

INVESTMENT PROMOTION AUTHORITY

Our ref: ST/13/09

Your ref:

13th May 2009

Mr Thomas Abe
Commissioner & C EO
Independent Consumer and Competition Commission
P O Box 6394
BOROKO
National Capital District

Dear Mr Abe,

We express our appreciation for giving us the opportunity to provide our inputs in this draft report. Much of the effort has been put in by the Commission to review the level of competition and general market practises in the Wholesale and Retail sector in Papua New Guinea with a view to improving the economic performance in this sector. Whilst acknowledging the lack of data, it is commendable that the Commission was able to identify some key issues to prepare this comprehensive draft report.

We would like to provide comments on the issues related to our operations for the Commission to take note while preparing the final report.

The Commission has identified the following issues that touch on the role of IPA and we are delighted to provide our inputs.

- i) The Commission through the draft report expressed concern that there are numerous counterfeit and smuggled goods entering PNG illegally due to lack of communication and interaction between the Government agencies such as customs, CPD and the IPA;
- ii) Lengthy time is taken for the registration of a companies;
- iii) Restriction on Foreign Investment, and
- iv) Minimum capital requirement.

The following's are our views and recommendations regarding the issues raised in the report:-

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a) Counterfeit Issues

Regarding the counterfeit and smuggling of goods, IPA acknowledges that it should participate to assist the Customs Office, upon request to provide information regarding companies. As IPA is not responsible for border surveillance for counterfeit and smuggled goods IPA will only provide business information regarding the status of companies upon request. There are institutions like the National Institute of Standards and Industrial Technology (NIST) for standards and ICCC are responsible for protecting and promoting consumers who are the key institutions to assist Customs Office to crack down on the illegal goods entering the country. IPA's role therefore is isolated hence will only assist in providing information and a key player in the consultation process..

Recommendation:

While we agree with the recommendation for the Government to focus on technological capabilities, the report should take note that the roles of the different departments and agencies are already clearly defined. It is up to the Government to properly resources these institutions to effectively execute their duties. The administration of different legislation by the different institution does not allow for interaction and/or coordination unless it is a directive from the Government to assign these institutions to eradicate illegal bringings in of counterfeit and smuggled goods.

b) Delay in Registering Companies

At the current operating capacity of IPA, it takes up to 2 weeks for a compliance matter to be registered, including company registration. The delay is most related to the inefficiency of the postal services where the certificates are sent to the recipient through their postal addresses and is beyond IPA's control. Other delays are as a result of clients not correctly completing the simple registration forms.

The World Bank (IFC) at the request of the Government is currently assigned to assist IPA review the registration processes. The IFC team is currently in consultation with IPA to implement this project..

It would be prudent that IPA is further consulted on ongoing improvement efforts.

Recommendation:

Take note of the comments regarding the review of the registration processes to assist with the final report.

c). **Restriction on Foreign Investment**

It was stated in the draft report that restrictions are imposed on foreign investment in small scale operation and not being observed in practise. The report recommends that the Restriction on Foreign Investment into the retail sector should be removed.

In the case, the *Regulation* of the Investment Promotion Act 1992 as amended, contains a list of business activities which are restricted to citizen enterprises only.

Activities restricted to citizen enterprises only make up the Cottage Business Activities List (CBAL). The CBAL replaces what used to be called the Reserved Activities List (RAL). Foreign enterprises today cannot conduct business in activities listed under CBAL.

In the Wholesale and Retail sector there are some business activities restricted to citizens under the CBAL as follows:

- Wholesale and retail sale of wild growing materials including balata and other rubber-like gums; cork; lac; resins and balsams; rattan; vegetable hair and eel grass; acorns and horse chestnuts; mosses, lichens and cut evergreen trees used for festive occasions; saps; barks; herbs; wild fruits; flowers and plants; leaves; needles; reeds; roots; or other wild growing materials.
- Retail sale through stalls, tucker shops and markets.
- Wholesale and retail sale of second hand clothing and footwear.
- Retail sale carried out from a motor vehicle or motorcycle.
- Wholesale and Retail sale of handicrafts and artefacts.

- Repair of footwear when not done in combination with manufacture or wholesale or retail of these goods.

The reserve activities list was removed in 2005 and was replaced by the CBAL to open-up business opportunities to foreign interest. The minimum capital requirements and minimum space requirements are also part of the RAL removed and replaced by the CBAL.

Finally, regarding the comments on: “*Policies to promote domestic ownership should be focus on facilitating domestic entrepreneurship, as opposed to restricting foreign investment*”, (page 79), the activities reserved under the RAL are meant to create opportunities for citizen to develop an entrepreneurial culture in order to do business and graduate into the formal competitive business environment. However, when the Government decided to remove the RAL, the foreign interest took advantage of it with their added advantage over know-how & management skills, capital and external market linkages to flood the market place putting shift completion to locals who would want to participate competitively. Lack of adequate government support will continue to hinder any meaningful participation by locals.

Recommendation:

The Commission whilst promoting competition for the benefit of the users and consumers, the facilitation of local entrepreneurs needs concerted efforts by institutions of government to add value to economic growth. Promoting the consumption of quality goods is one of the main objectives of the government to see improved living standards, but the promotion of locals to meaningfully participate in business would improve their cash flow to sustain a better living is equally important.

The draft report captured every aspect of the terms of reference to promote a competitive and efficient market place in the wholesale and retail sector. As the review lack data due to the remoteness of businesses in rural settings, the constraints and/or bottlenecks identified generally are on-going issues that the government has been trying to improve over the years. As the wholesaling and retailing is more focused on people’s consumption of goods for a better living,

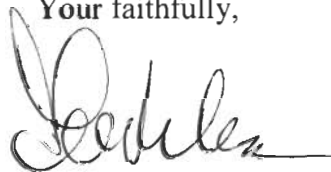
needed attention was not given to this sector. As the Wholesale and Retail businesses concentrate at the urban centres, the unique geographical settings of this country makes it harder for effective delivery of government services for business to flourish in the rural areas.

IPA officers visited 15 provinces in the country to gather information to establish a business information database. The officers were able to establish that many of the business visited expressed concerns that inadequate services or sometimes none-existence of government services such as utilities, infrastructures; such as roads and bridges, telephone service, postal services, health services, wharfs, police, and others makes it commercial unviable for business to expand their businesses into the rural areas.

As the draft study captured views from selected wholesalers and retailers, the report should go further to establish a cross-range of stakeholders including people in the rural areas to study the consumer behaviour pattern in the rural areas. The study whilst noting the World Bank Doing Business report should also take into consideration views from the government institutions who may provide useful feedback on issues raised..

The draft report in any case is comprehensive and IPA is supportive of the initiative. WE hope the input will assist in the completion of the final report. Please do not hesitate to contact us should you need further clarification.

Your faithfully,



IVAN POMALEU
Managing Director