

The Allen Consulting Group

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Helen Silver
First Assistant Commissioner
Industry Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Dear Ms Silver,

The Allen Consulting Group (ACG) is pleased to make a submission to the Industry Commission's inquiry into the black coal industry.

The ACG offers these views based on experience obtained while advising governments and business interests about economic and regulatory issues in coal and electricity, in addition to competition issues more generally. These comments represent the views of The ACG itself rather than any client or other groups.

The ACG emphasises the importance of maintaining and enhancing competition in the black coal industry and draws attention to pressures on Australian governments which could lead to reductions in competition. Price reductions resulting from the introduction of the National Electricity Market are placing pressure on the viability of some generators. Some government owners see vertical integration, amalgamating black coal mines and electricity generation stations as a means of boosting the market position of their electricity generation industries (under continued public ownership or in preparation for privatisation). Further objectives of such policies include seeking long term security of fuel supply and avoidance of job losses due to closure of mines.

We consider that it is important to emphasise that the above fears are misplaced and the cure may be worse than the disease. Vertical integration will only work in cases of natural affinity, such as the integration of brown coal mines and generation in Victoria, founded on the fact that brown coal has virtually no alternative use and therefore has no opportunity cost. In contrast, when looking at black coal there are generally alternative users and it is widely traded (depending on quality). The best means to guarantee supply at lowest cost, and to protect regional employment in black coal mining, is to encourage open competition in a vibrant market.

The alternatives involve substantial distortions. After fragmentation, individual mines owned by generators will inevitably exhaust their reserves and shed labour (in the case of some underground mines supplying electricity stations, this could be quite soon). They are unlikely to have the economies of scope to win and service large export contracts. It is not clear that they will be prepared to invest in new technology to enhance efficiency. Generator owners would be more vulnerable to miners' industrial unrest and would have less bargaining power to negotiate competitive employment agreements. Most damaging, vertical integration short circuits the market process, eliminating vigorous competitors.

We hope that this submission is of assistance. Should you have any questions, please contact our Sydney office.

Geoff Allen
Chairman