The undue cost of parity pricing

From a common-sense point of view, import parity pricing (IPP) seems indefensible. Why should a local manufacturer of steel or oil (in our case, ArcelorMittal SA and Sasol) be allowed to price their goods at the same price as their customers would pay for imports?

That question has reared its head again with the R534m fine imposed last week by the competition tribunal on Sasol for excessive pricing in one of its divisions in the mid-2000s. It is clear the competition authorities have IPP in their sights again, as they did in 2007 when ArcelorMittal was found guilty of excessive pricing in a case brought by Harmony.

When ArcelorMittal took over Iscor, the former state steel maker, which was privatised in 1979, there were some in government who expected the new controlling shareholders, being from India, to be sensitive and sympathetic to the aspirations of a developmental state.

Similarly, in times of high global oil prices, it is asked why SA cannot benefit from lower prices as a result of having its own producer of coal-to-liquid fuels. Also, there is resentment because Iscor and Sasol were founded by the state, and the perception is that private shareholders have benefited by not having to pay massive research and start-up costs.

The answer, of course, is that these companies must account ultimately to their shareholders, not to the state, and they have been determined proponents of IPP as a result.

The competition authorities have kept a close watch on them. This is understandable: IPP should be imposed only if there is sufficient competition in the local market to enable customers to go elsewhere.

The issues are complex and they keep many lawyers busy on both sides. But companies that feel they can defend IPP intellectually and legally — there is the point that the state benefits from a higher tax take through IPP — might want to reflect that it is not always enough to be in the right.