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FEATURE

Initiating Discussions on Tackling Price Exploitation and Price Gouging

Most economists argue that price control or price manipulation regimes must be minimized and that markets should be left at the mercy of demand and supply forces; in simple terms a free market. Whilst this is ideal theoretically, there have been certain times when consumers plead for some mechanisms to be implemented in order to ensure that they are not ripped off and are able to afford basic necessities.

Instances of price exploitation and price gouging

The COVID-19 pandemic brought about unprecedented socio-economic challenges across the world with consumers losing jobs, facing pay cuts or simply unable to generate any revenue. The pandemic also resulted in a sudden hike in the demand for certain goods and services such as hand gloves, hand sanitizers, facemasks, cleaning supplies and other consumption items. Due to panic shopping and hoarding, the prices of these essentials rose overnight; in some cases, prices increased three to four folds. As a result, consumers had no choice but to spend hefty sums or simply forgo some of the essentials.

A similar scenario can be observed during times of disasters such as flood and cyclones. The demand for products such as candles, ropes, lanterns, batteries and basic food items increases just before such disasters; since consumers are trying to prepare; traders tend to increase its prices in order to take advantage of the situation and fill up their pockets. The same happens to hardware items soon after cyclones as consumers try to rebuild their damaged homes.

Correspondingly, in areas where there are a limited number of traders offering services; such as those in remote rural, rural and certain semi-rural areas, at times they seem to charge exorbitantly for goods and services. Consumers have no choice but to purchase these high-priced items as they are not able to shop comparatively due to the monopolistic nature of market systems in these areas.

Excessive price increase in the marketplace can also be found during times of different festivities and holidays; affecting the items which may be high in demand.

Legal and Ethical Implications

Unjustified price increase of goods and services in situations such as natural disasters and other state of emergencies is categorized as price gouging. Price gouging is the practice of increasing the prices of goods, services, or commodities to a level much higher than what is considered reasonable or fair. Usually, this event occurs after a demand or supply shock. This commonly applies to price increases of basic necessities during or after events mentioned earlier in this article. In Fiji, price gouging is an illegal practice as it amounts to unfair trade practices



particularly under Section 66 and 76 of the Fijian Competition and Consumer Commission Act 2010.

Maximum Retail Price Mechanism to Control Price Extortions

The issue of price exploitation and gouging is a serious one; as it directly impacts ordinary consumers and their ability to access basic essentials especially during times of dire needs. Hence, mechanisms need to be discussed to address this. A concept which is being practiced in certain markets in order to address the issues highlighted above is Maximum Retail Price (MRP).

What is MRP?

Maximum Retail Price (MRP) is the highest possible price fixed by the manufacturer that can be charged for a product from a customer. Retailers may choose to sell products at the MRP or for less than the MRP. MRP is printed on all the packed commodities that are purchased by the consumers.

The objective of maximum retail price

Maximum retail price ensures that the seller does not charge anything above the MRP from the customers. The seller's scope to exploit consumers by charging a higher price is restricted.

The MRP also ensures that commodities' price is maintained for all the areas and sellers do not charge the customers anything beyond the fixed price. MRP maintains a great level of customer awareness of the price of commodities and avoids the sellers from selling commodities and quoting unjust prices. Since MRP is inclusive of taxes, customers will not have to bear tax implications for the products separately.

Companies fix MRP so they can easily compete in the industry and, at the same time, earn sufficient profits to run their business operations smoothly.

How does it Work?

Maximum retail price works by disallowing retailers from overcharging their customers. It is the maximum price that a seller can quote his buyers, and anything charged beyond that would be illegal. Customers are now well aware of the role of the prices printed on a product, and they know that a seller cannot charge them anything beyond that. Customers can also ask the seller to quote a price below the MRP. Since MRP includes taxes, the customers will not have to bear tax implications for the products separately.



Who decides MRP?

Unlike the current Price Control Order, the maximum retail price of a product is decided by the manufacturer only and the price regulator or the government does not have any role to play in it; unless there are some unethical practices involved to distort the market. The manufacturer determines the maximum retail price of a product based on various aspects such as cost of production, taxes, transportation costs, freight, commission paid to the dealers, advertisement costs, and the profit margin for the manufacturer, dealers, distributors, etc.

Why do we need to decide on MRP?

A maximum retail price is necessary to evaluate. In times of emergencies, retailers may dupe consumers by charging a higher and unreasonable amount for a product without the MRP mentioned. MRP induces a higher level of customer awareness and discourages the sellers from misquoting unjust prices to the buyers.

With MRP, consumers are able to assure that they are being charged an actual amount and not duped by the retailers. It can also increase the customers' faith in the products that have MRP and lay a strong foundation for the buyer-seller relationship.

Once the buyers develop faith in the suppliers, they also tend to have faith in the brand. So, this means with MRP, consumers will develop a strong relationship with the seller as well as with the manufacturer. With MRP, the government can also eliminate the probability of black-marketing during product scarcity. It means MRP acts as a legal recourse in vulnerable situations.

Relevance to Fiji

Whilst MRP is not being practiced in Fiji, the Council is now hoping to begin meaningful discussions with relevant stakeholders on the possible viability of this pricing regime. Of course, there needs to be proper consultations carried out and possible piloting of MRP on certain basic necessities in conjunction with certain manufacturers and retailers.

If found viable and effective, MRP could be instrumental in ensuring a more just and fairer marketplace in Fiji; especially during times of disasters and uncertainties.

For queries consumers can contact the Council on toll-free number 155 or lodge a complaint using the Consumer Council of Fiji mobile app.



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