



FIJI COMMERCE COMMISSION

"To promote Competition in the Fiji Markets"

CALL FOR WRITTEN PUBLIC SUBMISSION

Review of the Shipping Fares and Freight Charges Levied on Travelers In the Maritime Islands in Fiji

1.0 Introduction

The provision of efficient, reliable and affordable transport infrastructure and services contributes significantly to economic and social development as well as regional cooperation, integration and cohesion. This applies not only to countries that are located on the same land mass but also to those countries that are separated by water masses or have viable alternative water transport options between them. Travelling by ships is the main mode of transportation for many maritime islands and communities in Fiji and the efficiency, reliability and affordability of these services is essential for trade and other economic activities.

The Commerce Commission Decree 2010 ("Decree") obligates the Fiji Commerce Commission ("Commission") to promote competition in Fiji. Where the Commission has reason to believe that the advancement of the objectives of the Decree are not adequately assured by prevailing market conditions, the Commission must:

- (a) Identify and review relevant product and service markets for particular services;
- (b) Evaluate the level of existing or likely competition in markets, including taking into account substitution effects of inter-modal competition; and,
- (c) Determine whether, and the extent to which, an insufficiency of existing or likely competition in such markets is likely to impede the advancement of the objectives of the Decree.

If the Commission determines that an insufficiency of existing or likely competition in a relevant market reviewed is reasonably likely to impede the advancement of the objectives of the Decree, the Commission must identify the shipping companies having a substantial degree of power in that market.

The Commission has received a submission from the Ministry of Works, Transport and Public Utilities for the Commission to carry out a review of the Shipping Fares and Freight Charges levied on travellers in the Maritime Islands in Fiji by private shipping companies and Government Vessels. The submission follows the Cabinet Decision (CP (12)162) dated 5 June, 2012. The Cabinet has agreed that a review be undertaken by the Commission to determine the most feasible and sustainable level of boat fares and freight charges to be levied on the travelling public by private shipping companies and Government Vessels.

The Commission also notes that currently there are three separate Price Control Orders made under the Counter Inflation Act that regulate certain aspects of Sea transport in Fiji. These orders are the Counter-Inflation (Price Control) (Copra Freight Rates) (No. 12) Order 1992 which regulates the ship freight rates for the transportation of copra from the islands, the Counter-Inflation (Price Control) (Barge Freight Rates) (No. 13) Order 1992, which regulates the freight rates for goods transported by barges only and the Counter-Inflation (Price Control) (Ship Freight Rates) (No. 14) Order 1992 which regulates the freight rates for the cartage of goods and other cargo from and to the main ports in Suva and Lautoka. The Commission notes that none of the existing orders regulates the shipping fares charged to passengers. The Commission has further established that the existing orders backdates to 1992, and the need to have them reviewed is essential. The Commission is mindful that economic, financial and trading patterns have changed since 1992 and there is a definite need for the order to be reviewed and revised to bring it to reflect the current market conditions.

Noting the above, and the cabinet decision, the Commission has launched an investigative research into the cost and pricing structure of shipping fares and freight charges, and the operational efficiency of the shipping services industry in Fiji.

The Commission now wishes to undertake a more comprehensive and thorough review of the level of competition, of the cost and pricing structure of shipping fares and freight charges in Fiji and the audit of the operations of the shipping companies and related services providers in Fiji. To ensure that the Commission gets a comprehensive picture of stakeholder's views on the investigation, the Commission will invite the stakeholders to make written submissions to the Commission. The detailed submissions from the stakeholders will take into account each firm's costs structures by routes serviced, revenue and profitability via routes serviced, level of competition in the routes serviced, domestic market and economic conditions, technological changes, differentiated markets and international benchmarks.

2.0 Definitions

1. **Shipping Industry:** Includes all shipping companies, agents and other related stakeholders involved in the transportation of passengers and goods on waterways.
2. **Barge:** A flat-bottomed boat, built mainly for the river and canal transport of heavy goods or a vessel designed/built for the transportation of very heavy or bulky items and usually products that are measured by the thousand ton, bushel, and barrel etc.
3. **Inter-Island Vessel:** A vessel used for the purposes of but not limited to carrying passengers, cargo, bulk and containerized goods.
4. **Economical routes:** Routes between the maritime islands and the major islands (ports of entries) which attract more than one private shipping company to service the routes and these routes are profitable and provide attractive economic returns to the shipping companies servicing them
5. **Non-Economical routes:** Routes between the maritime islands and the major islands (port of entries) which do not have ample economic activities in terms of the volume of cargoes and passenger traffic and are not that profitable without government subsidies.
6. **Government Shipping Franchise Scheme:** Government subsidy scheme to assist and support private sector ships in servicing uneconomical routes on a regular basis.

3.0 Terms of Reference

The core objectives of the review are to:

1. Consider the current and potential markets for sea freight and passenger services in Fiji.
2. Define relevant markets and assess the level of competition for the various shipping routes in Fiji by the nature of the products (relevant product markets) and the geographical market.
3. Carry out the analysis and the verification of the various cost components and the existing level of mark-ups on the shipping services for cargo and passengers for the various routes by the shipping companies.
4. Analyze the existing management structure and the operations of the shipping companies to determine the level of efficiencies and ensure that the inefficiencies of the companies are not built and passed onto the final consumers in terms of higher passenger fares and freight charges.
5. Assess the options for optimizing the schedules.
6. Consider the social and economic impact of any significant changes in the passenger fares and freight rates on the level of economic activities and improvement in the sea transportation services.
7. Report on the merits and weaknesses of the current arrangements for subsidizing the shipping services between the mainland and the maritime islands for government's consideration. The Commission will only establish the reasonable and fair level of passenger fares and freight costs for each route and the decision on which routes to subsidize and the quantum of the subsidy will be left as the prerogative of the government.
8. Quantify any comparative freight cost disadvantages for goods and passengers under the sea transportation services, identify its primary causes and assess the impact of that freight cost disadvantage on the Maritime business in terms of the cost of business inputs and access to markets on the mainland.
9. Assess the effectiveness of the current cost structures, pricing methodologies, mark-ups on services and the operational efficiencies as a mechanism for addressing any passenger fare and freight cost disadvantage, including identification of the costs and benefits, the impact on stakeholders, and any unintended consequences or distortionary effects of the current arrangements.
10. Make recommendations to the Cabinet for consideration on the New Price Control Order for the determination of the revised freight rates and the appropriate level of passenger fares.

4.0 Consultation Process

In undertaking the inquiry, the Commission will advertise nationally and call for public submissions, consult with key interest groups and affected parties. The Commission will also obtain primary data from the Industry stakeholders for its own analysis based on which a draft report will be produced. This draft report will be provided to stakeholders for their comments before the final report is submitted to the Minister of Works, Transport and Public Utilities for submission to Cabinet

5.0 Methodology

The Commission will use both Qualitative and Quantitative methodologies to gather information and data, analyze it, and produce a report determining the passenger fare and freight rates and the efficiency levels of the vessels.

The Commission will carry out the investigation and review of passenger fares and freight charges by making reference to the cost structure, pricing formulas and mark-ups for pricing purposes. In addition to this, the Commission will carry out an analysis of the operational efficiencies of the shipping companies to ensure that inefficiencies are not used for pricing purposes to inflate passenger fares and freight charges. The efficiency study will utilise time series desegregated data on all operating variables of a vessel, purchasing strategies as well as vessel operating schedules. Time series data will also be utilized to determine efficiency scores for vessels thus identifying the most efficient vessels and how others are placed relative to those that are operating at the frontier of production function.

6.0 Review Process and Timelines

The investigation and the review will be carried out as per the requirements of the Commerce Commission Decree 2010. The following process will be adopted by the Commission to facilitate stakeholder and public comments and transparency at all stages of the review.

Process	Timeline
Public announcement of the inquiry	18 June 2012
Formal notification to the stakeholders informing them about the commencement of the investigation and inquiry and discussing aspects of the review, major issues that the Commission believes need to be considered, and requesting information and comments from stakeholders.	19 June 2012 to 26 June 2012
Call for Public submissions	23 June 2012 to 30 June 2012
Deadline for Public and Stakeholder Submissions	15 August 2012
Analysis and Draft Report	30 September, 2012
Release of a Draft Report and Draft Final Determination and the invitation of submissions on that Draft Final Report and Draft Determination	Release date: 30 September, 2012 Closing date: 15 October, 2012
Submission of the Final Report and Final Determination	15 November, 2012

7.0 Expected outcomes

- i) Submission to Cabinet on the determination of the most feasible and sustainable level of shipping fares and freight charges to be levied by private shipping companies and government vessels to maritime passengers and travellers.
- ii) Cabinet's decision on the proposed tariff for passenger fares and freight rates for Private Shipping companies and government vessels.
- iii) Submission to assist Government in identifying the economical and non economical routes and the quantum of subsidies for the non economical routes.
- iv) Submission to Cabinet on possible alternatives to direct subsidies.

In carrying out its investigations, the Inquiry will invite submissions and seek information from any persons or body corporates. The current consultation period will run from **22 June, 2012 to 15 August, 2012**, during which

time the Commission welcomes interested parties to submit to it written submissions on any of the issues raised in, or related to, this document.

Any submission during this review should be made in writing and submitted to the following address by **15 August 2012**.

Chief Executive Officer,
Fiji Commerce Commission
PO Box 5031
Raiwaqa or
Email to ceo@commcomm.gov.fj

The Commission strongly encourages the public to actively participate in this process and make their views known on the Shipping Fares and Freight Charges Levied on Travelers in the Maritime Islands in Fiji

Further information on the above can be obtained from the Commission's website: www.commcomm.gov.fj

Dr. Mahendra Reddy
Chairman
Fiji Commerce Commission
23 June, 2012