



The Principles of economic analysis of pricing practices for the purpose of verifying compliance with the Federal Law “On Protection of Competition”

Kazan, 2016

1. Characteristics of the “Principles of economic analysis of pricing practices of dominant economic entities for the purpose of verifying compliance with the Federal Law “On Protection of Competition”.
2. Methods for estimating economically justified market prices :
 - ✓ *“Netback minus”*
 - ✓ *“Average weighted prices”*
 - ✓ *“Netback plus”*
 - ✓ *“Direct price”*.
3. Criteria under which fixing different prices for the same goods can be allowed.
4. Questions and discussion.

Background

The Law “On Protection of Competition”

- ❑ Clause 1 Part 1 Article 10 prohibits fixing, maintaining monopolistically high price



Monopolistically high price

Is a price fixed by an economic entity with the dominant position if the price exceeds the sum of costs and profit required to produce and sell the goods and the price formed on a comparable market (if such a market exists)

- ❑ Clause 6 Part 1 Article 10 prohibits fixing different prices for the same goods without economic, technological or other justification.

Performance specifics for particular markets

- ✓ Market shares of economic entities
- ✓ Structure of goods flows
- ✓ The ratio of logistics expenses and the costs of the goods
- ✓ The level of prices on other markets with a relatively developed competitive environment
- ✓ Demand-supply balance
- ✓ Government regulation
- ✓ Performance characteristics of the markets of the next technological process stage
- ✓ Other features.

The Principles of economic analysis of pricing practices are approved by FAS Presidium on 24 September 2014

- ✓ Designed to use by the staff of the antimonopoly body as guidelines
- ✓ Help improve the quality of economic analysis
- ✓ Encourage expanding the use of the “comparable markets” method
- ✓ Determine common approaches to analyzing pricing policies of the dominant economic entities on the markets.

The Principles of economic analysis of pricing practices

Apply to the markets of

Not applicable to the markets of

- ✓ Raw materials (iron ore, apatite concentrate)
 - ✓ Semi-finished products (metallurgical slab; pigs / bars of non-ferrous metals and alloys)
 - ✓ Finished products:
 - Metallurgical products (rolled steel, pipes)
 - General purpose construction materials (gravel chippings, sand, timber).
- ✗ Innovative goods
 - ✗ Services
 - ✗ Markets where along with goods qualities consumer preferences are determined by brands.

Note: The antimonopoly body can use **other principles of analyzing pricing practices** due to specifics of some markets.

Criteria for allowing pricing practices

The principles of economic analysis of pricing practices determine unified approaches to analyzing pricing policies of dominant economic entities in terms of compliance to Clauses 1 and 6 Part 1 Article 10 of the Federal Law “On Protection of Competition” :

- ✓ Estimating the economically justified upper price level depending on the structure of the goods flows.

Prices below this level cannot be recognized monopolistically high!

- ✓ Acceptability criteria for fixing higher prices for the same goods for Russian consumers in comparison with foreign consumers, other conditions being equal.

Methods to estimate the economically justified price level

Методы расчета экономически обоснованного уровня цены			Характерные черты товарного рынка				
			Наличие ценового индикатора	Объем экспортных поставок сопоставим с объемами поставок на внутреннем рынке	Объемы импорта превышают объемы внутреннего потребления	Объем производства в РФ сопоставим с объемами внутреннего потребления	Транспортные расходы незначительные (до 10-15% от стоимости товара)
Экспорто- ориентированный рынок	Метод «нетбэк минус»	$C = I \times k - L - \Pi$	✓	✓	✗	✗	✓
	Метод «средневзвешенной цены»	$C = \frac{P_1 q_1 + \dots + P_n q_n}{q_1 + \dots + q_n}$	✗	✓	✗	✗	✓
Импорто- ориентированный рынок	Метод «нетбэк плюс»	$C = I \times k + L + \Pi$	✓	✗	✓	✗	✓
Сбалансированный рынок	Метод «прямой цены»	$C = I$ (без коррекции на логистические затраты)	✓	✗	✗	✓	✗

$$Ц = I \times k - L - П$$

Графическая иллюстрация применения метода «нетбэк минус»:



Conditions for applying the “netback minus” method

- A company has the dominant market position
- Export-oriented market
- Insignificant transport expenses (no more than 10-15%)
- There are exchange or off-exchange indices

An example of using “netback plus” to estimate prices for the primary aluminum market in Russia

In accord with a FAS determination, aluminum prices of the “RUSAL” Group must not exceed the price calculated under the following formula:

$$P = LME_1 + P_{A7}, \text{ where}$$

- LME_1 – the average quotation value for a particular aluminum grade at LME

$$P_{A7} = P_{reg} - L_f - L_p, \text{ where:}$$

- P_{reg} – Average regional premium
- L_f – Logistical costs from a port in Russia to the port of destination
- L_p – Logistical costs to deliver aluminum from the production plants to the Main port in the Russian Federation, factoring in port transshipment expenses in the 3 month preceding the month of the shipment.

“Average weighted prices”

$$Ц = \frac{P_1 q_1 + \dots + P_n q_n}{q_1 + \dots + q_n}$$

p_i – цена, установленная для i -го покупателя в предшествующий период;

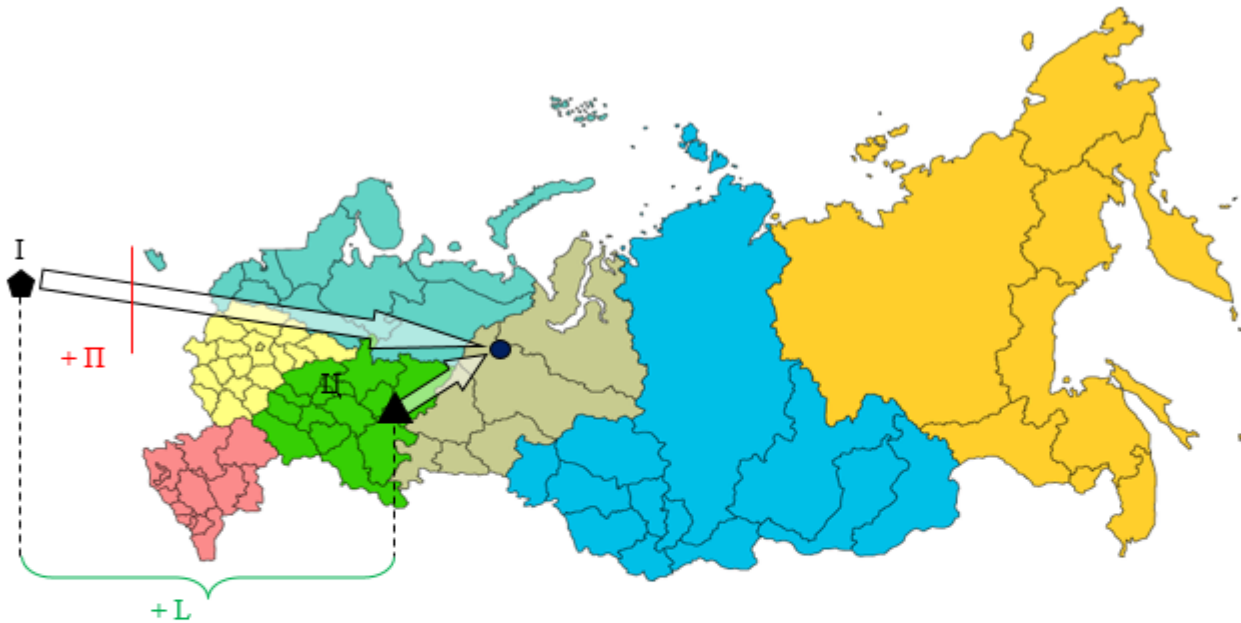
q_i - объем товара, проданный i -му покупателю в предшествующий период по цене p_i .

“Average weighted prices”

Conditions for applying the “average weighted prices” method

- There are no price indices
- Export-oriented market
- Supplies to export consumers are not sustainable in terms of the scope as well as the structure of goods flows
- Transport costs are insignificant (no more than 10-15%);
- Price is higher than the flat costs.

Графическая иллюстрация применения метода «нетбэк плюс»:



$$Ц = I \times k + L + \Pi$$

I – market index

k – correction factor

L – logistical costs

Π – export customs duty.

Conditions for applying the “netback plus” method

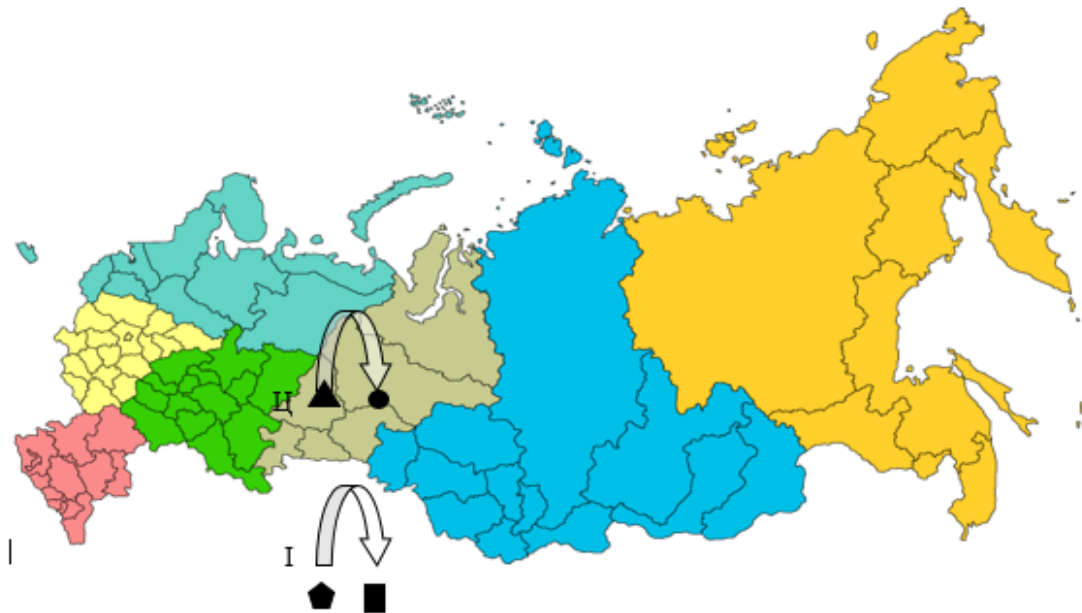
- There are exchange or off-exchange indices
- Import-oriented market
- Tight market.

- ▲ - производитель/поставщик на территории Российской Федерации
- - внутренний потребитель
- ◆ - иностранный производитель/поставщик
- ⇒ - направления поставки товара
- | - пересечение границы, сопряженное с необходимостью оплаты экспортной пошлины (иных платежей)

“Direct price”

$$P = I \times k$$

Графическая иллюстрация применения метода «прямой цены»:



Conditions for applying the “direct price” method

- There are exchange or off-exchange indices;
- Balanced market
- Significant transportation costs (more than 15-20%).

▲ - производитель/поставщик на территории Российской Федерации

● - внутренний потребитель

⬠ - иностранный производитель/поставщик

■ - иностранный потребитель

⇒ - направления поставки товара

Market characteristics:

- ✓ High fixed production costs
- ✓ Output exceeds domestic demand
- ✓ Export by each producer is insignificant
- ✓ Transport expenses for delivering the goods to foreign markets are significant in comparison with the costs of the goods and the level of prices determined using the “netback minus” method is below or comparable with the flat production costs
- ✓ Domestic demand is fully satisfied
- ✓ The antimonopoly body has not revealed facts or elements of violating Clauses 4, 5, 9 Part 1 Article 10 of the Federal Law “On Protection of Competition” by any economic entity within the analyzed period.

The Principles of economic analysis are published on FAS official web-site: fas.gov.ru

- Enhance transparency of the efforts undertaken by the antimonopoly authority
- Are an element of competition advocacy
- Facilitate preventing violations of the antimonopoly law by economic entities:
 - ✓ *Companies can voluntarily analyze their pricing policy*
 - ✓ *The Principles of economic analysis can be taken into account when drafting a corporate antimonopoly compliance programme*
 - ✓ *Corporate trading-and-sales policy can be based on the Principles of economic analysis .*

THANK YOU FOR YOUR ATTENTION!

The Principles of economic analysis of pricing practices for the purpose of verifying compliance with the Law “On Protection of Competition” are published on FAS web-site



fas.gov.ru
