

Tuesday, October 28, 2008

Mr Thomas Abe
Commissioner & CEO
Independent Consumer & Competition Commission
PO Box 6394
Boroko NCD

Dear Commissioner,

RE: BCPNG POSITION ON ICCC PNG WHOLESALE & RETAIL INDUSTRY REVIEW

Introduction

The Business Council of Papua New Guinea (BCPNG) is the peak private sector representation body in PNG. We welcome the opportunity to provide input for the PNG Independent Consumer and Competition Commission inquiry into the PNG Wholesale and Retail Sector.

As the peak body we do not represent any particular sector but rather business as a whole. Consequently our input is related to advocating a policy framework that will encourage investment in the sector enabling a greater level of wealth creation for all stakeholders.

We understand the intent of the Review is not to seek to re-regulate wholesale or retail prices in PNG, but rather to determine and better understand the cost drivers in the delivery chain from manufacturer/ supplier to the customer.

Overview of Wholesale & Retail Industry in PNG

The Wholesale/ Retail sector is a substantial employer in Papua New Guinea providing a range of jobs for in excess of 20,000 citizens.

Turnover of the industry is a significant contributor of total GDP. Although details not available at this time an assumption of 20% of GDP would not be unreasonable.

Assuming competition is the most feasible measure of controlling prices it is a fact that the wholesale and retail sector is bi-polar in PNG, with highly competitive markets in major urban areas and lesser competitive markets in the more populated rural areas. Consumers in these rural areas are therefore disadvantaged by higher prices.

The wholesale market is dominated by PNG born Chinese investors whilst the retail sectors are heavily controlled by more recent investors. Efforts to encourage PNG citizens to invest through the Stret Pasin store scheme in the 1980's have not been sustainable. Many PNG citizens however earn a living participating in thousands of small stores and informal sector activities. Pricing in these sectors tends to find its own level.

Margins for most items in the wholesale sector are minimal, some items as low as 1-2%.

Retail margins are generally higher than international levels however the costs of operations (e.g. logistics, security, communications, power generation, travel and theft) need to be taken into consideration. It is interesting to note that Carpenters, Steamships and Burns Philip all exited the sector as they could no longer make money out of it.

Methodology Focus

Porter's Diamond of National Advantage theoretical framework may be more relevant than Porter's 5 Forces model to determining the key challenges facing businesses in the wholesale and retail industry that give rise to the price pressures facing consumers in PNG.

The inefficiencies and inconsistencies of Government controlled infrastructure entities have considerable cost flow-on impact to the delivery of goods to the consumer. To focus on the wholesale and retail industry without a direct factoring of the direct and indirect costs from sub-optimal service of Government controlled entities and agencies is not fair and equitable.

Enabling Factors to Improve Competition and Consumer Benefits

Whilst rural consumers are currently disadvantaged we argue that many of these higher prices are accountable in the most part by higher costs.

ICCC is therefore encouraged to promote greater investment in these areas by facilitating business to make profits that will encourage investments. The principle being the more investors the more competitive prices will be.

The failure of regulators and Government to create a level, transparent playing field in the industry erodes investor confidence. Key agencies that play a role in this include NAQIA, Customs, NISIT and department of Labour & Immigration. Should price be the only determinant of consumer benefits, at the risk of staff welfare, service and product quality?

The Supply Chain dynamics in PNG need to be improved. Port activities, road transport platforms, water supply, availability of suitable and affordable land, and the lack of adequate communication platforms to manage the extremely difficult logistics footprint of PNG are the obvious infrastructure issues that require improvement such that costs to consumers might be reduced and businesses improve performance.

Security and cash handling costs are escalating due to law and order issues that prevail in PNG. Internal theft of assets is a cost that could be reduced with an improved Law and Justice system.

Access to suitable and affordable commercial sites in major urban areas is becoming a barrier to competition and new entrants. Land mobilisation improvements will enhance greater investment and competition.

Price Controls

Current methods of price control are ineffective and date back to a time when a colonial administration attempted to stop traders profiteering from the sale of basic rations that were in many cases subsidized by the Administration. We believe there is an argument for removing price monitoring and price controls from basic items in urban centres where there is ample evidence of competition to regulate prices. Such a move would create a more robust business model thereby encouraging more investment and employment in the sector.

Price regulation might only succeed in creating further costs to be passed on to the consumers. BCPNG advocates strongly against any consideration of regulating the wholesale or retail prices of goods in PNG.

Summary

BCPNG believes the level of competition in the wholesale and retail industry is quite strong. The variability in operators' pricing and quality of product/ service is largely a direct factor of the inadequate regulation of the playing field.

Improving the Government controlled infrastructure entities and regulatory agencies will have the greatest sustainable reduction in consumer price pressure. This will also improve the investment environment for investors, and the level of competition. BCPNG is a strong advocate of increasing PPP (Public Private Partnerships) with Government entities and agencies such that consumers and businesses might sooner enjoy improved services and lower costs of goods (and services).

Yours sincerely

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