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COMPETITION AND POVERTY REDUCTION

Contribution from Mauritius

-- Session I --

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-- Mauritius--

Introduction

1. The link between poverty and market operation is complex. At times, the poor may feel and seem left behind by markets. The government of Mauritius historically viewed price controls as a way to protect consumers, notably poor consumers, from exercise of market power. Price controls applied to 100s of products in the 1990s. The competition law was seen as an alternative to price control, under the rationale that competition law enforcement would prevent abuses of market power. The existence of a competition law was favoured by the Mauritius Chamber of Commerce and Industry, largely in order to free markets from the shackles of unwieldy regulations that were, in any case, prone to manipulation.

2. This paper will review the economic background of Mauritius that feeds into its approach to competition and poverty, presents available statistics on poverty in Mauritius, examines how the areas of focus of the Competition Commission of Mauritius (CCM) compare with spending by those in poverty, and explain how competition authority action may have influenced the poor, notably via cases in priority sectors for the poor.

1. Economic Background

3. Over a period of nearly a quarter of a century from the time of independence until the mid-1990s Mauritius successfully transited from a classic plantation economy- sugar proceeds representing 95% of export revenues- into a middle income economy with a diversified economic base including the three pillars of Sugar, Tourism and Industry. Mauritius featured a classic plantation economy with a difference. The sugar plantations were owned not by absentee foreign nationals or multinationals but by the local descendants of the first French colonizers of the island forming an integral part of the nation.

4. The movement from a monocrop economy to a multi-polar diversified one to which have now been added Financial Services and ICT sectors, was driven by a dynamic, arguably unique model of public-private partnership in Africa. In the context of a critical phase of economic downturn marked by social unrests and high levels of unemployment in the 1970's the World Bank and IMF imposed Structural Adjustments Programmes based on austerity at home and incentives for an export-driven model of economic development and liberalization of controls on foreign direct investments. The policy induced diversification into Tourism and industrialization based on Garments manufacturing for exports can be traced back to these SAPs. Economic treaties with the US and Europe such as the Lome and Cotonou Conventions provided the larger context of preferential trade agreements which sustained the adopted economic model.

2. The Context – Liberalization and Deregulation

5. The winds of liberalization and globalization did not spare the small island economy at the end of the last century. In line with the dominant economic paradigm the country chose the path of further integration into the global economy. Protective tariffs (as distinct from tariff designed for revenue

purposes) were virtually eliminated. Tariff peaks were reduced from peaks of 120 % to maximum of 30 % on a very limited number of products.

6. Price control was a pervasive feature of the economy, but has now all but disappeared. There was a Ministry for Consumer Protection and Price Control which exercised via maximum permissible mark-ups. Maximum price regulations have practically been eliminated.

7. Partial deregulation of the financial services markets was undertaken with a view to introduce more competition among operators. Banks are supervised by the Bank of Mauritius with whom the CCM has a MOU regarding competition matters in the Banking industry.

8. A number of natural monopolies are controlled by government- including the Central Electricity Board, the Central Water Authority, and the State Trading Corporation for exclusive distribution of flour, domestic LPG and fuel. Although the only products which lie outside of the ambit of the CCM are LPG and fuel the government does intervene in these markets by providing subsidies sometimes directed to specific sections of the population. For example in its drive to protect weaker sections of the population, low income earners' electricity and water tariffs are subsidized. These are sectors where the notion of national interest would weigh on eventual decisions by the CCM

3. Liberalization, Competition and Poverty Reduction

9. Liberalization of markets through deregulation and opening up of the markets is theoretically meant to benefit final consumers through the mechanisms of fair competition among operators by providing a larger choice and improved quality at better prices.

10. It was therefore felt that for the benefits of economic growth to be passed on to consumers it would be essential to reduce the impediments to competition that were evident in the domestic market. A Competition Bill was in gestation since as early as 2001 but the Competition Act only came into force in 2007.

11. In small island economies seller concentration is higher on average than in larger economies. In Mauritius the economic history has reinforced the concentration of economic power in the hands of a few families and a few conglomerates dominate the import and distribution trade.

12. Although there is no simple relationship between the level of concentration and the extent and vigour of competition in the market, there is a widespread perception that market domination in many sectors by monopolies or duopolies lead to restriction of competition.

13. The setting up of the CCM in the larger policy context of "democratization of the economy" is largely thought of a means to give a fairer deal to consumers while providing the small emerging economic operator a level playing field in which he can leverage his competitive advantage.

14. Poverty alleviation is a major plank of the "democratization of the economy" policy adopted by the present government in Mauritius.

15. Many policy makers including Ministers and high public officials construe the Competition Commission as an instrument for implementing government's policy although they all respect the independence of the institution in its day to day operations.

4. The Statistics: Poverty in Mauritius¹

16. Mauritius does not have an official poverty line. When evaluating poverty, a variety of standards are used, including by government statistics. One is to measure poverty as less than half the median household income. By this measure, about 7.9% of households were below the poverty line in 2006/07 and about 7.7% in 2001/02.² By this measure, poverty has likely been relatively unchanged over the last ten years.

17. This measure should be distinguished from extreme poverty. The World Bank has measures of \$1.25 per day in purchasing power parity (PPP) as extreme poverty and \$2.00 per day in PPP as a higher poverty line. Using the \$1.25 measure, less than 1% of the population is below the indicator level in 2001/02 and in 2006/07. However for a developing country like Mauritius, it may be more appropriate to use the \$2.00 per day cut-off point. Under this measure, less than 1.5% of the population is below the indicator level.³

18. According to a World Bank report that uses a presumptive measure of poverty as 1/3 of the average income, "In 1975, 40 per cent of the households were below the presumed poverty line, by 1991/92, the proportion had fallen to 11 per cent."⁴ Thus Mauritius experienced a substantial reduction in poverty during the period from 1975 to 1992.

5. Distribution of complaints to CCM

19. A key question for the CCM is whether it has an appropriate distribution of matters with respect to the issues of importance to the poor. In order to better focus on this, it is worth emphasizing that according to a categorisation of spending by use, 45.9% of spending of the poor goes on food and non-alcoholic beverages and 15.4% of their spending goes on housing, water, electricity and gas. In short, more than 60% of spending of the poor goes on food, housing and non-telecom utilities.⁵ The full spending breakdown, both for poor and average income earners is provided in Table 1. The share of spending on food and housing for the poor is proportionately higher than the average person's spending in these categories, a natural reflection of priorities for people with limited resources.

20. Complaints follow a completely different pattern from spending, with the bulk of complaints to the CCM (44.7%) arising in the miscellaneous category, which accounts for only 2.8% of the spending of the poor.

21. Up to this point, investigations have been relatively evenly distributed across expenditure categories, with the miscellaneous category not receiving the bulk of investigations, but also the combined

¹ Mauritius is a country of about 1.3 million persons and can thus be classified as a small state.

² See p. 82, Central Statistical Office (2009) Poverty Analysis 2006/07, <http://www.gov.mu/portal/goc/cso/report/natacc/poverty/poverty07.pdf> accessed on 3 January 2013.

³ See pp 80-81, Central Statistical Office (2009) Poverty Analysis 2006/07, <http://www.gov.mu/portal/goc/cso/report/natacc/poverty/poverty07.pdf> accessed on 3 January 2013.

⁴ p. 71, World Bank 1995 Mauritius: Country Economic Memorandum: Sharpening the Competitive Edge, Report No. 13215-MAS. <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:20204568~menuPK:435735~pagePK:148956~piPK:216618~theSitePK:430367,00.html>, accessed on 3 January 2013.

⁵ The categorisation used is the UN's Classification of Individual Consumption According to Purpose (COICOP).

food and housing sector not receiving the bulk of investigations, but nonetheless accounting for a substantial share (39%) of investigations. At the same time, the miscellaneous category, which accounts for about 45% of complaints takes up 11.1% of investigations, a much smaller volume of CCM activity than would be justified by the frequency of complaints, but still substantially in excess of the 2.8% of spending by the poor devoted to this sector.

22. Food products and products related to housing have constituted a high priority for the CCM and will continue to do so in the future, given the large importance of this sector to the economy as a whole.

6. Direct Alleviation Measures

23. The Mauritian government has a number of policies in place to alleviate poverty and difficulties associated with being on a low income, even if not below the poverty line. These include provision of certain essential goods at subsidised prices (notably “ration” rice, potatoes and LPG), income supplements for lower income jobs and subsidised housing and housing loans. These will not be further described in this paper, as they are not the primary matter under discussion.

7. Competition Law Enforcement for Categories with High Spending by the Poor

24. Food products have constituted a basic element of the CCM’s law enforcement agenda since its earliest days, as have housing products. The first competition law case of the CCM concerned contracts between the supplier of the main brand of block processed cheese and supermarkets. Among other effects, the contracts were found to create barriers to entry for other brands of block processed cheese. The case arose from a complaint.

25. On 09 September 2010, the Competition Commission of Mauritius (CCM) concluded its abuse of monopoly situation case (INV 001) related to the market of block processed cheddar cheese in Mauritius. IBL Consumer Goods (now IBL BrandActiv), the exclusive domestic distributor, was found to have infringed Section 46 of the Competition Act. As a remedy, IBL Consumer Goods was directed to, inter alia, cease the practice of offering retroactive rebates on Kraft branded block processed cheddar cheese in exchange of premium shelf space for its Kraft branded processed cheddar cheese as well as other Kraft-branded products, including chocolates, biscuits and powdered juice.

26. On 18 November 2011 the CCM published an ex post evaluation on this case. The scope of this evaluation was restricted to the primary market of block processed cheddar cheese (250g). Block processed cheddar cheese represents more than 90% of the total cheese market in Mauritius.

27. The evaluation found that after the CCM issued a direction to stop these agreements, new entry occurred within a year, and prices for block processed cheese began to fall. The HHI fell from 8,200 to 4,000 to 5,000. The annual average price increase for block processed cheese during the pre-CCM intervention period, i.e. from September 2007 to August 2010 was 16.5%. During this time, the report found that the wholesale costs of cheddar cheese in Australia were relatively stable, in terms of Mauritian currency value. In addition, following the entry of two new brands in February and April 2011 respectively, the average price of the two incumbents fell by 4.5%. Moreover, the average lowest price among all processed block cheeses declined by 12.7% compared to the 2010 average price. Consumer benefits from this intervention have been estimated as lying between Rs 130m and Rs 600m, or about USD 4 to 19 m.⁶

⁶ See ex post evaluation study *Evaluation of CCM Case: IBL Consumer Goods Sales Contracts with Retail Stores* (18 November 2011) available at <http://www.gov.mu/portal/sites/ccm/pdf/INV001-EvaluationReport-Non-Confidential.pdf>.

28. Housing products have also been a focus of CCM activity. In a recent set of 13 Competition Commission decisions, 8 banks were found to have abused their dominant positions in their sales practices for mortgage insurance, via point of sale advantage that effectively led consumers to purchase products that were not in the initial bundle they shopped for. A review of rates from alternative insurance companies suggested that rates could have fallen by 10% or more for consumers who shopped around.

8. Conclusion

29. The poor devote a substantial share of their spending to food, housing and utilities. To date, about 39% of CCM investigations lie in these categories. Thus substantial CCM resources, focus and action are being devoted to these areas that are of most economic concern to the poor. This is a comforting sign for the CCM, and may be particularly important in a country that still has a developing economy.

Table 1. Distribution of Household Spending and CCM Activity by Expenditure Type

COICOP division	Average monthly household consumption expenditure (Rs)		Distribution (%) of monthly household consumption expenditure		Distribution of complaints to CCM*		Distribution of CCM investigations**	
	Poor	All	Poor (%)	All (%)	Number	Per cent (%)	Number	Per cent (%)
01. Food and non-alcoholic beverages	2,986	4,534	45.9	31.7	41	14.1	4	22.2
02. Alcoholic beverages and tobacco	353	614	5.4	4.3	11	3.8	0	0.0
03. Clothing and footwear	232	807	3.6	5.6	2	0.7	0	0.0
04. Housing, water, electricity, gas and other fuels	1,000	1,498	15.4	10.5	8	2.7	3	16.7
05. Furnishings, household equipment and routine household maintenance	347	1,022	5.3	7.1	9	3.1	0	0.0
06. Health	105	467	1.6	3.3	33	11.3	1	5.6
07. Transport	438	2,295	6.7	16.0	38	13.1	2	11.1
08. Communication	184	569	2.8	4.0	2	0.7	2	11.1
09. Recreation and culture	319	760	4.9	5.3	9	3.1	2	11.1
10. Education	136	510	2.1	3.6	3	1.0	2	11.1
11. Restaurants and hotels	219	592	3.4	4.1	5	1.7	0	0.0
12. Miscellaneous goods and services	182	632	2.8	4.4	130	44.7	2	11.1
TOTAL	6,500	14,300	100.0	100.0	291	100.0	18	100

* Excluding confidential/sensitive complaints. **Publicly released investigations

Source: CSO Poverty Analysis 2006/07 and CCM