



CONSUMER COUNCIL OF FIJI

# **2016 - 2017 National Budget Submission**

**May 2016**

## **1.0 About Consumer Council of Fiji's Role**

The Consumer Council of Fiji (CCF) as the statutory representative of consumers in Fiji is required by the *Consumer Council of Fiji Act Cap. 235* to *do all such acts and things that it may consider necessary or expedient to ensure that the interests of consumers of goods and services are promoted and protected* (Section 6(1)). The Council is obliged to make representations to the Government or to any other organisations/persons on any issues affecting the interests of consumers. The National Budget is very important to the Council as budget policies have direct or indirect consequences on consumers. The Council has intimate knowledge and hands-on experience of the problems that consumers face in the marketplace. It is the leading recipient of consumer complaints, undertakes point-of-sale price surveys, market surveillance, price monitoring and product scrutiny and consumer research.

### ***Consumer Council's Submission***

Consumers are the single largest group impacted by economic decision, and in challenging fiscal environment, we believe it is particularly important for government to consider the concerns of Fijian consumers in setting its budget priorities. With this in mind we make the following suggestions for your consideration:

## **2.0 Tariff Restructuring**

Consumer spending is a major contributor to economic growth and Government tax revenue. Most of Fiji's major trading partners like Australia, New Zealand and China have reduced their tariffs but maintain consumption tax like GST and VAT. For Fiji VAT was the major contributor to the Government coffers in 2014 with collection totaling \$794.2m or about 38% of total tax revenue. VAT remains the dominant source of Government's tax revenue.

From 2008, the Government restructured the tariff bands to 0%, 5%, 15% and 32% (previously 0%, 3%, 12% and 27%) This meant that consumers had to pay more for the goods and services. High duty rates translate into high retail prices of goods and services, and a consequent deterrent to consumer spending. Government can boost consumer spending by reducing import taxes. Reducing tariffs can be an important means to stimulate economic growth, as goods and services become more affordable to consumers who will be encouraged to spend more resulting in more VAT collection.

The multitude of tariff bands is also cumbersome and costly for overall tax administration. A simpler tariff band will reduce work for FRCA and offer clarity to traders, consumers and the general public on the applicable taxes.

### **Requests**

- **Government should retain consumption tax (VAT) but reduce tariffs on the essential food and non-food items.**
- **Introduce simpler tariff band rather than many for overall tax administration and for better understanding by traders and consumers.**

## **2.1 Taxation on Non-Food Items**

Second hand clothing is becoming a concern for many consumers as they are faced with issues such as: poor quality, no fitting rooms, and unhygienic shopping environment. Regardless of such issues, many consumers still opt for second-hand clothing since price of substandard new clothes are exorbitantly high.

There is a boom in second-hand clothing businesses in Fiji because consumers are unable to afford brand new clothes. Hygiene is a major concern for consumers of second-hand clothes as there is a lack of appropriate regulations to address health and safety issues. Over the years, prices of second hand clothing have increased to levels that are on par with new garments. Furthermore, FRCA and Government may be losing out on a lot of tax revenue from the booming second-hand clothing sector where very low duty is paid (i.e. per kg), but garments are sold at high retail prices per unit.

### **Request**

- **Fiscal duty should be reduced or removed from imported new clothes and stringent regulations should be implemented for second-hand clothing.**

## **3.0 Non-Communicable Diseases (NCDs) - Policy consideration in the 2016 - 2017 National Budget**

Fiji is in a state of crisis due to NCDs, which are the leading causes of death in the country. Data from the Global Burden of Disease highlights that poor diet, inactivity, tobacco use and alcohol misuse were major causes of NCD. The crisis has grown to become not only a health concern, but also an economic, social and human development challenge. In a 2002 study carried out by the World Bank and the Secretariat of the Pacific Community (SPC), it was revealed that 38.8% of all treatment costs could be attributed to NCDs. This is likely to have increased since then, as the burden of NCDs has increased.

The Council believes the Government should consider the following proposals to deal with NCD crisis in Fiji.

### **3.1 Price Control**

Price controls are instruments of public policy which have been adopted and practiced by both developed and developing countries to mitigate certain economic and social conditions in their economies.

Fiji has seen increase in price on goods and services that are not under price control. This is being done freely simply because our markets are imperfect for open market. Previously, traders who wished to increase prices of goods had to give 12 weeks -notice for PIB. Now that's lifted.

The Council has also noticed that little consideration is given to government's overall vision of having a 'healthy population' when unhealthy food items are placed under price control.

### 3.1.1 Price Control on Healthy Food

Healthy but essential food items such as, Parboiled Rice, Brown Rice, Chakki Atta and Roti Flour are not under price control. Instead white flour is under price control, encouraging consumers to buy more white flour for their daily meals which is unhealthy and cheap as compared to healthy options.

Normal Flour which is available to consumers at a reasonable price is under price regulation lacks nutritional value when compared to 'Chakki Atta' which is 100% whole wheat flour and par boiled rice. The contribution of unhealthy diets to ill health in Fiji is now greater than before, so improving diets needs to be taken far more seriously than it is at present.

One way that NCDs can be controlled or managed is through targeting lifestyle choices via changing consumption patterns amongst consumers.

#### **Request:**

- **Government to include Parboiled rice, brown rice, whole meal flour, chaki atta and Roti Flour under price control to make healthy options affordable.**

### 3.1.2 Duty on Energy Drinks

Duty on energy drinks should also be increased. Apart from high sugar content, energy drinks contain high quantities of caffeine and other potentially harmful additives. Energy drinks are also linked to heart problems, overweight, diabetes, gum diseases, sleep and anxiety problems. Some energy drinks like *Powerade* and *Gatorade* that used to be confined to sports arenas are now commonly available as a snack drink. These energy drinks are becoming a popular choice for young people with sales and marketing targeting this category of consumers. Energy drinks often have a deceptive combination of soft drink and pseudo-nutritional supplement that may be susceptible to abuse. Drinks like *Monster*, *Red Bull* and *V* currently incur 32% fiscal, 15% excise duty and 15% VAT.

#### **Request:**

- **The Council request the government to introduce 15% health tax on energy drinks to deter younger generation of drinkers and assist in reducing risks of NCDs.**

### 3.1.3 Increase Duty on Sugar-Sweetened Beverages (SSBs)

SSBs have been linked to increased risk of overweight and the biggest contributor to diabetes. The retail prices of soft drinks are lower than water and healthier beverages. Heavy marketing and promotion is increasing exposure to children. Prices of SSBs in Fiji are cheaper compared to developed countries like Australia. For example in Australia a 600ml bottle of Coca Cola retails for around AUD\$3.70, approximately F\$6.30, while the local Fiji price is at \$2.00. We commend the Government for imposing a 5cents per litre excise duty on locally-produced SSBs in the 2015 Budget revenue measures. However, retail prices of SSBs and fizzy drinks have not increased. For example retail prices of 600ml Coca Cola have remained at \$2.00 to \$2.20 (prices in supermarkets and urban centres). Government should further increase the excise duty on SSBs, 95% of which

are locally produced/bottled. A variable excise tax based on sugar content for locally-produced soft drinks is recommended. This will also be an incentive to manufacturers to reformulate their products towards lower sugar content and incentivise them to produce healthier product lines.

### **Requests:**

**The Council re-submits its requests made in its submission for the 2016 Budget. In addition to a progressive increase in excise duty, Government should:**

- **Consider a variable tax rate on SSBs based on composition of added sugar/100ml as consumed;**
- **0% for those with added sugar or no more than 1g/100ml (e.g. Coca cola zero, *Thriftee* cordial, flavoured sugar-free water);**
- **5% (or 10cents a litre)for those with added sugar of between 1.1g and 4.9g/100ml**
- **15% (or 35cents a litre )for those with added sugar of between 5g and 10g/100ml (e.g.*Prima* apple raspberry fruit drink, *Powerade*) and;**
- **30 % (or 70 cents a litre) for those with added sugar of 10.1g/100ml or more (e.g.*7ups*, *Pepsi*).**

## **4.0 FINANCIAL SERVICES**

Despite the Reserve Bank of Fiji's (RBF) positive assessment of the financial sector, Fijian consumers continue to face a range of problems that includes unfair contract terms, exorbitant fees and charges, un-equitable access to financial services, insurance policies riddled with exclusion clauses and lack of independent legal or financial advices.

### **4.1 Credit Card Levy**

Credit card levy is a disincentive and deterrent to consumers who want to make use of a credit card facility for the purpose it was created for. Government should consider the importance of credit cards to consumers as a convenient and cheaper means of accessing credit.

On one hand the government wants to move towards cash-less society but on the other hand there is unnecessary levy imposed on credit card users. Use of credit card is even better than going to Money Lenders or opting for unsecured loan which is more costly and inconvenient. At least Credit card holders are given 55 days interest free period to pay up the loan.

Credit cards are essential for consumers to fall back on those times when they are short of cash and need to pay bills and other necessities. Many small and medium-sized enterprises rely on credit cards for buying stock, paying bills, transferring money. 3% levy adds to the cost of doing business and is disincentive to both consumers and traders.

### **Request:**

- **Government must remove the 3% credit card levy.**

## 4.2 Credit Card Surcharge

Fiji should take its cue from Australia where a new law was passed in February 2016 to end excessive surcharges on payments made via credit card and debit cards. With the *Competition and Consumer Amendment (Payment Surcharges) Bill 2015*, the Australian Government is trying to improve Australia's payments system to achieve a more efficient system and fairer outcomes for consumers and business. The new laws will ensure customers are only charged according to the true amount of a merchant's costs in accepting payment. Companies that don't play by the rules risk being slapped with an infringement notice and fine of up to \$120,000.

A surcharge will be deemed excessive when a merchant charges the customer any more than the true cost of the transaction when accepting payment by cards.

It is time Fiji bans surcharges on credit cards, giving Fijian consumers protection from unreasonable surcharges as Fiji moves towards a cash less economy.

Some merchants have imposed exorbitant surcharges since the 'No Surcharge Rule' that was initially issued in 2012 was withdrawn. While consumers have a choice of payment system, this should not mean that merchants can charge more than the actual cost of processing the payment.

Local airline Fiji Airways charges a "\$10 per ticket" credit card surcharge for purchasing tickets. Consumers are disappointed that they have to pay \$10 per ticket rather than "per transaction". Can Fiji Airways prove that the merchants cost for using credit card for a family of four is \$40 when the payment is made by one transaction?

In any marketplace, electronic payments and credit cards are critical for the efficient operation of the economy.

### **Request:**

- **Government to introduce a law that ensures customers are only charged according to the true amount of a merchant's cost in accepting payment.**

## 4.3 Banking, hire purchase and moneylending

The Government should seriously consider the findings of the Consumer Council report, *Banking Services in Fiji: From Consumers' Perspective*. The report found lack of consumer protection in the banking sector including the RBF prioritizing prudential regulations over consumer protection. There is also a dire need for policy and regulatory reform. Laws such as the *Consumer Credit Act 1999*, *Consumer Credit (Amendment) Act 2006* and *Regulations 2009* need amendments to ensure consumer protection and fair play particularly in the credit and hire purchase (HP) markets. The Council's research report *The Hire Purchase Industry in Fiji (2012)*<sup>1</sup> unearthed unethical practices in the HP sector such as non-disclosures, unfair contracts, high interest rates, no confidentiality over consumers' information, substandard/concocted products, warranty and insurance issues etc. Moneylending is also another area where abuse of consumer rights is rife due to a very old and

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<sup>1</sup> <http://www.consumersfiji.org/upload/Resear%20h%20Reports/CCF%20HP%20report%20AL%2001.pdf>  
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ineffective *Moneylenders Act Cap 234*. Apart from the apparent lack of penalties, there is virtually no clear enforcement agency to enforce this law and protect consumers from unfair practices.

Currently, there are no systems and processes in place where financial advisors are required to be registered. The registration of financial advisors is a good way of minimising the risk of having unscrupulous persons who provide inaccurate and misleading financial advice and information to consumers. These inaccurate and misleading advices normally result in poor debt management by the consumers.

### **Requests**

**The Council re-submits its recommendations from past Budget submissions. These are:**

- **Establishment of an independent Financial Services Commission and /or a Financial Ombudsman to deal with consumer complaints and redress in regards to financial services including hire purchase, moneylending, insurance etc.**
- **Furthermore, the RBF should establish mandatory registration of financial advisors.**

## **5.0 Transport - Second-Hand Car Sector**

The trade in second-hand vehicles (SHVs)<sup>2</sup> in Fiji is booming and second-hand vehicle dealers (SHVD)<sup>3</sup> offer more competitive prices than dealers in new vehicles. Consumers are buying more second-hand vehicles due to affordability when compared with new vehicles. However, the sector is fraught with unfair trade practices, abuse of consumer rights and lack of legal and institutional protection for vehicle buyers. Complaints issues include: lack of pre-disclosures at point-of-sale; misrepresentation/misleading information; odometer tampering; sale of defective/faulty vehicles; delay in deliver of vehicle; no provision of spare parts or back-up services; warranty issues; vehicle parts changed after deal is made; poor after sales service and many other issues.

### **Requests**

- **Off-shore vehicle inspection and certification system such as JEVIC<sup>4</sup> should be re-implemented (it is already in the LTA Regulations)**
- **Note that *FCC Self-Regulating Guidelines on Second Hand Vehicles*<sup>5</sup> is not effective as these are only guidelines and cannot be legally enforced in the event of any malpractices by the traders; it further does not address issue of importation of defective vehicles**

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<sup>2</sup> SHVs to denote "second-hand vehicles" is used interchangeably

<sup>3</sup> "SHVD", "second hand dealers" or "dealers" is used interchangeably in this paper to denote *Second-Hand Vehicle Dealers*.

<sup>4</sup> JEVIC: Japan Export Vehicle Inspection Centre

<sup>5</sup> FCC: Fiji Commerce Commission

## **6.0 Consumer Security Deposits (SD)**

Consumers pay refundable deposits to service providers such as FEA, Water Authority, phone companies and so forth. Service providers are holding on to millions of dollars of underutilized funds which is “dead money”. CCF knows that six major service providers keep the SDs in non-interest bearing bank accounts, while one service provider had the security deposits in a bank account that was earning interest. This service provider does not pass the interest earned to its customers. A good illustration of the staggering amount of deposits being utilized by these companies is in the case of FEA where in 2012, it held \$34.3 million dollars in security deposits. Fiji is losing out in terms of the investment potential of such funds.

Consumer deposits should be invested or utilized in a manner that would bring some returns to consumers, rather than being used by these companies to further their interests by utilising public funds kept as customer security deposits. These funds can be used to generate interest which the government can utilize for the public good, such as infrastructure or hospital improvements etc. Consumers can also receive a portion of the interest when they decide to end their service contracts or close their accounts.

### **Request:**

- **Government should set up an independent *Securities and Bonds Commission* to manage security deposits and later include rental bonds (once the legislation for this is in place).**

## **7.0 Consumer Complaints/Compensation Tribunal**

For low-value consumer disputes above \$5000, the traditional court system is an inappropriate venue for resolving disputes. In the majority of cases, the costs of litigation would outweigh any potential benefit from a successful claim.

Without alternative mechanisms for resolving disputes, many consumer disputes would simply go unchallenged. In recognition of these barriers to accessing justice, in the 2013 and 2014 Budget, the Government announced establishment of the Consumer Complaints/Compensation Tribunal.

### **Request:**

- **The Council requests the Government to speed up the setting up of this Tribunal because consumers have limited option for redress in particular compensation when things go wrong.**

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