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28<sup>th</sup> October 2008

Mr. Thomas Abe  
Commissioner & CEO  
Independent Consumer and Competition Commission  
Angau Drive, Level 1, Garden City Complex  
PO Box 6394  
Boroko, N.C.D.

Dear Mr. Abe,

Attached is **British American Tobacco (PNG) Limited's** feedback on your Issues Paper:  
PNG Wholesale and Retail Industry Review (23 September 2008).

Sincerely,

**Augustine Birie**  
**Corporate Affairs Manager**

## Introduction

BAT supports the review to look at a wide range of issues relating to the operation, composition, structures, and regulation of the Wholesale and Retail Industry in PNG.

BAT notes that the Commission will make recommendations on actions that the Government should undertake to ensure that impediments to fair competition in the Wholesale and Retail Industry are addressed. In this regard we provide below our views on the key issues outlined in the Issues Paper. BAT will also participate in the public hearings in Port Moresby after the release of the draft report.

### Issue 1:

BAT agrees with the inclusion of Tobacco products in the review as long as the scope defined is adhered to.

This relates to all four areas (operations, composition, structure and regulation) of the wholesale and retail industry in relation to tobacco products. It is noted that the Commission has come up with three groupings of basic household needs, discretionary household goods and luxury household goods for the review.

It is recommended that the review also consider differentiating between goods and services produced domestically and those that are imported. The policies and impediments that would affect goods produced domestically would not necessarily be the same as imported goods.

### Issue 2

We believe there is significant differences between formal and informal wholesalers and retailers (eg: high percentage of sales by non registered entities – vendors). The differences between formal and informal are also dictated by geographic areas and the lack of availability of infrastructure that affects accessibility to markets of products.

In some areas in the formal wholesale sector there are high incidences of corporate responsibility, work within the laws of the country, pay appropriate taxes, trade only in legal product. This would be the case despite the fact that in some areas competition is limited. In the informal sector the consumer prices and trade margins are volatile, high variability and usually short term.

The factors that have a lot of impact on the wholesale and retail sectors are the high internal freight costs irregular shipping service and the lack of quality road infrastructure in PNG. The non-availability of products in rural areas because of irregular shipping schedules results in higher consumer prices and trade margins.

### Issue 3

We agree that the demand for wholesale and retail services are high not only in the urban areas but also in the rural areas. It is noted that infrastructure issues and costs of transportation impact on the price of goods and therefore determine demand. It should be noted that especially in the rural locations out of stock situations and lack of coverage are major issues that has a big impact on demand.

The government must support domestic producers so that any negative impact of exchange rates of Aust\$ is minimal

### Issue 4

BAT has no issue with the two tools being used by the Commission to assess the level of competition within the wholesale and retail sector. We caution that too much emphasis should not be placed on the tools as other factors such as infrastructure and government support should be considered.

Concern for the integrated spatial model because it may increase competition in urban areas and at the same time disadvantaging businesses who take a responsible approach to servicing all of PNG.

### Issue 5

BAT supports the current arrangements. It is obvious that there will be capacity issues if there is a change to the current arrangements. The government must also focus on its ability to enforce regulations and government policy.

### Issue 6

The government must promote policies that protect consumers and provide a level playing field for competition. There should be a balance between competition and consumer protection especially in a developing country like PNG where there is limited infrastructure and there are conflicting policies of government. For example, whilst the government is supporting manufacturing in the Industrial Development Policies the Tariff Reduction Program on the other hand takes away the protection that would lead to closure of manufacturing industries in PNG.

Government policy must ensure that infrastructure is improved (shipping license restrictions, road construction, aviation industry deregulation)

Government must improve law and order to ensure wholesale and retail businesses is significantly lower with focus on problem areas

Government must improve policing and enforcement around illegal trade and importation and also protect Intellectual Property rights of companies who are investing in PNG.

To protect consumer interests the government must improve on product certification to meet international standards.

#### Issue 7

The lack of competition in the supply chain especially shipping and freight services results in higher costs of doing business in PNG and as a result the costs to the consumers especially in rural areas are much higher. The government should provide incentives for companies to invest and increase competition in the supply chain.

#### Issue 8

BAT would like to see the wholesale situation to remain the same with developments in the retail sector. Consolidation in the formal retail sector (including international players) and formalisation of the informal sector. The Informal Sector should be regulated to protect consumers as there are no control over retail margins and quality of products sold. The government should be aware that without proper regulation, policing and enforcement the risks of importation of counterfeit and duty nit paid products increases.

#### Issue 9

BAT agrees with the need to address law and order situation as it adds on to the cost in the supply chain.

#### Issue 10

As a responsible company BAT abides by the laws of PNG and upholds its own standards of business conduct. The need to enforce labour laws is the responsibility of government and the lack of enforcement provides unfair competition to responsible companies.

#### Issue 11

BAT totally supports International certification for tobacco products. BAT also supports a licensing system for importing tobacco products.

Only licensed importers should import tobacco products

- Minimum qty: xxx million sticks per annum, financially sound, reputable firms, commitment to operate in PNG for a minimum period, appropriate infrastructure and quality standards,

Product registration and certification with strict criteria meeting PNG production standards or higher.

- Payment of K10 million Excise Bond for an importer without a manufacturing facility in PNG.