Media & Resource Centre

MRC 011

08 May 2013

Media Release

“ICCC PROPOSES TO CONTINUE PRICE MONITORING OF RAMU SUGAR PRODUCTS”

The Independent Consumer and Competition Commission (the “Commission”) is undertaking a comprehensive sugar industry pricing review to determine whether or not to continue to regulate sugar prices and, if so, the form such regulation should take.

The Commission has just released its Draft Report on the sugar industry pricing review, detailing its preliminary findings and recommendations on the future of sugar price regulation in PNG.

ICCC Commissioner and CEO Dr Billy Manoka said: “This is a timely opportunity to assess competition in the sugar market as well as our monitoring approach.”

“Sugar is one of the vital commodities in our semi-urban and urban communities in PNG; has become a large part of people’s diet; and is also a key production input for other PNG manufacturing companies. As such the price of sugar is of vital importance to both households and industrial customers.”

According to Dr. Manoka, under the existing price monitoring arrangement the Commission only monitors the factory gate price of Ramu sugar supplied by Ramu Agri Industries Limited (RAIL) against an independent price benchmark. The Commission has monitored the industry over the last five (5) years and makes the following provisional observations:

- There are high barriers to entry into the milling level of the sugar industry given the capital intensive nature of establishing a mill in PNG.

- A key point is that sugar imports, despite reductions in recent years, are still subject to a tariff of 35% set by the National Government. The local producer can be expected to price its product at the lowest alternative price, being the import parity price, including the tariff, marine insurance, foreign exchange, shipping and handling costs.

- While decisions on tariff levels are entirely matters for Government, rather than within the scope of the Commission’s responsibilities, such decisions do affect the cost of living of citizens, particularly in the case of essentials of life, such as staple foods, and much more so for ‘grass roots’ Papua New Guineans, for whom expenditure on such items forms a much greater proportion of their meagre disposable income.
The Commission provisionally considers it should continue with the current form of price monitoring for the next five years.

Dr. Manoka encouraged all relevant stakeholders including sugar manufacturers, importers and consumers to provide their views on the Commission’s preliminary findings and recommendations, which will be taken into consideration by the Commission when developing its Final Report and Determinations. He thanked organizations and individuals who have contributed to the inquiry process to date, noting that their input has greatly assisted the Commission in developing its preliminary position.

Authorized By:

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DR. BILLY MANOKA, PhD
Commissioner & Chief Executive Officer

May 8, 2013

Background

The Independent Consumer and Competition Commission is enabled by the Prices Regulation Act to control or monitor the prices of certain goods and services which have been declared by the Minister for Treasury.

Under the Act the Minister, has the power to declare a good or service for price regulation purposes. The Minister may by way of notice published in the National Gazette declare any goods or services supplied or capable of being supplied, for their prices to be controlled or monitored by the Commission.

Currently, the goods and services declared for price control or price monitoring are:

1. Sugar
2. Rice
3. Flour
4. Fuel
5. Taxi and PMV fares
6. Stevedoring and Handling Services

In addition to the points made by Dr Manoka above, the report also makes the following points:

- While there appears to be significant barriers to entry, a few new players have been able to enter the wholesale level of the industry by importing sugar products. With the expectation that import tariffs will be further reduced under the current Government tariff reduction program, it is expected that more new entrants are likely to enter the
wholesale market by importing and distributing sugar products.

- Notwithstanding entry of new importers, the price of sugar will continue to be inflated by the prevailing tariff, whatever the level.

- The number of brands and varieties of retail sugar products on the market has increased since the new importers commenced supplying sugar. This represents competition between the major importers and RAIL. Sugar importers are competing on product differentiation through advertising and price, having some impact on RAIL’s market share, although over a very long period. The Commission’s analysis reveals that RAI’s market share has fallen from almost 100 per cent to 95 per cent in early 2000 to around 75 per cent or less in 2012. This trend is expected to continue as long as the Government reduces the import tariff and more importers enter the wholesale market.

- There appears to be a small degree of countervailing market power residing with very large customers who have the option of negotiating discounts with RAIL in circumstances where they can directly source sugar from overseas. Overall, the Commission considers that countervailing market power, while it exists in isolated cases, is extremely limited.

- Customers have a limited range of available options in terms of price, quality and products but appear to have a preference for Ramu sugar products.