



## BANK OF PAPUA NEW GUINEA

Deputy Governor - Policy

To Robert Haus  
DOUGLAS STREET  
Box 121, P.O. PORT MORESBY  
PAPUA NEW GUINEA  
National Capital District  
Papua New Guinea

Ref: RAU.1/1/A

25<sup>th</sup> May 2009

Mr. Thomas Abe  
Commissioner and CEO  
Independent Consumer & Competition Commission  
PO Box 6394  
Boroko  
National Capital District

Dear Mr. Abe,

### RE: DRAFT REPORT – PNG WHOLESALE AND RETAIL INDUSTRY REVIEW

Thank you for having given the Bank of PNG the opportunity to comment on the aforesaid review.

Find herewith a short note containing our comments.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Loi Bakani'.

Loi Bakani

**Bank of Papua New Guinea review of the  
Draft Report PNG Wholesale and Retail Industry Review  
Prepared by the Independent Consumer and Competition Commission**

The Bank supports the work of the Independent Consumer and Competition Commission (ICCC) in improving competition in the private sector and achieving low and stable consumer prices. Although much of the report is beyond the purview and expertise of the Bank of PNG, the Bank appreciates the opportunity to review this thorough, well-prepared report on PNG's wholesale and retail industry.

The Bank supports the ICCC's recommendation to cease regulation of wholesale and retail margins on the sale of flour, sugar, and rice, especially considering that competition in urban areas already creates lower margins. No longer regulating these prices could also allow for more products to reach rural markets, where transportation costs often exceed the current allowable margins. However, the Bank would recommend some continued monitoring of these margins to ensure that margins do not increase unreasonably.

The Bank supports the recommendation to improve and simplify the business registration process and to reduce time frames for registration. The Government should review how other countries have simplified and improved these processes and make use of the World Bank's expertise in these areas. Removing unnecessary Government interference in this arena should allow for lower business costs, a more competitive private sector, and lower consumer prices.

The report's discussion of restrictions on foreign investment and the recommendation to remove restrictions on foreign owned retailers appears to be pragmatic and well-balanced. However, the report may also want to consider or discuss the medium and long term implications of this on the PNG populace.

In light of the significant costs that low quality transportation infrastructure and unreliable electricity provision impose upon business, the report may want to provide a stronger critique of the Government's role in providing these public goods. Reducing waste, inefficiency, and corruption in providing transportation and electricity infrastructure would lower the cost to businesses and improve competition.

***Specific recommendations on the draft follow***

Page 8, Draft recommendation

Existing or new business could enter into businesses arrangements with landowners as partnership. The landowners have land but not the working capital, while businesses have the working capital but not the land. This can be done through registered individuals or land ownership. Instead of landowners selling their land they could lease it. This could minimize security issues.

Page 24, paragraph 4-footnote 3

The report should use GDP figures from the Department of Treasury and/or the National Statistical Office of PNG instead of the US Department of State.

Page 25, paragraph 5

“Historically, PNG has placed tariff restrictions on many imported goods, which are produced locally. As an example, sugar is protected by a 70% tariff and other product such as flour is protected by a 15% tariff whilst rice has zero tariffs. While these tariffs help these local industries, they also serve to increase the cost of inputs for other industries. Manufacturers which use sugar as a raw material, for example, are worse off due to tariff protection.”

Does this statement apply to both imported and locally produced (Ramu) sugar as inputs for production or just imported only?

Page 27, paragraph 5

Sentence two suggests that the logistical challenges in PNG do not affect the degree of competition in the retail and wholesale industry. However, high transportation costs would reduce the level of competition.

Page 42, paragraph 2

Is there available data to support extending this assumption to sugar and flour?

Page 42-9

This is a thorough discussion of international commodity prices, the LNG project and Dutch Disease, and how these issues affect inflation in PNG. However, the report may want to reduce this discussion to issues directly affecting competition in the retail and wholesale industry.

Page 43

Figure 3.1 and 3.2 - US\$ price movement in selected goods against PNG CPI

Check the CPI scale. December quarter 2008 CPI is 910.6 in the NSO publication, while the graph shows an index number below what NSO reported.

Page 48-9

The Bank of PNG discusses the underlying causes of inflation growth over the recent period in its Monetary Policy Statements of July 2008 (page 18) and March 2009.

Page 60

Considering the report’s discussion of transportation infrastructure, transportation costs, and import tariffs, some discussion of the import tariff on motor vehicles and vehicles parts would be expected, as this directly applies to the cost of transporting goods. Some further consideration of these issues is recommended.