

PNG's ICCC should stick to promoting competition, not setting prices

by Alyssa Leng

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The PNG Independent Consumer & Competition Commission during the 2024 Price Inspection exercise in Mt Hagen

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The PNG Independent Consumer and Competition Commission (ICCC) **proposed an amendment** to the *Prices Regulation Act* in August that would allow it to “ensure the application of unilateral price controls under special circumstances (based on grounds of social equity)”. While sounding relatively benign, this amendment would in fact allow the ICCC to implement price ceilings on many goods and services in PNG across very broadly defined scenarios. This would go far beyond the ICCC’s existing power to regulate basic goods that are “declared” by the Treasurer (**declared goods** include rice, flour, sugar, PMV and taxi fares, and petroleum products). Letting the ICCC set prices beyond its current remit would be to the detriment of consumers, firms and economic development in PNG more generally, and should be avoided at all costs.

The ICCC’s setting lower prices than the market is not a free lunch for PNG consumers. While consumers may save a few kina in the short run, demand is likely to exceed supply if prices are set below market rates for any good or service. Shortages are the likely result, which are not only intuitively undesirable for consumers, but could also lead to growth in informal or black markets beyond the reach of the ICCC as consumers try to procure goods in limited supply however they can. This would run counter to the ICCC’s ability to monitor and promote competition in the long run.

Consumer gains would come in part at the expense of PNG producers and the productive capacity of PNG’s economy. Any price ceiling set by the ICCC translates into a profit ceiling for affected firms, which reduces incentives for both domestic and foreign firms to invest in PNG. The ad hoc nature of these proposed price controls only adds further uncertainty to the existing risk premium associated with PNG’s exchange rate regime, in addition to law and order issues. Existing firms will also have little reason to become more productive by innovating or improving

processes if prices remain fixed, since they cannot charge higher prices for better quality products.

Price controls may also ultimately reduce competition rather than improve it; if only the largest or most profitable firms can survive with lower prices and therefore profits, smaller players may exit the market. In the long run, this could put PNG on the path towards price *increases* instead of decreases, as would be brought about by greater competition.

In more practical terms, price controls are likely to be difficult for the ICCC to set, enforce or remove, and will have an inequitable impact across PNG society. Letting the ICCC set prices replaces the flexibility provided by the market to adjust to global and domestic changes with a reliance on officials to determine the “correct” prices for products that they may not be familiar with or understand the cost structures of.

Enforcing these prices around the country will be another major challenge. Even if the ICCC can effectively run this price-setting regime, it may become politically difficult to remove price controls in the future – setting PNG on a path that it may be difficult to deviate from. And, from an equity perspective, [international experience](#) shows it is wealthier people who benefit disproportionately from the enactment of price controls compared to the poor. In PNG’s case, this is compounded by the fact that the ICCC will have limited capacity to monitor and effectively administer price controls in remote rural areas, where most of the population live.

The motivation for this change also seems suspect. The first situation in which the ICCC may apply these price-setting powers is “where required under the *National Pandemic Act*, or any other Emergency Laws, or the Constitution”. Using the National Pandemic Act here (which, strangely, remains in force despite the fading of COVID-19 from public and policy discourse) suggests that this is a short-sighted attempt to address current concerns quickly at the expense of good economic policy.

The other situations outlined in the amendment include the more justifiable case of natural disasters, but also instances or periods of “inflationary pressures”, “public interest concerns”, “market failure” and “international trade considerations on imported goods to protect domestic industries from unfair competition”. The failure of the amendment to precisely define the meaning of terms like “inflationary pressures” or “public interest concerns” leaves them open to broad interpretation and potential abuse. Additionally, PNG’s central bank already has an [explicit mandate](#) to maintain price stability using monetary and exchange rate policy. While it is understandable that the government wants to deliver price relief in the context of depreciation, using price controls to keep prices down muddies the mandates of

the central bank and the ICCC, and comes at the cost of PNG's future growth.

In the 1990s, price controls were much more widespread. According to World Bank reports of the time, they covered more than half of typical consumer purchases. Most of these controls were removed in the liberalising reforms of that decade. Amending the *Prices Regulation Act* in the current proposed manner risks returning PNG to the past, to the detriment of its citizens, whether they are consumers or producers. The ICCC should stick to its **main role** of promoting competition and economic efficiency – **as espoused** only months ago by its Commissioner and chief executive officer – rather than going in the opposite direction by setting prices.

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