

Supporting competitive conditions on regional markets

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Based on the results of consultations with business representatives in 2015, FAS made amendments to the Principles of economic analysis of pricing practices

- Determine an approach to analyzing pricing practices of the dominant economic entities on REGIONAL MARKETS.

Section VI of the Principles “Calculating economically justified price on the regional (local) markets”

Section VII of the Principles “Fixing higher prices for the same goods for consumers located in direct vicinity of the producer in comparison with consumers located in the areas remote from the producer”

Focused on pricing practices on regional and local markets:

Regional market – a market that does not overflow the boundaries of a constituent territory of the Russian Federation

Local market – a market that does not extend beyond the boundaries of a municipality

The “netback plus” method for regional markets

$$Ц = I + L$$



The “netback plus” method for regional markets

$$Q = I + L$$

“**NETBACK PLUS**” – calculating an economically justified price level using a price indicator, adjusted upwards for the sum of logistical costs for delivering goods to the analyzed regional market (*price reduced to DDP delivery basis*).

PRICE INDICATOR (I) is a level of price (EXW) formed in another nearby region with relatively developed competition, from where the most actual deliveries to the analyzed regional market take place.

Estimates using the “Netback plus” method are efficient:

- To analyze a pricing policy of a dominant economic entity
- For tight markets:
 - Export to a region is comparable with the output in the region
 - Import is absent or is insignificant.


Applying the “direct price” method for regional markets

$$C = I \times k$$

C – price CPT (w/o VAT);

I – price level (EXW) formed in other regions with relatively developed competitive environment

k – adjustment coefficient, factoring in the local market specifics.

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- ▲ - производитель/поставщик, расположенный на территории исследуемого регионального (локального) рынка
 - - потребитель, расположенный на территории исследуемого регионального (локального) рынка
 - ◆ - производитель/поставщик, расположенный на территории иного регионального (локального) рынка со сравнительно развитой конкурентной среды;
 - - потребитель, расположенный на территории иного регионального (локального) рынка со сравнительно развитой конкурентной среды;
 - - направления поставки товара

“Applying the “direct price” method for regional markets

$$Q = I \times k$$

“DIRECT PRICE” METHOD – estimating an economically justified price using a price indicator.

PRICE INDICATOR (I) – the level of prices (EXW) formed in other regions with a relatively competitive environment (for instance, cement)

Price indicator is formed in :

- An area of active goods consumption
- A market with a relatively developed competitive environment
- A market comparable by performance conditions.

The **“direct price” method** is efficient for:

- **Balanced markets:**
 - Home output is comparable with home demand (the difference not exceeding 5-10%)
 - Export and import of goods from the region do not exist or are insignificant
- **Surplus markets:**
 - Regional production is significantly higher than the regional demand
 - Export from the region exceeds or is comparable with the production level in the region
 - Import does not exist or is insignificant.



Unreasonably fixing different prices for the same goods by dominant economic entities without economic, technological or other justification is prohibited

(Clause 6 Part 1 Article 10 of the Federal Law “On Protection of Competition”)

The conditions, under which higher prices for local consumers in comparison with consumers in the areas remote from producers can be allowed :

- ✓ High fixed costs
- ✓ Production exceeds demand on a local market
- ✓ Transportation costs for delivering goods to consumers within the Russian Federation are significant in comparison with the costs of goods (over 15-20%) and differ considerably depending on a distance
- ✓ Producers operating in Russia are based in the areas remote from each other
- ✓ Supplies by producers in remote areas are insignificant
- ✓ The antimonopoly body has not exposed 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 on a local market.

Price difference for Russian and foreign consumers should not lead to restricting or eliminating competition on adjacent markets.



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



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