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Pilbara miners best judges of access

As the Australian Competition Tribunal begins to consider Fortescue's application to have BHP Billiton's and Rio Tinto's Pilbara rail lines "declared" (or to confirm the Treasurer's decision to declare them), commentators focus on the monopoly of the two incumbents.

But this overlooks the fact that no company has a monopoly on the world market for iron ore, the market into which the Pilbara miners sell their ore.

There is thus no price advantage to the big two by their denying other miners access to their lines. They could, without any regulatory prompting, sell access on their lines to third parties.

That they choose not to – and so forgo any possible higher returns from such rentals – suggests that the increased managerial complexity of allowing such access, and the higher congestion costs on these rail lines, means that it doesn't pay them to open their lines.

In the absence of further investment in Pilbara rail transport, then, the smaller Pilbara deposits, owned by third parties, can be judged unprofitable.

The incumbents through the market for rail transport in the Pilbara, not regulators, are the best judges here.

Robert Marks
Professor
School of Economics
University of NSW