proportion of total imports (%)	0.56	0.60
Main items imported	whisky	
Major sources of imports	U.K.	

144. The Committee restricted its analysis to whisky imported in bulk and bottled for retail sale. Sub-committee 'A' was told that it is normal practice in the industry to carry the equivalent of six months sales as stock. This means that the effects of the upvaluations on retail prices would be delayed by at least six months.

145. The upvaluations have resulted in a reduction in landed costs of whisky and three of the companies who gave evidence reduced the price to their distributors by approximately 5 cents a bottle. Other companies who gave evidence claimed that the upvaluations have meant price increases under consideration were not implemented.

146. The Committee finds in respect of imports of whisky that:

- (a) the upvaluations have resulted in reductions in landed costs;
- (b) part of the reductions in landed costs have been passed on by some importers;
- (c) the upvaluations have enabled a number of importers to maintain existing prices.



### 3. Other Matters

147. There are several matters arising out of the Inquiry which are more appropriately considered in a separate section rather than in the individual case studies.

#### Pricing Practices of Major Retailers

148. There are two practices retailers engage in that have affected the response of consumer prices to changes in landed costs of imports or changes in the competitive position of imports vis-à-vis Australian products.

149. One practice is called 'psychological pricing'. Thus retailers sell products such as clothing, footwear and toys at prices ending in 99 cents, for example \$2.99, \$3.99. They alter their prices only in one dollar jumps. Because of this, small reductions or increases in wholesale prices would not be passed on at the retail level. Sub-committee 'A' was told that it was at these 'psychological pricing' points such as \$2.99 that consumers purchased most.

150. The other practice is 'averaging' of retail margins. Woolworths said the business of retailing is very much one of averaging margins and that about 30 per cent of the goods sold in the grocery sector have a gross profit margin that does not cover operating costs. The Company added that margins on some imported items could be supporting the finer margins on goods made in Australia. The Myer Emporium Ltd also supported this statement. Extracts from the evidence that relate to this matter are at Appendix II.

#### The Tariff Cuts

151. There has been considerable public comment on the effects of the tariff cuts and the general conclusion drawn is that consumer prices did not fully reflect reductions in landed costs. In the Parliament itself there have been references to 'king-size rip-offs' and 'profiteering' by



retailers (House of Representatives Hansard of 4 April 1974, 7 September 1974 and 17 October 1974 and Senate Hansard of 23 July 1974 and 25 July 1974).

152. The upvaluations and the tariff cuts have had a cumulative impact on landed costs of imported goods. The price effects of these different measures cannot be separated in practice. What the evidence and other information suggests is that in respect of consumer goods like clothing and footwear these measures have contributed to keeping import prices below the rising prices of comparable Australian products.<sup>6</sup>

153. The 'averaging' of retail margins explains why it was not possible for the Committee to trace the response of changes in landed costs through to the retail level. This practice appears to deny the consumer of imported goods the full benefits of the policy measures taken by the Australian Government in 1972 and 1973.

154. The Committee is unable to assess, from the available evidence, whether or not the practice of 'averaging' retail margins has restrained increases in the general level of retail prices following the upvaluations and the tariff cuts or has resulted in increased profitability for retailers. It notes that the Prices Justification Tribunal (P.J.T.) has exempted major retailers from notifying it of changes in individual prices, provided the company concerned did not increase its departmental gross profit margins above the levels of the previous year without notification to and approval by the P.J.T.<sup>7</sup> The Committee is unable to assess from evidence before it whether or not gross profit margins have been increased.

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<sup>6</sup> Industries Assistance Commission Report, Report by the Textiles Authority on Certain Items of Apparel (Australian Government Publishing Service, Canberra, 1974), p. 10.

<sup>7</sup> Prices Justification Tribunal, First Annual Report (1973-74), p. 71.

155. The recent amendments made to the Prices Justification Tribunal Act allows the P.J.T. to inquire into retail pricing structures. Since the Committee considers that such investigations will probably cover the question of excessive margins on imports, it has decided not to investigate this matter further for the time being.

156. It should be noted that imports of consumer goods comprise 30 per cent of total commodity imports. Clothing and footwear account for 2 per cent of the total.<sup>8</sup>

#### Complaints

157. During the course of the Inquiry the Committee received over 100 complaints on the failure of retail prices to respond to the upvaluations and the tariff cuts. About a third of these were on agricultural machinery and motor vehicles, while books and magazines (printed matter) were another major area for complaint.

158. Because the Committee was investigating these areas it did not generally pursue these individual complaints. In the case of some complaints on motor vehicles, however, the Committee contacted the suppliers and informed the complainants why prices were not reduced following the upvaluations and the tariff cuts.

#### The Use of Currency Clauses

159. In a number of case studies the choice of specific currencies of contract was claimed to have influenced the price effects of the upvaluations.

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<sup>8</sup> In 1973-74 footwear and clothing imports represented 2.8 per cent of total imports compared with 2.2 per cent in 1972-73. Derived from Overseas Trade Statistics Part 2 - Imports. (June 1974, Ref. No. 8.10), Australian Bureau of Statistics.

160. In any international transaction in which payment is not made at the time of contract either the buyer or the seller generally has to bear 'the foreign exchange risk'. This means that an importer who has contracted in a foreign currency bears the risk of having to pay more if his own currency is devalued or if the foreign currency is upvalued. Conversely, an exporter who has contracted in prices of a currency which is not his own bears the risk of receiving less in his currency if his currency is upvalued or if the foreign contract currency is devalued.

161. Firms that engage in international trade can avoid 'the foreign exchange risk' by undertaking a forward market transaction. This would transfer the risk to a third party and add to the cost of the importer or exporter concerned.

162. When this or similar methods are not used, either the buyer or the seller generally bears the gains or losses from currency changes. Thus in office machines, currency changes were to the buyer's account so that the importer benefited from the upvaluations. It should be emphasised that the exporter did not lose because his prices were quoted in U.S. dollars and whatever the change in exchange rates he would always receive the same amount of U.S. dollars for a given price.

163. Sometimes, however, foreign suppliers who have market power and are prepared to use it, can obtain windfall gains from currency changes. This happened in respect of certain pharmaceutical products imported from the U.K. The overseas companies had been quoting prices in Australian dollars for some time or changed from pound sterling prices to Australian dollar prices after December 1972 without making any price concessions. Since the U.K. pound is more susceptible to devaluation this means that these companies have, in effect,



obtained price increases from the upvaluations.<sup>9</sup>

164. The Committee appreciates that the abuse of market power in these circumstances is difficult for national governments to control. But companies who import their materials or other inputs from associate companies overseas have to appear frequently before the P.J.T. and the Industries Assistance Commission (I.A.C.). The Committee therefore recommends that the Australian Government invites the attention of the Prices Justification Tribunal and the Industries Assistance Commission to the need to scrutinise, where appropriate, the treatment of 'the foreign exchange risk' by Australian companies that import from associate companies overseas. This recommendation could be of some relevance to the I.A.C. inquiry into pharmaceutical and veterinary products which has been programmed for public hearing.<sup>10</sup>

#### The Need For Better Statistics

165. The final matter the Committee wishes to discuss in this Chapter is the need for better statistics to measure the price effects of currency changes more speedily. In paragraph 33 of Report No. 1 the Committee stated that it was hampered by the lack of a genuine import price index and other statistical information on import prices collected on a cost, insurance and freight (c.i.f.) basis. In paragraph 43 of that Report the Committee stated that it would comment in a later report on its import prices reference on the need for the A.B.S. to construct indexes of selling prices in Australia of imported goods. The need for better statistics arises in part from the limited usefulness of existing statistics in measuring

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<sup>9</sup> Between July 1970 and June 1974 the Australian dollar appreciated by 33 per cent against the U.K. pound, Industries Assistance Commission, Annual Report 1973-74, p. 127.

<sup>10</sup> Industries Assistance Commission, Annual Report 1973-74, p. 190.



landed costs and tracing them to the retail level. The Committee considers that there is a lasting need for better statistics in this area at a time of more frequent currency changes and of the growing importance of international trade to Australia. Such statistics could help to monitor the effects on import prices of changes in Government policy to imports and indicate the more important areas for retail price investigation.

166. Statistics that measure the movement of landed costs are required. The A.B.S. told the Committee that additional data is being collected on the new Custom's import entry which would give imports on a cost, insurance, freight and exchange (c.i.f.e.) basis. It added that there will be some considerable time before such statistics are available. The A.B.S. is currently undertaking a monthly survey of total imports and imports of selected commodities (House of Representatives Hansard of 23 October 1974, p. 2711).

167. The Committee is advised that unit value figures can be derived from the c.i.f.e. information that are more meaningful in analysing import prices than unit values on an f.o.b. basis. These unit values could then be used to assess how average prices of selected groups of commodity imports have responded to the various factors influencing them from year to year or even on a monthly basis. The Committee is also advised that the experience of other countries indicates that such unit value figures have been useful in analysing changes in import prices.

168. While such statistics would show whether landed costs have responded to measures such as upvaluation they would not show consequential price effects as goods flow through the manufacturing process and the distributive system to reach the final consumer. The A.B.S. informed the Committee that it is preparing a measure of the prices of materials used in manufacturing. One of the sub-groups in this index would be

the prices of imported materials and fuels. Such an index, when used in conjunction with unit value of landed costs, would greatly facilitate investigation of the effects of changes in import prices from the landed cost stage through to the manufacturing stage. Since 70 per cent of Australia's imports consist of raw materials and producer goods, this would go some considerable distance in indicating how user prices are responding to policy measures such as the upvaluations. The A.B.S. said it expected this index to be completed by the end of 1974.

169. The Committee recommends that the Australian Bureau of Statistics be given the necessary resources to enable preparation and publication, as soon as possible, of import price statistics that give imports on a cost, insurance, freight and exchange basis and also statistics that show the prices of imported materials and fuels used in manufacturing.

170. The Committee attempted to ascertain the impact of the upvaluations on the Consumer Price Index (C.P.I.) by separating those items in the C.P.I. which are either imports or local goods which face significant import competition (imports substitutes) from purely domestic goods. The A.B.S. supplied the relevant information for the period 1972 to 1974.

171. Although the price index for imports substitutes rose by a smaller margin (7.3 per cent between 1972 and 1973) than the index for domestic goods and services (10.5 per cent between 1972 and 1973) the Committee was unable to attribute with certainty any clear cut effect of the upvaluations on the imports substitutes component of the C.P.I. The fact that there was not a more marked effect was probably a consequence of the rapid increase in prices for consumer goods in world markets in 1973.

172. A further reason could be the shortcomings of measuring techniques employed by the A.B.S. The A.B.S. normally prefers to price locally manufactured brands of footwear and clothing because of the greater consistency of quality in the local products. It relies on prices of local products to reflect competition from imports.<sup>11</sup> However as the Committee has observed in some of the preceding paragraphs the practices of 'psychological pricing' and 'averaging' deny this very assumption of competition reflecting relative prices between imports and locally made goods.

173. Given the fact that international inflation will continue to have a considerable influence on the Australian price level and that import price statistics are inadequate, the Committee recommends that the Australian Bureau of Statistics be prepared to publish from time to time an index that comprises those consumer items within the Consumer Price Index that are fully imported, have a sizeable import content or face significant import competition.

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<sup>11</sup> Evidence given by the Australian Bureau of Statistics before the Committee at a briefing session on the Consumer Price Index, 18 October 1974.



#### 4. Conclusions

##### Background

174. The case studies in this and the previous reports cover product groups which made up more than 60 per cent of the value of total imports in 1972-73. In the opinion of the Committee these case studies represent '... imports having a significant effect on domestic costs and prices' (terms of reference).

175. In this final Chapter the Committee draws general conclusions based mainly on the case studies. These conclusions should be useful for future policy and should also help to clear up misunderstandings on the price effects of the upvaluations. For example, one of the misconceptions has been that the upvaluations were generally followed by overseas suppliers increasing export prices.

##### General Conclusions from Case Studies

176. Table 3 on page 58 gives in summary form the findings and other observations made by the Committee and its predecessor on the commodity case studies. This Table can be further summarised as follows:

	Per cent of cases <sup>a</sup>
1. Landed costs reduced	40
2. Upvaluations restrained increases in landed costs	55
3. Landed costs did not react	<u>5</u>
	100
4. Reductions passed on to consumer or end-user	90 <sup>b</sup>

<sup>a</sup> Weighted according to the importance of the commodity in the total coverage.

<sup>b</sup> 90 per cent of 40 per cent of cases where landed costs were reduced.

TABLE 3  
Response of Import Prices to the Upvaluations

C O M M O D I T Y	Share of imports (f.o.b.) in 1972-73	Reductions in landed costs of imports		The upvaluations restrained price increases	Response of consumer/user prices to reductions in landed costs	
		Reduced	Not reduced (a)		Responded	No/small response (b)
	%					
Agricultural machinery	1.1	x	-	-	(x)	x 7
Excavating and levelling machinery	1.6	x	-	-	x	(x) 7
Telecommunications equipment	1.3	x	-	-	x	(x) 7
Non-electric machinery	5.7	x	-	-	x	-
Office machines	2.9	x	(x) 2	(x)	x	(x) 5
Photocopying and photographic materials and equipment	1.3	x	(x) 2	-	x	(x) 5
Internal combustion engines	1.8	x	-	-	x	-
Chemicals	3.5	-	x 1,2	x	-	x 5
Anti-knock preparations	0.4	x	-	-	-	x 6
Petroleum and petroleum products	4.3	-	x 1,2	x	-	x 5
Plastics	2.6	-	x 2	x	-	x 5
Man-made fibres	0.6	-	x 2	x	-	x 5
Crude rubber	0.6	-	x 2	x	-	x 5
Paper	2.7	-	x 2,3	-	-	x 5,8
Timber	1.7	-	x 2	x	-	x 5,8
Jute	0.3	x	-	-	x	-
Flat glass	0.3	(x)	x 3	-	-	x 5,6,7
Footwear	0.6	(x)	x 2	x	-	x 5
Textiles	7.5	-	x 2	x	-	x 5
Clothing	1.6	-	x 2	x	-	x 5
Floor coverings	0.8	(x)	x 2	x	(x)	x 5
Motor vehicles	7.3	-	x 2,4	x	-	x 5,7
Motor cycles	0.9	x	(x) 3,4	-	x	(x) 5
Domestic appliances	0.9	-	x 2	x	-	x 5
Tyres and tubes	0.9	x	(x) 4	-	x	(x) 5
Pharmaceutical products	1.6	x	(x) 3,4	-	x	(x) 5
Cutlery	0.3	-	x 1,2	x	-	x 5
Ceramic tiles	0.4	-	x 2	x	-	x 5
Toys, games and sporting goods	0.9	x	-	-	x	-
Printed matter	1.8	x	(x) 3	-	x	(x) 5,7,8
Tea	0.5	x	-	-	x	-
Coffee	0.5	-	x 2	x	-	x 5,7
Fish	0.9	(x)	x 2	x	-	x 5
Alcoholic beverages	0.6	x	-	-	x	-
Tobacco (unmanufactured)	0.4	x	-	-	-	x 6
T O T A L	60.8					

x = general result of the upvaluations; (x) = exception to general result

(a) Not reduced because of:

- 1 increases in inward freight
- 2 world shortages/overseas inflation
- 3 market power overseas
- 4 currency of major suppliers did not appreciate markedly against Australian dollar

(b) No/small response because of:

- 5 no reductions in landed costs
- 6 reductions too small
- 7 cost increases in Australia
- 8 market power in Australia

Sources: Based on the evidence and Australian Bureau of Statistics Overseas Trade Bulletin,

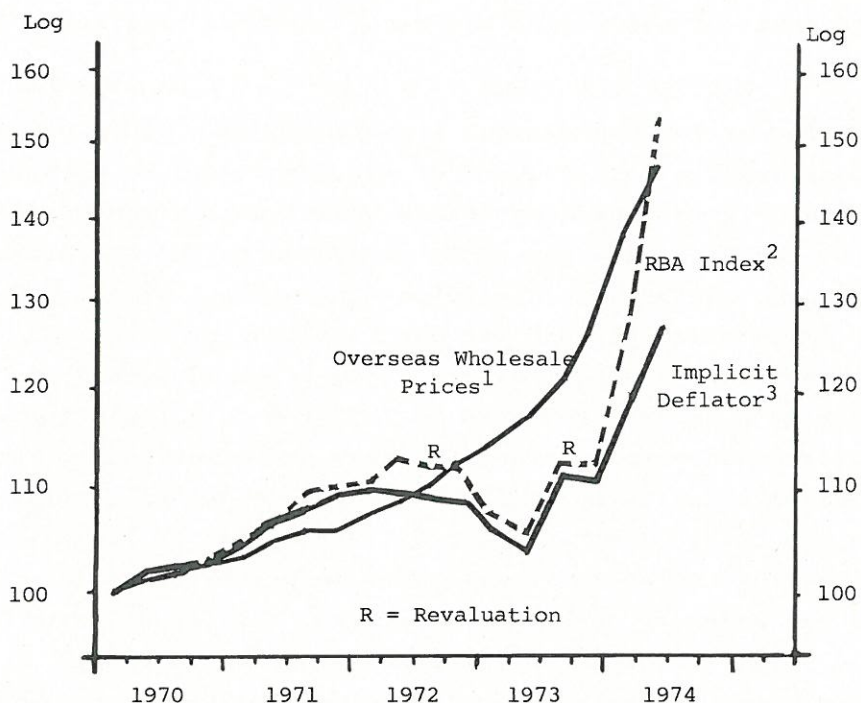


177. In seventeen of the case studies, which comprise 25 per cent of total imports, the upvaluations led to reductions in landed costs which with few exceptions were passed on to the consumer or end-user. In other case studies the Committee found that the upvaluations led to the postponement or moderation of price increases that were planned.

178. Many of the items in Table 3 are producers' materials and equipment for production, items which make up 70 per cent of total imports. In respect of equipment used in production the upvaluations generally led to reductions in landed costs and the benefits were generally passed on to the end-user. There were, however, delays before these price effects were fully transmitted through the manufacturing process. In the case of producers' materials the boom of world demand and world-wide material shortages in 1973 led to a rapid increase in prices in overseas markets. These increases led to rises in landed costs in Australia despite the upvaluations. This is borne out by the Graph on page 60. At a time of rapidly accelerating inflation in all major industrial countries and of rapid expansion of demand in Australia, the import price indexes showed visible, though only temporary, falls after the upvaluations. Whereas Australian import prices moved roughly in line with overseas wholesale prices until 1972, they diverged markedly downwards after the upvaluations of the Australian dollar in December 1972 and again in September 1973. On the basis of this summary statistical evidence it can be concluded that the upvaluations had a clearly visible impact on import prices.

179. With regard to imports of consumer goods, which make up 30 per cent of imports, the findings on the price effects were more mixed. There were commodities where the upvaluations led to prompt responses of the price to the consumer, for example tea. In other areas consumer good prices

# EXTERNAL PRICE LEVEL AND INDICATORS OF AUSTRALIAN IMPORT PRICES



<sup>1</sup> Wholesale prices of key OECD countries in national currencies weighted with Australian import shares.  
Source: International Monetary Fund.

<sup>2</sup> Index of Australian import prices prepared by the Reserve Bank of Australia on the basis of foreign export-price statistics.  
Source: Reserve Bank of Australia.

<sup>3</sup> Implicit deflator, imports of goods and services, National Accounts.  
Source: Australian Bureau of Statistics.

Notes: The common base (1970, 1st quarter = 100) does not imply that the various price levels were in equilibrium.

Statistics used in the graph are at Appendix III.

did not react for a number of reasons stated in paragraphs 181-89.

180. On the whole, it can be concluded from the case studies that landed costs responded to the upvaluations where competition in overseas markets was active. Examples are tea, jute, office machines and tyres. In markets where competition in Australia was active, reductions in landed costs were normally passed on to the final users and consumers. Examples are the above named commodities as well as motor cycles. A common feature of all these markets is that a large number of importers engage in trade with several countries and distribute imports through a large number of independent outlets. The structure of these markets seems to make for active price competition.

#### Reasons for Insufficient Response of Prices to the Upvaluations

181. In a number of cases it became evident that price competition was temporarily reduced due to buoyant demand both in world markets and in Australia. The reason given most frequently for the insufficient response of prices to the upvaluations was the acceleration of price levels in 1973 in all major industrial countries. Case studies in which world-wide boom conditions had particularly strong effects on import prices were timber, textiles, crude rubber and petroleum products.

182. The foregoing illustrates what was said in paragraph 15 of Report No. 1, namely that the success of upvaluation as an anti-inflationary policy should not be judged in terms of whether prices to the final user or consumer have fallen in absolute terms, but rather in terms of whether upvaluation has restrained increases in import prices.

183. Another reason why landed costs did not fall after the upvaluations was that some currencies, such as the German mark, the Swiss franc and the Japanese yen, appreciated frequently more against the U.S. dollar than the Australian dollar did. Since the value of the Australian dollar was



'tied' to that of the U.S. dollar this meant that in certain periods between December 1972 and September 1974 the Australian dollar actually declined in value against these other currencies. This applied to markets, such as motor cycles or some pharmaceuticals, in which the strong currency countries have a dominant role. In these cases, downward price effects cannot be expected.

184. Increases in inward freight also adversely affected landed costs. These increases were caused by rising operating costs and the application of a 'currency adjustment factor' (C.A.F.). The Committee will comment further on this matter in paragraphs 188 to 189.

185. Booming demand in 1973 also weakened the keenness of price competition in domestic markets. This prevented consumer prices in some cases from responding to reductions in landed costs. High demand and cost increases in Australia prevented price reductions, for example in certain agricultural machinery and motor vehicles. It must be noted that the above factors are of a short-term or cyclical nature and can be expected to lose their importance when supply and demand come into closer balance.

186. Apart from the cyclical factors there are, however, factors that limit price competition in the long run. Such structural factors are, for example, restrictive trade practices in overseas markets and in Australia. The Committee found that such structural factors reduced the price reaction to upvaluations in the case of certain pharmaceutical products, flat glass, timber, motor cycles and cutlery. In the retail trade, certain practices, such as 'psychological pricing' and the 'averaging' of profit margins, which have been commented upon in the previous chapter, have also impeded the full and speedy passing on of the benefits of the upvaluations to the Australian consumer

187. One area in which the use of market power sometimes became evident was in the use of currency clauses which were discussed in the previous chapter. Exporters and importers can use their market power to avert currency risks by contracting in a certain currency. While the free choice of the currency of contract would be left to the negotiations between exporter and importer it appeared that certain contracts were changed to the detriment of the Australian importer after the first upvaluation of the Australian dollar.

188. The figures in Table 3 on page 58 do not include inward freight which constitutes about 11 per cent of the landed costs of imports. In Report No. 1 the Committee commented on the application of the C.A.F. by shipowners overseas. This mechanism is designed to compensate shipowners for changes in costs that arise out of changes in the value of currencies. The purpose of the C.A.F. is to preserve the relativity of shipowners' costs and revenue. The Committee recommended that the Australian Government obtains details of the scheme and endeavours to find out whether the application of the C.A.F. has enabled shipowners overseas to take advantage of the currency changes to obtain larger profits. On 18 February 1974 the Minister for Transport wrote to the Chairman of the Committee and part of the reply was incorporated in an answer to Question No. 141 (House of Representatives Hansard of 18 September 1974, p. 1506). While the answer does give more details on the C.A.F. than were presented to Sub-committee 'A' by the Department of Transport it does not fully answer the recommendation in Report No. 1. However, the Minister did promise more information. As mentioned in that Report inward freight is the most significant 'import' and so the Committee is seeking more information.

189. The inward freight bill is larger than the total sales of several Australian industries whose market conduct the Australian Government is seeking to make more competitive by the new trade practices legislation. Yet there are practices



in the pricing of freight that could restrict competition. In these circumstances the Committee reiterates the need for maximum vigilance to ensure that importers and eventually consumers are not denied benefits that should flow from currency changes.

December 1974

C.J. HURFORD  
Chairman

## APPENDIX I

### NAMES OF ORGANISATIONS THAT PROVIDED SUBMISSIONS

The organisations listed below presented submissions on the matters covered in this Report. Those organisations that made submissions and were examined by Sub-committee 'A' at public hearings (Hansard dated 20 and 21 June 1973, 24-26 July 1973, 7-9 August 1973, 22 October 1973 and 15 March 1974) are indicated by an asterisk (\*). Other organisations whose submissions were incorporated in Hansard (dated 16 October, 6 December and 13 December 1973) are indicated by two asterisks (\*\*).

#### General Submissions

- \* Australian Bureau of Statistics
- \* Australian Woolgrowers and Graziers' Council
- \* Reserve Bank of Australia
- \* The Treasury

#### Agricultural Machinery

- J.I. Case (Australia) Pty Ltd
- \* Caterpillar of Australia Ltd
- \*\* David Brown Tractors Pty Ltd
- \* International Harvester Company of Australia Pty Ltd
- \* Massey-Ferguson (Australia) Limited
- \* The Queensland Graingrowers' Association

#### Excavating and Levelling Machinery

- \* Caterpillar of Australia Ltd
- Clark Equipment Australia Limited
- \*\* General Motors-Holden's Pty Limited
- \* International Harvester Company of Australia Pty Ltd
- \* Massey-Ferguson (Australia) Limited
- Wabco Australia Pty Limited

#### Telecommunications Equipment

- \*\* Australian Post Office
- \*\* Department of Civil Aviation
- \* Haco Distributing Agencies Pty Ltd

APPENDIX I (cont.)

Telecommunications Equipment (cont.)

Jacoby Kempthorne Pty Ltd

\*\* Sanyo-Guthrie Australia Pty Ltd

Non-electric Machinery

\* Caterpillar of Australia Ltd

Clark Equipment Australia Limited

Henry Simon Australia

\* International Harvester Company of Australia Pty Ltd

Office Machines

\*\* Burroughs, Limited

\*\* Control Data Australia Pty Limited

\*\* Hewlett Packard Australia Pty Ltd

\* Honeywell Pty Limited

\* IBM Australia Limited

\*\* The National Cash Register Co. Pty Ltd

Sperry Rand Australia Ltd

Photocopying and Photographic Materials and Equipment

Kodak (Australasia) Pty Ltd

Rank Xerox (Australia) Pty Limited

3M Australia Pty Ltd

Internal Combustion Engines

A.N.I. Australia Pty Limited

\* Caterpillar of Australia Ltd

\*\* General Motors-Holden's Pty Limited

\* Massey-Ferguson (Australia) Limited

Chemicals

Bayer Australia Ltd

Bronson & Jacobs Pty Limited

Ciba-Geigy Australia Limited

Essochem Australia Ltd

Hardie Trading Limited

Marbon Chemical (Australia) Pty Limited

Mobil Oil Australia Limited

Shell Chemical (Australia) Proprietary Limited

APPENDIX I (cont.)

Chemicals (cont.)

Steetley Chemicals Pty Ltd  
Swift & Company (Trading) Pty Ltd  
Union Carbide Australia Limited

Anti-knock Preparations

\* Esso Australia Ltd  
\*\* Mobil Oil Australia Limited  
\*\* H.C. Sleigh Ltd  
STP International Inc.  
\*\* The Shell Company of Australia Ltd

Petroleum and Petroleum Products

\*\* Caltex Oil (Australia) Pty Limited  
\* Esso Australia Ltd  
\*\* H.C. Sleigh Limited  
\*\* Mobil Oil Australia Limited  
\*\* The Shell Company of Australia Limited  
\*\* Total Australia Limited

Plastics

Advance Industries Limited  
BASF Australia Ltd  
Cadillac Plastics (Australia) Pty Ltd  
Halifax Trading Pty Limited  
ICI Australia Limited  
Mulford Plastics Pty Ltd  
Nock & Kirby Limited  
Plastral Trading Company Pty Ltd

Man-made Fibres

Feltex New Zealand (Overseas) Limited  
\* Firth Carpets Pty Limited  
\* Flooring Distributors Pty Limited  
H. Hanna & Co. Pty Ltd  
\*\* Pacific Carpets International Pty Ltd  
\* The Textile Council of Australia



Crude Rubber

- \* Dunlop Australia Limited
- \*\* Firestone Sales Pty Limited
- \*\* The Goodyear Tyre & Rubber Co. (Australia) Limited
- Uniroyal Pty Ltd

Paper

- Australian Consolidated Press Limited
- Bowater Paper Company Limited
- Central Coast Newspapers Pty Ltd
- David Syme & Co. Limited
- Edwards Dunlop and Company Limited
- John Fairfax Limited
- News Limited
- Spicers Paper Industries Limited
- \* The Herald and Weekly Times Ltd
- The Manly Daily Pty Ltd
- \* The National Paper Marketing Council of Australia

Footwear

- David Jones Limited
- \* Dunlop Australia Ltd
- Garrard Footwear Distributors Pty Ltd
- Geoffrey B. Lamble Pty Ltd
- Holeproof Limited
- M.G. Hermann Consolidated
- \* Instep Pty Ltd
- J.G. Footwear Pty Limited
- \* The Myer Emporium Ltd
- Tomasetti & Son Pty Ltd
- Waltons Limited
- \* P. Winestock Pty Ltd
- \* Woolworths Limited

APPENDIX I (cont.)

Clothing

- \* Crystal Clothing International Pty Ltd
  - David Jones Limited
  - Dodwell Textiles
- \* Farah Manufacturing Australia Pty Ltd
- \* Gazal Clothing Company Pty Limited
  - Jolie Court (Import & Export) Pty Ltd
  - Leroy Manufacturing Company Limited
  - Mark Foy's Ltd
- \* Merv. Brown Pty Ltd
  - Oriental Enterprises Co. Pty Ltd
  - Sportscraft Pty Ltd
- \* The Myer Emporium Ltd
- \* The Textile Council of Australia
  - Waltons Limited
- \* Woolworths Limited

Floor Coverings

- \*\* Bond Worth Limited
- \*\* Brintons Pty Ltd
  - Feltex New Zealand (Overseas) Limited
- \* Firth Carpets Pty Limited
- \* Flooring Distributors Pty Limited
  - Kensington Carpets (N.Z.) Ltd
  - Malcolm Reid & Co. (Vic.) Limited
  - U.E.B. Industries Ltd

Motor Vehicles

- Alfa Romeo Australia Pty Ltd
- \*\* Australian Motor Industries Limited
  - \* Bennett and Wood Ltd
- \*\* Ford Motor Company of Australia Limited
- \*\* General Motors-Holden's Pty Limited
  - \* Leyland Motor Corporation of Australia Limited
- \* Nissan Motor Company (Australia) Pty Ltd

APPENDIX I (cont.)

Motor Vehicles (cont.)

Volvo Australia Pty Ltd  
\*\* Westco Motors N.S.W.  
York Motors (Holding) Limited

Motor Cycles

\* Bennett & Wood Ltd  
Hazell & Moore Industries Pty Ltd  
Honda Australia Pty Ltd  
McCulloch of Australia Pty Limited

Domestic Appliances

\*\* Sanyo-Guthrie Australia Pty Ltd  
Sun Electric Company Pty Ltd  
AWA-Thorn Consumer Products Pty Ltd  
W.P. Tresise & Co. Pty Ltd

Cutlery

Georg Jensen Silver (N.S.W.) Pty Ltd  
Stanley Rogers & Son Ltd  
Tableware (Australia) Pty Ltd  
Viners International Pty Limited  
Wiltshire Distributing Co. Pty Ltd

Ceramic Tiles

Better Tiles Co. Pty Ltd  
Indent Wall and Floor Tiles Pty Limited  
Lehmann Bros Pty Ltd  
Rogers Seller & Myhill Pty Ltd  
William Crosby (Holdings) Limited

Toys, Games and Sporting Goods

Alexander Moir & Co. Pty Limited  
Beale & Jacobs Pty Ltd  
George Wills & Co. Limited  
\* The Myer Emporium Ltd  
A.H. Pynor & Co. Pty Ltd  
\* Woolworths Limited

APPENDIX I (cont.)

Printed Matter

- Angus & Robertson (Publishers) Pty Ltd
- \* Butterworths Pty Limited
  - \* Cheshire Publishing Pty Ltd
  - Collier-McMillan Australia
  - \* Collins Book Depot Pty Ltd
  - Dymocks Book Arcade Ltd
  - \* Encyclopaedia Britannica Inc.
  - \*\* Field Educational Enterprises of Australasia Pty Ltd
  - \* Golden Press Pty Ltd
  - \* Gordon & Gotch (Australasia) Limited
  - \* Grahame Book Company Pty Limited
  - \*\* Grolier Enterprises
  - Harper & Row (A'sia) Pty Ltd
  - \*\* Heron Holdings Pty Limited
  - Holt-Saunders Pty Limited
  - Hutchinson Group (Australia) Pty Ltd
  - \*\* James Bennett Pty Ltd
  - \*\* John Wiley & Sons Australasia Pty Ltd
  - \*\* McGraw Hill Book Company Australia Pty Limited
  - Oxford University Press
  - \* Penguin Books Australia Limited
  - \*\* Permagon Press Australia
  - Prentice-Hall of Australia Pty Ltd
  - A.H. & A.W. Reed Pty Ltd
  - Rigby Limited
  - Sir Isaac Pitman (Aust.) Pty Ltd
  - \*\* Standard Book Suppliers Pty Ltd
  - The Australasian Publishing Company Pty Ltd
  - Thomas Nelson (Australia) Ltd
  - William Heinemann Australia Pty Ltd
  - \* William Collins (Australia) Limited



APPENDIX I (cont.)

Coffee

- \* Bushells Pty Ltd
- Cottee's General Foods Ltd
- The Nestlé Company (Australia) Limited

Alcoholic Beverages

- Dalgety Trading Company Pty Ltd
- John Cawsey & Co. Pty Limited
- John Dewar & Sons Ltd
- John Walker & Sons Limited
- Max Cohn & Co. Pty Ltd
- D. & J. McCallum Limited
- N.Z.L. Trading Company Pty Limited
- Swift and Moore Pty Ltd
- The Distillers Company Pty Limited
- The Farmers & Graziers' Co-operative Company Limited
- The United Distillers Pty Ltd
- Tucker & Co. Pty Limited

## APPENDIX II

### EXTRACTS FROM EVIDENCE ON 'AVERAGING' OF PROFIT MARGINS

#### Woolworths Limited

Mr Howell-Price - Certainly I can. We will deal with this in detail for you. I would like to mention broadly the subject of prices and margins in retailing. It is extremely difficult, in examining the situation that you have before you, to take these particular items in isolation because the business of retailing is very much one of averaging margins. We, in our business, for example, have no margin of profit on some of the goods we sell. In fact some are sold below cost and some move up in margin. So that the net overall margin of the company, the gross margin that is achieved, is a mix of all these margins and the sales achieved at each margin level. I think that is a point worth mentioning because probably those who are not familiar with retailing would not be aware of the importance of sales and margin mix.

CHAIRMAN - Yes. This is what is going to make it so difficult for us in chasing through the imported items.

Mr Howell-Price - It is very hard to isolate them from the local, and I would venture an opinion that the margins on some of the imported items coming into the country might be supporting the finer margins of goods made in Australia.

CHAIRMAN - Mr Howell-Price, I wonder would you give us some background information, as it concerns Woolworths Ltd anyway, and perhaps it applies to others in your field, on the rationale behind averaging your margins rather than chasing through the benefits on one particular imported commodity.

Mr Howell-Price - I am not sure that it can be put in such a succinct fashion. It is a highly competitive industry and we find in a business such as ours where there is a very high proportion of food sales and a great many

APPENDIX II (cont.)

competitors - not only big competitors, but small competitors - that goods that sell with the greatest velocity generally reduce to the lowest margin of profit. In other words, these are the goods in greatest demand and they create the greatest impression in the mind of the consumer and therefore prices are fined right down or margins are fined right down to make them attractive to the customers of today. I might add a point at this stage that in the grocery sector of our business approximately 30 per cent of the goods that we sell are sold at a profit margin that is less than our operating cost - to give some idea of the significance of what I am talking of.

CHAIRMAN - If I have understood you correctly, therefore the other 70 per cent has got to be responsible for the margin up to the operating cost plus your profit?

Mr Howell-Price - Plus profit, in varying degrees of volume. So, generally speaking, I think it would be fair to say that competition in this country establishes the sorts of margins that are applied, and obviously the skill of the individual retailer in his negotiating or purchasing overseas or wherever it might be. But there is nothing terribly rational about retailing. It is an area that many people believe they can enter with little knowledge and with relatively little capital because they buy their goods and sell them possibly before paying for them so that there is a great movement of people in independent retailing in Australia many of whom finish up in the bankruptcy court. I only mention this to illustrate the fact that it is a business in which margins are kept fine by reasons of competition, and I think for this reason it is a self-disciplining industry.

Source: Hansard, pp. 327 and 328



APPENDIX II (cont.)

The Myer Emporium Ltd

CHAIRMAN - I realise it is getting a little out of your sphere of influence within the Myer Emporium Ltd, but does your company operate in much the same way when it comes to pricing as do Woolworth's? I am now referring to the averaging of margins as opposed to being able to trace through the result of revaluation on a particular commodity.

Mr Hollands - I think our company applies in the main a predetermined percentage to the goods, which reflects the sort of profit we want to finish up with across a department. Now that department may be selling many different types of merchandise, but we would aim to have a finishing rate of profit, and we would cost the goods to show us that sort of finishing profit. Perhaps I could give an example of an item on that list which shows the reflection of retail prices. If you take the last item - an acrylic pullover - which we have listed for retail at \$5.99, in fact that was reduced to \$4.99 and is currently selling for \$3.99, so that the price we start with is not necessarily the price we finish with. And if you relate that to the landed cost it does not leave us too much. I think this makes the point that Mr Howell-Price was making that you have to work on some sort of an averaging system, and to have some sort of regard to how you finally clear the merchandise.

Source: Hansard, pp. 337-8



# APPENDIX III

## STATISTICS USED IN THE GRAPH

Indexes of Overseas Wholesale Prices, Implicit Deflator and Import Price Index (1st Quarter 1970=100)

		Overseas Wholesale Prices <sup>1</sup>	Implicit Deflator <sup>2</sup>	Import Price Index <sup>3</sup>
1970	I	100.0	100.0	100.0
	II	100.9	101.8	100.9
	III	101.6	102.0	101.5
	IV	102.4	102.7	102.8
1971	I	103.2	104.4	104.4
	II	104.6	106.6	106.7
	III	105.5	107.2	109.1
	IV	105.7	109.0	109.6
1972	I	107.4	109.8	110.5
	II	108.5	109.4	112.7
	III	110.0	108.8	111.8
	IV	112.2	108.1	111.7
1973	I	114.3	106.3	107.3
	II	117.2	104.6	105.9
	III	121.1	111.6	112.7
	IV	126.5	110.8	112.7
1974	I	138.0	119.0	128.3
	II	146.9	128.0	153.2

<sup>1</sup> Wholesale price indexes (in national currencies) of Japan, U.S., U.K., Germany, F.R., Canada, France and Italy, which account for about three-quarters of Australia's import trade, weighted by shares in Australian imports 1968-71. Source: International Monetary Fund.

<sup>2</sup> Implicit deflator of goods and services. Source: Australian Bureau of Statistics.

<sup>3</sup> Index of overseas wholesale and export prices, converted to \$A. Source: Reserve Bank of Australia.

FINDINGS

The Committee finds that in respect of:

(i) imports of agricultural machinery -

- . the upvaluations have resulted in reductions in landed costs
- . these reductions in landed costs have in general not resulted in lower distributor prices because of cost increases in Australia
- . Caterpillar and International Harvester have passed on part of the benefits of the upvaluations to their distributors;

(paragraph 19)

(ii) imports of excavating and levelling machinery -

- . the upvaluations have generally resulted in reductions in landed costs
- . only part of these reductions in landed costs have been passed on to end-users because of cost increases in Australia;

(paragraph 23)

(iii) imports of telecommunications equipment -

- . the upvaluations have resulted in reductions in landed costs to a number of users because of the operation of currency clauses
- . the upvaluations have resulted in reductions in landed costs of transistorised radios
- . the reductions in landed costs have been offset in some cases by cost increases in Australia
- . in certain instances the consumer has benefited as a result of the reduced landed costs of transistorised radios;

(paragraph 32)

APPENDIX IV (cont.)

(iv) imports of non-electric machinery -

- . the upvaluations have resulted in reductions in landed costs of forklift trucks and packaging machinery
- . these reductions in landed costs have been passed on to end-users;

(paragraph 36)

(v) imports of office machines -

- . the upvaluations have resulted in reductions in landed costs of large E.D.P. machines and certain programable calculators
- . these reductions in landed costs have been passed on to end-users
- . landed costs of small E.D.P. machines have not fallen despite the upvaluations because of increases in prices in the countries of origin
- . the upvaluations have enabled the importers of small E.D.P. machines to maintain existing prices;

(paragraph 42)

(vi) imports of photocopying and photographic materials and equipment -

- . the upvaluations have resulted in reductions in landed costs of certain photographic materials and equipment
- . there was a delay in the passing on of these reductions to end-users because of the need to clear stocks imported at pre-upvaluation prices
- . landed costs of photocopying equipment have increased despite the upvaluations
- . these increases in landed costs did not result in higher user prices; (paragraph 46)

APPENDIX IV (cont.)

(vii) imports of internal combustion engines -

- . the upvaluations have resulted in reductions in landed costs
- . part of the reductions in landed costs have been passed on by some companies to end-users;

(paragraph 50)

(viii) imports of chemicals -

- . landed costs have increased despite the upvaluations because of increases in prices in the countries of origin and increases in freight rates
- . the upvaluations have assisted in restraining these increases which would have been greater had the upvaluations not taken place;

(paragraph 54)

(ix) imports of anti-knock preparations -

- . the upvaluations have resulted in marginal reductions in landed costs
- . these reductions in landed costs were an insignificant saving in relation to the cost of a gallon of petrol;

(paragraph 57)

(x) imports of petroleum and petroleum products -

- . landed costs have increased despite the upvaluations because of increases in export prices in the countries of origin and increases in freight rates
- . the upvaluations have assisted in restraining these increases which would have been greater had the upvaluations not taken place;

(paragraph 61)



APPENDIX IV (cont.)

(xi) imports of plastics -

- . landed costs have increased despite the upvaluations because of increases in prices in the countries of origin
- . the upvaluations have assisted in restraining these increases which would have been greater had the upvaluations not taken place;

(paragraph 65)

(xii) imports of man-made fibres -

- . landed costs have increased despite the upvaluations because of increases in prices in the countries of origin
- . the upvaluations have restrained these increases which would have been greater had the upvaluations not taken place;

(paragraph 68)

(xiii) imports of crude rubber -

- . landed costs have increased despite the upvaluations because of increases in prices in the countries of origin
- . the upvaluations have assisted in restraining these increases which would have been greater had the upvaluations not taken place
- . the operation of an agreement between the Papuan Rubber Pool and the Australian rubber manufacturers adds to manufacturing costs of rubber goods made in Australia;

(paragraph 74)

(xiv) imports of paper -

- . landed costs of fine paper have not fallen despite the upvaluations because of increases in prices in the countries of origin

APPENDIX IV (cont.)

- . the New Zealand-Australia Free Trade Agreement contributes to the restriction of competition between local and overseas suppliers of newsprint; (paragraph 83)

(xv) imports of footwear -

- . landed costs have increased despite the upvaluations, except in certain instances, because of increases in prices in the countries of origin
- . the upvaluations have assisted in restraining these increases and have enabled a number of importers to maintain existing prices; (paragraph 88)

(xvi) imports of clothing -

- . landed costs have increased despite the upvaluations because of increases in prices in the countries of origin
- . the upvaluations have assisted in restraining these increases and have enabled a number of importers to maintain existing prices; (paragraph 93)

(xvii) imports of floor coverings -

- . landed costs of wool carpets have increased despite the upvaluations because of rising wool prices
- . the upvaluations have assisted in restraining these increases and have enabled a number of importers of wool carpets to maintain existing prices
- . the upvaluations have resulted in reductions in landed costs of other floor coverings
- . the reductions in landed costs of other floor coverings have been passed on to retailers; (paragraph 100)

APPENDIX IV (cont.)

(xviii) imports of motor vehicles -

- . landed costs have increased despite the upvaluations because of increases in prices in the countries of origin
  - . the upvaluations have assisted in restraining these increases which would have been greater had the upvaluations not taken place;
- (paragraph 107)

(xix) imports of motor cycles -

- . the December 1972 upvaluation has resulted in reductions in landed costs which have been passed on to the consumer because of competition in the domestic market
  - . with the devaluation of the U.S. dollar in February 1973 Japanese suppliers have taken advantage of buoyant economic conditions and their market power to shift the exchange risk to the Australian importer and to exclude any benefit from the Australian dollar upvaluations to the Australian buyer;
- (paragraph 115)

(xx) imports of domestic appliances -

- . landed costs have not fallen significantly despite the upvaluations because of increases in prices in the countries of origin
  - . the upvaluations have enabled a number of importers to maintain existing prices despite increases in prices in the countries of origin;
- (paragraph 119)

APPENDIX IV (cont.)

(xxi) imports of cutlery -

- . landed costs have not fallen despite the upvaluations because of increases in prices in the countries of origin and increases in freight rates
- . the upvaluations have assisted in restraining these increases which would have been greater had the upvaluations not taken place; (paragraph 122)

(xxii) imports of ceramic tiles -

- . landed costs have not fallen despite the upvaluations because of increases in prices in the countries of origin
- . the upvaluations have assisted in restraining these increases which would have been greater had the upvaluations not taken place; (paragraph 126)

(xxiii) imports of toys, games and sporting goods -

- . the upvaluations have resulted in reductions in landed costs
- . these reductions in landed costs have been passed on to retailers; (paragraph 130)

(xxiv) imports of printed matter -

- . the upvaluations have generally resulted in reductions in landed costs
- . in some cases part of the benefits of the upvaluations have been retained by Australian suppliers because of inadequate profits



APPENDIX IV (cont.)

- . in other cases the consumer has been temporarily denied the benefits of the upvaluations because of the preference for orderly marketing rather than competition
- . in the case of magazines imported from the U.K. benefits of the upvaluations have accrued to U.K. suppliers because of the monopoly power of overseas suppliers;  
(paragraph 139)

(xxv) imports of coffee -

- . landed costs have increased despite the upvaluations because of increases in prices in the countries of origin
- . the upvaluations have assisted in restraining these increases and have enabled a number of importers to maintain existing prices;  
(paragraph 143)

(xxvi) imports of alcoholic beverages -

- . the upvaluations have resulted in reductions in landed costs
- . part of the reductions in landed costs have been passed on by some importers
- . the upvaluations have enabled a number of importers to maintain existing prices.  
(paragraph 146)

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