



INDEPENDENT CONSUMER AND COMPETITION COMMISSION

2022 FLOUR INDUSTRY PRICING REVIEW



Final Report

25th November 2022

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Inquiries

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Submissions received by the ICCC as part of this review are available for public inspection unless the ICCC, based on a request from the relevant stakeholder, considers that all or part of the submission should remain confidential. However, in accordance with the provisions of the ICCC Act, the ICCC has undertaken this review process as transparently as possible and to this end, submissions are available for public inspection unless there are exceptional commercial-in-confidence reasons as to why submissions should be held in confidence.

About the ICCC

The Independent Consumer & Competition Commission (the Commission) is a statutory body established under the provisions of the *Independent Consumer and Competition Commission Act 2002* (the ICCC Act) to promote competition and fair trading, regulate prices of certain declared goods and services, and to protect consumers' interests, and other related purposes.

The ICCC is empowered under the ICCC Act to have one full time Commissioner and two part time Commissioners which forms the ICCC Board. At the time of compiling this Report, the Board comprised of;

Mr. Paulus Ain – Commissioner & CEO

Vacant - Associate Commissioner (Residential)

Mr. Edward Willett – Associate Commissioner (Non-Residential).

FOREWORD

Flour is a commonly used good within the formal PNG economy, both directly through the consumption of flour-based products made at home, and indirectly through processed and manufactured food which uses flour as the primary input. The prices of flour are important to many households in the more developed urban and semi urban areas throughout the country.

Prior to 2000, PNG's flour industry was characterised by one large manufacturer responsible for almost all of the flour in the supply chain. The industry now includes two manufacturers who mill and supply flour a number of importers who distribute or sell flour and flour premix products, and a diverse wholesale and retail sector.

The submissions received in response to the requests for information by the ICCC from relevant stakeholders and information received from targeted consultation, have been invaluable to the ICCC in developing this report. As such, the ICCC would like to thank those stakeholders who assisted it in completing this review. Should you require any further information, please feel free to contact the ICCC.

PAULUS AIN
Commissioner & Chief Executive Officer
Independent Consumer & Competition Commission

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ABBREVIATIONS AND GLOSSARY

ABS	Australian Bureau of Statistics
AML	Associated Mill Limited – a subsidiary of Goodman Fielders Internationals (PNG) Limited
GDP	Gross Domestic Product
ICCC	Independent Consumer & Competition Commission
ICCC Act	Independent Consumer & Competition Commission Act 2002
MSG	Melanesian Spearhead Group
NGTB	Niugini Table Birds – a subsidiary of Mainland Holding Limited
NZ	New Zealand
NZD	New Zealand Dollar
PNG	Papua New Guinea
PR Act	Prices Regulation Act Chapter 320 (Amended)
USD	United States Dollar

1. EXECUTIVE SUMMARY

The ICCC has completed its five year review of the flour prices within PNG and has made the following findings.

Market Definition

For the purpose of analysis, the Commission has identified and define three markets for flour.

Wholesale market

- A national market for flour. This includes all types of flour and includes supplies to manufacturers;

Retail market

- Separate geographic markets for flour, where other starch can be substituted; and
- Separate geographic markets for starch where the cost of transport increases the prices of flour and consumers might purchase other starches if they are better value.

Findings on Competition

The ICCC has identified that all three markets are competitive at all levels of the value chain and is supported by the view that;

- No barriers to entry were identified. Though building a mill is seen as a barrier to entry, the ICCC concluded that owning a mill was not requirement to supply flour.
- There was evidence of price competition between participants in all three markets.
- Customers in the wholesale market have countervailing market power because many of these customers are retailers hence, this supports competition in retail markets.
- Customers in all three markets are able to choose between different brands owned by different suppliers.

On the other hand, the ICCC has noted that potential barriers to entry for large flour importers are the ongoing shortage of foreign currency and the high costs of international shipping.

The ICCC notes that the market shares for AML, NGTB and imports have changed over the last regulatory period. Even though, there was a reduction in its market share, AML is still the dominant player in the market.

Furthermore, the ICCC found that no single supplier had sufficient market power to increase prices without losing its market share.

Findings on Pricing

International commodity prices have reached record highs over the last two years due to the Covid-19 pandemic and the current conflict between Russia and Ukraine. Despite these external pressures on international commodity prices, the ICCC notes that the domestic prices for flour have remained relatively flat over the last regulatory period. This gives an indication of the level of competitiveness of the flour market in PNG.

Ongoing Regulation

While the market is fairly competitive, the ICCC is of the view that it is necessary to continue prices monitoring of flour over the next regulatory period to ensure the interests of consumers are protected. Therefore, the ICCC has determined to continue its monitoring arrangement as follows;

- Monitor the ex-factory gate prices (inclusive of all discounts) of 1kg plain flour and 1kg wholemeal flour supplied by AML and NGTB; and
- Monitor the retail prices of 1kg plain flour and 1kg wholemeal flour packages supplied by AML and NGTB, and sold in retail shops across PNG.

The ICCC also determined to continue using the New Zealand Statistics' prices for 1.5kg white flour (SAP0125), as the benchmark for domestic retail prices, and the prices for wheat (US No.2. Hard Red Winter), as published by the Food and Agriculture Organization (FAO), as the international benchmark prices to monitor against the factory gate prices movements for AML and NGTB.

This will enable the ICCC to compare the ex-factory gate prices against the retail prices and see the relative changes in prices over the next regulatory period, and also monitor how the international developments in the flour market are affecting domestic flour prices.

2. BACKGROUND AND CONTEXT

The price-monitoring arrangements for flour for the 2015 to 2020 regulatory period had expired on 30th June 2020. While the ICCC was scheduled to undertake another pricing review in 2020, this did not eventuate due to the Covid-19 pandemic, which significantly affected the ICCC's workplans for the last two years. Therefore, the ICCC is now undertaking this review to evaluate the current state of the flour market in PNG, and to decide whether or not some form of regulation is necessary going forward.

This Final Report represents the ICCC's key findings and final determinations. The ICCC has sought submissions, data and input from various industry stakeholders. These inputs have been considered in producing this report.

2.1 The Previous Review of the Flour Industry

In 2015, the ICCC undertook a comprehensive pricing review of the flour industry under the provisions of Section 25A (6) of the PR Act to determine whether prices regulation of flour products was still necessary given the changes in industry circumstances. Issues considered related to the manufacture, supply and import of flour and other flour-based products, wholesaling and distribution of these products and the retailing activities of the industry.

The main finding of the review was that there was a case for regulation to continue in some form. Based on the findings of the review, the ICCC, under the provisions of Section 25C (3) of the PR Act made the following determinations for the five-year regulatory period commencing June, 2015:

- The ICCC decided to continue monitoring the ex-factory gate prices of flour from the two millers;
- The ICCC decided to maintain the New Zealand based data;
- In addition to the data provided via the monitoring arrangement, the ICCC also decided to retain the option of requesting information from the millers to support any changes in flour prices that are not consistent with the NZ Statistics; and
- The ICCC decided that a five-year regulatory period was sufficient for the monitoring of the prices of flour starting from 30th June 2015 to 30th June, 2020.

2.3 Legislative Requirements

The current regulatory arrangements applying to flour products are governed under Sections 10 and 32A of the PR Act. Under Section 10 of the PR Act, the Government, through the Minister for Treasury, had declared that it is necessary that flour be prices-regulated until such time that there is a public disbenefit from regulation.

Section 32A of the PR Act provides the ICCC with powers to monitor the ex-factory gate prices of the declared flour products.

The provisions of Section 25A (6) of the PR Act provides for the ICCC to initiate a review on its own accord when it considers appropriate. Section 25B outlines the process by which a review of a Pricing Order can be undertaken including:

- the timelines for such reviews to be undertaken;

- the requirement to publish details of its decision; and
- the form of decision that can be made as a consequence of such review.

Furthermore, Section 25C (3) of the PR Act specifies that as a result of a review, the ICCC may decide to:

- continue to operate the existing prices control arrangements in their present form;
- vary the existing prices control arrangements; or
- terminate the present price control arrangements.

The provisions of the PR Act provide the ICCC with some degree of flexibility in undertaking reviews. Under a price-monitoring arrangement, if it is evident that prices movements were not reflective of appropriate competitive market benchmarks, the ICCC may recommend to the Minister for Treasury that the relevant goods or services be re-declared for full price control.

The ICCC, in undertaking this review in accordance with the above provisions of the PR Act, will have regard to the confidentiality and public disclosure provisions of the ICCC Act on information received from submissions and the current and prospective state of the flour industry in PNG.

Under Section 32A of the PR Act, the Government through the Minister for Treasury, declared the following goods for prices monitoring:

- Plain Flour, 1kg, 2kg and 5kg; and
- Wholemeal Flour, 1 kg;

This declaration applied on *Flame* plain and wholemeal flour, supplied by AML, and *3-Roses* plain and wholemeal flour, supplied by NGTB, including other major importers of quantity above 10,000 tonnes per annum in the packages and sizes listed. Under this declaration, the two local flour millers have been providing their respective ex-factory gate prices, net of all discounts, for plain flour and wholemeal flour, to the ICCC.

This declaration expired on 30th June, 2020.

2.2 Review Process

This review has been initiated under the provisions of Section 25A (6) of PR Act. The process followed by the ICCC to facilitate stakeholders and public comments and transparency at all stages of the review is outlined on Table 1 below.

Table 1: Review Deliverable Timetable

ACTION	DATE	STATUS
Release of a Public Notice/Issues Paper and invitation for submissions to be made	07 th January, 2022	Completed
Close of Submissions on Issues Paper	31 st March, 2022	Completed
Release of the Draft Report and the invitation of comments and submissions	30 th September, 2022	Completed
Close of submissions on the Draft Report.	31 st October, 2022	Completed

Release of the Final Report and Final Determination	25 th November, 2022	Completed
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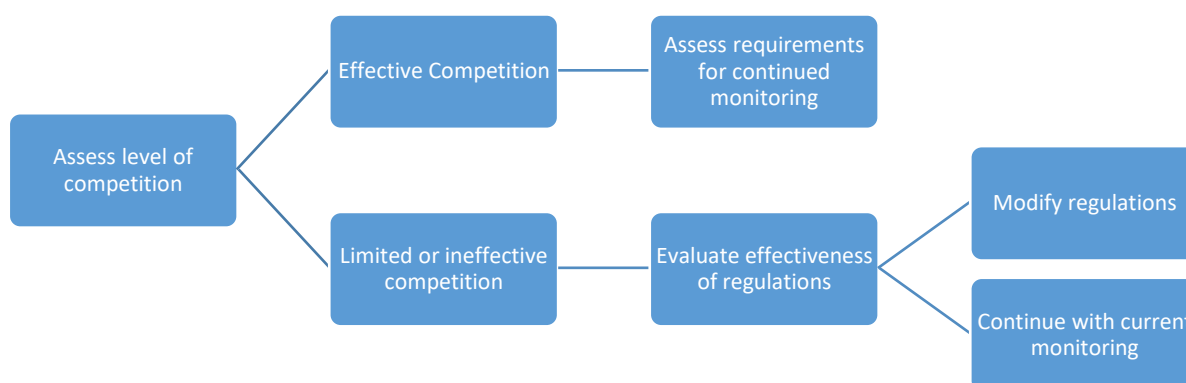
This Final Report is a public document and can be obtained from the ICCC’s office or through the ICCC’s website at www.iccc.gov.pg. The ICCC also acknowledges stakeholders who have participated in this review process so far by providing comments and information to assist the ICCC in response to the Issues Paper that was released on 7th January, 2022. These organisations are listed in Appendix 2.

2.5 Analysis Framework

The ICCC is required, under the provisions of Section 25C (3) of the PR Act, to consider whether to continue to operate price control arrangements in their present form; vary the existing price control arrangements; or terminate the existing price control arrangements.

The steps in this process are shown in Figure 1 below.

Figure 1: ICCC’s Considerations and Appropriate Steps



In order to make its decision, the ICCC must assess the current level of competition in the flour market in PNG. If there is effective competition in the market then the ICCC should remove or modify the existing regulations. However, if competition is limited or ineffective, then the ICCC must consider what can be done in order to protect the interests of consumers.

This report describes the ICCC’s assessment of competition. The assessment is based upon the information available to the ICCC, and its determinations as described in this report is based upon this assessment.

3. THE FLOUR INDUSTRY IN PNG

Though wheat is not commercially grown in PNG, it is imported and milled in the country to produce flour. Flour is used in the country for a number of purposes including the manufacturing of bread and biscuit products. It is also used in direct household consumption through homemade products such as scones and flour balls.

This Chapter describes the ICCC’s view of the flour market and provides context for the consideration of what regulatory regime should be adopted following the expiry of the last regulatory arrangements on 30 June, 2020. In doing so, the ICCC has sought to identify the current state of the market in terms of:

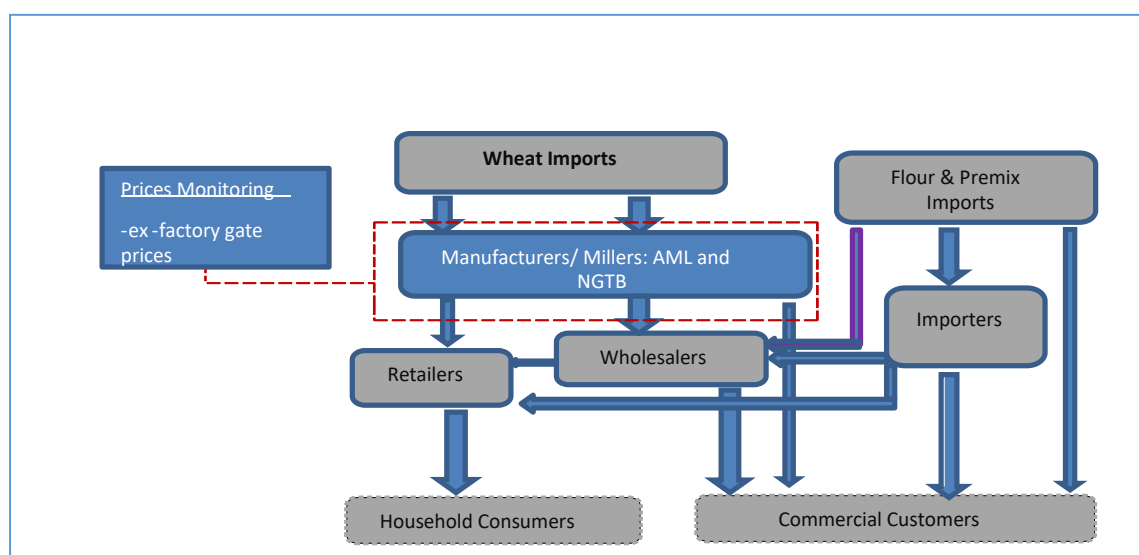
- the market structure (supply and demand);
- the major market participants;
- their relative market shares; and
- the wholesale and retail element of the market.

3.1 Market Structure

The flour industry in PNG plays an important part in the economic and social development of the nation. Each year between 170,000 and 180,000 tonnes of flour are milled locally¹ and/or imported². The market structure is shown in Figure 7 and consists of:

- two companies who mill and distribute flour products;
- a good number of companies who import packaged flour and premixes, including commercial customers; and
- wholesalers and retailers who supply flour products to both commercial and household consumers

Figure 2: Basic Market Structure in the PNG Flour Market 2021



¹ NGTB submission on Public Notice, 2022, p 4 and AML submission on Public Notice, 2022, pg 2

² PNG Customs Import Data, 2015 to 2021.

Wheat is not commercially grown in PNG thus, the two local millers import raw wheat mostly from Australia, and mill it into flour in their Port Moresby and Lae mills. On the other hand, some suppliers also import processed flour from overseas to supply the local market.

3.2 Manufacturers and Importers

The only two flour millers in PNG are:

- AML - a subsidiary of Goodman Fielder International PNG Limited; and
- NGTB - a subsidiary of Mainland Holding Limited.

Domestic manufacturing activities primarily involve the milling of imported wheat, and processing of milled flour to meet specific flour grade requirements, and the packaging of products for domestic sale. Flour comes in pack sizes ranging from 1kg to 50kg, and is distributed to major customers such as bakeries, biscuit companies, wholesalers and retail outlets/supermarkets.

Both millers have their own flour products distributed nationally under their respective brand names. AML has mills in Port Moresby and Lae while NGTB has only one mill in Lae. Major customers of these mills purchase their flour at the factory gate prices, and then arrange for transport to their main distribution points.

Imports of flour to PNG are subject to a tariff (unless from a Melanesian Spearhead Group member), which over time has been reducing. While originally at 40 per cent, the tariff in 2010 on Wheat Flour was 15 per cent. This was then reduced to 12.5 per cent in 2012, and then to 10 per cent in 2015. In 2019, the tariff was removed for imported bulk packages of more than 50kg, while the tariff was increased to 25% for packages weighing 50kg or less. Similarly, tariff on imported wheat was also removed in 2019³.

Imports from the Melanesian Spearhead Group (MSG) member countries (Fiji, Solomon Islands and Vanuatu) are exempted from import tariffs. The agreement between the MSG member countries on Trade Permits has remained effective for more than a decade and requires that certain goods, including flour, be exempted from import tariffs.

Based on the Customs import data, the major importers of flour and flour mixes, besides the two millers, to the PNG market include:

Table 2: Description of Major Importers

Lae Biscuit Company	<ul style="list-style-type: none"> • A major biscuit company in PNG. • Has a factory in Lae. • Sources supplies from the two local millers but import small quantities of soft flour from abroad.
Garamut Enterprise Ltd	<ul style="list-style-type: none"> • A wholesale and retail business. • Based in Wewak. • Expanded into operating two major supermarkets in Port Moresby; Water Front (Food World), and Boroko Food World.

³ http://www.treasury.gov.pg/html/national_budget/files/2019

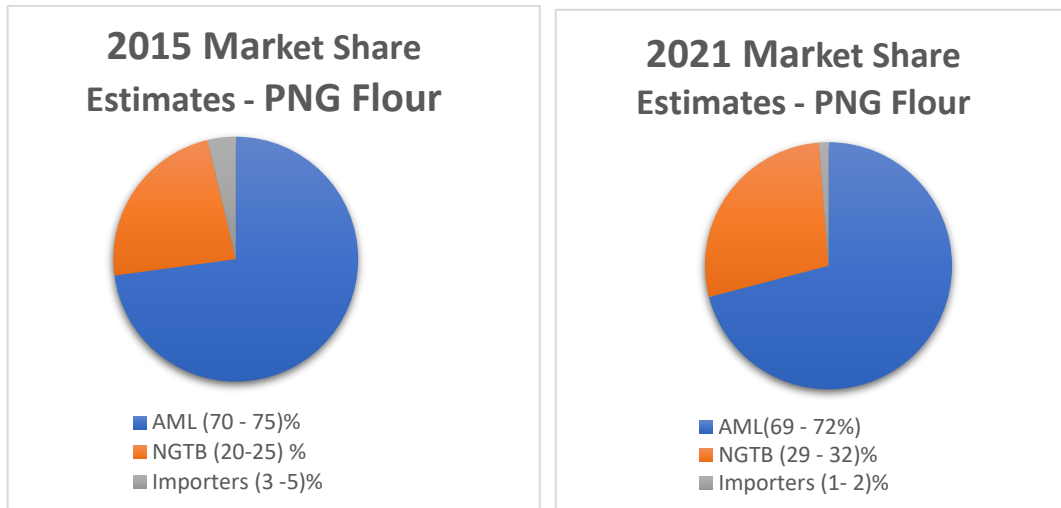
	<ul style="list-style-type: none"> • Specializes in selling grocery lines and other products.
BNG Trading Co. Ltd	<ul style="list-style-type: none"> • A large importer, distributor and marketer of grocery products in PNG. • Has a wide range of products covering food, beverage, health & beauty and non-food items. • Trades in international brands and has also developed and launched a diverse range of its own private label brands. • Supplier to the Bakery and Food service sectors in PNG. • Has its own brand of bread pre-mixes and yeast. • Has two bakery development centres in Port Moresby and Lae.
K-Central Ltd	<ul style="list-style-type: none"> • A major wholesaler and retailer based in Kokopo, East New Britain Province. • Supplies most urban and rural communities in the four districts of East New Britain, and Namatanai in the New Ireland Province. • Has grown to become a major importer of flour from Australia and Indonesia.
Papindo Trading Co. Ltd	<ul style="list-style-type: none"> • An established company in PNG who owns and operates supermarkets in the main centres • Its Head Office is based in Lae, Morobe Province.
Bakers Choice Ltd	<ul style="list-style-type: none"> • A subsidiary of Ribunan Hijau (RH) Group of Companies. • Is based in Port Moresby, National Capital District. • Manufactures and supplies bakery products such as breads, cakes and pastries • Has become a major importer of baker's flour.

Since 2015, K-Central, Papindo and Bakers Choice Limited are now major importers while Punjas Ltd, a Fijian based company, has exited the market in 2018. The ICCC has received information from the industry that Punjas exited the market due to irregular shipping services out of Fiji.

3.4 Market Share

The exact figures on market share in the PNG flour market are commercial-in-confidence. However, submissions and information received by the ICCC indicate that the market share in the flour market has changed since the 2015 Review as illustrated on Figure 3. In the current review, the ICCC’s market share estimates indicate that NGTB has increased its share of the market while imports appear to have slowed relative to the total market over the last 5 years. In 2015, the market share of imports was estimated to be 3-5% of the total market whilst as of 2021, the market share for imports has fallen to 1-2% of the total market. Furthermore, as of 2021, AML’s market share has fallen compared to its share of the market in 2015.

Figure 3 : Market share estimates for the PNG flour market between 2015 and 2021



The ICCC’s assessment of the available market share data suggests that the total consumption of flour products in 2021 was around 200,000 to 230,000 tonnes. This is higher than the ICCC estimate during the 2015 Review of 130,000 to 140,000 tonnes. Furthermore, the ICCC has observed that the total market has grown by around 60% since 2015⁴. On a per capita basis, these figures give a per capita consumption of flour products of around 23kg per person per year for PNG, an increase of 4% since the last review. However, this is still low on a worldwide scale. For example, consumption in the United Kingdom is around 54kg⁵ per capita in 2020.

3.5 Wholesale and Retail Flour markets

The wholesale and retail sector of the flour industry includes:

- wholesalers;
- major supermarkets;
- cash and carry businesses;
- mini or small supermarkets; and
- trade stores.

⁴ PNG Customs Data, 2015 to 2021

⁵ www.ukflourmillers.org/flourbreadconsumtion

Wholesale and retail activities are independent from the operations of the millers, although they act as competitors to the millers, when they directly import flour products.

3.6 Sea and road freight

The majority of flour in PNG is bought at factory-gate prices from the two flour manufacturers, and distributed to major distribution points including Goroka, Mt Hagen, Kavieng and Rabaul. In the last review the ICCC noted that freight is usually arranged and paid for by flour purchasers rather than the manufacturers. Some major wholesalers and retailers have indicated that this arrangement is still in place. Furthermore, most land deliveries are managed by trucking companies, with coastal shipping companies managing sea transport.

Transporting of flour within PNG is independent of the operation of millers and importers. Flour transport can be delayed for a number of reasons including:

- Truck or ship break downs;
- Bad road and weather conditions;
- Limited ships being available; and
- Port congestion.

Road and sea shipments can also be affected by looting. Because of the impact of these factors on transport, the availability of flour products varies. Limited availability ultimately means consumers pay high prices during the period of limited supply.

4. SUBSTITUTION AND MARKET DEFINITION

4.1 Substitution

The existence of substitute products can reduce the ability of a producer to exercise market power. Substitutes are effective competitors to producers' products.

In evaluating whether or not a business has market power, it is necessary to first define the market in which a company operates. The most common approach to defining markets for regulatory purposes is to identify the presence of substitutes in that market.

Flour is a key input into the local commercial production of goods such as biscuits, bread, scones, buns and cakes.

In addition, flour is purchased directly by households for the homemade production of the above products for consumption at home. As such, flour is an important food source in PNG.

The ICCC is considering whether there are any substitutes which may exert competitive pressures on flour prices and therefore, constrain the ability of flour producers to charge inflated prices.

In its submission, AML stated that Flour is an ingredient to carbohydrate products like bread, flour balls, buns, cakes. Therefore, substitutes are rice, kaukau, noodles, potato, banana⁶.

On the other hand, AML identified two potential substitutes to flour in the form of rice and noodles/pasta. Noodles can be made from wheat or rice, and pasta is made from wheat flour. So the prices of locally produced noodles or pasta will depend on domestic flour prices. Importation of these products may provide a constraint to the pricing of locally produced products.

The ICCC sees that there are essentially three possible situations with regard to substitution of alternative foods for flour-based products:

1. No direct substitute, product must be made with flour, e.g. bread or pastry.
2. Substitution of the carbohydrate component of one's diet with another carbohydrate, such as changing to eating rice, or rice-based products, instead of bread.
3. Substitution of a locally made flour-based product with an imported flour-based product. This could be a direct substitution, such as purchasing imported biscuits rather than locally produced biscuits, or a substitution of, say a meal, accompanied by noodles for a meal with bread.

Possible locally produced substitutes include taro, yam, kaukau (sweet potato), English potatoes, banana and cassava. This substitution would fall under category two above.

Other potential substitutes are generally imported and available from the same retailers who offer flour and locally produced flour-based products.

PNG consumers may substitute rice, noodle or other starch products for flour-based meals and products. However, substitutes such as noodles or pasta are still considered flour-based products, hence there are no direct substitutes for flour itself.

⁶ AML submission on the Public Notice, 21 July, 2022.

4.2 Market Definition

Markets can typically be defined over multiple dimensions. The following table identifies a set of dimensions and provides comments on each one.

Table 3: Market Dimensions

Dimension	Comments
Product	<p>The ICCC is only considering flour as a food item. As a food item, flour is primarily considered to be a starch, although it does contain other food groups. The primary substitutes would therefore, be other starches.</p> <p>Flour can be manufactured from wheat, corn, rice, nuts, legumes and some fruits and vegetables. The original ministerial declaration describes the type of flour to be regulated as</p> <ul style="list-style-type: none"> • Bakers Flour; • Biscuit Flour; • Soft Flour; • Plain Flour; • Wholemeal Flour; and • Self-raising Flour. <p>It is, however, silent on the raw material required to manufacture flour. It does not specify that it must be wheat-based flour. The ICCC therefore, is of the view that the declared market is any flour regardless of whether or not it is a wheat-based flour.</p> <p>The ICCC thinks that there are two markets from a product perspective. Some customers will purchase flour because they specifically require flour while others are simply purchasing a starch. For example, in the flour market, a bread maker must purchase flour. Other starches are not viable alternatives for making bread. However, a household who is looking for a source of starch for their family diet, might choose starches other than flour if these were cheaper.</p>
Manufacturers	<p>Some manufacturers will have specific product requirements. This might include the proportion of “Hard” or “Soft” wheat, used to create the flour they require. It is common for bakers to have very specific and customised requirements.</p> <p>Another requirement for a manufacturer might be that they wish to purchase flour in bulk. This relates to ease of handling larger quantities where delivery is via a specialised bulk flour truck rather than in bags which must be manually handled. This is likely to provide an advantage to a local manufacturer who can supply in bulk.</p>

Finished Goods	Consumers can choose to either buy bread or pasta or to make their own. If a consumer chooses to make their own bread, pasta or other products then they will use flour as an input along with other inputs including their own labour. Because finished products include other inputs in addition to flour, they are not in the same market as flour. So while foods such as bread and pasta might be seen as substitutes for flour, they are not in the same market as flour.
Geographic	For the starch market, the ICCC notes that fresh vegetables appear to be more difficult to source in Port Moresby than in other places. This means that the range of starches such as Taro, Yams and Kaukau will be less available in Port Moresby and therefore there will be less alternatives available. This will impact the level of competition in the broader starches market but not the more-narrow flour market described under the product section above.
Customer	<p>The ICCC notes that there are two general groups of customers. Manufacturing customers and direct consumers, such as households and restaurants. Manufacturing customers purchase flour generally for the purpose of producing other products such as bread, biscuits and pasta. Direct consumers use flour directly in cooking meals to be immediately consumed.</p> <p>The ICCC believes that manufacturers are more likely to have countervailing market power than direct consumers because of the quantities of flour they purchase. In particular manufacturers may choose to directly import their own flour. For this reason, the ICCC believes they are a different market from direct consumers.</p> <p>Large wholesalers are generally supplied directly by manufacturers, while direct consumers of flour are supplied by retailers.</p>
Supplier dimension	<p>Suppliers can be split into two types.</p> <ul style="list-style-type: none"> • Domestic Millers • Importers of pre-packaged product <p>The ICCC does not think that there is a supplier dimension to the market definition for flour. Suppliers of different types compete directly with each other and therefore, compete in the same market.</p>
Pricing	The ICCC did not identify any pricing structure elements which will create a separate market for flour. However, higher transport costs for fresh foods in some larger centres, do have an effect on the availability of substitutes. If a food item is significantly more expensive, then it will not be a viable substitute for flour.
Time	Flour by nature can be stored and kept for six to eight months. Because of this property, the ICCC does not think there is a time element which would create a separate market for flour.

The information available supports a view that when customers resort to other products in the major centres in response to increased flour prices, this constitutes “cellophane fallacy”

substitution. The cellophane fallacy first surfaced in a United States Supreme Court case, with a subsequent response in economic literature⁷. The fallacy refers to confusion arising from an observation of consumers switching to alternate products as a result of the monopoly pricing of a product, and mistaking this with competitive market substitution. All monopolies face some limit on their pricing where any further increase in prices will not be profit maximising: the fallacy is to confuse consumers “making do” with alternate products with consumers choosing a substitute product. If good substitutes for flour were available, such that those products were in the same market as flour, then a price rise for flour would not be possible. When flour prices rose consumers would substitute readily to those other products. If the relevant retail markets were broader than flour, then it would not be possible to monopolise those markets by controlling flour supply. Thus, the ICCC believes that there is at least a portion of the market which is separate from the starch market.

From this analysis the ICCC has defined three markets as follows.

Wholesale Market

- A national market for flour. This includes all types of flour, and includes supplies to manufacturers and retailers.

Retail market

- Separate geographic markets for flour, where other starches cannot be substituted.
- Separate geographic markets for starch where the cost of transport increases the prices of flour, and consumers might purchase other starches if they are cheaper than flour.

⁷ Stocking, G.W. and Mueller, W.F. (1955), “The Cellophane Case and the New Competition,” American Economic Review 45 (March): 29–63.

5. COMPETITION

5.1 Rationale for Competition as the Basis for Assessment

The primary objectives of the ICCC are specified under Section 5 of the ICCC Act. They are;

- to enhance the welfare of the people of Papua New Guinea through the promotion of competition, fair trading and the protection of consumers' interests;
- to promote economic efficiency in industry structure, investment and conduct; and
- to protect the long- term interests of the people of Papua New Guinea with regard to the prices, quality and reliability of significant goods and services.

Section 5 of the ICCC Act also notes that in seeking to achieve its primary objectives, the ICCC shall have regard to the following facilitating objectives:

- to promote and protect the bona fide interests of consumers with regard to the prices, quality and reliability of goods and services;
- to ensure that users and consumers (including low-income or vulnerable consumers) benefit from competition and efficiency;
- to facilitate effective competition and promote competitive market conduct
- to prevent the misuse of market power;
- to promote and encourage the efficient operation of industries and efficient investment in industries;
- to ensure that regulatory decision making has regard to any applicable health, safety, environmental and social legislation; and
- to promote and encourage fair trading practices and a fair market.

The common theme of the ICCC's primary and facilitating objectives is competition.

Competition in the provision of a good exists where there is rivalry (or potential rivalry) between two or more businesses seeking to secure the business of a customer. In order to obtain the business of any individual customer, the businesses are under pressure to offer the most attractive product in terms of prices and quality, and in some instances also the level of service.

Competition drives companies to continually seek new and improved ways of providing products and services. Competition can be thought of as delivering more efficient production in three ways.

- **Productive efficiency**; Competition for customers requires that companies continually seek the least cost way of producing their products and services. If a new business can enter a market and produce and sell the same product at a lower prices, any existing businesses can expect to lose market share and may be forced out of business. Competition therefore, compels businesses to continually seek ways to reduce costs.
- **Allocative efficiency**; Competition for inputs among businesses selling differing products directs resources of the economy to where they are most valuable. This ensures that society as a whole is better off because the limited resources of the economy are being used in the most effective and efficient manner.

- **Dynamic efficiency**; Competition compels businesses to seek new and improved ways of doing things. For example, if a business is able to invent a new and more efficient way of manufacturing its product (or create an entirely new product), it will benefit by attracting additional customers.

The overall effect of competition is to drive businesses to;

- produce goods and services at least cost;
- allocate labour and material inputs to the production of goods and services to where they are most valued; and
- seek new and improved ways of serving customers.

Based on the primary objectives and facilitating objectives of the ICCC Act and the above discussion, it is the ICCC's view that competition in the provision of a good, such as flour, is the most effective way to protect the long-term interests of consumers, and to deliver efficient prices to customers. It is for this reason that the ICCC is considering the competitive state of the PNG flour market when assessing whether to continue the existing price-monitoring arrangements.

5.2 What is a Competitive Market?

The definition of a perfectly competitive market described in textbooks rarely exists, if at all, in the real world. As such, it is necessary for the ICCC to adopt a real-world definition that it can be practically applied. The approach often adopted is to consider whether a market is 'effectively competitive'. Where a market is 'effectively competitive' (sometimes also referred to as 'workably competitive'), there is sufficient rivalry between business to ensure that they strive to deliver the goods and services consumers demand at least cost, and for product and process improvement. Effective competition will also ensure resources move relatively freely between and within markets in response to consumer demand and prices signals.

Consumers in an effectively competitive environment will have access to a reasonable degree of information to allow them to make choices and participate in the market.

Businesses in an effectively competitive market may have a degree of market power associated with product differentiation or innovation, but that market power will not be substantial or sustainable and will be subject to competitive erosion over time. At any particular point in time, resources may not be employed in their most valuable use, prices may deviate from costs and technologies can deviate from the most efficient ones available. However, over time, effective competition will drive the market towards efficient outcomes. Businesses will continuously strive for competitive advantage against actual and potential rivals, they will seek out new profit opportunities to deliver the goods and services consumers want, and the market may always appear to be in a state of disequilibrium and change. This is the very essence of real-world dynamic competition.

The ICCC's approach to evaluating effective competition is guided by the approach adopted in the development and application of competition law and policy.

The Hilmer Committee identified the characteristics of markets in which effective competition does not exist:

“Where the conditions for workable competition are absent – such as where a firm has a legislated or natural monopoly, or the market is otherwise poorly contestable – firms may be able to charge prices above the efficient level for periods beyond those justified by past investments and risks taken or beyond a time when competitive response might reasonably be expected. Such ‘monopoly pricing’ is seen as detrimental to consumers and to the community as a whole.”

The extent of competition within a market may also vary over time. Maturing markets can be characterised as progressing towards a more competitive state as shown in Figure 4.

Figure 4: The continuum of competition



In addition, the dynamic nature of markets over time demands that a forward-looking approach to the state of a market be adopted. Clearly, regard must be made to evidence of what has actually been happening in a market but the most important question is: what is likely to happen going forward? The ICCC has been guided in its analysis by the forward-looking approach of the High and Federal Courts of Australia and the Australian Competition Tribunal.

The ICCC, in its assessment of the PNG flour market, will be guided by the definition of an effectively competitive market while noting that markets change and evolve over time and that a forward-looking approach is appropriate.

5.3 The ICCC’s Assessment Criteria

In considering the competitiveness of the PNG flour market, the ICCC will investigate a wide range of real-world market characteristics. These market characteristics to be investigated are listed and discussed with specific reference to the PNG flour market in the following Chapter. The characteristics are:

- Barriers to entry (and exit) for new participants;
- Import Competition;
- Substitutes;
- Competition between existing market participants;
- Countervailing market power; and
- Exercise of choice by customers.

6. ASSESSMENT OF THE PNG FLOUR MARKET

6.1 Barriers to entry (and exit) for new milling participants

There are two flour millers in PNG; AML has one in Lae and another one in Port Moresby. NGTB has only one mill in Lae. Prior to 2000, AML was the sole miller in PNG. Since the entry of NGTB in 2000, no other millers have entered nor exited the market.

Prior to the establishment of its flour milling business, NGTB was well established in Lae through its business as a supplier of poultry products. The entry of NGTB into the flour market in 2000 indicates that, at that time at least, any barriers to entry were not so large as to discourage market entry.

6.1.1 Submissions

In the 2015 review, AML advised that the notable barriers are the high cost of purchasing milling equipment and purchasing or leasing land on which to operate a flour milling facility. However, in its submission to this review, AML raised that a regulatory restriction to entry is the reduction of import duty on flour imports, making it cheaper to import and trade flour in PNG rather than building a milling facility. ⁸NGTB also advised that currently, there are no barriers or protection put in place for the local market. As such, it is likely that there might be a third miller/importer entering the market. However, given the current business environment in the country, millers/importers will be cautious on the return of their investment in the PNG market.

Whilst the ICCC does not endorse the notion that low import tariffs are a barrier to entry; the barriers are broadly the same as those observed in the 2010 and 2015 Reviews⁹.

The ICCC has sought information on the total milling capacity of the two existing millers to determine the extent, if any, to which current demand may outstrip local milling supply capability. From the information provided by the millers and the import data provided by PNG Customs, the ICCC noted that over the reporting period, more than 87% on average of the total flour supplied annually is produced locally while around 13% is imported. NGTB and AML have also upgraded their mills in Lae to meet the increasing demand. The ICCC would also expect to see improved efficiency and capacity from the use of modern technology. This highlights a further challenge for new entrants, in that the existing millers may be able to increase production through upgrading their existing facilities at efficient costs. Furthermore, they would not necessarily face the cost of purchasing or leasing land if they can remain within their existing land footprints.

Submissions have also suggested that there are very low barriers to entry into flour import market. Both millers' submissions stated that there has been significant growth in imports over the last several years, and that flour products can be cost effectively imported to compete with locally produced flour¹⁰. The recent growth in imports suggests that importers are faced with low market entry barriers. Since the cost of investing in a new milling plant is considerable, most organisations wishing to trade in flour products see the cost efficiency in importing flour into the country rather than starting a mill.

⁸ NGTB submission on Public Notice, 2022, p 4

⁹ ICCC Final Report Flour Industry Pricing Review June 2010 p.26.

¹⁰ AML submission on the Public Notice, January 2015, p.6 and NGTB submission on the Public Notice, p.3.

6.1.2 Conclusion on Barriers to Entry (and Exit) for new Participants

The costs of constructing a new mill and purchasing or leasing land are the significant potential barriers to entry. Obviously in considering entry into a market, a possible entrant would estimate the upfront costs of establishing themselves in that market. Market entry will only occur if it has a reasonable expectation that it will be able to recover and make a return on investment over the life of the mill.

Given the existing millers:

- may have sufficient capacity to cater for current market needs;
- are likely to be able to increase production capacity cost effectively;
- are likely to have much lower production costs than any new entrants;

it seems unlikely that a new miller will enter the market in the near future.

Importing, on the other hand:

- has low barriers to entry in terms of set-up costs;
- provides a wide variety of supply options to industry players;
- gives access to various flour-based products that may not be currently available locally;
- has much lower risk than investing in a mill; and
- allows the importer to easily change quantities as market demand fluctuates.

Therefore, the ICCC does not consider the high cost of entry into the milling industry in PNG as having significant downstream impacts on the level of competition in the flour market.

6.2 Import Competition

Imports can exert significant competitive pressure on the flour market in PNG as potential flour product suppliers can avoid the cost of actually setting up and operating a mill in the country, as discussed in the previous section.

6.2.1 Submissions

The submissions from the two millers have highlighted the impact of imports. Similar to its submission to the 2015 flour review, AML sees significant competition for local flour suppliers from imported flour and observes that:

“In recent times, there has been a significant increase of imported flour being dumped from other markets resulting in inconsistent quality of flour.”

NGTB also advised that the significant amount of imported flour is impacting the sales of GFI and NGTB. These imports originate from Europe, Australia, Malaysia and Indonesia. They have also seen significant competitive pressure from imported flour products.

In its submission on the 2015 Flour review, AML submitted¹¹ that the short-term nature of supply contracts is an indication that customers can easily and quickly shift to importers, thereby, enjoying the advantage of any lower prices offered by importers of flour products.

¹¹ AML submission on the Public Notice, 21 July, 2022, p.3.

This has been made obvious by some major customers such as K-Central in Kokopo and Lae Biscuit Company in Lae importing bakers and biscuit flour directly from overseas suppliers.

NGTB raised concerns about the import tariff:

“For flour, there is basically no protection at all for the local industries given that only 10% duty is offered for imported flour allowing the market to be flooded with imported flour selling at competitive prices.”¹²

The millers’ submissions suggest that the decrease in tariff for flour is enabling more flour imports into the market, thereby exerting competitive pressure on the local industry.

6.2.2 Analysis of Customs’ Import Data

According to the Customs’ data, flour products were imported mostly from Australia, Malaysia, Indonesia, US and Hong Kong, as well as MSG countries. However, the imports from the MSG countries substantially declined in 2018 after the exit of Punjas Flour from PNG flour market. Some wholesalers and bakeries are also now directly importing flour for their own use. The impact of the reduction in tariffs and Punjas’ market exit is clearly shown on **Figure 5**. The volume of imports and the number of importers has generally declined since 2019.

Figure 5: Import Volumes and importers since 2015



Source: PNG Customs

In 2019 the Government increased the import tariff on 50kg or less flour packages from 10% to 25% and the import tariff on flour packages in excess of 50 kg was completely removed. Furthermore, import tariffs on wheat was also removed. This tax policy is clearly designed to encourage local production or value adding within the supply chain, and has achieved the desired outcome as observed on Figure 5 and

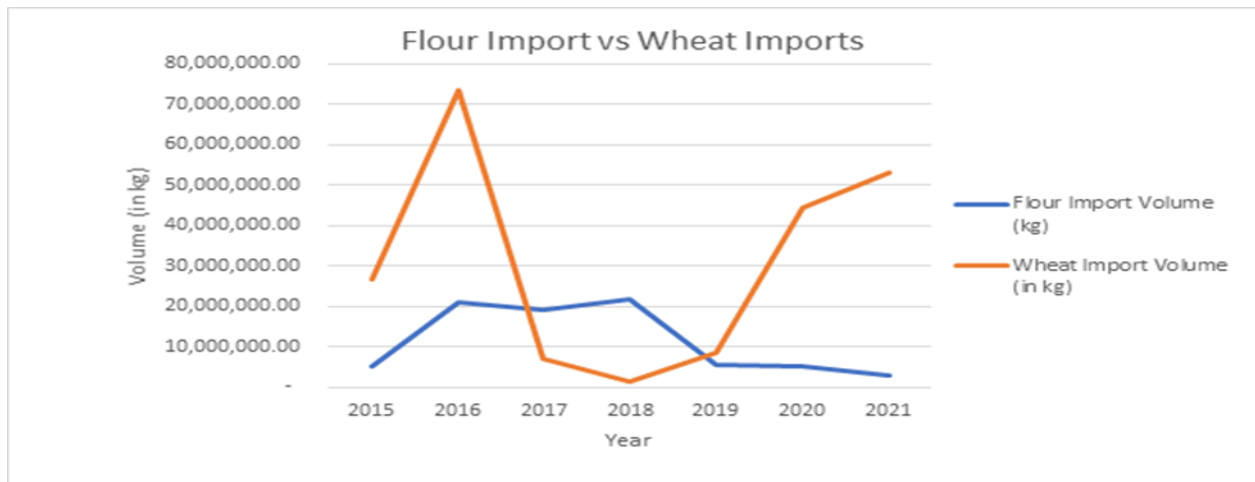
Figure 6.

Figure 6 clearly shows that despite the reduction in flour imports, wheat imports by the millers have increased substantially since 2019. The reduction in flour imports could also be attributed to

¹² NGTB submission on the Public Notice January, p.3.

the Covid-19 pandemic since 2020 and the prevailing foreign exchange shortage in our financial system.

Figure 6: Flour and Wheat Imports from 2015 -2021



Source: PNG Customs

Whilst the ICCC notes that the increase in import duty on flour has weakened competition from imports to a certain extent, the two millers indicated that flour imports still pose a competitive threat to their locally produced flour products. Furthermore, there was an expression of concern by NGTB in their submission that reducing tariff barriers is putting local jobs and food safety standards at risk, hence called for increased protection through additional tariffs¹³. However, the ICCC is of the view that the 2019 tariff policy, to a certain extent, has levelled the playing for competitors in the market.

6.2.3 Conclusion on Import Competition

Based on the ICCC’s analysis of the Customs import data, submissions and the decrease in the tariffs, there is evidence that:

- The importers still have the ability to compete for business with the local millers;
- The millers’ ability to charge prices above comparable international prices is curbed by imports; and
- The fact that millers can avoid import tariffs by importing wheat enhances competition with flour importers.

For this reason, the ICCC concludes that imports are still providing both actual competition and also the threat of increased competition to local millers. This conclusion applies to both the national market and wholesale market.

¹³ NGTB email submission on the Draft Report, 31st October, 2022.

6.3 Competition between existing market participants

As previously noted, the major market participants in the PNG flour market are the two local millers (AML and NGTB) and a few major importers.

In its submission to the 2015 review, AML made the following statements¹⁴:

“There is strong competition between the two existing local flour millers in PNG, being AML and Mainland Holdings/New Guinea Table Birds (NGTB), across all categories with the PNG flour market. There are frequent shifts in volume between AML and NGTB as to who supplies which customers in the market given the highly commoditised nature of flour and the short-term nature of supply contracts.”

In its consultation with the ICCC, AML indicated that with the anticipated growth in the flour market in the country, the company upgraded its mill in Lae in order to increase its flour production capacity as well as improve efficiency.

Over the last six years, the ICCC’s analysis suggests an average of approximately 180,000 tonnes of flour have been sold annually.

In this Report, the ICCC has assessed the extent to which the above market participants are competing to sell flour to wholesalers (for subsequent sale to retailers), and direct sales to retailers (for subsequent sale to customers). The ICCC notes that competition between existing suppliers is often characterised by the development and offering of new and differentiated products and services, and through businesses actively seeking to maintain or expand market share.

With respect to new and differentiated products, the ICCC notes that there are a relatively broad range of products available. These include:

- Baker’s Flour;
- Noodle Flour;
- Biscuit Flour;
- Plain Flour;
- Wholemeal Flour; and
- Self-raising Flour.

In its submission during the 2015 Flour Review, AML stated the flour market in PNG is split into 3 types of flour product, being¹⁵:

- Commercial flour - sold in bulk to manufactures of other food staples including biscuits and noodles.
- Baker’s flour - sold to bread manufactures.
- Retail flour - sold in smaller retail packets for the general consumer population.

The ICCC is not sure whether this is still the current view of AML, however the ICCC is of the view that this grouping is still relevant in the current flour market.

¹⁴ AML submission on the Public Notice, January 2015, p.2

¹⁵ AML submission on the Public Notice, January 2015, p.3

The submissions by AML and NGTB characterised flour pricing and the market in PNG as being highly competitive, especially in the commercial sector. AML provided a list of brands on Table 4 including its own *Flame* brand, that are available in the market¹⁶.

Table 4: Flour Brands in PNG

IMPORTED BRANDS	LOCALLY PRODUCED BRANDS
Fama's Gold	3 Roses (NGTB)
Fama's Gold Baker	Flame (AML)
Kale Bakers	BNG Delight Bakers
Manildra Bakers	
Manutra	
Premium Bakers	
Red Horse Bakers	
Tilly's Bakers	

All these brands are available in different sizes ranging from 1kg to 50kg packages.

With respect to the businesses actively seeking to maintain or expand market share, the ICCC notes that there is clear evidence of competition between the businesses.

The ICCC was advised by AML in the 2015 Flour Review that discounts to standard prices are given to customers.

However, neither AML nor NGTB has indicated that they are still offering discounts to their customers or provided any direct evidence of discounting in this review. As part of the current price-monitoring arrangement, the two millers publish a prices list on a quarterly basis and submit this prices list to the ICCC. This information only shows the maximum prices and does not identify any discounts.

In their submissions to the ICCC for the 2015 Review, both millers stated that discounts are being offered in their attempts to capture additional business¹⁷.

In some interviews conducted by the ICCC with wholesalers/retailers and bakeries, it was noted that some suppliers offer discounts while others are not able to offer discounts.

In addition to competition between millers and importers for wholesale and retail customers, the 2010 Final Report identified some evidence of competition further down the supply chain at the retailer-customer level. At this level, the 2010 Review found different brands were promoted actively to consumers by way of promotional pricing offers and advertisements in local media such as newspapers. The ICCC in this review has also noted that the millers as well as importers are actively promoting their various brands.

¹⁶ AML email response to ICCC email queries, 21st March, 2022.

¹⁷ NGTB Submission on the Public Notice January 2015, p 4.

The ICCC has concluded that there is evidence currently available to demonstrate that the millers and flour importers are competing in terms of product differentiation.

The ICCC has also observed evidence of changing market shares as shown on Figure 3. This also supports the view that competition between existing market participants is exerting competitive pressure on the PNG flour market.

6.4 Countervailing market power

Countervailing market power exists where a customer is able to exert some influence over a supplier to cause the supplier to amend its supply arrangement or vary the prices of its good, thereby succumbing to the demands of the customer, usually because the customer can credibly threaten to underwrite a new source of supply. Countervailing market power is therefore, most likely to exist for large customers where the loss of business suffered by the supplier is more significant if the customer rejects the offered terms.

In the PNG flour market, individual customers with potential countervailing market power may consist predominantly of bakeries and biscuit makers (noting that wholesalers and retailers are also large customers who potentially have the ability to import directly from flour producers in other countries to limit the market of millers). The extent of this countervailing power is reliant on the availability of alternative supply options of similar quality and quantity.

The evidence available to the ICCC indicates that there are alternative supply options given that each of the mills and major importers offer a similar range of products. This provides larger customers with the opportunity to ‘shop around’ and obtain the best supply arrangement. Large customers also have the opportunity to import directly, thus providing another source of flour, and analysis of import data suggests that some importers are bringing in relatively small volumes of product, which may mean importing is also viable for some medium or even small operators. In addition, AML has indicated to the ICCC that large customers are able to negotiate discounts below the advertised prices lists, when these customers purchase larger quantities. NGTB’s submission refers to prices reductions in more general terms as a consequence of competing with importers but obviously larger customers would be expected to have greater power to negotiate discounts. In its submission in 2015, AML indicated that it is observing some level of customer countervailing market power as customers move business between various suppliers. Whilst the notion of countervailing market power lies predominantly with the commercial customers, this may not be true for some commercial customers in certain circumstances. It is possible that some commercial customers may require specific inputs for their products and may not be able to switch between various suppliers.

Nonetheless, based on the evidence available, it appears that large customers potentially hold a relatively significant degree of countervailing market power that keeps a check on the prices being charged by the flour millers.

However, whilst large customers may possess a degree of countervailing market power, it is unlikely that smaller customers such as households are able to exert any influence on the prices of flour charged by the millers and importers. In the Draft Report, the ICCC sought comments on whether discounts obtained by larger customers of the millers and importers, such as the wholesalers, retailers and bakeries, are passed on, at least in part, to consumers via reduced prices.

No relevant comments were received, however, the ICCC's 2009 review into the wholesale and retail market¹⁸ concluded that there was sufficient competition in the wholesale and retail markets to exert pressure on retail margins, and this finding is still relevant.

Therefore, despite smaller households being unable to enter into negotiations directly with the millers and importers, they would be expected to benefit from the existence of countervailing market power at the wholesale, retail and bakery levels.

In its submission to the 2015 review, AML advised that the PNG flour market is highly competitive, with imported products, countervailing power of customers and substitutable products all providing meaningful competitive constraints to an already competitive domestic flour market¹⁹.

The ICCC concludes that the flour market is still competitive.

6.4.1 Conclusion on Countervailing Market Power

The ICCC's current view is that there is a degree of countervailing market power for larger customers and potentially medium sized customers. Smaller customers have no direct countervailing market power, however the ICCC's view is that they may benefit through competition at the wholesale and retail levels.

6.5 Exercise of choice by customers

The exercise of choice by customers, demonstrated through a willingness to alter purchasing behavior and switch from one brand to another, can place a significant competitive constraint on producers. While there is no direct evidence available to the ICCC with respect to customers switching brands based on prices and quality levels, there is indirect evidence in the form of the marketing and advertising activities being undertaken by the different brands.

Marketing and advertising is undertaken in attempts to maintain and grow market share. If the suppliers of different brands did not believe customers would alter their purchasing behavior based on differences in prices and quality, there would be no need to participate in the advertising and marketing activities. A range of brands of flour and flour products can be seen in the PNG market, and the millers have invested in these brands. NGTB certainly see competition between the mills in brand terms:

“In addition, Niugini Table birds has gained distribution to more retail outlets that has provided a much-enhanced choice to the consumers of flour throughout PNG offering quality Three Roses Flour in retail packs at a prices advantage to consumers over the Flame brand.”²⁰

AML also believe that customers can and do exercise choice:

¹⁸ Final Report PNG Wholesale and Retail Industry Review, 12 October 2009

¹⁹ AML submission on the Public Notice, January 2015, p7.

²⁰ NGTB Submission on the Public Notice, January 2015, p3.

“The commoditized nature of flour means that flour suppliers’ products are substitutable and customers can quickly replace any uncompetitive offering with alternative sources of supply.”²¹

And AML, like NGTB, see brand as an important facet of competition:

“NGTB, through their 3 Roses brand, are the second strongest player in the flour market.”²²

6.5.1 Conclusion on Consumer Choice

The ICCC’s current view is that customers do have the opportunity to exercise market choice and switch between brands.

²¹ AML Submission on the Public Notice, January 2015, p4.

²² AML Submission on the Public Notice, January 2015, p5.

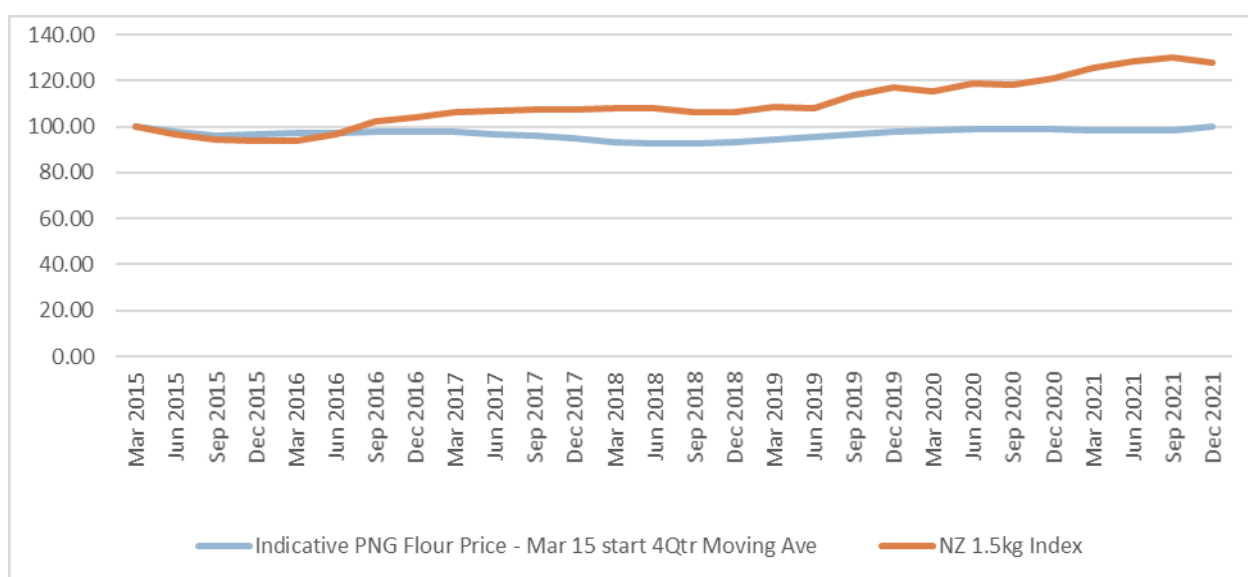
7. PRICES MONITORING ASSESSMENT

7.1 Monitoring of Factory-Gate Prices.

In the 2015 review, the ICCC decided to continue prices monitoring and decided to use the 1.5 kg white flour prices data published by the New Zealand Statistic²³s (NZS) as the benchmark prices for the prices monitoring arrangement for flour by AML and NGTB in the county²⁴. Furthermore, the prices for flour that are published by NZS are actually the lowest retail prices in New Zealand, and are not New Zealand's factory-gate prices.

Based on the price-monitoring arrangements since 2015, the consolidated result is shown in Figure 7.

Figure 7: Consolidated Prices Monitoring Results for flour from 2015 to 2021



Source: ICCC Price monitoring template

The results of the prices-monitoring arrangement indicate that over the last regulatory period including 2021, domestic flour prices remained fairly flat. On the other hand, the benchmark flour prices increased significantly over the same period. The overall increase in the benchmark retail prices as published by NZS was around 28% over this period. This indicates that overall flour prices in the country are competitive and the local market for flour is competitive.

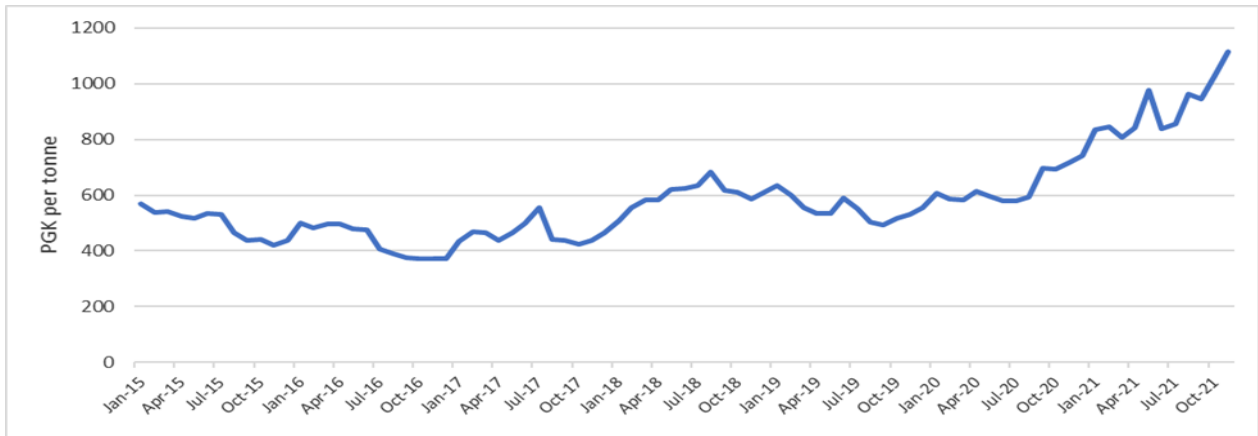
7.2 Wheat Purchases

Wheat is an internationally traded commodity that is predominantly traded in US dollars (\$US). The PNG millers are prices takers since they do not have any impact on the world prices of wheat.

²³ <https://infoshare.stats.govt.nz/>

In this review, the ICCC has noted that the FAO benchmark prices of wheat (US No.2. Hard Red Winter) have been increasing since the end of 2016 as shown on Figure 8 below.

Figure 8. International Wheat Prices (PGK Per Tonne)



Source: <https://www.fao.org/giews/food-prices/international-prices/en>

Since 2018, wheat prices have increased by more than 100%. Despite the significant increase in wheat prices, domestic flour prices have remained flat over the same period, as shown on Figure 7. This also reaffirms the ICCC’s view that the domestic flour market is competitive.

7.3 Flour Prices Compared to Consumer Prices Index

The change in the headline inflation index versus the flour prices index is set out in Figure 9²⁵ below.

Figure 9: Flour Prices Index Versus PNG Headline CPI



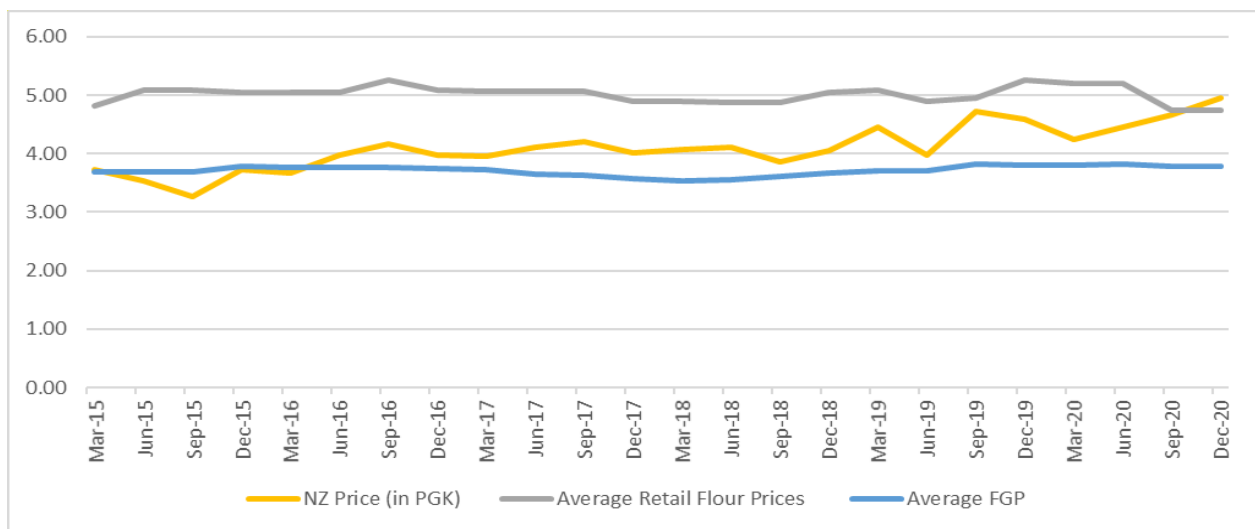
Despite the increase in the headline inflation index over the reporting period flour prices have actually remained flat since 2015.

7.4 Retail Prices

Apart from monitoring the factory-gate prices, the ICCC also collects the wholesale and retail prices for flour packages supplied by AML and NGTB. These prices are collected by the ICCC’s regional offices in Port Moresby, Lae, Mt. Hagen and Kokopo/Rabaul.

In order to compare the retail prices to the factory-gate prices, the ICCC has used the retail prices collected from Kokopo and Rabaul as shown in Figure 10. This is because the data from the other centres are not complete or available. The ICCC has calculated the average for the 1kg packages for the AML and NGTB brands collected from the retail shops in Kokopo and Rabaul and compared by the average FGPs for 1 kg packages supplied by AML and NGTB. Where there are missing data, the ICCC has inferred average retail prices based on the available prices. The retail prices are also compared with the NZ retail prices (in PGK) to see the price trends at the retail level.

Figure 10 : Average Factory Gate Prices for AML and NGTB Verses Average Retail Prices for Kokopo/Rabaul Verses NZ Retail Prices.



Source: ICCC Price-monitoring template

Figure 10 shows that average retail prices for flour collected from shops in Kokopo and Rabaul trended along with the average factory gate prices.

Though the NZ prices was increasing during the reporting period, Figure 10 shows that domestic flour prices at both the factory gate and retail levels remained relatively flat over the last regulatory period. This also suggests that the retail market for flour in the country is fairly competitive.

8. DOMESTIC ROAD AND SEA FREIGHT

In the 2015 Final Report, the ICCC concluded that competition in the coastal shipping market was likely to be limited. With only two companies offering service on most routes, and one of these companies owning shares in the other, the market was less contestable. On the other end, the road transport market was competitive due to low barriers to entry. However, the high freight costs were driven by poor road conditions rather than by competition.

In this Report, the ICCC has used the same framework that was used in the 2015 Final Report to assess the competitive nature of the sea and road freight market in the country.

8.1 Analysis of Coastal Shipping

The coastal shipping services have a significant impact on the final prices of goods and services since most of the goods are transported through coastal shipping services. It is the ICCC's view that the competitive nature of the freight market in the country has gone through some significant changes. For example, in the shipping industry Steamships Trading Company (STC) has a controlling interest in Consort Express Lines. As both companies operate similar services directly or indirectly via subsidiary companies, this is likely to have had an impact on competition in markets in the shipping industry. Since the last review in 2015, the ICCC notes that nothing much has changed in the shipping market.

AML advised that the coastal shipping market in PNG is competitive with a lot of capacity between the two major operators²⁶. On the other hand, NGTB indicated that there is lack of competition in the shipping market since there is only two operators providing the service²⁷. Furthermore, the other operator has interest in the other. It appears that there is some competition on the Port Moresby to Lae route. However, for other sea routes there are only two operators.

The ICCC is not confident to conclude that coastal shipping industry in PNG is competitive. The conclusion is that competition in coastal shipping is likely to be limited. This is because there are only two companies offering this service on most routes and one of these companies owns shares in the other, hence the market is in effect a monopoly.

The ICCC is generally concerned about this finding. Therefore, the ICCC is intending to conduct another review into the Coastal Shipping Industry in PNG in 2023 to see if this finding is still relevant, and to identify measures that can be used to encourage competition in the market, and also bring down the cost of sea freight in the country.

8.2 Analysis of Road Transport

AML advised that there are more players in the road transport industry than in the coastal shipping industry. However, in their view, the road freight costs for the Highlands region of the country are quite high. These high transport costs are attributed to the deteriorating road conditions of the Highlands Highway and security issues along the highway. The ICCC does not have any information to assess whether or not road freight prices are costs reflective.

²⁶ AML submission on the Public Notice, 2022 Flour Industry Pricing Review

²⁷ NGTB submission on the Public Notice, 2022 Flour Industry Pricing Review

However, it is reasonable to expect road freight to be relatively competitive on most routes because of low entry barriers.

8.3 Findings on Freight

The ICCC's conclusions are as follows:

- Effective competition is unlikely on most coastal shipping routes; and
- Low barriers to entry for road transport services indicates that there is competition in road routes.

Based on the above conclusions, the ICCC anticipates to conduct a review into the Coastal Shipping Industry in PNG in 2023 with the intention to identify measures that can be used to encourage competition in the market and also bring down the cost of sea freight in the country.

9.0 ONGOING REGULATION

The ICCC must decide what form of regulation is required in the flour market or whether or not any regulation is required. The ICCC has the following choices:

- Continue to operate prices monitoring arrangements in their present form;
- Vary the existing regulatory arrangements;
 - This may mean changing the current monitoring arrangements or
 - Introducing some form of prices control; or
- Terminate the existing prices monitoring arrangements.

9.1 Form of Regulation

In response to the Issues Paper, AML indicated that the current prices-monitoring arrangement has been effective, while markets are competitive and prices are sensitive²⁸.

NGTB submitted that the current prices-monitoring arrangement is fair. NGTB further advised that a review into the import tariff is necessary, implying that import competition is exerting pressure on domestic prices²⁹.

Despite the ICCC's conclusion that the flour market is fairly competitive, there is still a need to continue with prices-monitoring with respect to the ex-factory gate prices of flour from AML and NGTB to ensure the consumer interests are protected. This is because flour is increasingly becoming an important food source in the country.

Over the next regulatory period, the ICCC will continue to monitor the ex-factory gate prices for the 1kg plain flour and 1kg wholemeal flour supplied by AML and NGTB against the international benchmark prices. The ICCC will also continue to use the FAO prices for wheat (US No.2. Hard Red Winter) and the NZS prices for the 1.5kg white flour (SAP0125), as the international benchmark prices.

The number of product types and pack sizes for monitoring were substantially reduced after the 2015 Review. In this review, the ICCC has decided to further reduce the pack sizes for prices monitoring, as shown on Table 5.

Table 5: Packages for monitoring.

Product	Pack Sizes (kg)	Pack
Plain flour	1	Paper
Wholemeal flour	1	Paper

The ICCC's decision to reduce packages for monitoring is due to the increase level competition in the domestic flour market. Furthermore, the 1kg packages are considered to be more relevant for comparison with the NZS prices that will be used as the international benchmark prices.

²⁸ AML submission on the Public Notice, 2022 Flour Industry Pricing Review

²⁹ NGTB submission on the Public Notice, 2022 Flour Industry Pricing Review

10. FINAL DETERMINATIONS

The ICCC is undertaking this review under Section 32A of the PR Act. Under the provision of Section 25C (3) of the PR Act, the ICCC makes the following Determinations:

- As part of the final determinations, AML and NGTB are expected to continue providing the ex-factory gate prices (inclusive of all discounts) for their respective 1kg plain flour and 1kg wholemeal flour packages over the next five years.
- The ICCC will continue monitoring retail prices for the 1kg plain flour and 1kg wholemeal flour packages supplied by AML and NGTB, and sold in retail stores across PNG.
- The declaration of prices and prices regulatory arrangements will apply for a five-year period, commencing 1st January, 2023 and will expire on 31st December, 2027.
- The form of prices regulation to be applied will be:
 - Prices-monitoring of the ex-factory prices (inclusive of all discounts) of AML's and NGTB's 1kg plain flour and 1kg wholemeal flour packages, under the provisions of Section 32A of the Act.
 - AML and NGTB will continue to provide the ICCC with quarterly factory gate prices updates.
 - The ICCC will then compare the price changes to the 1.5kg white flour (SAP0125) package, as published by the NZS, and the FAO prices for US No.2. Hard Red Winter wheat.
 - In the event that there is a deviation between the movements of benchmark prices against the factory-gate prices, the ICCC will require AML and NGTB to provide information on the reasons for the divergence. Such information should include the impact of the following costs and activities on the overall prices of flour in PNG:
 - landing costs;
 - labour costs;
 - packaging costs;
 - energy costs;
 - advertising and marketing costs; and
 - other costs.

The deviation between the prices for the millers and the benchmark prices will be measured as the percentage change for the corresponding quarters. Where this change is deemed to be significant, the ICCC will request the information outlined above.

When making an order under subsection (1) of the PR Act, the Commission shall have regard to:

- A. the need to protect consumers and users of the declared goods or services from misuse of market power in terms of prices, pricing policies (including policies relating the level or structure of prices) and the standard of the declared goods or services;
- B. the cost of making, producing or supplying the declared goods or services;
- C. the desirability of encouraging greater efficiency in relation to making, producing or supplying the declared goods or services;
- D. the need to ensure an appropriate rate of return on any investment in relation to the declared goods or services;
- E. the borrowing, capital and cash flow requirements of persons making, producing or supplying the declared goods or services;
- F. considerations of demand management and least- cost planning;
- G. existing standards of quality, reliability and safety of the declared goods or services, and the desirability of encouraging improvements in those standards;
- H. the effect of any proposed order on general prices inflation over the medium term;
- I. the economic and social impact of any proposed order; and
- J. any other matters the Commission considers relevant.

APPENDIX 2 – LIST OF SUBMISSIONS

Submissions on the Public Notice (Issues Paper) and Draft Report were received from the following stakeholders:

- NGTB
- GFI
- K-Central Limited
- City Pharmacy Limited (CPL)
- RH Trading Limited
- John J Seeto Holdings Limited
- Paradise Company Limited