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Import and distribution mechanisms in French Polynesia

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Key Points

The Polynesian Competition Authority (the "Authority" or "APC") provides an overall assessment of the competitive situation in the import and distribution sectors in French Polynesia.

The aim of this general study is to identify the main issues contributing to the low level of competition and the high cost of living in French Polynesia.

The Authority formulates more than forty recommendations aimed at stimulating competition in French Polynesia.

Pursuant to article LP 620-4 of the French Competition Code, the French Polynesian Competition Authority, by decision no. 2016-DAA-02 of 18 February 2016, issued an opinion on the issue of mechanisms for importing and distributing products in French Polynesia.

This opinion concerns everyday consumer goods. The conditions of import and/or distribution of products and services distributed through other channels, such as banking, telephony or energy.

To carry out its study, the Autorité consulted widely with the main players in the sector and their

representative organisations (transporters, importers, manufacturers, retailers and administrations) by means of questionnaires and hearings. It also held a public hearing between 14 June and 15 July 2019. This was followed by a meeting on 27 August 2019 to present the opinion to all Polynesian institutions and parliamentarians held at the Authority on 17 September 2019.

The approach taken in this Communication is to first identify the products for which action on prices is most necessary, in particular those for which the additional costs are most significant and those that account for a large share of household budgets.

The findings: prices significantly higher than in mainland France and the French overseas departments, and widening gaps price differentials

ISPF surveys show that prices in French Polynesia are generally higher than in mainland higher than in mainland France and the French overseas departments. In 2016, prices were on average 19% higher for a basket of Polynesian goods and 55% higher for a basket of metropolitan goods, an average cost premium of 38.5%, compared with 25.9% in 2010. These differences are increasing, and are particularly high for particularly high for food products (+47% increase since 2007), which affects purchasing power of the most modest households, for whom these goods represent a significant of their budget (over 30% vs. 12% for the most affluent households). households). The fall in food prices in 2018, explained by the drop in the price of seafood products prices, was not enough to close this gap, and food inflation picked up again in 2019.

This unfavorable trend coincides with price regulation (PPN and PGC), high market market protections and the development of mass retailing, which have therefore not prices paid by Polynesian households.

Price level determinants

A detailed examination of the cost structure of products shows that the initial purchase price represents only about 27% of the total price of a product, and that access costs (transport) account for only 8% on average, the same as import duties and taxes (also 8%). The rest is made up of VAT (13% on average) and the commercial margin of the distributors (importers-wholesalers and retailers), which represents the largest share of the total price (44%). French Polynesia's remoteness and isolation are not enough to explain all the additional costs, which are also due to the regulatory framework established by the country over time (in particular import taxes) and the structure of the various markets involved (routing, production, import and retail distribution), which are often not very competitive.

Geographical factors

Because of its geographical location and the small size of its market, which does not allow local industry to reach critical mass when fixed costs are high, French Polynesia is dependent on imports, particularly for consumer goods.

Of these, 28% come from mainland France and 14% from other European Union countries, followed by

the United States, China, Australia and New Zealand. Regional channels are therefore not favoured. This is particularly the case for food products, electrical equipment and pharmaceuticals. Freight for consumer goods is mainly maritime, accounting for 99% of the volume and 83% of the value of imports. However, the market for freight from Europe is highly concentrated, and the port of Papeete, which can only accommodate medium-sized container ships due to the depth of the Papeete Pass and the quay, does not allow shipping companies to achieve economies of scale in a context of ever increasing ship sizes. Without investment in port infrastructure, there is a risk that the destination will be marginalised in favour of more systematic transshipment to New Zealand. There are, however, ways of funding the port, notably through the Toll Tax levied on imports, which amounts to 1.25% of the CIF price of imported goods. However, this tax has been diverted from its intended use, as it was originally intended to finance port investment, but in fact finances port operations, as the port is unable to increase its own revenues, in particular the fees for occupying the public port area, which are often set at very low levels.

The cost of cargo handling (stevedoring) also appears to be higher than in similar ports. ports. Since 1987, this service has been provided by three companies, each with its own staff and equipment (particularly lifting cranes). and their own equipment (notably lifting cranes), without any competitive tendering. This activity is also regulated tariffs. There is therefore no competition on the market (in terms of price and quality of service), nor competition for the market (when the public service delegation is renewed). public service delegation).

As a result, while transmission to French Polynesia is not the main factor behind the additional costs, on the one hand, its cost could increase in the future, on the one hand, its cost could increase in the future unless the port is upgraded to accommodate vessels with greater draught and, secondly, certain costs can be reduced, notably those of stevedoring.

Geography also has an impact on access to land in Tahiti, the main geographic market. which is scarce and therefore expensive. There have been reports of companies freezing their land holdings have been observed, hindering competitive development.

Regulatory factors

French Polynesia has introduced a wide range of market protection measures, in particular to protect local industrial and agricultural production. Imports are subject to strict controls: tariff barriers (around twenty import duties and taxes are levied, representing almost 30% of the cif value of imports, but much more for certain products TDL or specific taxes) and non-tariff barriers (import bans or quotas, particularly in the agricultural sector). Other regulatory provisions are also likely to have an impact on prices: price regulation, which, according to the Authority's opinion of 2 April 2019 on basic necessities (PPN), has a price-increasing effect; local tax exemption, which favours already powerful players to the detriment of new entrants; restrictions on foreign direct investment, which limit the entry of new operators or producers; outdated and unexamined health regulations, with potential anti-competitive effects.

The resulting high price of goods is not conducive to the optimal allocation of resources to sectors in which the Polynesian economy has comparative advantages. It therefore has a significant negative impact on economic activity and employment.

The local development tax (TDL), in its current form, is particularly punitive. Although its revenue is low, it discourages the importation of certain products and, instead of encouraging competition on the merits, favours the creation of a rent for local producers, who have no incentive to innovate or control their production costs. In addition, the tax base is too broad and includes imported goods for which there is no local production equivalent, or protects goods with low local value added (e.g. packaging or assembly activities).

The system for setting import quotas for fruit and vegetables through the Agricultural Conference also appears to be ineffective. In particular, demand forecasts are underestimated, supply forecasts are overestimated, and the unpredictability of allocated quotas limits the ability of importer-wholesalers to buy at lower costs. The result is high prices and frequent shortages, with no positive impact on local production.

Market structure

As far as local producers are concerned, while the small size of the market already favors a certain concentration of producers, this phenomenon is exacerbated by the high degree of protection they enjoy, particularly in the agri-food industry. This gives rise to situations of rent, which high prices and no incentive to improve production quality or diversity. This concentration is reinforced by the vertical integration of certain players in import, production and distribution activities.

In the case of imports, while the so-called "short channel", in which retailers are supplied directly by the manufacturer to their warehouse platforms, possibly via their central purchasing unit, is often adopted by supermarkets for their private labels, the "long channel", which involves going through an intermediary known as an "importer-wholesaler" or "brand agent", remains in the majority. In this channel, importers often benefit from exclusive import rights for one or more brands, either de jure (embodied in a written contract) or de facto (without a formal agreement, but with the supplier's choice of a preferred distributor who alone has access to the brand's full product range, promotional budgets or product training), which limits intra-brand competition between importers. However, in a small, concentrated economy where inter-brand competition is structurally weak, there is little incentive to pass on the benefits of economies of scale to the consumer. Thus, even if the food import sector appears to be relatively dispersed, the importers benefiting from these exclusivities have little incentive to encourage competition between different suppliers. Their market power is further strengthened when the exclusive importer is also a retailer, as is often the case in FPO. For this reason, all French overseas territories except French Polynesia (as of 2018) have prohibited such agreements in principle.

In the retail sector, despite the persistence of a network of small shops, particularly in rural Tahiti and on the islands, there is a high degree of concentration of brand distribution, particularly in Papeete, where the majority of food purchases are made in supermarkets. According to the many stakeholders interviewed during the course of the the investigation, the leading operator is able to take advantage of this to set reference prices for the entire market at a high level. market at a high level, in line with the willingness to pay of the most affluent consumers. The other chains follow these prices because they cannot compete on price in the long term. As in production, there is also vertical integration. However, the possibility of challenging a dominant position due to high prices or margins, if necessary by means of structural injunctions, has disappeared from the Polynesian legal system with the

amendment of the French Competition Code (Law of August 9, 2018), leaving virtually no possibility of acting on the current structure of the markets to make them more competitive.

It is also clear from the comments of many of the economic operators consulted that there is a weak culture of competition and consumer rights in French Polynesia. a weak culture of competition and consumer rights. In particular, there are few consumer associations, no permanent public subsidies, and few reports of anti-competitive practices by the DGAE to the Autority. As a result, consumer information is inadequate, all the more so as the inventory of prices charged by the various banners (the "price weather report"), which used to be published monthly, was only partially relaunched in March 2019 and covers only a limited number of products. players to use it as a tool by charging call prices on the products on the list, thereby the general price level for consumers.

The main proposals

With regard to import regulations (proposals 1 to 21), short distribution channels could be encouraged by aligning the tariffs of neighboring countries with those of the European Union and by including the cost of French-language labeling in the production costs of PPN importers. For their part, non-tariff barriers could be transformed into less dissuasive tariff barriers, and the agricultural quota system could be radically reformed to reduce shortages and the high price of these products, while introducing mechanisms to favor importer-wholesalers who also use local production. Sanitary and technical regulations must also be assessed for their intrinsic relevance and anti-competitive effects. For its part, the planned reform of the TDL could provide an opportunity for an ambitious modification of this system, allowing for a regular assessment of the impact of protection, reducing the rates and duration of protection where necessary, and introducing counterparts to protection for its beneficiaries, with verifiable criteria linked to performance, innovation, job creation, the creation of an industry or the "transformation rate" of protected products.

Other regulations affecting prices (proposals 22 to 26) could also be modified. Price regulation could be focused on a more limited list of products, particularly in Tahiti. Foreign investment regulations could be made more flexible and local tax exemptions could be improved to take into account the competitive impact of proposed projects.

With regard to transport (proposals 27 to 30), the main priority is to make a strategic choice regarding the development of port capacity in order to make it more attractive to shipping lines. The development of port revenues, in particular through the revision of port dues and the introduction of competitive tendering for stevedoring services, should also help to reduce prices.

With regard to market structure (proposals 31 to 41), market opening is an essential complement to the other aspects. Indeed, while regulatory changes should help to reduce rents and lower import costs, only a more competitive market structure can ensure that these benefits are passed on to consumers and not captured by intermediaries. All measures aimed at removing barriers to entry, from upstream to downstream, and at diversifying import and distribution channels, are therefore likely to increase consumer purchasing power, as well as the attractiveness of the country and employment. For this reason, the abolition of certain measures by the Law of August 9, 2018 could be subject to reassessment and, in particular, exclusive import agreements, whether de jure or de facto, could be subject to restrictions, a fortiori when the importer is also a retailer, or prohibited again. Specific measures could also be taken to discourage the freezing of land by operators or to encourage the

grouping of small players (producers, especially agricultural producers; independent retailers; consumers, especially for online purchases).

Finally, the competitive environment in French Polynesia (proposals 42 to 46) would benefit from greater involvement and information of stakeholders, in particular through the strengthening of consumer associations or the introduction of more ambitious price comparison tools.

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