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Consumer Council of Fiji



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2 July 2019

The Chief Executive Officer
Fijian Competition and Consumer Commission
Employers Hub Building
42 Gorrie Street
Suva

Dear Mr. Abraham,

RE: Proposed Asset Acquisition of Pacific Cement Limited by Basic Industries Limited

Warm Greetings from the Consumer Council of Fiji!

Please find attached the Council's submission on the Proposed Asset Acquisition of Pacific Cement Limited (PCL) by Basic Industries Limited (BIL).

We sincerely hope the issues raised and the recommendation in the submission will be taken into consideration.

We would be happy to provide further clarifications should these be required.

Yours sincerely,

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Ms. Seema Shandil
Chief Executive Officer



*A Submission to the
Fijian Competition and Consumer Commission*

on

*the Proposed Asset Acquisition of Pacific Cement
Limited by Basic Industries Limited*

2 July 2019

1.0 Role of Consumer Council of Fiji

The Council has statutory obligations under *the Consumer Council of Fiji Act (Cap 235)* to **“to do all such acts and things which it may necessary or expedient to ensure that the interests of consumers of goods and services are promoted and protected”**. The Council is also obliged to advise and make recommendations to the Minister responsible for consumer affairs in Fiji or any other Minister on issues affecting the interests of consumers. The Council is a key stakeholder in the formulation of policies, legislations and standards in the country. The Council being the frontline or first point of contact for consumer grievances has a strong mandate from consumers to express their viewpoints on issues affecting them.

The Council welcomes the Fijian Competition and Consumer Commission’s (FCCC) request for our submission in the Proposed Asset Acquisition of Pacific Cement Limited (PCL) by Basic Industries Limited (BIL). The Council sincerely hopes that the issues it raises here are given due consideration which are in the interest of consumer justice and fairness.

2.0 Consumer Council’s Submission

Consumers are the single largest group impacted by any economic decision, and in a challenging fiscal environment, we believe it is particularly important for the government to consider the concerns of Fijian consumers while reviewing the proposed asset acquisition of PCL by BIL. The following are important considerations.

2.1 Cement Industry in Fiji

Cement is a critical ingredient in the manufacturing of concrete and other products, it represents a basic ingredient in the infrastructure construction and is essential for growing virtually all the sectors thus adding to higher levels of economic growth. The components of the Order 2015 are on cement products that have varying impact on social and economic growth. The cement industry has great significance to the achievement of national socio-economic development goals of providing infrastructure, sanctuary and employment. Given the fact that cement represents a basic tenet of substantial infrastructure investment and having its broad impact on the economy. It is important that cement is made available on a broader choice basis and with fair pricing.

2.2 Fiji’s Proneness to Natural Disasters

A year-round warm tropical climate is one of the main aspects of Fiji that attracts visitors from all over the world. However, the hot weather, humidity and its South Pacific location can also lead to dangerous and life-threatening natural disasters, including cyclones, floods, droughts, earthquakes and tsunamis. In late February, 2016, Category 5 severe Tropical Cyclone Winston cut a path of destruction across Fiji. The macroeconomic impact it had was substantial, given the significant damage incurred, particularly to key sectors, such as housing, transport, manufacturing, agriculture, electricity and communications.

Table 1: Summary of Disaster Effects by Sector

Sectors	Damages (FJD millions)	Losses (FJD millions)	Total (FJD millions)
Housing	751.0	26.4	777.4
Infrastructure	208.2	40.4	248.6

Source: Fiji Government's Post-Disaster Needs Assessment, Tropical Cyclone Winston, February 20, 2016.

As revealed in table 1, the housing sector's damages and losses costed a total of \$777.4 million compared to infrastructure damages and losses only amounting to \$248.6 million after Cyclone Winston. This had then led to an increase in demand for cement in Fiji. The forecast also indicates that the demand for cement will increase in future due to Fiji's proneness to natural disasters. Cement products are impactful as an essential raw material for constructing homes and buildings. Moreover, vulnerable consumers are affected twice in such situations. Firstly, consumers will be faced with devastation on the damages or losses of their homes, and secondly, they struggle to purchase increased prices of concrete blocks (factored in rising costs of cement) to rebuild their homes.

2.3 Government Housing Policy

The prices of hardware products and choice in the market has implications for the Government's national policy of providing affordable housing for all. In Fiji's 5-year and 20-year National Development Plan, the Government aims to ensure quality provision of affordable housing. The Government's policy intention to make owning a home less costly has taken action such as providing tax breaks and incentives for first-home buyers. It also has provided low-cost housing for low-income earners and is assisting in re-locating squatter settlements. The Council believes that the hardware industry should behave in a way that compliments Government's initiative. This can be in the form of competitive prices for basic building products like cement and wood. In the cement manufacturing sector, the existence of only two players and the lack of competition requires the maintenance of a price control regime to ensure that consumers are paying fair prices.

2.4 Existing Duopoly Competition

For over 50 years, there was only one supplier of cement for Fiji's construction needs, namely Pacific Cement Limited (PCL), previously known as Fiji Industries Limited (FIL). In 2014, a new player came into the market after investing over \$50 million, the Tengy Cement Limited (TCFL). Currently, there are only two suppliers that has dominant control over the Fijian market in the production of cement – a market structure which can be described as duopoly (PCL and TCFL). PCL manufactures cement locally and imports cement products from New Zealand. While TCFL's entry brought some competition to the market, a duopoly exists similar to LPG/gas sector where only two manufacturers dominate the market. Cement price came under price control order in 2009 by FCCC as unregulated prices cannot exist under a duopoly situation as it is not ideal for consumers. Without a doubt, there is a boom in the local construction in various sectors like tourism, retailing, housing, together with major infrastructure developments by the private sector and Government.

2.5 Price of bagged and bulked cement from 2015 FCCC determination

Table 2: Current controlled price of bagged and bulked cement

Type or Grade	TCFL	PCL	% Difference
GB (General Blended) Bag Cement	\$222.00	\$233.77	5.3
GP (General Purpose) Bulk Cement	\$202.00	\$212.53	5.3

Source: Fiji Commerce Commission, 2015.

As per the table above, despite the entry of Tengy Cement Limited (TCFL) in the local cement market, the percentage change for the product sold by the two manufacturers is 5.3% which is not very significant. The Council believes that a continuance of regulatory price intervention is required, so that prices must be kept under control. The removal of the Order could allow to set prices that is purely profit-oriented, and may disadvantage the vulnerable communities.

2.6 Impact of Acquisition on the Fijian Market

Mergers & Acquisition (M&A) where BIL is buying PCL's assets can reduce costs by achieving economies of scale. Such efficiency gains originate from synergy effects of the integration of these two firms (BIL and PCL) into a single entity. These potential gains can include improvements in productive efficiency through a better allocation of resources of the merging firms. Furthermore, this acquisition will create more competitive prices and improvement in allocative efficiency.

Nonetheless, there are diverse forces following the acquisition of PCL's asset that can affect consumers' welfare. While the remained duopoly power arising out of the acquisition can go against the interests of consumers when demanding for cement, the enhanced efficiency and greater innovation can benefit the consumers in the form of better-quality cement.

2.7 Impact of Acquisition on Fijian Consumers

PCL's acquisition by BIL may result in BIL's gaining a duopoly status in the production of cement leading to increase prices and probably lower cement output compared to what might have occurred in a competitive market without any acquisition. In many cases, acquisition can help the PCL and BIL to reap the benefits of large-scale production, and hence, to lower costs and prices of the products. This may also result in greater technological progress and innovation yielding new and better products as well as lowering costs and prices.

Some variables to factor in to ascertain the impact of the acquisition on consumers are prices, variety, service and quality of cement production. By eliminating one competitor, the acquisition may enable remaining companies to implement coordinated price increases through submissions to FCCC for review. However, an acquisition may also result in cost savings to consumers through lower prices, for example, lower procurement costs (capital) incurred for the combined entity would pass on as savings to consumers.

This acquisition can also decrease or increase the choices available to consumers, for example, PCL and BIL can either decrease the types of cement produced to pay-off debts incurred by PCL, or increase/innovate a variety of new products and services to their customers. Nevertheless, PCL's asset acquisition may improve or innovate a better-quality cement production which would benefit consumers. These quality improvements may come at lower costs, and may even be derived from the

utilization of existing skills, training, knowledge capacity, networks and facilities from these businesses.

2.8 Impact of Acquisition on the Fijian Economy

There are some ways that the acquisition of PCL's asset will impact the economy positively. One is the increase in efficiency and synergy within the BIL. Both PCL and BIL may share resources, that is, gain access to better equipment, more retail locations, more sophisticated technology, new plant and relocation or a bigger workforce, which then can allow these companies to produce things more efficiently. Ultimately, that increase in productivity could be ideal for the businesses, employees, consumers, and the economy as a whole.

However, there are also some risks of the acquisition. BIL may use a leveraged buyout to purchase the acquired company with borrowed funds, which either way, the company may be saddled with more debt than it bargained for. If not carried out shrewdly, or unforeseen factors interfere with its plans, it can cause both companies to collapse. Another risk is that not all acquisitions and even mergers are done with efficiency or growth in mind. Some are done to bolster the image of a company whilst some are done for a short-term boost, so a company's leadership can immediately benefit. Agreements done this way may hinder the growth of the economy.

2.9 Impact of Acquisition on the Manufacturing sector

Acquisition of PCL's assets by BIL can greatly affect the performance in the manufacturing sector of cement by-products (concrete blocks/ concrete slabs/concrete railings). It can prompt competitors in this market to generate profits/loss depending on the price of the raw material (cement).

2.10 Conduct of PCL and BIL

The Council has not received any direct complaints against Pacific Cement Limited and Basic Industries Limited, therefore cannot offer a fair assessment of the conduct of these two companies. However, there are some indirect complaints that the Council has received in regards to the construction related issues, hardware and cement issues. The majority of consumers buy their cement from hardware retailers rather than from the manufacturers.

3.0 Recommendations

FCCC has called for submission from stakeholders where the Council is purely basing its views and recommendations on any change that can impact consumers' interest in the marketplace.

- 3.1** The Council recommends and remains firm on its stance in align with Fiji's 5-year and 20-year National Development Plan in ensuring quality provision of affordable housing. Hence, the hardware industry, inclusive of cement production, should behave in a way that compliments Government's initiative. This can be in the form of competitive prices for basic building products like cement and wood.

The Council further recommends:

- 3.2** The FCCC to monitor and evaluate all plans of PCL and BIL (subject to review) which were incorporated in their submission(s).

3.3 The FCCC to maintain or extend the price control order for cement products as this will ensure that the task of disaster rehabilitation and Government initiative to regularize informal settlements are not a burden to the already vulnerable segments of the community.