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## Global Forum on Competition

### COMPETITION POLICY AND THE INFORMAL ECONOMY

#### Contribution from Papua New Guinea

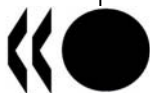
-- Session II --

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## COMPETITIVE POLICY AND INFORMAL ECONOMY

### --Papua New Guinea--

#### 1. Introduction

1. Papua New Guinea (PNG) has a relatively small dual economy, comprising a formal and informal economy.

2. The formal economy is dominated by large-scale resource projects, particularly in mining and petroleum, and through tax and royalties provides a large proportion of government revenue.

3. The informal economy supports 85% of the people through semi-subsistence agriculture. The formal sector employs around 15% of the workforce.

4. PNG has an abundance of natural resources including:

- Large reserves of minerals
- Extensive forestry and fishery assets
- Significant potential for agricultural expansion

5. The informal economy is characterised by local trade stores, market gardeners and other small agriculture operations, fisherman and local markets.

6. Village-based agriculture supports over 70% of the population, and domestic trading of fresh produce is a very important source of cash income.

7. By far the most important crops in PNG are sweet potato, bananas, yams and taro which comprise the dominant staple food for over 75% of the rural population.

8. The main agricultural export commodities are timber, oil palm, coffee, cocoa and coconuts. Forestry is PNG's third largest revenue earner and a major contributor to economic and social development. Much of this production is undertaken by small landholders within the informal economy, trading with local intermediaries who then deal with the larger factories and production houses in the formal economy. There is also a significant trade in betel-nut (a stimulant which is widely used in PNG) which operates only in the informal market, through street vendors.

9. PNG has several significant competitive advantages in relation to the production of timber - available land, good soils and climate, and a long history of successful incorporation of trees into agro-forestry systems.

10. The forestry and mining sectors are export oriented and are dominated by international or multinational enterprises. While there have been many instances reported where traditional landowners' interests are said to have been ignored or environmental and other regulations have been disregarded by mining and forestry operators, those issues are not relevant to the discussion in this paper.

11. The PNG fisheries zone of 2.4 million square kilometres is the largest in the South Pacific. The fisheries zone includes an extended reef system, numerous islands and an extensive coastline. These create huge opportunity but also present an enormous challenge for monitoring and control. The total market

value of the PNG catch is estimated at \$A140-160 million, a significant proportion of which is traded through the informal economy, rather than being supplied to fish canneries or otherwise going into the formal economy.

12. Pigs and poultry are important village animals within the informal economy and there are some live exports of cattle from PNG from larger producers within the formal economy.

13. There is particular need to develop the informal sector (including those involved in village level production and marketing of root and horticultural crops, small livestock), to improve the productivity of major tree crops (increase production and exports, lower production costs), and to support research and development that assists in diversification of the agricultural export product base.

## **2. PNG Competition law**

14. PNG has been an independent nation since 1975. For many years it was thought that the economy had not developed enough to warrant competition law.

15. Furthermore it was felt that part of this lack of development stemmed from the fact that the informal economy was so large and that that economy did not warrant or need such regulation.

16. There was some limited consumer protection law and price control. Furthermore with most utilities being provided by the national Government, time was not ripe for competition law. Industry was largely Government run or controlled.

17. However with the move to privatisation of some utilities and the development of the PNG formal economy, competition law was introduced. That process commenced in 1996.

18. Competition Policy and Industrial Policy became part of the same goal, economic efficiency and consumer welfare.

19. The policy was to open up markets to imports, foster exports and generally encourage competition. Further, industries that lacked competition, often through the small size of the market creating natural monopolies, were subject to regulation by the competition regulator, including price control in some limited circumstances.

20. In 2002 the PNG Parliament enacted the Independent Consumer and Competition Act 2002. It created the Independent Consumer and Competition Commission (ICCC). The ICCC, the consumer protection provisions and the utilities regulation provisions came into effect on 16 May 2002. The competition provisions did not come into effect until 16 May 2003.

21. The competition provisions, referred to as the Market Conduct Rules, are based on those in the New Zealand Commerce Act and are similar to the competition provisions applying in most developed economies. Broadly speaking, the Market Conduct Rules prohibit arrangements which substantially lessen competition (with a per se prohibition of price fixing); resale price maintenance; exclusionary conduct (primary boycotts); and misuse of market power (abuse of dominant position). Anti-competitive mergers or acquisitions are also prohibited. Authorisation by the ICCC on public benefit grounds can be applied for – a small number of authorisations on public benefit grounds have been approved by the ICCC since 2003 for business acquisitions or anti-competitive arrangements.

22. The law is tailored to meet PNG needs. In particular there are provisions regulating PNG monopoly (government owned) utilities. There is also provision for price control, though the number of products which are currently subject to price control or price monitoring is very few.

23. In effect the ICCC Act has an overall competition and consumer protection mix. In addition the Act has extensive and some unique provisions relating to essential utilities which affect the bulk of PNG consumers.

### **3. Competition policy and the informal economy**

24. Generally the PNG informal economy ignores economic regulation such as the competition and consumer law. One principal reason for this is geography; PNG is one of the least urbanised countries in the world, with upward of 80% of the population living in non-urban areas. It is in those localities that the informal economy mainly operates. Many of these localities are in remote areas where access is difficult, frequently with no road access and no telephones or other ready means of communication. In such places it is not possible for the ICCC, as the competition and prices regulator, to operate, nor are commercial goods and services readily available.

25. Thus while in PNG there is still some price control, it has been very difficult to police such law in the informal economy. For instance, the wholesale and retail margin for petrol is price controlled and in local areas trade stores sell petrol, rather than service stations, but their cost structures, freight costs and other factors make the imposition of maximum margins irrelevant and impossible to enforce anyway.

26. We see the informal economy as having only a limited impact on the formal economy. The informal economy is critical on the one hand for feeding the PNG population in both rural and urban areas, and on the other hand for providing the source of much of the products for export.

27. As a competition regulator the ICCC does not ignore the informal economy. However we see little reason or opportunity to enforce competition laws in that economy, even though our law covers all PNG commerce. Much of what happens in the informal economy is guided by traditional culture and not competition dictates.

28. We do however seek to inform the informal economy about our roles and how competition law may assist the informal economy *vis-à-vis* the formal economy.

29. Some of the informal economy has formed itself into co-operatives, in areas such as growing coffee, oil palm, vanilla and other similar agricultural products for export, and these bridge both economies. It is at this intersection of the informal and formal economies that the ICCC has potential competition issues with co-operatives as distinct from the members of the co-operative. For example, some processing co-operatives tend to rely, in their dealings with individual growers, on market sharing, price fixing and other anti-competitive arrangements between processors, to the potential detriment of the growers. However, growers with limited education or knowledge of their rights are often happy to receive a fixed price from one processor for their product, notwithstanding that they may well be able to get a better price if processors were competing to purchase their raw products.

30. We expect over time that the gap between the two economies will diminish as more of the informal economy will either feed into the formal or create corporate structures that move into the formal. There have been examples in the last two years where participants in the informal economy have been moving towards the formal. Street vendors who in the past have been selling food and handicrafts have, since the introduction of competition in mobile telephone networks, begun selling pre-paid telephone cards, which have now become a high proportion, by value, of those street vendors' business. This has caused those vendors, and their customers, to become more aware of the existence of regulation in the formal economy.

31. We at the ICCC will assist in that transition, including ensuring that anti-competitive conduct does not impede the transition of the informal sector or hamper it in any way.

32. In many ways the informal sector is the cultural backbone of PNG and a competition and consumer agency has to assist to foster the country's economic culture towards the international, globalised economy in which we all now operate.