Sheltering business saps competition

| Alan Moran
The Age 15th August, 2005

Many people confuse dumping with straightforward cost advantages. Writing in these pages last week, Martin Feil showed himself to be among this group.

Anti-dumping actions force overseas suppliers either to raise their prices or see a special tax placed on their imports.

Dumping is where a company seeks to knock out a competitor with artificially low prices and then recoups its losses in higher prices. The predator must have deep pockets and be able to prevent a newcomer (or the original victim) entering the market to take advantage of the higher prices. Nobody has ever documented credible evidence of a successful knock-out-and-subsequent-price-gouge predatory strategy.

In many areas Australian suppliers are not competitive against overseas rivals. This can be due to higher labour costs (clothing), inability to exploit economies of scale (computers) or costly raw materials (as may be the case with artificial fibres). Obviously these disadvantages cannot extend to all internationally tradeable goods and services, otherwise we could not pay for imports.

Mr Feil's confusion is perhaps excusable as many government agencies appear to share it. Australian Customs has been prosecuting a case against polypropylene carpet-backing fabric exported from Belgium, Colombia, Britain, Saudi Arabia and the US. Customs said dumping had occurred but never explained how such a varied group had formed and how it could hold together as a cartel to raise prices on the demise of the Australian supplier. Clearly, the Australian producer has a problem competing with all these suppliers.

In another case, Canadian grinding machinery was said by Customs to be selling in Australia at an 80 per cent discount to the price in Canada. If this were so, enterprising traders would be shipping the machines back to Canada quick smart and undercutting the supplier's domestic market price.

Pharmaceutical manufacturers have the devil's own job preventing the re-import of concessionary priced treatments back to developed-country markets. The Canadian grinding-machine supplier could surely have fared no better. Clearly, the Australian supplier had lost competitiveness.

What the government anti-dumping agencies are doing is using a World Trade Organisation rule to impose "temporary" restrictions to prevent a local company going under in the face of a sudden product glut. As world trading profiles change, anti-dumping agencies have to keep modifying the bases on which they intervene in trade to, on the one hand, mollify domestic loser companies and on the other, to avoid tit-for-tat actions and reprobation in the WTO.

China's long march to becoming a market economy has been the touchstone of dumping policy. China is becoming such a dominant force in world manufacturing that the old ability to class its exports as dumped products would overwhelm anti-dumping systems. We would seriously damage the economy if we used such action on a large scale to shelter Australian suppliers from competitive rivals. Australian companies have to hold their own against the best in the world if we are to improve or even retain living standards.

While anti-dumping action is really only a means of protecting a domestic supplier from overseas competition, a company's loss of competitiveness is not unusual. Bankruptcies and restructurings are testament to rivals, domestic or not, displacing incumbent suppliers. Even when the assailant of such failing companies is a domestic rival government occasionally try to bolster them. But just imagine if Virgin was taking market share from Qantas, and was required to raise its prices to even things up!

Not that there is no precedent for Australian government agencies requiring companies to increase their prices. Those people who buy the cereal Shredded Wheat might wonder why it has come from the US when we have ample ingredients here. Part of the reason is that labour restraints have left the food processing industry unable profitably to renew its facilities. But the main reason is that under Professor Allan Fels the former Prices Justification Tribunal refused to allow Arnotts, the Australian producer's dominant competitor, to raise its prices. This forced Arnotts to "dump" its product and, in the process, drive its rival business out of the market.

For the most part, we recognise competition on the level playing field as the key driver of efficiency and the intercession of government as a key driver of industrial decay. Indeed, the economist Schumpeter argued that it was not "that kind of [static price] competition which counts but the competition from the new commodity, the new technology, the new source of supply strikes not the margins of the profits and the output of the existing firms but at their foundations and their very lives". Taking the chill out of the cold shower of competition might have a place but it can also convert us into a moribund economy.

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