



Advice of the Commission to the Minister of Business, Enterprise, Commerce and Consumer Protection

Study of the cement market

1st July 2011

CCM/AS/001/MS001

Background

In July 2010, the Executive Director (ED) of the Competition Commission (CCM) announced the launching of a market study into the conditions of competition existing in the cement industry in Mauritius through consultations with various stakeholders in the industry.

Following the publishing of the final report purporting to this study in April 2011, the Commissioners of the Commission, exceptionally decided to hold a public hearing relating to the aforesaid final report in order to give an opportunity to the stakeholders in the industry to air their views, especially in light of the Government's recent decision to liberalise trading in the cement market.

The aforementioned public hearing took place on 24th June 2010 and several stakeholders were present and were given the opportunity to place on record their opinions. Amongst the organisations present were parastatal bodies, cement importers, construction companies, consumer protection institutions and a number of other interested persons and groupings.

Observations and Advice

Following both the hearing and Government's decision to liberalise commercial dealings in the cement market, the Commissioners, by virtue of section 19 of the Competition Act, observe and advise as follows:

1. We commend the Executive Director (ED) and his team for the report that has been produced, which examined several crucial considerations, drawing several valid and compelling conclusions.
2. The Government announced the liberalisation of the importation of cement and the price of bagged cement as from the 1st July 2011. It should be noted that this liberalisation of prices relates to the bagged cement market only, as the prices in the loose cement market are already liberalised.
3. The industry had been for several decades, highly regulated, through Regulations imposed by Government, managed and administered by the parastatal body, the State Trading Corporation (STC), and had taken the form of three main types of intervention prior to 1st July 2011, namely:

- i) controls on the retail price of bagged cement;
 - ii) exclusive importation of 50% of the country's cement needs by the STC;
 - iii) controls on the importation of cement.
4. The Commissioners wish to state at this stage that it is patently clear, as concluded by the Executive Director in his report, and indeed during the hearing, that the level of State intervention had not been conducive to encouraging competition and had, in fact, hampered the development and growth in the industry.
5. The freeing up of the supply to the market, as in the Government's liberalisation plan, would enable other individuals or companies to bring cement into the country, leading to greater competition and ultimately lower prices for the consumer.
6. The liberalisation may give rise to competition concerns. There exist two important players in the cement market who have no intention of leaving it following liberalisation, namely Holcim and Lafarge (unlike the STC, which it appears may have a less active role in the industry following liberalisation). It is important that the behaviour of these two companies be monitored. The rationale behind this thinking is that to leave these two major players (currently involved in a price-controlled duopoly in the cement industry), to their own devices might result in higher prices for the consumer.
7. Assurances have been given publicly by one of these companies (Holcim) that it will not raise prices before the end of the year. It should be noted that internationally, in liberalised markets there has often been evidence of collusive activity in the cement industry.
8. It is for this reason that the Government needs to be careful of the way in which it liberalises the price of cement. In the circumstances, the ideal way forward would have been to hold off liberalising the price of bagged cement until such time as new entrants had the immediate ability to operate at substantial aggregate capacity whether via local production or imports.
9. The nomination of a watchdog to monitor not only price fluctuations, but the whole of the industry as it takes shape, including the possibility of directly importing cement if the need arises, is of great importance. This role, as suggested by its representative during the hearing, could potentially be given to the STC. This would be one deterrent for keeping in check any possible abuses in the market.
10. Another potentially effective control would of course be the CCM through the ED and his staff. The Competition Act bestows far-reaching powers of enquiry and investigation and it would be in a position to detect and, if found, act upon any evidenced breaches of the Act that might occur during the transitional phase in the industry.

11. An interesting issue which came to light during the hearing was the fact that of all the various types of cement available for importation, Mauritius was importing only one type, namely OPC 42.5 Grade cement. Commissioners believe that the opening up of the importation of cement would permit different grades of cement to be brought onto the market, potentially at lower and more attractive prices for the consumer. Ultimately this would lead to a lowering of the cost of construction as a whole throughout the country.
12. Whilst this is a welcome offshoot of the liberalisation of the cement market, it does not come without its risks and pitfalls. One of these, as expressed during the hearing, is the possibility of inferior quality cement grades being passed off as superior grades. It would therefore require a certification process to be put in place at the outset following arrival of any cement load arriving in the country. This certification would have to be carried out by a suitable body and the Mauritius Standards Bureau would be the appropriate organisation to do this. However, the certification process should not become a barrier to competition in itself.
13. A further fear relates to the use of inappropriate and substandard cement for the carrying out of certain construction work. This could lead to poorly built constructions sprouting up throughout the country. It would therefore require that some form of inspection of cement being used, especially on large constructions, be carried out on a regular basis. It would be up to government to decide how this could be done and through which bodies. Consumer information for new types of cement is crucial to ensure appropriate usage.
14. The question of liberalisation of the cement industry also brings up the questions of infrastructure, and the most pressing of these pertains to storage of the cement once it reaches the shores of Mauritius. The question asked during the hearing was whether or not it would be physically possible for a further two or three cement importers to have appropriately positioned storage facilities within the port area. We believe that this is an issue of major importance because if there is not enough physical space for these facilities, then does this not defeat the object of liberalising the market? Government and Mauritius Ports Authority should ensure that sufficient physical space is made available to enable all importers to store their cement. If not, an alternative solution will need to be considered as to the question of bringing the cement onshore into Mauritius.
15. One intervention made during the hearing was in respect of the environmental impact of opening up of the cement industry. We as Commissioners feel that it would be inappropriate for us to comment on this aspect of liberalisation as it is outside the scope of our mandate.

Conclusion

16. We the Commissioners wish to re-iterate our endorsement of the liberalisation of the cement industry in Mauritius. Whilst recognising the existence of regulations that have been put in place, we also wish to place on record our concerns about the implementation of these regulations and the ease with which new entrants will be able to operate within this sector.

Dated this 1st July 2011


Mr. Reshad Sadool

(Chairperson)

 Date 01.07.2011

Mr. Rodney Rama

(Commissioner)

 Date 01/07/2011

Mrs. Selvam Poonosamy

(Commissioner)

 Date 01-07-2011